

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Board Meeting
November 18, 2014

The State of Connecticut Higher Education Supplemental Loan Authority met at 11:30 a.m. on Tuesday, November 18, 2014.

The meeting was called to order at 11:31 p.m. by Ms. Barbara Rubin, Chair of the Board of Directors of the Authority. Those present and absent were as follows:

Present: Barbara Rubin, Chair
Jeffrey A. Asher
Martin L. Budd
Steven Kitowicz (*Rep. for Secretary Benjamin B. Barnes*)
Dr. Peter W. Lisi¹
Sarah K. Sanders (*Rep. for Honorable Denise L. Nappier*)
Julie B. Savino, Vice-Chair²
Erika Steiner (*Rep. for Board of Regents for Higher Education*)

Absent: Paul Mutone

Also Present: Jeanette Weldon, Executive Director
Paula L. Herman, General Counsel, CHEFA
Joshua Hurlock, Portfolio and Marketing Associate
Carlee Levin, Sr. Accountant, CHEFA/CHESLA
JoAnne N. Mackewicz, Controller, CHEFA
Cynthia D. Peoples, Assistant Director, CHEFA
Debra M. Pinney, Manager of Administrative Services, CHEFA
Norberto Ramirez, CIAF
Samuel E. Rush, Deputy Director

¹ Dr. Lisi joined the meeting at 11:35 a.m.

² Ms. Savino joined the meeting at 11:52 a.m.

Guests: Judith Blank, Esq., Day Pitney
Joseph Santoro, Director, Bank of America Merrill Lynch³
Jeffrey Wagner, Managing Director, RBC Capital Markets⁴
Tim Webb, Vice President, FirstSouthwest

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the September 16, 2014 Board of Directors annual meeting. Mr. Budd moved for approval of the minutes with one noted change on page 3, middle paragraph, change the word “it” to “is” in the statement ‘Ms. Weldon reported that it is’. His motion was seconded by Mr. Kitowicz.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Jeffrey Asher Martin Budd Steven Kitowicz Dr. Peter Lisi Barbara Rubin Sarah Sanders Julie Savino Erika Steiner	None	None

ETHICS TRAINING

Ms. Herman presented the annual ethics training for the Board, in accordance with the requirements of the Authority’s Ethics Statement and Policies. She stated that given the identical Board composition, this session would also serve as training for the Board of the Connecticut Student Loan Foundation.

QUARTERLY FINANCIAL REPORT

Ms. Levin reported that for the three months ending September 30 2014, before amortization, revenues were over expenses by \$9,881 and after amortization by \$4,324. Total revenues were \$2,462 over budget and expenses were under budget by \$3,322. There were no significant changes from the last quarter.

Ms. Levin reported that the total change in Net Position for the quarter ending September 30, 2014, was an increase of approximately \$260,000. Of that increase, the 1990 bond resolution had an increase of \$144,707 and the 2003 bond resolution had an increase of \$114,520. There were no significant changes with the bond funds from the last quarter.

³ Mr. Santoro joined the meeting at 11:47 a.m.

⁴ Mr. Wagner joined the meeting via telephone @ 11:55 a.m.

Ms. Rubin inquired about the parity levels. Mr. Rush stated he prepared a parity level report for the bond insurer and the rating agencies. He reported that the 1990 resolution is approximately 105.3% and the 2003 resolution is 125%. Further discussion ensued. Ms. Rubin requested that the parity levels be reported for each quarter, along with the financials.

EXECUTIVE DIRECTOR'S REPORT

Mr. Rush provided his report on the status of the loan portfolio. Ms. Rubin inquired as to why CHESLA has a low default rate when defaults, in general, are increasing for student loans. Mr. Rush stated that the low CHESLA default rate is attributable to the underwriting standards of the Authority. The Authority requires that an individual have sufficient income and a debt to income ratio that is sufficient to pay CHESLA's debt, as well as other debts. Mr. Webb explained that the press is referencing to loans that does not have any credit criteria associated with them, whereas CHESLA is working with loans that have conservative underwriting standards. Further discussion ensued.

Mr. Rush stated that in comparing what was reported last year on the loan origination cash flows, CHESLA is behind from last year by approximately \$2 million. Ms. Weldon explained that in 2013, CHESLA had an extremely low loan rate and in 2014, CHESLA came in under the PLUS loan rate but not as dramatically low. Staff concluded that just being below the PLUS loan rate may not be enough to capture borrowers' interest. Historically, CHESLA has had a notably low loan rate which has been very attractive to students. A discussion ensued.

Ms. Weldon indicated that data has been captured to review and make some determinations on how to move forward. Preliminarily, the data is showing that financial aid officers are a key point of entry for students deciding if they are going to seek a CHESLA loan. In the next week or two, staff will be sending out an email blast to all financial aid officers making sure they know that CHESLA still has funds available for student loans. Mr. Hurlock pointed out that CHESLA is approximately \$3 million behind cash flow projections, excluding disbursements made at the 6.75% rate from the 2013A bond issue. Pending disbursements as of November 10th total approximately \$4.5 million. A discussion ensued.

Ms. Savino recommended staff report on pending disbursements on a monthly basis. Ms. Weldon concurred.

Mr. Hurlock provided a marketing status report. Ms. Weldon reported that at Mr. Hurlock's suggestion, management is following up on whether CHET and CHESLA can work together to inform students about their college financing options.

Ms. Weldon reported that CHESLA is giving thought to new programs and what the Authority could potentially do if it had additional equity that could be transferred from the Connecticut Student Loan Foundation (CSLF). Among the items CHESLA is focusing on are: (1) Using some equity to be able to support a lower loan rate. (2) Offering a STEM loan product; and (3) Providing loans to students with weaker credit quality.

Mr. Budd reiterated the need for a program for students with weaker credit quality and also stated the need for a product that would allow students to refinance high interest rate non-CHESLA private loans. These are two initiatives which have the support of the Governor's office. Ms. Savino suggested that funds also be used for grants to students. Mr. Budd also

stated that if CHESLA implemented the STEM loan product, there could be some significant administrative demands. Ms. Weldon agreed.

Ms. Weldon reported that she submitted CHESLA's private activity cap request for next year and included the potential refunding of 2003 and 2005 bonds. She requested \$35 million of additional private activity cap and \$11 million of carry forward.

Mr. Weldon stated that one of the investment contracts CHESLA has which is associated with the 2003 Series A & B bonds and is in the revenue fund, is with Rabobank and currently has a rate of 3.51%. Rabobank sent CHESLA a notice stating they have been downgraded from a "AA" to "A+" by Standard and Poor's. They remain at an "Aa" rating by Moody's, but the documents require them to give CHESLA notice of this S & P rating event. The bond insurer asked Rabobank to post collateral as a result. The Bank has declined to post collateral. Under the bond documents, the Bank is required to have a rating in one of the two highest short-term rating categories. Rabobank, despite its long-term downgrade, is still in one of the highest short-term rating categories and is considered a qualified investment under the bond resolution. Ms. Weldon stated that if they were downgraded to an "A" by S & P, they would have to provide CHESLA with another notice under the documents. Ms. Weldon indicated that after conferring with the financial advisor, FirstSouthwest, she is comfortable at leaving the GIC in place with Rabobank. A discussion ensued.

Ms. Weldon pointed out the meeting schedule for 2015. The Board of Directors of the CHESLA approved the 2015 Meeting Schedule as presented with the start time at 11:30 a.m., subject to potential modification by the Executive Director prior to filing of the Schedule with the Secretary of the State. Any such modification shall be effected to adjust certain dates as may be necessary to accommodate maximum availability of Board members, as shall be determined by a poll of board members via e-mail.

ADJOURNMENT

There being no further business, at 12:33 p.m., Mr. Budd moved to adjourn the meeting and Mr. Kitowicz seconded the motion.

Upon roll call, the "Ayes," "Nays" and "Abstentions" were as follows:

AYES

Jeffrey Asher
Martin Budd
Steven Kitowicz
Dr. Peter Lisi
Barbara Rubin
Sarah Sanders
Julie Savino
Erika Steiner

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeanette W. Weldon
Executive Director