CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

July 24, 2013

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Wednesday, July 24, 2013 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 in Person:

Sarah K. Sanders (designee of the State Treasurer of Connecticut) – Chairman 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:

Kerry Kelley – Connecticut Office of Policy and Management
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 2:04 p.m.

II. Approval of April 23, 2013 Minutes:

A motion was made by Mr. Lappen and seconded by Mr. Howarth that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of April 23, 2013 as presented.

The motion passed unanimously.

III. Financial Report:

Ms. Dimitrijevs provided the financial report as of June 30, 2013. She presented the Balance Sheet, Net Change in Assets and Non-Trust Cash Flow. Ms. Dimitrijevs indicated that the trust parity ratio now stands at 106.75% versus a planned level of 105.14%. Assets within the Trust exceed the Board required parity level by $12.9 million.

The Net Change in Assets is $4.2 million through the first nine months of the fiscal year, compared to a budget of $1.8 million. The primary variance is due to higher collection retention received from ECMC. Ms. Dimitrijevs noted that Interest Income was down compared to both budget and last year. This is due to the reduced balances of the student loans that are outstanding. Correspondingly the Interest Expense is also lower due to the reduced size of the Bonds outstanding. Servicing Fee Expense has also begun to drop as the renegotiated fee structure has now been in place for the majority of the fiscal year.

The Cash Flow of CSLF continued to be positive for the quarter. The change in servicing fees has also resulted in the cash flow being positive each month. In prior quarters, two months had negative cash flow and one month had positive cash flow (the month when the quarterly settlement with the U.S. Department of Education occurred).

Ms. Dimitrijevs reviewed the Portfolio Performance reports for both the Federal and Alternative student loans. She noted that there have been significant declines in the levels of delinquency, claims filed and chargeoffs in both of the portfolios during the last three quarters. In response to a statement that this is contrary to the public information that student loan delinquencies are rising, it was noted the CSLF portfolio is an older portfolio than the loans discussed in the media. No new loan has been originated by CSLF since late 2009. Because of the performance of the loan portfolios, no additions to the loan loss reserves are needed at this time.

Ms. Dimitrijevs reviewed the funds management levels within the trust estate and indicated that CSLF is in compliance with its internal policies for all three ratios. She also provided the current status of the outstanding bonds, noting that in the quarter ended June 30, 2013, bonds totaling $17,500,000 were redeemed. This included retiring all the remaining bonds in the 2007A-3 tranche. As of June 30, 2013 the bonds outstanding totaled $434,650,000. Another $5.0 million in bonds were redeemed in July under the Board established bond redemption policy.

IV. <u>Connecticut Auditors of Public Accounts:</u>

Ms. Dimitrijevs indicated that CSLF provided a response to the single preliminary finding received from the Connecticut Auditors of Public Accounts resulting from the review of the fiscal year ended September 30, 2012. As of the date of the CSLF Board Meeting, no further information has been received from the Connecticut Auditors of Public Accounts.

V. <u>Granite State Lawsuit Settlement:</u>

Ms. Hancock explained the basis for the lawsuit that had been initiated by CSLF in November 2010. She noted that CSLF had waited for the receipt of a report on a review conducted by the U.S. Department of Education, requested under the Freedom of Information Act, before finalizing the settlement. The final settlement was executed on June 24, 2013 and the required payment was remitted by Granite State on June 26, 2013.

VI. <u>Loan Sale / Bond Redemption and Dissolution:</u>

Ms. Sanders gave a preliminary overview of the topic. She indicated that the analysis performed by ESP indicated that the combination of selling the loan portfolio and redeeming the bonds provided a $5.0 to $7.0 million lower Net Present Value than continuing with the existing bond structure. She also indicated that since it seemed likely that CSLF would need to continue to operate for several years that CSLF should review its structure and determine what changes were needed to how CSLF is organized and the make-up of its Board. She noted that the State of Connecticut has another education loan organization (Connecticut Higher Education Supplemental Loan Authority – CHESLA). CSLF should look at how that entity is organized as a possible model for CSLF. Ms. Sanders asked the Board Members to be prepared to discuss the organization of CSLF further at the October Board Meeting.

Mr. Behm reviewed the analysis that ESP had conducted. He indicated that nine entities had been contacted about the possible sale of the loans. Five of these entities executed Non-Disclosure Agreements and received information from which to make a bid. Two of the entities provided bids. The highest bid was received from **[REDACTED]**, with an overall sale price of **[REDACTED]** of Par. This consisted of three components – **[REDACTED]** for the non-delinquent Federal Loans, **[REDACTED]** for the delinquent Federal Loans and **[REDACTED]** for the Private Loans. This is higher than the sale price suggested by the Investment Banks in the analysis conducted in March 2013.

ESP also conducted conversations with **[REDACTED]**, the primary holder of the CSLF bonds. While no formal offer was provided, **[REDACTED]** indicated that they would accept a discount of **[REDACTED]** for the repurchase of their bonds. This is well below the **[REDACTED]** discount the Investment Banks suggested in the March 2013 analysis. Mr. Behm stated that **[REDACTED]** had indicated that the strong performance of the CSLF Bonds, AAA and AA rated, compared to other student loans bonds held by **[REDACTED]** was the primary reason that the discount was not higher.

Mr. Behm indicated that continuing with the status quo, with releases from the trust for any funds above a **[REDACTED]** parity level, had the highest Net Present Value for any of the scenarios presented. He noted that the analysis assumed that funds were used for public purposes as they were released. If they were not used in this manner than the funds should be used to redeem bonds (at a current interest rate of around 1.50%) rather than releasing the funds and investing them (at a current interest rate of 0.25%). In order for the Loan Sale/Bond Redemption scenario to have the Net Present Value, the loan sale price would have to exceed **[REDACTED]** or the discount on the bonds would have to exceed **[REDACTED]**.

Mr. Behm noted that the Loan Sale/Bond Redemption scenario did produce significantly higher immediate funds for CSLF that could be used for public purposes. He further indicated that a stream of funds could be constructed to meet the Board's needs in a range between approximately **[REDACTED]** million of immediate funds and an annual stream of income of **[REDACTED]**.

Based upon the analysis provided, CSLF will continue with its current loan portfolio and bond management programs.

VII. <u>2013-14 Budget Recommendation:</u>

Mr. Behm presented a proposed budget for fiscal year 2013-14. He reviewed the assumptions used to forecast the remainder of the 2012-13 fiscal year (e.g. no additions to the Loan Loss Reserves, no sale of any loans, no funds released for Public Purpose Expenditures, etc…). Mr. Behm also discussed the assumptions used for the 2013-14 fiscal year budget (e.g. continuing to operate CSLF as it is currently functioning, no funds of the Trust released to CSLF, no change in interest rates, continued bond redemptions, no additional allocations of loans for Not-for-Profit servicing, etc…).

The proposed budget, based upon the assumptions presented, provides for net income of $5.6 million. This is comprised of $2.8 million from Net Operating Income and another $2.8 million of net receipts from the ECMC contract. Cash Flow would be a positive $0.9 million for CSLF in its entirety.

The Parity Level within the Trust is projected to be at 107.11% in September 2013 and to increase to 109.36% in September 2014. The Education Loan portfolio is expected to decline from $426.0 million at the beginning of the fiscal year to $353.4 million at the end of the fiscal year. The funds generated from the payments on the loans will allow the bonds to be reduced from $417.6 million to $339.6 million.

Following discussion and review of the various assumptions and projections used in the proposed budget, Mr. Howarth made the following motion which was seconded by Mr. Lappen:

> That the Board of Directors of the Connecticut Student Loan Foundation approves the 2013-14 Budget as presented.

The motion passed unanimously.

VIII. <u>Public Purpose RFI Responses:</u>

Ms. Dimitrijevs presented a summary of the responses that had been received in regards to an RFI that was issued by CSLF in December 2012. The RFI requested information on possible education debt counseling services for residents of Connecticut as well as any person who had attended an institution of higher education that was located in Connecticut.

She noted that nine potential participant organizations were contacted. Responses were received from four of them. Each of the Board members had received copies of the full responses prior to the Board meeting.

Ms. Dimitrijevs indicated that the four responses varied greatly. The common elements focused around default aversion and borrower counseling services. It was noted that all of the responses required school participation to obtain access to the student level data needed for the proposed programs to operate effectively and were dependent upon the colleges and universities to promote and, in some cases, deliver the services.

[REDACTED] response extended to the broader scope of the Connecitcut residents, but had no proven solution to fulfill the data needs if the school was not involved. **[REDACTED]** response expanded the public outreach through the use of websites, Public Service Announcements, quarterly newsletters and a social media strategy.

A summary chart of the services provided by the four respondents was reviewed. It was also noted that the cost of implementation on an annual basis ranged from $0.75 million to $3.00 million.

A discussion ensued about the four responses. In addition, several other public purpose uses for the funds generated by CSLF were discussed. Ms. Sanders directed the Board members to continue to think about possible Public Purpose uses for the funds and be prepared to continue the discussion at the October Board meeting.

IX. Executive Session:

Members of the Board unanimously confirmed that public disclosure of the Board's preliminary discussions, exploration and deliberations concerning the options available to CSLF for possible organizational changes for CSLF, would have a potentially negative effect on the value of CSLF's loan portfolio, the Trust's bond portfolio and other assets, and CSLF's overall value. The members of the Board unanimously confirmed that they had considered and weighed the benefits to the public in not disclosing the Board's preliminary deliberative discussions of these issues to the public at this time, against the public interest in their disclosure, and had determined that the public interest in nondisclosure clearly outweighs the public interest in disclosure.

> A motion was made by Mr. Lappen and seconded by Mr. Howarth to enter Executive Session.

The motion passed unanimously.

The Board entered Executive Session at 2:54 p.m. with only Directors present.

The Board exited Executive Session at 3:02. Ms. Hancock, Ms. Dimitrijevs and Mr. Behm rejoined the meeting at this point.

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

The motion passed unanimously and the meeting was adjourned at 3:03 p.m.

Respectfully Submitted for the
Board of Directors by:

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Craig S. Lappen, Secretary