

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Board Meeting

November 7, 2017

The State of Connecticut Higher Education Supplemental Loan Authority met at 11:30 a.m. on Wednesday, November 7, 2017.

The meeting was called to order at 11:30 a.m. by Dr. Peter Lisi, Chair of the CHESLA Board of Directors. Those present and absent were as follows:

Present: Martin L. Budd
Steven Kitowicz (*Rep for Honorable Benjamin Barnes, OPM Secretary*)
Dr. Peter W. Lisi, Chair
Julie B. Savino, Vice Chair
Jeanette Weldon

Absent: *Designee for The Honorable Denise L. Nappier, State Treasurer*
Erika Steiner (*Rep. for Honorable Mark Ojikian, President, Connecticut State Colleges & Universities*)

Also Present: Denise Aguilera, General Counsel, CHEFA
Joshua Hurlock, Assistant Director, CHESLA
Carlee Levin, Sr. Accountant, CHEFA/CHESLA
Eileen MacDonald, Senior Transaction Specialist, CHEFA
JoAnne Mackewicz, Controller, CHEFA
Kathy Owens, Administrative Assistant, CHEFA
Cynthia Peoples, Managing Director, CHEFA
Natalia Rozio, Administrative Intern, CHESLA

Guests: Randy Behm, Principal, Education Solution Partners, LLC
Judith Blank, Esq., Day Pitney LLP
Darlene Dimitrijevs, Principal, Education Solution Partners, LLC
Michael Jones, Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.,
Bank of America, N.A. ¹
William W. Veronda, Director, Merrill Lynch, Pierce, Fenner & Smith, Inc., ²
Bank of America, N.A.
Jeffrey Wagner, Managing Director, RBC Capital Markets ³
Thomas H. Webb, Vice President, Hilltop Securities ⁴
Gary Wolf, Director, RBC Capital Markets ⁵

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

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

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

⁴ Mr. Webb participated in the meeting via conference telephone that permitted all parties to hear each other.

⁵ Mr. Wolf participated in the meeting via conference telephone that permitted all parties to hear each other.

MINUTES

Dr. Lisi requested a motion to approve the minutes of the September 20, 2017 Board of Directors meeting, subject to the correction of one typographical error. Mr. Budd moved to approve the minutes, and Mr. Kitowicz seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Martin Budd Steven Kitowicz Dr. Peter Lisi Julie Savino Jeanette Weldon	None	None

Ms. Weldon introduced Natalia Rozio, CHESLA’s Administrative Intern, who is a student at CCSU.

ANNUAL ETHICS TRAINING

Dr. Lisi introduced Ms. Nancy Nicolescu, Director of Education & Communications for the Office of State Ethics, who provided ethics training, in accordance with the requirements of the Authority’s Ethics Statement and Policies.

Mr. Budd asked if this training would also cover the training for Board Members of the Connecticut Student Loan Foundation, to which Ms. Weldon and Ms. Nicolescu replied in the affirmative.

Ms. Nicolescu noted that an advisory opinion regarding conflicts of interest has been sent to Ms. Aguilera and she will distribute the opinion to Board Members.

FORBEARANCE RESOLUTION

Ms. Aguilera presented the proposed Forbearance Resolution, the substance of which is incorporated in the proposed restated and amended CHESLA In-School Student Loan Program Manual. The Resolution proposes two types of forbearance: (1) Disaster Forbearance and (2) Financial Hardship Forbearance, and authorizes the Executive Director to establish the guidelines and process for administrating and granting the two types of forbearance for CHESLA’s in-school loan program.

The first type of forbearance is a Natural Disaster Forbearance, wherein forbearance may be granted to an individual who submits a request and resides in a natural disaster zone as declared by a U.S. President. The loan servicer may grant an initial three-month period of

forbearance payment, and the individual could submit a request for an additional three months of forbearance, which could be granted at the discretion of the Authority's Executive Director.

The second type of forbearance is a Financial Hardship Forbearance, which could be granted to an individual who submits a request that meets the financial hardship criteria, as determined by the Authority. For this type of forbearance, the loan servicer may grant an initial two-month period of payment forbearance, and the individual could submit a request for two additional two-month periods, which could be granted at the discretion of the Authority's Executive Director. Financial Hardship Forbearance would be capped at a maximum of six months over the life of the loan, and interest accrued during the forbearance period would be capitalized.

Dr. Lisi requested a motion to approve the Forbearance Resolution. Ms. Savino moved to approve the Forbearance Resolution, and Mr. Kitowicz seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Martin Budd Steven Kitowicz Dr. Peter Lisi Julie Savino Jeanette Weldon	None	None

A discussion ensued regarding the guidelines and process for administrating and granting forbearance requests, as drafted by the Executive Director ("Guidelines"), and Mr. Budd requested the addition of the phrase "and the terms thereof" at the end of the first sentence in Section (a) of the Guidelines.

CHESLA PROGRAM MANUAL CHANGES

Ms. Aguilera presented the proposed Resolution to restate and amend the CHESLA In-School Program Manual. One of the primary changes is the use of the term "Cosigner" in lieu of the term "Co-Borrower" for loans. The term Co-Borrower is more properly used in connection with a loan where a co-borrower actually receives funds or is the beneficiary of the funds. A cosigner does not receive funds and does not benefit from the funds, and is therefore just the guarantor of the loan. Staff has discussed these terms with its consumer finance attorney, who recommended that CHESLA use the term "Cosigner" in lieu of "Co-Borrower" for its loans.

Ms. Savino stated that she has concerns regarding the change in the term from Co-Borrower to Cosigner. Ms. Savino stated that other states' student loan programs still use the term co-borrowers. She feels that the CHESLA loan program is a family loan program, because the loan is being co-borrowed by the parents and the student.

Mr. Budd asked if a student defaults, can the co-borrower be sued. Mr. Hurlock replied affirmatively. Mr. Budd also stated that he recalls that CHESLA loans allow for co-borrower

release after a certain period of time and provided financial criteria are met. Mr. Hurlock replied affirmatively stating that after a loan is 5 years in repayment, a co-borrower may be released from the loan provided the borrower meets the credit criteria as if applying for a new loan.

Ms. Aguilera added that another reason for the change was that in the event a loan is discharged due to the death or disability of a Borrower, the Co-Borrower would realize a discharge of indebtedness for tax purposes, whereas a Cosigner would not.

Further discussion ensued.

Dr. Lisi proposed that the issue of whether to change the term Co-Borrower to Cosigner be tabled. Ms. Weldon replied that staff will discuss the matter further with the consumer finance attorney, with specific reference on how the terms are used by state-based student lenders. Ms. Weldon reported that CHESLA's consumer finance attorney is also very experienced in student loan programs.

Ms. Aguilera continued to outline the changes to CHESLA's Program Manual, which included additional default provisions for the promissory note and forbearance provisions previously discussed, including Mr. Budd's proposed addition of the following sentence at the end of Section G.8(c):

"Prior to granting a Forbearance request from any Borrower, Co-Borrower or Cosigner, the Servicer shall provide notice to any such individual that the granting of the Forbearance request will change their monthly Loan payment at the conclusion of the Forbearance period, due to the Capitalized Interest."

Mr. Kitowicz suggested replacing the term Capitalized Interest with "capitalization of interest accrued during the forbearance period." Mr. Budd suggested adding the phrase "and the forbearance of principal payments" after the term "interest" in the phrase proposed by Mr. Kitowicz.

Ms. Aguilera also referenced the removal of references to credit life insurance, mortgages and prepayment penalties, inclusion of a provision to permit electronic signature of the promissory note, and the inclusion of loan discharge provisions for the death or permanent and total disability of a borrower, and concluded the review of changes to the Program Manual.

Ms. Weldon proposed rewording the resolution to delete the reference changing the term Co-Borrower to Cosigner and revise the proposed restated and amended Program Manual to retain the usage of the term Co-Borrower, based on confirmation from counsel that the term can be used. If the change to the term Cosigner is required, the Program Manual would be brought back to the Board. Mr. Budd concurred, and requested that if the Board has to reconsider the change from Co-Borrower to Cosigner because counsel disagrees, then CHESLA's consumer finance attorney should be available for the board discussion. Ms. Aguilera noted a typographical error in Section H.3. of the restated and amended Program Manual – the letter "s" was missing from the word "right" in the last sentence.

Dr. Lisi requested a motion to approve the resolution for Restating and Amending the CHESLA Program Manual except for the reference therein regarding the use of the term Cosigner in lieu of Co-Borrower. Mr. Budd moved to approve the resolution subject to changing the term Cosigner back to Bo-Borrower in the Program Manual, at the Executive Director's discretion after consultation with consumer finance counsel, addition of the text after Section G.8(c),

provided by Messrs. Budd and Kitowicz, and correction of the typographical error referenced by Ms. Aguilera. If the Executive Director does not change the term Cosigner back to the term Co-Borrower in the Program Manual, the proposed changes to the Program Manual will not be published and the Board will reconsider the resolution at a subsequent meeting. 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>
Martin Budd Steven Kitowicz Dr. Peter Lisi Julie Savino Jeanette Weldon	None	None

FINANCIAL REPORT

Ms. Levin provided a report on the CHESLA financial statements for the quarter ended September 30, 2017. The Board designated account increased by \$1.0 million from the transfer of funds from the refinancing of the 2007 bonds. The excess of revenues over expenses before non-operating items is \$24,073, and the total excess of revenues over expenses after non-operating items is \$1,013,587, reflecting the above mentioned transfer. Year-to-date revenues are slightly over budget, and operating expenses are also under budget. Ms. Levin then reviewed the financial statements for the Scholarship Fund and the Refi CT program. Regarding the 1990 Resolution, the total excess of revenues over expenses after non-operating items is \$7,922,456, which reflects a transfer from the 2003 resolution.

Mr. Budd asked if the term of a loan could be extended under a forbearance situation. Ms. Weldon replied that standard industry practice after the forbearance period is for the principal balance to be recalculated, but not the maturity date of the loan. The extension of the maturity would increase interest expense to the borrower.

EXECUTIVE DIRECTOR’S REPORT

Mr. Hurlock provided an update on the following items:

- Portfolio Fact Sheet
- Program review
- In-school loan disbursements
- In-school market segment data
- In-school loan origination comparison to cash flow assumptions
- Refi CT disbursements
- State residence data for Refi CT borrowers
- Refi CT disbursement details
- Google analytics-CT Dollars and Sense, the Financial Literacy Portal
- Strategic Plan dashboard

Mr. Hurlock reviewed the amount of Refi CT loan originations of just under \$700,000 for the year to date for FY 2018, which is slightly lower than for the same period in FY 2017. He stated that Refi CT loan demand remained steady throughout FY 2017, and remains strong.

Mr. Budd remarked that he was interested in this information, because he feels that Refi CT available loan funds may be depleted by the end of the year. Mr. Hurlock advised that assuming Refi CT disbursements of \$2.8 million for FY 2018, as was disbursed in FY 2017, would bring the Refi CT available loans funds up to the very end of the fiscal year. A brief discussion ensued, and Ms. Weldon stated that there is \$1.0 million in the CSLF budget which could be transferred. This topic will be added to the agenda for March 2018. Mr. Hurlock stated that the report on Refi CT Loan Disbursement Data will be added to the regular reporting each quarter.

Mr. Hurlock called Members' attention to the Refi CT analysis, which shows that over half of borrowers under the refinancing program have selected a 10-year loan term. In comparing the Refi CT rates to the weighted average rate of the underlying loans, Refi CT borrowers are reducing their interest rate by 1.75%.

Ms. Weldon called Members' attention to an "op ed" piece published in The Connecticut Mirror that was included in the information distributed for today's meeting. Ms. Weldon provided this piece for publication as part of an initiative of the advocacy association for state-based student loan agencies, Education Finance Council. The initiative supports continuing availability of tax-exempt bonds to fund qualified student loans made by state related student loan providers.

Ms. Weldon reported on the House Bill which proposes to eliminate all Private Activity Bonds (PABs) including qualified student loan bonds, which are the tax-exempt bonds that are issued by CHESLA, effective January 1, 2018. The next step for an opportunity to remove the elimination of PABs is when the Senate Finance Committee takes up the matter. Ms. Weldon reported that there is a significant lobbying and advocacy effort underway by entities such as the Education Finance Council, as well as all the players in the private activity bond arena, which includes all of the bonds issued by CHEFA. Many groups are lobbying in support of CHEFA and other similar authorities and reaching out to borrowers and legislators. If this bill does go forward, it would be effective January 1, 2018.

Mr. Budd proposed that the Board adopt a bond resolution so that CHESLA could be prepared to issue additional bonds prior to December 31, 2017. Ms. Weldon reported that the remaining volume cap for CHESLA is \$11.0 million and Mr. Kitowicz concurred. Ms. Savino commented that such issuance would provide a cushion for CHESLA to issue loans.

Given the House Bill, Mr. Budd suggested giving the Executive Director the authority to use the amount of the remaining volume cap to issue CHESLA bonds by December 31. Board Members should expect a special meeting in December if that is the case.

Dr. Lisi requested a motion to approve authorization of the Executive Director to use the amount of the remaining volume cap to issue CHESLA bonds, if the tax legislation proceeds with its current provision, and to make all necessary arrangements for such bond issue, including convening a special meeting of the CHESLA Board of Directors. Mr. Budd moved, 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>
Martin Budd Steven Kitowicz Dr. Peter Lisi Julie Savino Jeanette Weldon	None	None

2018 CHESLA BOARD MEETING DATES

Ms. Weldon advised Members that the 2018 Board meeting schedule had been provided in the handouts for today’s meeting. The next regular meeting is scheduled for March 1, 2018.

ADJOURNMENT

There being no further business, at 12:50 p.m., Ms. Savino moved to adjourn the meeting and Mr. Kitowicz seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Martin Budd Steven Kitowicz Dr. Peter Lisi Julie Savino Jeanette Weldon	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director