

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Special Board Meeting

December 5, 2017

The State of Connecticut Higher Education Supplemental Loan Authority met telephonically at 11:00 a.m. on Tuesday, December 5, 2017.

The meeting was called to order at 11:00 a.m. by Dr. Peter Lisi, Chair of the CHESLA Board of Directors. Those present and absent were as follows:

Present: Steven Kitowicz (*Rep for Honorable Benjamin Barnes, OPM Secretary*)
Dr. Peter W. Lisi, Chair
Sheree J. Mailhot (*Rep. for Honorable Denise L. Nappier, State Treasurer*)
Erika Steiner (*Rep. for Honorable Mark Ojakian, President, Connecticut State Colleges & Universities*)
Jeanette Weldon

Absent: Martin L. Budd
Julie B. Savino, Vice Chair

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

Guests: Judith Blank, Esq., Day Pitney LLP
Joseph Santoro, Director, Merrill Lynch, Pierce, Fenner & Smith, Inc.,
Bank of America, N.A.
Thomas H. Webb, Vice President, Hilltop Securities
Gary Wolf, Director, RBC Capital Markets

MINUTES

Dr. Lisi requested a motion to approve the minutes of the November 7, 2017 Board of Directors meeting. Mr. Hurlock noted an error in those minutes, as Ms. Steiner did not attend the November 7 meeting. Mr. Kitowicz moved to approve the minutes subject to this correction, and 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 Steven Kitowicz Jeanette Weldon	None	Sheree Mailhot Erika Steiner

2017 Series C Authorizing Resolution

Ms. Weldon provided an overview of the 2017 Series C bond issue and thanked members of the working group for their diligent efforts to prepare the transaction on a very short timeframe. Ms. Weldon called Members’ attention to the Draft Preliminary Offering Statement, approving resolution, cash flows and supplemental resolution for the \$11.3 million par for the 2017 Series C issue, which were included in the Board mailing materials.

Mr. Webb presented an overview of the 2017 Series C transaction and highlights of the cash flows. The CHESLA Board previously approved proceeding with preparations for the issuance of this transaction at its November 7 Board meeting. The issue will be in the market next week. The Series C bonds will be issued utilizing the 1990 Trust. The 2003 Trust no longer exists, as all the bonds were refunded earlier this year. Discussions for a 2018 issuance included the possibility of creating a new trust, to provide additional options for moving forward. However, in light of the tax reform initiatives and the possible elimination of private activity bonds, it was decided to go forward with the Series C issue at this time to utilize the remaining cap allocation and the 1990 Trust.

The total remaining volume cap is \$11.733 million, and the par amount of bonds to be issued including any premium must not exceed that cap allocation. Based on market conditions, the recommended total to be issued is \$11.3 million in bonds. Any additional premium amount added to the \$11.3 par amount is expected to be under the volume cap.

Mr. Webb called Members’ attention to the cash flow report for the Series C bond issue, which will be structured similar to the recent issuance. The structure will be fixed rate bonds, with non-callable bonds, through the 2025 maturity. Beginning with the 2026 maturity, the bonds would be callable at par. The cash flow assumptions are similar to those used for past bond issues, other than the prepayment assumption on the portfolio.

Mr. Webb stated that CHESLA is seeing some increased prepayment on the portfolio, so it was decided to increase the prepayment assumption, which has a negative drag on the cash flows. The cash flows continue the assumption of a 12 percent default rate. CHESLA's actual net default rate is just below three percent. The cash flow assumptions include a 30 percent recovery rate on defaults.

A key to the cash flow projections, from the State's point of view, is whether there will be any draw on the SCRF guarantee. There is no expected draw on the SCRF after the issuance of the Series C bonds.

The loan rate in the cash flow assumptions is 4.95%, which is consistent with the 2017 Series A bond issue. The Series C loan rate may be in effect for the life of the issue, or the rate may be adjusted starting in the Spring if the Board so chooses. There are certain tax requirements for the spenddown of the Series C bonds where the proceeds must be spent in a short period of time. In order to meet those requirements, the loan rate will remain at 4.95%, at least until those proceeds are spent. Future analysis will be provided should the Board want to consider a subsequent increase in the rate.

Mr. Webb stated that the goal for the Series C issuance is to release the POS in the market this Thursday, pending confirmation of credit ratings from Moody's and Fitch. The rating for the Series C bond issue is being issued in conjunction with a rating on an issue for the State, which is going to market next week. Pricing is scheduled for December 14.

Mr. Santoro reported on the assumed scale for the Series C issue, and expected market conditions for pricing the transaction. Activity in the bond market is very heavy at this time with advance refundings and additional issuances resulting from the proposed elimination of private activity bonds. Issuance volume in the market next week is expected to be approximately \$20 billion, which could be a challenge for pricing CHESLA's issue.

Bank of America's underwriting desk related that the market has a fairly good tone at this point, and investors are stepping up. MMD spreads have remained steady over the last month. The spreads to MMD for the Series C issue were tightened from the initial bond yield projections.

Dr. Lisi asked Mr. Webb if they are comfortable with issuing the 2017 Series C bonds at the 4.95% loan rate. Mr. Webb replied that the loan rate is low, considering CHESLA's cost of funds with loan servicing and administration fees. That rate does not earn enough to carry the cost of the bonds, and CHESLA is using equity from funds in the Trust.

Ms. Weldon stated that any consideration of a change in the interest rate in the current loan program in order to support the financial viability of the Trust would come before the Board for approval. She also stated that the underwriter had run an analysis on how much equity from the Trust is being used from the cumulative effect of loan issuance at the 4.95% loan rate, and of the 2017 Series C bonds in particular. One more conservative but more realistic scenario was run with a 4% default rate. The equity drawdown in a 4% default rate scenario was approximately \$1.0 million.

Mr. Webb stated that in the assumptions, a recovery rate of 30% for defaulted loans was used on a 4% default rate, which resulted in the actual default rate that CHESLA has experienced over the years. This cash flow scenario shows about \$1.0 million decline in the fund balance at the end of the 2017 Series C bond issue.

Mr. Webb stated that he had confirmed the Trust account balance with CHESLA's accounting staff today, which is higher than the assumptions in the cash flows presented for the 2017 Series C transaction.

Dr. Lisi requested a motion to approve Resolution #2017-09, 2017 Series C Authorizing Bond Resolution and Resolution #2017-10, 2017 Series C Supplement Revenue Bond Resolution. Ms. Steiner motioned to approve both resolutions and Mr. Kitowicz seconded her motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Dr. Peter Lisi Steven Kitowicz Sheree Mailhot Erika Steiner Jeanette Weldon	None	None

ADJOURNMENT

There being no further business, at 11:27 a.m. Mr. Kitowicz moved to adjourn the meeting and Ms. Steiner 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 Steven Kitowicz Sheree Mailhot Erika Steiner Jeanette Weldon	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director