

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Annual Board Meeting

September 20, 2016

The State of Connecticut Higher Education Supplemental Loan Authority met at 11:30 a.m. on Tuesday, September 20, 2016.

The meeting was called to order at 11:35 a.m. by Ms. Julie Savino, Vice Chair, of the CHESLA Board of Directors. Those present and absent were as follows:

Present: Julie B. Savino, Vice Chair
Dr. Peter W. Lisi
Sarah K. Sanders (*Rep. for Honorable Denise L. Nappier, State Treasurer*)
Erika Steiner¹ (*Rep. for Honorable Mark Ojakian, President, Connecticut State Colleges & Universities*)
Jeanette Weldon

Absent: Martin L. Budd
Steven Kitowicz (*Rep for Honorable Benjamin Barnes, OPM Secretary*)

Also Present: Denise Aguilera, General Counsel, CHEFA
Joshua Hurlock, Assistant Director, CHESLA
Carlee Levin, Sr. Accountant, CHEFA/CHESLA
JoAnne Mackewicz, Controller, CHEFA
Debra M. Pinney, Manager of Administrative Services, CHEFA
Samuel E. Rush, Deputy Director, CHESLA

Guests: Randy Behm, Principal, Education Solution Partners, LLC
Judith Blank, Esq., Day Pitney LLP
Kristen D. Brown, Senior Manager, CohnReznick, LLP
Joseph Centofanti, Partner, CohnReznick, LLP
Darlene Dimitrijevs, Principal, Education Solution Partners, LLC
Jeffrey Wagner, Managing Director, RBC Capital Markets²
Todd Forgione, Director, RBC Capital Markets³
Thomas H. Webb, Vice President, Hilltop Securities

¹ Ms. Steiner participated in the meeting via conference telephone that permitted all parties to hear each other.

² Mr. Wagner participated in the meeting via conference telephone that permitted all parties to hear each other.

³ Mr. Forgione participated in the meeting via conference telephone that permitted all parties to hear each other.

MINUTES

Ms. Savino requested a motion to approve the minutes of the June 21, 2016 Board of Directors meeting. Dr. Lisi moved to approve the minutes and Ms. Sanders seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Dr. Peter Lisi Julie Savino Sarah Sanders Jeanette Weldon	None	Erika Steiner ⁴

Ms. Savino requested a motion to approve the minutes of the June 9, 2015 Audit-Finance/Human Resources Committee. Ms. Sanders moved to approve the minutes and Ms. Savino seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Julie Savino Sarah Sanders Jeanette Weldon	None	Erika Steiner ⁵

Ms. Savino tabled the approval of the minutes for the June 16, 2014 Consultant/Vendor Committee meeting since all the members were not present to vote.

ELECTION OF VICE-CHAIR

Ms. Sanders nominated Ms. Savino as Vice Chair of the CHESLA Board of Directors. Dr. Lisi seconded her motion. All were in favor.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Dr. Peter Lisi Julie Savino Sarah Sanders Erika Steiner Jeanette Weldon	None	None

⁴ Ms. Steiner abstained from voting as she did not attend the meeting.
⁵ Ms. Steiner abstained from voting as she did not attend the meeting.

DRAFT AUDITED FINANCIAL STATEMENTS – FY 2016

Ms. Savino introduced Mr. Joseph Centofanti, Partner, and Ms. Kristen Brown, Senior Manager, from CohnReznick, LLP.

Mr. Centofanti presented an overview of the notable items in the draft audit of the Authority's financial statements for FYE June 30, 2016. He indicated that the Management's Discussion & Analysis format includes detailed discussion of the changes in revenues and expenses from the prior year and other topics. He added that there is an updated footnote that follows the balance sheet and consolidation of related disclosures. GASB 72 was implemented for fiscal year 2016 with new fair value disclosures on investments and classification of investments into three levels of the fair value hierarchy. Other new disclosures were certain cash and investment disclosures, a conduit debt note, an advance refunding note and an authorized but unissued debt.

Mr. Centofanti reported that a contribution was made in FY 2016 to the CHESLA Scholarship Program and was recorded as deferred inflow to match the timing of the disbursements. He added that the opinions on the financial statements are unmodified opinions. He pointed out that in Management's Discussion and Analysis, there is an executive summary of fiscal year operations, along with current year activity and changes in revenues, expenses, changes in net position, economic factors and activities in the marketplace that may impact the organizations, including long-term debt activity/changes.

Mr. Centofanti stated the net position in CHESLA's operations increased by approximately \$8.7 million, substantially due to contributions from the Connecticut Student Loan Foundation (CSLF). Administrative fees increased by \$205,000, due to the increase in the fee from 30 basis points to 50 basis points. There was an issuance for new loans and refunding.

Mr. Centofanti reported on CSLF's net position and other fee revenues which decreased loan balances.

Ms. Levin reported the breakdown of approximately \$10 million CHESLA received from CSLF. She stated that \$500,000 was deposited into CHESLA's operating account, from CSLF, for those funds to be used for the startup expenses for the loan refinance pilot program (Refi CT). The additional \$5.5 million was deposited into the refinance loan fund. \$1.8 million was deposited for the Scholarship Program and \$2 million was deposited as an equity contribution for the 2016 bond funds. During fiscal year 2016, the bond funds used excess funds to redeem an additional \$12.4 million, which was an increase over last year, fiscal 2015, of approximately \$4 million.

Ms. Brown reviewed the required communications concerning the audit of the financial statements and stated that there were no disclosures that were reported, no difficulties with the audit, no uncorrected adjustments to the financial statements, and no disagreements with Management. A management letter will be included with the audited financial statements.

Ms. Brown reviewed best practice recommendations. She recommended that the employee who processes the accounts payable checks be restricted from the ability to enter new vendors into the accounting system. Ms. Brown recommended segregation of duties in processing accounts payable and having signed checks processed for mailing by another employee. In addition, she also recommended that the approval of nonstandard journal entries be formally documented.

Ms. Brown recommended CHEFA develop a document that specifies the services to be provided to each component unit and cost of those services associated expenses. Ms. Brown also recommended that account receivable balances to be written off be reported to the Board of Directors. Lastly, she recommended a modification to the loan/loss allowance methodology. Ms. Brown stated that many of the recommendations have been addressed or will be implemented by Management.

Ms. Savino thanked Mr. Centofanti and Ms. Brown for their presentations. The auditors left the meeting at this time.

REFI CT PILOT PROGRAM UPDATE

Mr. Hurlock provided an update on the Refi CT Pilot Program. He reported that since the program's release, there have been 155 applications, representing 131 unique applications. Unique applications refer to the number of individuals that have applied. An individual may have multiple applications due to reapplying after a denial, for example with a new cosigner.

As of September 12, 2016, the Refi CT Pilot Program has disbursed 14 loans and a total of approximately \$742,000, for an average loan size of \$53,000. The maximum permitted loan size is \$100,000. Also in the application pipeline, there were three loans in pending disbursements totaling approximately \$135,000; one approved right to cancel loan totaling approximately \$51,000; three for approved offer pending loans totaling approximately \$167,000 and six loans totaling approximately \$287,500 for decision pending documentation. Since inception, CHESLA has committed a total of approximately \$1.1 million through the Refi CT Program.

Mr. Hurlock stated that CHESLA has welcomed feedback from applicants and found that a key applicant concern was that the product's advertised lowest rates were not accessible to individuals, even those of highest credit quality, unless a co-signer was also in place.

Mr. Hurlock stated that Management believes the pilot program's pricing should be modified to make lower rates available to high credit quality borrowers, even if no co-signer is used, and proposed a revised matrix.

Mr. Hurlock stated that Management believes the loan origination volume may be limited due to the documentation requirement for refinancing of private loans. In that instance, the borrower must provide evidence that the original loan did not exceed the net total cost of education. This requirement derived from tax law and is relevant when the loans are funded from tax-exempt bond proceeds. Mr. Hurlock mentioned that staff met with CHESLA's advisors and the consensus was to no longer require such documentation for private loans during the pilot program, since it is not funded with tax-exempt proceeds. Borrowers will be asked to self-certify.

Mr. Hurlock requested Board approval of the revised pricing matrix and also to authorize Management to make any further changes to the pilot program. Ms. Weldon reaffirmed Management's need to make any necessary changes to the pilot program moving forward.

Mr. Forgione joined the meeting at this time.

A discussion ensued.

Ms. Savino inquired if Mr. Hurlock could provide the Board with an analysis on the types of loans being refinanced and Mr. Hurlock agreed to do so.

Further discussion ensued. Mr. Hurlock provided an update on Maier Advertising's marketing campaign.

Ms. Sanders moved to approve the revised pricing matrix and to authorize Management to make further changes to the pilot program. Dr. Lisi seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Dr. Peter Lisi Julie Savino Sarah Sanders Erika Steiner Jeanette Weldon	None	None

EXECUTIVE DIRECTOR'S REPORT

Mr. Hurlock provided an update on the CHESLA's marketing notes and loan originations.

Mr. Rush provided his report on CHESLA portfolio facts and loan disbursement data. He pointed out that the net default rate of 2.20%, as of June 30, 2016, is the lowest rate in 10 years. Mr. Rush also noted that the University of Connecticut is listed as #1 in the top 15 Connecticut schools with borrowers of loans originated from August 11, 2015 through June 30, 2016. A discussion ensued.

Ms. Weldon provided a handout on CHESLA's mission and vision statements that were recently updated. After a brief discussion, the statements were modified as follows:

CHESLA MISSION - Expand higher educational opportunities and enhance the State's economic development through higher education by providing cost-effective education financing programs and information resources to Connecticut students, alumni and their families.

CHESLA VISION - Serve as Connecticut's leading resource for students as they plan for their college education, not only by providing financing, but by providing information and tools for students to make informed decisions; enhance the competitiveness of Connecticut institutions of higher education by providing grants and additional financing options; encourage interest in higher education to help the State meet its workforce needs; and enhance economic development through innovative higher education programs.

Dr. Lisi moved to approve the modified vision and mission statements. Ms. Sanders seconded his motion.

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

AYES

Dr. Peter Lisi
Julie Savino
Sarah Sanders
Jeanette Weldon

NAYS

None

ABSTENTIONS

Erika Steiner⁶

Ms. Weldon reported that CHESLA made an arbitrage and rebate bond yield restriction repayment to the IRS in July associated with the 2012 SCRF for \$45,574, which amount was calculated by the Authority’s arbitrage rebate consultant, AMTEC.

Ms. Weldon stated that CHESLA has engaged Maier Advertising to develop the Financial Literacy web portal and the portal working group will be meeting this week to review the potential layout of the portal.

Ms. Weldon announced that Mr. Rush has been employed by CHESLA for 20 years and she thanked him for all his dedicated years of service and stated that there will be a staff celebration for Mr. Rush on Thursday. The Board congratulated Sam on his 20 years of service.

ADJOURNMENT

There being no further business, at 12:53 p.m., Dr. Lisi moved to adjourn the meeting and Ms. Sanders seconded his motion.

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

AYES

Dr. Peter Lisi
Julie Savino
Sarah Sanders
Erika Steiner
Jeanette Weldon

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeanette W. Weldon
Executive Director

⁶ Ms. Steiner abstained from voting as she did not have a copy of the revised mission and vision statements.