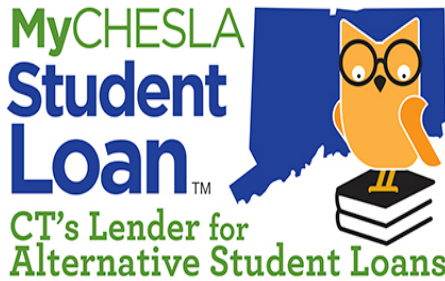



CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY



MyCHESLA
Student Loan
CT's Lender for
Alternative Student Loans

In-School Loan
Product



RefiCT
Student Loan Refinancing
Customized to Meet Your Goals

Alumni
Refinance
Product



Annual Report Fiscal Year Ended June 30, 2016

Helping Students and their Families Invest in the Future.

10 Columbus Boulevard, 7th Floor, Hartford, Connecticut 06106

Telephone: (860) 520-4001 Web: www.chesla.org

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

10 Columbus Boulevard, 7th Floor, Hartford, Connecticut 06106
(860) 520-4001 Outside CT • (800) 252-3357 in CT • FAX (860) 520-4004
Web: www.chesla.org

Message from the Executive Director:

On June 29, 2016, the Connecticut Higher Education Supplemental Loan Authority hosted a press conference attended by State Treasurer Denise Nappier, House Majority Leader Joe Aresimowicz, and Banking Committee Co-Chair Representative Matt Lesser. Each provided important and thoughtful commentary on the effect of student loan debt on Connecticut residents. But the speakers who perhaps best illustrated the impact of student debt were the Belvederes -- a father and son who spoke eloquently of the higher education opportunity that CHESLA student loans afforded them, but also spoke of the challenges of managing that debt post-graduation. The experience of the Belvederes and other borrowers like them was the impetus for legislation to give Connecticut residents a new alternative for refinancing education debt. With the support of the Governor's office, the State Treasurer's office, and key legislators, Public Act No. 15-200 was passed, giving CHESLA the authority to establish a student loan refinancing program, and on June 29, CHESLA launched Refi CT.

Initiated as a pilot program, Refi CT provides Connecticut residents and other CHESLA borrowers the opportunity to refinance their eligible student loans at favorable interest rates over a 5, 10, or 15 year term, with no application or origination fees. The program's launch was the culmination of a months-long effort that demanded the time and commitment of not only CHESLA staff and advisors, but also the CHESLA Board, whose dedication and focus was critical to the process. We are grateful to the Board and very proud of the end product, which in addition to helping Connecticut residents refinance education loans, also firmly established CHESLA in the digital marketing space, and led to the creation of new logos and a refreshed website under development. I'd also like to take a moment to acknowledge the service of CHESLA's Board Chair, Barbara Rubin, who retired as Chair effective June 30, 2016. Barbara's financial acumen significantly contributed to the Board's effectiveness throughout this growth process.

As Refi CT and CHESLA continue to evolve in the coming year, our focus will remain on helping Connecticut's students, graduates and their families achieve their goals, both financial and educational. We look forward to continuing to serve our constituents.

Jeanette W. Weldon
Executive Director
September, 2016



Overview and Governance

CHESLA was established by Public Act No. 82-313, codified as Chapter 187B of the General Statutes of the State of Connecticut, Sections 10a-221 through 10a-246, inclusive, as amended (the "Act"). The purpose of the Act is "to provide a measure of financial assistance to students in or from the state, their parents and others responsible for the cost of their education and an alternative method to enable Connecticut institutions for higher education to assist qualified students to attend such institutions." The Authority is submitting this Annual Report in accordance with Sections 1-123 and 10a-240 of the Connecticut General Statutes. CHESLA became statutorily consolidated with the Connecticut Health and Educational Facilities Authority (CHEFA) on July 1, 2012. Additional information about CHEFA may be found in its Annual Report available at www.chefa.com.

CHESLA's 2016 – 2018 Mission, Vision and Values Statement

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.

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.

Values:

Excellent Service

Timely, responsive and effective service to the public and to our clients, both external and internal

Respect

Recognition through our attitudes and actions of the value of diversity and the worth and dignity of all, including the public, our clients and one another

Can-Do Attitude

A creative, leading-edge, open-minded approach to meeting the needs of the public and of our clients in a constantly changing environment

Transparency

Openness and accountability with respect to all aspects of the Authority and its operations

Professionalism

A commitment to teamwork, to expertise and to personal behavior that projects a positive image of the Authority

Integrity

Maintenance of an internal culture that reinforces the message that personal integrity and ethical behavior are valued and rewarded by the Authority

(Exhibit D of this report)



Board Members

CHESLA's Board Members FY 2016

Statutorily Designated:



The Honorable Denise L. Nappier
State Treasurer



Benjamin Barnes
Secretary
Office of Policy & Management



Mark E. Ojakian
President
Connecticut State Colleges and Universities



Barbara Rubin*
Chair of the Board of CHESLA



Jeanette W. Weldon*
Executive Director of CHEFA
Executive Director of CHESLA

Ex Officio Members

Member's Designee

Sarah Sanders
Assistant Treasurer of Debt Management

Steven Kitowicz
Principal Budget Specialist

Erika H. Steiner
Chief Financial Officer

Appointed Members:

Expiration of Term

Statutory Qualifications



Julie B. Savino
Vice Chair of the Board of CHESLA

July 1, 2018

Experience in Higher Education
Loan Field
Chief Financial Officer



Martin L. Budd, Esq.

July 1, 2017

Experience in State and
Municipal Finance



Dr. Peter W. Lisi

Coterminous**

Member of Board of CHEFA who is an Employee of a Connecticut Institution For Higher Education

The remaining members are appointed by the CHEFA Board of Directors based on their qualifications, as specified in the enabling legislation.

*Ms. Rubin and Ms. Weldon have terms coterminous with their service as Chair of the CHEFA Board and Executive Director of CHEFA, respectively.

**Mr. Lisi's term is coterminous with his service on the CHEFA Board unless a successor is appointed earlier by the CHEFA Board.

Advisory Committee Members

David Borus of West Hartford

Susan Harlan of Berlin

Matthew Rosen of Naugatuck

CHESLA Staff Members



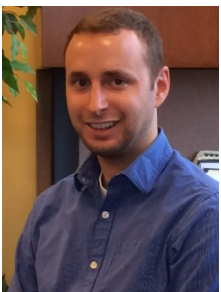
Jeanette W. Weldon
Executive Director

Email address: jweldon@chesla.org



Samuel E. Rush
Deputy Director

Email address: srush@chesla.org



Joshua Hurlock
Assistant Director

Email address: jhurlock@chesla.org



Non-discrimination, Equal Employment Opportunity and Sexual Harassment Policy

The Authority is an Equal Opportunity Employer and it is the Authority's policy not to tolerate discrimination or sexual harassment in any form. The Authority does not discriminate against any person in regard to any term or condition of employment based on race, color, religious creed, age, gender, sexual orientation, gender identity or expression, marital status or civil union status, national origin, ancestry, pregnancy, present or past history of mental disorder, intellectual disability, mental or physical disability (including, but not limited to, blindness), veteran's status, prior conviction of a crime, or any other reason prohibited by any applicable law or regulation. Further, it bases its employment decisions, including recruiting, hiring, training and promoting, on this nondiscriminatory principle.

If at any time an employee feels that she or he has been discriminated against or that the above guidelines have been in any way violated, the employee should immediately inform any officer of the Authority. Any employee found to have engaged in discriminatory conduct in violation of the above may be subject to disciplinary action up to and including dismissal. The ultimate responsibility for the implementation of this policy rests with the Executive Director.

Please be advised that, in addition to the above, the Authority will not tolerate disparaging comments about any of the above classes of individuals even if the person to whom the comments are made is not a member of such a class. Any Authority employee found to have made such comments or to have exhibited discriminatory behavior based on any of these or any other classifications may be subject to disciplinary measures up to and including dismissal.

It is the policy of the Authority that all employees have the right to work in an environment free from all types of discrimination including that of sexual harassment. The Authority's policy on this subject is as follows:

1. The Authority prohibits sexual harassment of employees in any form. Such conduct may result in disciplinary action up to and including dismissal.
2. Specifically, no supervisor or member of management shall threaten or insinuate, either explicitly or implicitly, that an employee's refusal to submit to sexual advances will adversely affect the employee's employment, assigned duties, or any other condition of employment or career development.
3. Other sexually harassing conduct at the workplace, whether committed by supervisors or non-supervisory personnel, is also prohibited. This includes: repeated offensive sexual flirtation; advances; propositions; continued or repeated verbal abuse of a sexual nature; graphic verbal commentaries about an individual's body; sexually oriented words used to describe an individual; and displays in the workplace of sexually suggestive objects or pictures.

Employees who feel they have been subjected to acts of sexual harassment or who feel their rights under the Sexual Harassment Policy have been violated should immediately inform any officer of the Authority. The officer(s) shall promptly investigate the complaint. Complaints will be examined impartially and, to the extent possible, confidentially. When merited, appropriate disciplinary action will be taken.

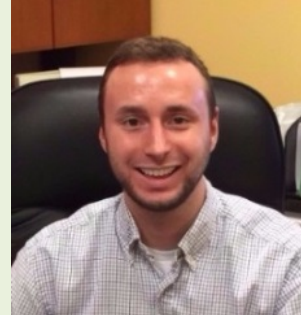
As of June 30, 2016, CHESLA had two employees: a Deputy Director (1 African-American Male) and an Assistant Director (1 Caucasian Male).



Activities, News and Events

Having served as the Loan Portfolio and Marketing Associate since September 26, 2011, Josh played a major part in handling the day-to-day operation of CHESLA during the extended leave of Mr. Rush. Josh was instrumental in helping to craft the new Refi CT program as well as working with borrowers, advisors and service providers.

Promotion of Joshua Hurlock



Assistant Director

CHESLA's Board created a \$2 million dollar Need Based Scholarship Program by Resolution on March 19, 2015. The Board renewed the program for fiscal year 2016 with another \$2 million dollar allocation.

The Authority is passionate about continuing to invest and help Connecticut's undergraduate students in their pursuit of higher education.

Investment in Connecticut's Students



Fiscal Year 2016

During a press conference, CHESLA Executive Director Jeanette W. Weldon, State Treasurer Denise L. Nappier, Majority Leader Joe Aresimowicz and Representative Matthew Lesser (D-Middletown) discussed concerns over rising student loan debt. These state officials came together to support CHESLA in unveiling a new student loan refinance program called Refi CT.

Ralph Belvedere, Jr. and his son Ralph Belvedere spoke of the hardship that the cost of higher education creates for families. "If it weren't for programs like CHESLA and the fact that our children were born years apart, it would not have been possible to educate both of them. Today, we are proud that they have both done exceptionally well and are able to pay off their debt," said Ralph Belvedere, Jr

Press Conference and Program Unveiling of Refi CT



June 29, 2016



College Fair and Sponsorship - National Association for College Admission Counseling

NACAC's annual spring college fair was held at the Connecticut Convention Center in Hartford. The event marked CHESLA's second straight year as a sponsor and exhibitor. The fair is widely attended and a very popular event for students, parents, and high school guidance counselors. CHESLA received approximately 70 requests to opt-in to its upcoming e-newsletter.

March 31, 2016

For the first time ever, CHESLA was advertised on local television during fiscal 2016. The advertisement spot ran mainly during the morning and nightly news, while even making appearances during Family Feud and an important Red Sox/Yankees baseball game.

Television Advertising



Fiscal Year 2016



Strategic Initiative Highlights

Core Goal 1 – Superior Client Service



- Attended National Association for College Admission Counseling (NACAC) Hartford College Fair held annually at CT Convention Center. CHESLA made contact with seventy-five people who expressed interest in subscribing to CHESLA program updates.
- Website updated to accommodate the loan refinance product, Refi CT. Total website refresh – Initiative for FY 2017.
- Posted financial literacy articles to CHESLA's Facebook page weekly for "Financial Literacy Friday."

Core Goal 2 – Programs and Services that Meet the Demands of a Changing Market



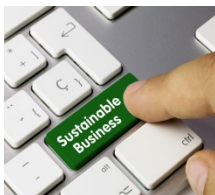
- Implemented an extension of the in-school principal deferral period (from 5 years to 8 years), effective with the issuance of 2016 Series A Bonds.
- Created and implemented a pilot refinance loan product.
- Worked with an advertising agency to develop a digital marketing program for the loan products.
- Distributed \$1,886,500 in CHESLA Need-Based Scholarships to 33 schools and impacting 1,066 students
- Established a working group focused on financial literacy with representation from CHESLA, CHET, Office of Higher Education, Department of Consumer Protection, and the school guidance and literacy communities, with the goal of implementing a web portal by December 31, 2016.

Core Goal 3 – Partner in Public Policy



- Successful in obtaining support of Sen. Richard Blumenthal, Congressman John Larson, and Congressman Joe Courtney for broad based IRS guidance regarding the use of tax-exempt bonds to fund refinance loans. Effort coordinated by Education Finance Council (EFC).
- The Executive Director is a member of the CT General Assembly's Higher Education and Employment Advancement Committee's Planning Commission for Higher Education Student Financial Aid Working Group, raising the profile of CHESLA among lawmakers, schools and advocacy groups.
- The Assistant Director served the first year of a two-year term as Associate Member Representative of CAPFAA. In this role, he represents lenders and other organizations involved with the support and administration of student financial aid on CAPFAA's Executive Council.

Core Goal 4 – Sustainable Organization



- The Executive Director and Assistant Director attended JumpStart Coalition for Personal Financial Literacy conference.
- The Assistant Director was successfully cross-trained and able to assist in responsibilities handled by the Deputy Director.

Core Goal 5 – Ethical Culture



- Clean independent audit for Fiscal Year Ended June 30, 2016



Bond Issuance

The Authority priced \$15,000,000 in Revenue Bonds on June 2, 2016. The transaction closed on June 30, 2016. The 2016 Series A Bonds were sold through a negotiated underwriting with Bank of America Merrill Lynch as the senior managing underwriter and Roosevelt & Cross as the co-manager. FirstSouthwest, a division of Hilltop Securities serves as the Authority's financial advisor.

As of June 30, 2016, the Authority had issued Revenue Bonds and Revenue Refunding Bonds in the aggregate original principal amount of \$560,890,000. The principal amounts of the Authority's outstanding bonds as of June 30, 2016 total \$152,785,000, as shown below:

<u>Bond Series*</u>	<u>Principal Issued*</u>	<u>Principal Outstanding*</u>
1983 Series	\$15,500,000	\$0
1985 Series	\$15,500,000	\$0
1990 Series A	\$18,000,000	\$0
1990 Series B	\$420,000	\$0
1991 Series A	\$25,000,000	\$0
1991 Series B	\$445,000	\$0
1992 Series A	\$6,600,000	\$0
1993 Series A	\$10,000,000	\$0
1994 Series A	\$25,000,000	\$0
1996 Series A	\$25,000,000	\$0
1998 Series A	\$15,000,000	\$0
1998 Series B	\$3,560,000	\$0
1999 Series A	\$12,500,000	\$0
1999 Series B	\$4,390,000	\$0
2000 Series A	\$16,410,000	\$0
2000 Series B	\$5,975,000	\$0
2001 Series A	\$25,000,000	\$0
2003 Series A	\$18,000,000	\$0
2003 Series B	\$12,915,000	\$0
2005 Series A	\$31,455,000	\$0
2005 Series B	\$5,900,000	\$0
2006 Series A	\$33,270,000	\$7,160,000
2007 Series A	\$41,000,000	\$16,340,000
2009 Series A	\$30,000,000	\$16,070,000
2010 Series A	\$45,000,000	\$32,695,000
2012 Series A	\$13,085,000	\$2,670,000
2013 Series A	\$25,000,000	\$21,365,000
2014 Series A	\$23,000,000	\$22,505,000
2015 Series A	\$21,500,000	\$18,980,000
2016 Series A	\$15,000,000	\$15,000,000
Total	\$560,890,000	\$152,785,000

The State's contingent liability, in connection with the outstanding bonds, is the Special Capital Reserve Fund requirement for such Bonds, as defined in Connecticut General Statutes Section 10a-232.

Projected Activities and Payments in Excess of \$5,000 Bond Issuance

Projected Activities

The Authority will continue to focus on its Core Goals and related strategic objectives. CHESLA's updated Strategic Plan for 2016 – 2018 is included as Exhibit D. All activities are expected to be consistent with the Fiscal Year 2017 operating budget, included as Exhibit E.

Payments in Excess of \$5,000 (excluding loans for education):

Services and Account Disbursements in Excess of \$5,000 Fiscal Year End June 30, 2016

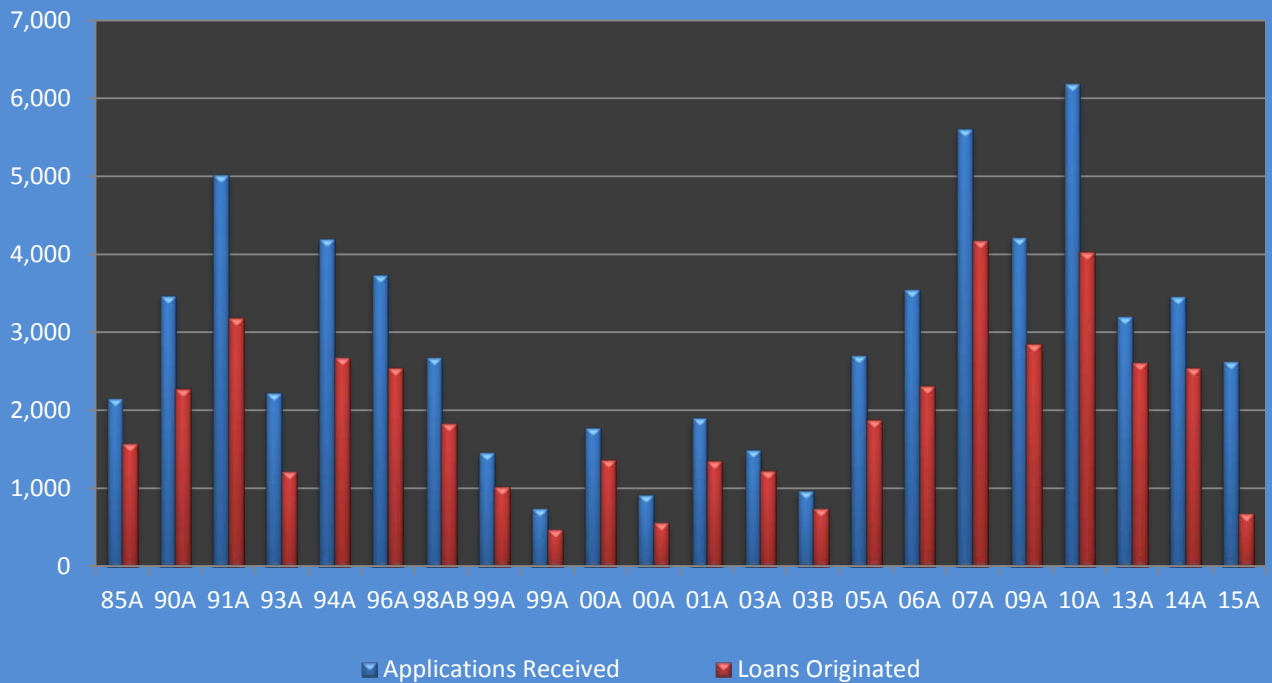
Paid from CHESLA Operating Budget

Bank of America
CampusDoor Holdings, Inc.
Connecticut Association of Professional Financial Aid Administrators, Inc. (CAPFAA)
Connecticut Health and Education Facilities Authority (CHEFA)
Education Finance Council, Inc. (EFC)
Education Solutions Partners
Hartford Courant Media Group
Live Nation Marketing, Inc.
Maier True Communications
McGlinchey Stafford
RMI Associates, LLC
Willis of Connecticut, LLC
WTNH

Paid from CHESLA 1990 & 2003 Bond Resolution Revenue Accounts

Ballard Spahr, LLP
Collection Company of America (CCA)
Day Pitney, LLP
Firstmark Services
First Southwest Company
Fitch Ratings
ImageMaster
Moody's Investors Service
Shipman & Goodwin
U.S. Bank (Trustee Fees)

CHESLA Loan Program Applications Data - By Bond Series

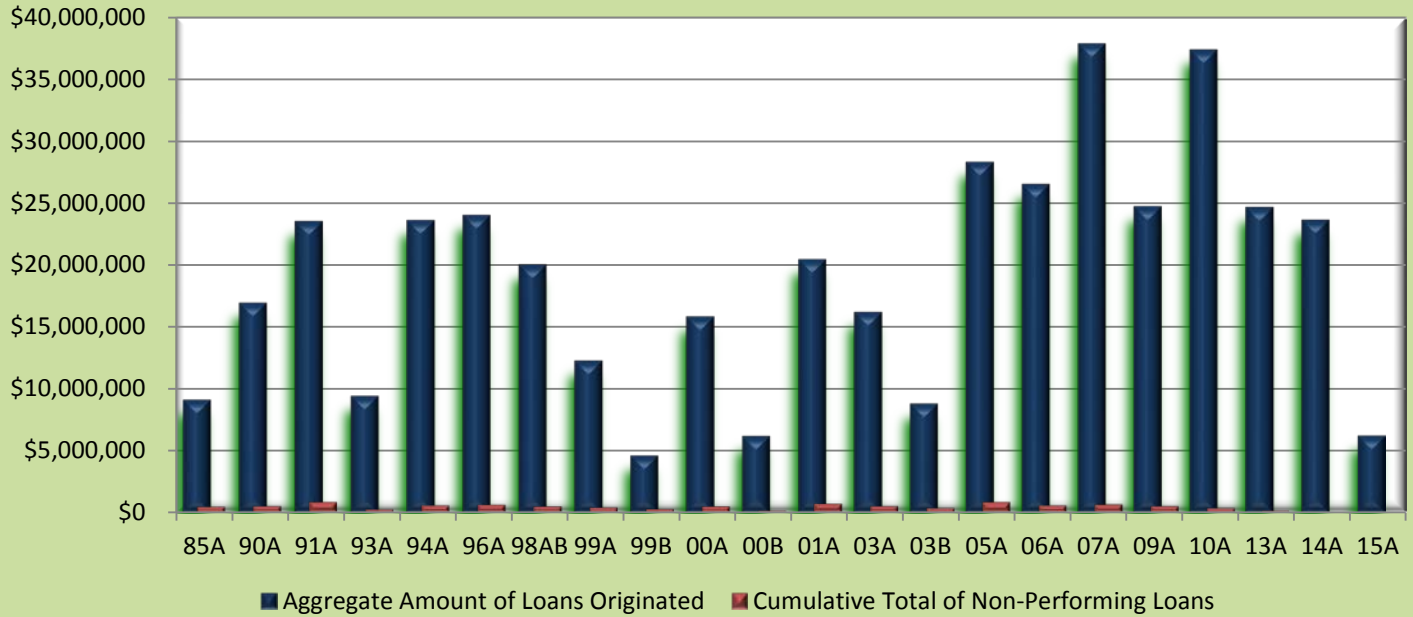


Applications Received by Bond Series – 85A (2,150), 90A (3,462), 91A (5,022), 93A (2,226), 94A (4,193), 96A (3,737), 98AB (2,681), 99A (1,460), 99B (739), 00A (1,771), 00B (915), 01A (1,900), 03A (1,484), 03B (964), 05A (2,710), 06A (3,552), 07A (5,607), 09A (4,223), 10A (6,188), 13A (3,207), 14A (3,468), and 15A (2,628).

Applications Approved and Funded by Bond Series – 85A (1,575), 90A (2,275), 91A (3,181), 93A (1,215), 94A (2,676), 96A (2,542), 98AB (1,840), 99A (1,014), 99B (475), 00A (1,360), 00B (564), 01A (1,341), 03A (1,225), 03B (743), 05A (1,866), 06A (2,308), 07A (4,188), 09A (2,848), 10A (4,029), 13A (2,613), 14A (2,535), and 15A (674).



CHESLA Loan Program Origination Amount and Non-Performing Loan Data (By Bond Series)



Aggregate Amount of Loans Originated – 85A (\$9,138,627), 90A (\$16,978,127), 91A (\$23,509,883), 93A (\$9,457,002), 94A (\$23,601,441), 96A (\$24,002,867), 98AB (\$19,989,330), 99A (\$12,283,780), 99B (\$4,628,969), 00A (\$15,853,387), 00B (\$6,200,067), 01A (\$20,433,303), 03A (\$16,212,316), 03B (\$8,813,427), 05A (\$28,321,052), 06A (\$26,527,184), 07A (\$37,871,341), 09A (\$24,703,581), 10A (\$37,389,234), 13A (\$24,650,944), 14A (\$23,615,107), and 15A (\$6,242,207). **Total cumulative amount of loans originated: \$420,423,175.**

Cumulative Total of Non-Performing Loans – 85A (\$433,731), 90A (\$492,607), 91A (\$809,190), 93A (\$237,783), 94A (\$531,830), 96A (\$595,535), 98AB (\$474,433), 99A (\$396,502), 99B (\$264,963), 00A (\$472,811), 00B (\$139,882), 01A (\$665,276), 03A (\$490,877), 03B (\$349,162), 05A (\$805,650), 06A (\$535,466), 07A (\$613,488), 09A (\$491,362), 10A (\$336,444), 13A (\$128,098), 14A (\$49,640), and 15A (\$0). **Total non-performing loans \$9,257,915.**

Net Non-Performing Default Rate – 85A (4.75%), 90A (2.90%), 91A (3.44%), 93A (2.51%), 94A (2.25%), 96A (2.48%), 98AB (2.37%), 99A (3.23%), 99B (5.72%), 00A (2.98%), 00B (2.26%), 01A (3.26%), 03A (3.03%), 03B (3.96%), 05A (2.84%), 06A (2.02%), 07A (1.62%), 09A (1.99%), 10A (0.90%), 13A (0.52%), 14A (0.21%), and 15A (0.00%). **Total net non-performing default rate: 2.20%.**

Activity information was compiled from loans originated as follows:	
1985 Series A – 10/01/85 to 10/30/88	2005 Series A & B – 07/13/05 to 11/14/06
1990 Series A – 08/22/90 to 09/06/91	2006 Series A – 09/20/06 to 07/14/08 includes recycling
1991 Series A – 09/12/91 to 08/05/93	2007 Series A – 09/05/07 to 03/26/10 includes recycling
1993 Series A – 08/12/93 to 08/20/94	2009 Series A – 09/04/09 to 05/24/13 includes recycling
1994 Series A – 08/26/94 to 09/20/96	2010 Series A – 05/06/11 to 07/19/13 includes recycling
1996 Series A – 10/05/96 to 09/05/98	2013 Series A – 05/10/13 to 01/31/15
1998 Series A & B – 09/11/98 to 06/30/99	2013 Series B – 10/01/14 to 04/30/15
1999 Series A & B Bonds – 10/27/99 to 11/24/00	2014 Series A – 07/01/14 to 06/30/15
2000 Series A & B – 12/15/00 to 05/01/02	2015 Series A – 09/11/15 to Present
2001 Series A – 05/01/02 to 08/31/05 includes recycling	
2003 Series A & B – 07/23/03 to 07/13/05	

- A table showing loan disbursements by School and Bond Series, from proceeds of the 1985 through 2015 Series A bond sales is attached as Exhibit B to this Annual Report.
- A copy of the Loan Program Manual is attached as Exhibit C to this Annual Report.

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Exhibit A – Audited Financials

The Authority's FY 2016 audited financial statements are formatted on a component unit basis and reflect the operations of CHEFA, CHESLA, and CSLF.

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

**Financial Statements
and Independent Auditor's Reports**

June 30, 2016

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

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Financial Section

Independent Auditor's Report

Board of Directors
Connecticut Health and Educational Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of the Connecticut Health and Educational Facilities Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Connecticut Health and Educational Facilities Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the Connecticut Health and Educational Facilities Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Connecticut Health and Educational Facilities Authority's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016, on our consideration of the Connecticut Health and Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Connecticut Health and Educational Facilities Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Hartford, Connecticut
September 22, 2016



Management's Discussion and Analysis

Year Ended June 30, 2016

(In Thousands)

As management of Connecticut Health and Educational Facilities Authority (CHEFA), we offer readers of CHEFA's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. This Management's Discussion and Analysis presents separate discussion for the primary government (CHEFA) and each of the component units: Connecticut Higher Education Supplemental Loan Authority (CHESLA) and Connecticut Student Loan Foundation (CSLF), each addressing the operations of the individual entity.

CHEFA is a conduit issuer of tax-exempt bonds issued on behalf of non-profit healthcare institutions, higher education institutions and independent schools, childcare facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions pursuant to Connecticut General Statutes Chapter 187, Sections 10a-176 through 10a-198. These tax-exempt bonds are financial obligations of the institution on whose behalf CHEFA issues the bonds. The issuance of tax-exempt bonds can provide funds for new construction projects, the refinancing of eligible existing debt, funding of Debt Service Reserve Funds (if applicable), and funding of issuance costs.

CHESLA, a subsidiary of CHEFA, issues tax-exempt bonds in order to fund student loans for the higher education of students in or from the State of Connecticut. CHESLA's bonds are repaid from student loan repayments and are further supported by a Special Capital Reserve Fund, the replenishment of which is deemed appropriated by the State of Connecticut.

Pursuant to Public Act No. 14-217, CSLF was statutorily consolidated with CHEFA as a subsidiary thereof and became a quasi-public agency of the State of Connecticut.

CSLF is a Connecticut State-chartered non-profit corporation established pursuant to State of Connecticut General Statutes Chapter 187a and governed by Title IV, Part B of the Higher Education Act of 1965, as amended, for the purpose of improving educational opportunity. Generally, CSLF is empowered to achieve this purpose by originating and acquiring student loans and providing appropriate services incident to the administration of programs which are established to improve educational opportunities. CSLF no longer originates or acquires student loans.

Financial Highlights

- CHEFA's net position decreased by \$1,407 for the fiscal year, due substantially to the statutorily required payment of \$3,500 to the State of Connecticut general fund. This was the first of two required payments.
- CHESLA's net position increased by \$8,731 for the fiscal year. The increase was due substantially to \$6,000 of monies contributed by CSLF to CHESLA for the student loan refinancing pilot program established by the CHESLA board in fiscal year 2016 and \$2,000 contributed to the CHESLA 1990 Trust.
- CSLF's net position decreased by \$6,810 for the fiscal year. The decrease was due substantially to the contributions of \$6,000 for the refinancing program, \$2,000 contributed to the CHESLA 1990 Trust and \$1,889 contributed by CSLF for the scholarship program.
- CHESLA's loan activity during the fiscal year was the issuance of new loans totaling \$15,340 and payments received of \$7,061.
- CSLF's loan activity for the fiscal year was payments received of \$45,142.
- CHESLA issued debt of \$15,000 for new loans and issued refunding bonds of \$21,465, the proceeds of which were used to defease \$16,720 of bonds. Scheduled principal payments totaled \$21,050 for net decrease of \$1,305.
- CSLF's bonds payable decreased by \$37,300 for voluntary redemptions made during the year.

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to CHEFA's basic financial statements. CHEFA's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. Separate financial statements are presented for CHEFA (primary government) and the two component units CHESLA and CSLF.

Financial statements. The financial statements are designed to provide readers with a broad overview of CHEFA's finances, in a manner similar to a private-sector business. CHEFA's operations are reported as business-type activities.

The *statement of net position* presents information on all of CHEFA's assets, liabilities, and deferred inflows of resources with the difference between these accounts reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of CHEFA is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net position* presents information showing how CHEFA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected loans and earned but unused vacation leave).

The *statement of cash flows* presents the cash flow by each type of activity.

The financial statements can be found on Exhibits A, B and C.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to financial statements can be found in Exhibit D.

Connecticut Health and Educational Facilities Authority (CHEFA)

Financial Analysis

Assets exceeded liabilities at June 30, 2016. Net position may serve over time as a useful indicator of a government's financial position. Due to the nature of operations, a significant portion of net position is subject to specific external statutory restrictions. The restricted net position for CHEFA at fiscal year end was 57.0%. In addition, a small portion of CHEFA's net position invested in capital assets was 0.9%.

A summary of the statement of net position is as follows:

	CHEFA	
	2016	2015
Current and other assets	\$ 335,173	\$ 340,214
Capital assets (net)	124	169
Total assets	335,297	340,383
Assets Held on Behalf of the State of CT	2,174	2,172
Other liabilities	318,840	322,521
Total liabilities	321,014	324,693

Management's Discussion and Analysis (Continued)

Net investment in capital assets	124	169
Restricted	8,138	11,735
Unrestricted	<u>6,021</u>	<u>3,786</u>
Total net position	<u>\$ 14,283</u>	<u>\$ 15,690</u>

The remaining portion of net position is unrestricted and is 42.1%.

Statement of Changes in Net Position. The statement of changes in net position's purpose is presenting information on how the net position changed during the most recent fiscal year. For the fiscal year, CHEFA's net position decreased by \$1,407.

A statement of changes in net position follows:

Statement of Changes in Net Position (in thousands)

	CHEFA	
	2016	2015
Operating revenues:		
Administrative fees	\$ 7,498	\$ 7,513
General and administrative fees	205	200
Bond issuance fees	86	90
Other revenues	<u>13</u>	<u>15</u>
Total operating revenues	<u>7,802</u>	<u>7,818</u>
Operating expenses:		
Salaries and related expenses	2,664	2,896
General and administrative	549	819
Contracted services	<u>279</u>	<u>195</u>
Total operating expenses	<u>3,492</u>	<u>3,910</u>
Operating income	<u>4,310</u>	<u>3,908</u>
Non-operating income (expenses):		
Investment income	43	13
Payment to State	(3,500)	-
Grants and childcare subsidy expense	<u>(2,260)</u>	<u>(2,993)</u>
Total non-operating expenses	<u>(5,717)</u>	<u>(2,980)</u>
Increase (decrease) in net position	(1,407)	928
Net position, July 1, 2015	<u>15,690</u>	<u>14,762</u>
Net position, June 30, 2016	<u>\$ 14,283</u>	<u>\$ 15,690</u>

Net position decreased by \$1,407 due substantially to the statutorily required transfer of \$3,500 to the State of Connecticut general fund. This was the first of two required payments.

Management's Discussion and Analysis (Continued)

Revenues

CHEFA is a conduit issuer of tax-exempt bonds issued on behalf of non-profit healthcare institutions, higher education institutions and independent schools, childcare facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions. CHEFA charges the conduit borrower for administration and upfront fees.

The fee charged is a Board approved administrative fee of 9 basis points (.0009) on the outstanding balance for all market segments with the exception of Special Capital Reserve Fund long-term care bond issues which have a 14 basis points (.0014) fee.

Revenues totaled \$7,802 for fiscal year 2016. Administrative fees are the largest revenue source and represent 96.1% of total revenues. General and administrative service fees for support services provided to CHESLA and CSLF totaled \$205 represent 2.6% of revenues for the year. The balance comprises upfront fees for the conduit debt issued and other revenues at 1.3%.

Significant changes from the prior year for revenues are as follows:

- Administrative fees decreased by \$15 to \$7,498 during the year. The decrease is due to the change in the par value of loans outstanding at June 30, 2016 compared to June 30, 2015. Fees are calculated on the total par amount outstanding in any given year.

The balance of the par value of debt outstanding at June 30, 2016 was \$8,314,847 as compared to \$8,412,187 at June 30, 2015.

During the year, CHEFA has 30 issues of new conduit debt totaling \$1,358,355 in par value.

- Non-operating investment income increased by \$30 from the \$13 recognized in fiscal year 2015. This is a result of slight interest rates increases as compared to the prior year.

Expenses

Expenses totaled \$3,492 for the fiscal year. Of the expenses, 76.3% or \$2,664 was for salaries and related expenses. General and administrative expenses amounted to \$549, or 15.7%, while contracted services amounted to \$279 or 8.0% of the total expenses.

Significant changes from the prior year are as follows:

- Salaries and related expenses decreased by \$232 from fiscal year 2015 to \$2,664 due to restructuring and vacant positions.
- Contracted services increased by \$84 from fiscal year 2015 to \$279 due to consultants retained to perform specialty research for Community Health Care facilities, as required per state mandate.
- Grant and childcare subsidy expense decreased from fiscal year 2015 by \$733. The decrease was a result of the decrease in the loan amounts outstanding.

Capital Assets

At June 30, 2016, CHEFA's capital assets amounted to \$124, net of depreciation. This includes leasehold improvements, furniture and fixtures, and computer and office equipment. Capital assets decreased by \$45 or 26.6% due to capital asset additions of \$19, offset by depreciation of \$64. Capital asset purchases during the year included \$13 for computer equipment and \$6 for office equipment.

Additional information on the capital assets can be found in Exhibit D (II) C.

Management's Discussion and Analysis (Continued)

Economic Factors

The most significant factor impacting CHEFA is the borrowing rate. In developing the 2017 budget, CHEFA is expecting a 1.8% decrease in revenues as compared to fiscal year 2016. An increase of \$29 in the support fees charged to CHESLA and CSLF is also being anticipated, with CHESLA being the majority of the increase. Operating expenses were projected to decrease 7.8% as compared to fiscal year 2016. Finally, the 2017 budget also includes the second payment of \$3,500 to the State of Connecticut mandate by the State Budget Act.

Connecticut Higher Education Supplemental Loan Authority (CHESLA)

Financial Analysis

For CHESLA, assets exceeded liabilities at June 30, 2016. Net position may serve over time as a useful indicator of a government's financial position. Due to the nature of operations, a significant portion of net position is subject to specific external statutory and bond resolution restrictions. The restricted net position for CHESLA at fiscal yearend was 68.3%.

A summary of the statement of net position is as follows:

	CHESLA	
	2016	2015
Current and other assets	\$ 185,137	\$ 176,905
Total assets	185,137	176,905
Long-term liabilities outstanding	154,980	155,678
Other liabilities	1,197	2,887
Total liabilities	156,177	158,565
Deferred inflows of resources	1,889	-
Restricted	18,502	15,923
Unrestricted	8,569	2,417
Total net position	\$ 27,071	\$ 18,340

The remaining portion of net position is unrestricted and is 31.7%.

Statement of Changes in Net Position. The statement of changes in net position's purpose is presenting information on how the net position changed during the most recent fiscal year. For the fiscal year CHESLA's net position increased \$8,731.

Management's Discussion and Analysis (Continued)

A statement of changes in net position follows:

Statement of Changes in Net Position (in thousands)

	CHESLA	
	2016	2015
Operating revenues:		
Interest income on loans receivable	\$ 7,576	\$ 7,260
Administrative fees	1,313	1,108
Contribution from CSLF	6,000	-
Total operating revenues	14,889	8,368
Operating expenses:		
Interest expense	6,064	6,690
Salaries and related expenses	118	192
General and administrative	1,231	443
Refinance pilot program	171	-
Loan service fees	561	563
Contracted services	43	41
Bond issuance costs	888	104
Provision for loan losses	343	760
Total operating expenses	9,419	8,793
Total operating income (loss)	5,470	(425)
Nonoperating income (expenses):		
Investment income	1,261	1,148
Contribution revenue/expense	2,000	4,000
Scholarship program	-	(2,000)
Total nonoperating income (expenses)	3,261	3,148
Increase (decrease) in net position	8,731	2,723
Net position, July 1, 2015	18,340	15,617
Net position, June 30, 2016	\$ 27,071	\$ 18,340

Net position increased by \$8,731 for the fiscal year. The increase was due substantially to \$6,000 of monies contributed by CSLF to CHESLA for the refinancing program and \$2,000 contributed by CSLF for the scholarship program.

Revenues

CHESLA provides financial assistance in the form of education loans to students in or from the State. CHESLA is authorized to issue tax-exempt bonds, the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayments of such loans service the debt on CHESLA bonds. Revenues include administrative fees and the interest

Management's Discussion and Analysis (Continued)

charged on the loans. The interest charged on the loans is used to pay interest expense on the bonds.

In fiscal year 2016, CHESLA disbursed \$18,652 in loan dollars as compared to \$15,802 in fiscal year 2015. The 2016 disbursements reflect an increase of approximately 19% over fiscal year 2015.

Significant changes from the prior year for revenues are as follows:

- Administrative fees increased by \$205 to \$1,313 during the year. This is due to the increase in the loan servicing fee from 30 to 50 basis points, beginning July 1, 2015.
- Contributions from CSLF totaled \$8,000 as compared to \$4,000 in fiscal year 2015. The current year contributions were authorized by the Board for a loan refinance program (\$6,000), contribution to the CHESLA 1990 Trust (\$2,000). The monies contributed for the scholarship program (\$1,889), are recorded as a deferred inflow.
- Nonoperating investment income increased by \$113, due to the contributions received from CSLF and a slight increase in interest rates as compared to the prior year.

Expenses

Expenses totaled \$9,419 for the fiscal year. The largest expense, 64.3% or \$6,064 was for interest payments on debt. This represents a decrease from 76.1% in fiscal year 2015. General and administrative expenses amounted to \$1,231, or 13.1%. This is an increase from the 5.5% in the prior year. Bond issue costs totaled \$888, or 9.4%, loan servicing fees totaled \$561 or 6.0% and bad debts totaled \$343 or 3.6% of the total expenses.

Significant changes from the prior year are as follows:

- Interest expense decreased by \$626 as compared to fiscal year 2015 due to a reduction in the principal balance of outstanding debt as compared to fiscal year 2015. Although refunding bonds were issued at June 30, 2016, they did not have a current year impact on interest expense.
- Salaries and related expenses decreased by \$74 due to a long-term absence of an employee.
- General and administrative expenses increased by \$788 due to the recording of Trust Administration fees paid to the CHESLA Agency account. Prior year 2015 was recorded as eliminations, decreasing income from Administration Fees and decreasing General and Administrative fees for the 1990 and 2003 Trusts.
- A pilot refinance program was funded during the year by a contribution from CSLF (\$6,000). \$500 of the program funding was to be used for the administrative costs for the program. During fiscal year 2016, \$171 was spent for this program.
- Bond issuance and insurance cost increased by \$784 due to two bond issues that were issued during the year as compared to 1 in the prior year, in addition, the remaining cost of bond insurance and premium/discount, totaling \$105, for prior bond issues, was fully amortized in fiscal year 2016.
- Provision for loan losses decreased by \$417 due to a combination of the new methodology that was implemented in the prior year and increased loan loss recoveries.

Management's Discussion and Analysis (Continued)

Debt Administration

Long-term debt

The change in long-term debt for CHELSA was as follows:

Bonds Payable (in thousands)	CHELSA	
	2016	2015
Revenue Bonds	\$ 152,785	\$ 154,090
Premiums/Discounts	2,195	1,588
Total Long-term liabilities	<u>\$ 154,980</u>	<u>\$ 155,678</u>

CHELSA's decrease in the principal balance outstanding was due to a net of new issuances totaling \$36,465, including the refunding bonds of \$21,465, offset by refunded bonds of \$16,720 and scheduled principal payments of \$21,050.

CHELSA maintains an "A+" rating from Fitch and an Aa3 rating from Moody's Investors Service for revenue obligation debt.

Additional information on long-term debt can be found in Exhibit D (II) D.

Economic Factors

The general economic conditions and the direction of the economy have significant impact on CHELSA. The ability of individuals to be able to repay their loans is significantly impacted by unemployment rates. Another factor is the rate at which CHELSA is able to issue bonds and provide new loans.

Connecticut Student Loan Foundation (CSLF)

Financial Analysis

For CSLF assets exceeded liabilities at June 30, 2016. Net position may serve over time as a useful indicator of a government's financial position. Due to the nature of operations, a significant portion of net position is subject to specific external statutory restrictions. The restricted net position for CSLF at fiscal year end was 30.0%.

Management's Discussion and Analysis (Continued)

A summary of the statement of net position is as follows:

Summary Statement of Net Position (in thousands)

	CSLF	
	2016	2015
Current and other assets	\$301,107	\$ 347,572
Total assets	301,107	347,572
Long-term liabilities outstanding	274,090	311,226
Other liabilities	1,792	4,311
Total liabilities	275,882	315,537
Restricted	7,557	7,891
Unrestricted	17,668	24,144
Total net position	\$ 25,225	\$ 32,035

The remaining portion of net position is unrestricted and is 70.0%.

Statement of Changes in Net Position. The statement of changes in net position's purpose is presenting information on how the net position changed during the most recent fiscal year. For the fiscal year, CSLF's net position decreased by \$6,810.

A statement of changes in net position follows:

Statement of Changes in Net Position (in thousands)

	CSLF	
	2016	2015
Operating revenues:		
Interest income on loans receivable	\$ 10,749	\$ 11,586
Not-for-profit servicing income	176	183
Other revenues	-	9
Total operating revenues	10,925	11,778
Operating expenses:		
Interest expense	3,974	4,256
General and administrative	295	307
Loan service fees	1,192	1,453
Consolidation rebate fees	1,797	2,013
Contracted services	517	587
Provision for loan losses	100	150
Total operating expenses	7,875	8,766

Management's Discussion and Analysis (Continued)

Operating income	3,050	3,012
Nonoperating income (expenses):		
Investment income	29	69
Payment to State	-	(25,000)
Contribution revenue/expense	(9,889)	(4,000)
Total nonoperating income (expenses)	(9,860)	(28,931)
Change in net position before special item	(6,810)	(25,919)
Special item	-	1,259
Increase (decrease) in net position	(6,810)	(24,660)
Net position, July 1, 2015	32,035	56,695
Net position, June 30, 2016	\$ 25,225	\$ 32,035

CSLF's net position decreased by \$6,810 for the fiscal year. The decrease was due substantially to the contributions of \$6,000 for the refinancing program, \$2,000 contributed to the CHESLA 1990 Trust and \$1,889 contributed by CSLF for the scholarship program. These contributions were authorized by the Board.

Revenues

CSLF currently is not actively issuing new loans. Its purpose was to improve educational opportunity by originating and acquiring student loans and providing related services. CSLF also participates in the not-for-profit servicer program.

Interest income represents the largest operating revenue component. CSLF earns interest income, interest subsidies and special allowance on student loans. Interest income for fiscal year 2016 totaled \$10,749 (98.4%) compared to \$11,586 for fiscal year ended June 30, 2015. These revenue sources are variable in nature and are a direct function of market conditions. Interest rates for student borrowers in the CSLF portfolio have been fixed though the net interest to loan holders remains variable and, therefore, subject to market conditions. Lender yields are limited and vary as Congress and market conditions dictate. Loan interest revenue calculated to be in excess of congressionally established levels (excess yield) is paid to the U.S. Department of Education. During the fiscal year ended June 30, 2016, CSLF paid \$6,020 to the US Department of Education relating to excess yield compared to \$7,800 paid during fiscal year 2015.

The balance of CSLF revenues is the not-for-profit service fee of \$176 and 1.6% of revenues.

Significant changes from the prior year for revenues are as follows:

- Interest income on loans receivable is the largest component of operating revenues. Interest income totaled \$10,749, a decrease of \$837 from the prior year amount of \$11,586. The decrease is due to the decrease in the loan balances and the fact that CSLF is no longer issuing new loans.
- Not-for-profit servicing income totaled \$176 for the fiscal year ended 2016, a decrease of \$7 as compared to fiscal year 2015. The decrease is due to the decrease in the number of loans serviced in the program.
- Nonoperating investment income decreased by \$40, relating to the contribution of investable assets to the State of Connecticut and CHESLA over the past two fiscal years. The amounts paid totaled \$9,889 in fiscal year 2016 and \$29,000 in fiscal year 2015.

Management's Discussion and Analysis (Continued)

Expenses

Expenses totaled \$7,875 for the fiscal year. The largest expense was for interest expense on the Auction Rate Certificates (ARCs) it issued to raise money to make or acquire student loans. The interest rate on the ARCs is variable and auctioned every twenty-eight days. Due to the continued failure of the auctions, all investors are being paid at T-Bill plus 1.20%, the maximum rate defined in the Indenture based upon the current ratings of the bonds. Interest expense totaled \$3,974 or 50.4%. Consolidation rebate fees paid to the U.S. Department of Education totaled \$1,797 or 22.8% of total expenses and loan servicing fees totaled \$1,192 or 15.1% of total expenses.

Nonoperating expenses of \$9,889 were for Board authorized contributions to CHESLA for a loan refinancing program (\$6,000), the CHESLA 1990 trust (\$2,000), and a scholarship program (\$1,889).

In fiscal year 2015, legislative mandates created by Public Act 14-47 required the transfer of \$25,000 of CSLF's financial assets to the State of Connecticut to fund certain legislative initiatives. There were no such mandates for fiscal year 2016.

Significant changes from the prior year are as follows:

- Interest expense decreased in 2016 by \$282. The decrease is due to the redemption of \$37,300 in bonds, primarily at par, during the fiscal year.
- Loan service fees decreased by \$261 reflecting the decrease in the number of loans serviced due to loan repayments.
- Consolidation rebate fees decreased by \$216 reflecting the decrease in the principal balance of federal consolidation loans outstanding as the portfolio matures.
- Provision for loan losses decreased by \$50 due to seasoning of the loan portfolio. CSLF has not disbursed new student loans since February 2010. As a result, with the maturing loan portfolio, more student loan borrowers are in active repayment status and the delinquency rates have declined.

Debt Administration

Long-term debt

The change in long-term debt for CSLF was as follows:

Bonds Payable (in thousands)	CSLF	
	2016	2015
Revenue Bonds	\$ 274,800	\$ 312,100
Premiums/Discounts	(710)	(874)
Total Long-term liabilities	<u>\$ 274,090</u>	<u>\$ 311,226</u>

CSLF's decrease in long-term debt was due to the redemption of \$37,300 of bonds during the fiscal year.

CSLF maintains an AAA (senior debt) and AA (subordinate debt) rating from Standard & Poor's. Standard & Poor's has placed the Series 2004 B and 2006 B bonds on CreditWatch Positive. CSLF maintains an AAA (senior debt) and AA (subordinate debt) rating from FITCH Ratings. FITCH

Management's Discussion and Analysis (Continued)

Ratings has placed the Series 2006 A-1 and A-2 bonds and the Series 2004 B and 2006 B bonds on Rating Watch Negative.

Additional information on long-term debt can be found in Exhibit D (II) D.

Economic Factors

General economic conditions have a smaller impact on CSLF. Due to the guarantee by the U.S. Department of Education (generally at 98% of principal and interest), CSLF does not experience significant loan losses in an economic downturn. Loan defaults and the resulting claim payments will accelerate repayment of the loan portfolio. In addition, interest rate risk is minimized as both the loan portfolio and the outstanding bonds have variable interest rates tied to market rates.

Requests for Information

This financial report is designed to familiarize our stakeholders and customers with CHEFA's finances and to demonstrate CHEFA's fiscal accountability for its operations. Questions concerning this report, or request for additional financial information, should be directed to Connecticut Health and Educational Facilities Authority at 10 Columbus Boulevard, Hartford, Connecticut 06106-1978.

Basic Financial Statements

Connecticut Health and Educational Facilities Authority

Statement of Net Position
June 30, 2016
(In Thousands)

<u>Assets</u>	Primary Government	Component Units	
	CHEFA	CHESLA	CSLF
Current assets:			
Unrestricted assets:			
Cash	\$ 138	\$ 2,472	\$ 1,334
Investments	5,272	2,621	-
Receivables (net of allowance for uncollectibles):			
Accounts	649	-	25
Related parties	27	-	-
Prepaid expenses and other assets	80	107	15
Total unrestricted assets	<u>6,166</u>	<u>5,200</u>	<u>1,374</u>
Restricted assets:			
Investments:			
Statutory	3,500	-	-
Institutions	318,694	-	-
Bond indenture trusts	-	40,620	11,250
Interest receivable on investments	-	21,280	19,010
Loan interest receivable	-	105	-
Total restricted assets	<u>322,194</u>	<u>62,451</u>	<u>34,485</u>
Total current assets	<u>328,360</u>	<u>67,651</u>	<u>35,859</u>
Noncurrent assets:			
Unrestricted assets:			
Capital assets (net of accumulated depreciation)	124	-	-
Restricted assets:			
Investments	6,813	21,870	-
Loans receivable (net of allowance for uncollectibles)	-	95,616	265,248
Total noncurrent assets	<u>6,937</u>	<u>117,486</u>	<u>265,248</u>
Total assets	<u>\$ 335,297</u>	<u>\$ 185,137</u>	<u>\$ 301,107</u>

Connecticut Health and Educational Facilities Authority**Statement of Net Position****June 30, 2016****(In Thousands)**

	Primary Government	Component Units	
	CHEFA	CHESLA	CSLF
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 45	\$ 325	\$ 64
Accrued expenses	101	168	67
Amounts held for institutions	318,694	-	-
Accrued interest payable	-	704	-
U.S. Department of Education payable	-	-	1,255
Trust Estate payable	-	-	406
Current portion of bonds payable	-	10,515	-
Total current liabilities	318,840	11,712	1,792
Noncurrent liabilities			
Bonds payable and related liabilities, net of current portion	-	144,465	274,090
Amount held for the State of Connecticut	2,174	-	-
Total noncurrent liabilities	2,174	144,465	274,090
Total liabilities	321,014	156,177	275,882
<u>Deferred Inflows of Resources</u>			
Unearned revenue	-	1,889	-
<u>Net Position</u>			
Net investment in capital assets	124	-	-
Restricted	8,138	18,502	7,557
Unrestricted	6,021	8,569	17,668
Total net position	14,283	27,071	25,225
Total liabilities, deferred inflows of resources and net position	\$ 335,297	\$ 185,137	\$ 301,107

See Notes to Financial Statements.

Connecticut Health and Educational Facilities Authority

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended June 30, 2016

(In Thousands)

	Primary	Component Units	
	Government		
	CHEFA	CHESLA	CSLF
Operating revenues:			
Interest income on loans receivable	\$ -	\$ 7,576	\$ 10,749
Administrative fees	7,498	1,313	-
General and administrative fees	205	-	-
Contribution from CSLF (refinance pilot program)	-	6,000	-
Bond issuance fees	86	-	-
Not-for-profit servicing income	-	-	176
Other revenues	13	-	-
Total operating revenues	7,802	14,889	10,925
Operating expenses:			
Interest expense	-	6,064	3,974
Salaries and related	2,664	118	-
General and administrative	549	1,231	295
Refinance pilot program	-	171	-
Loan service fees	-	561	1,192
Consolidation rebate fees	-	-	1,797
Contracted services	279	43	517
Bond issuance costs	-	888	-
Provision for loan losses	-	343	100
Total operating expenses	3,492	9,419	7,875
Operating income (loss)	4,310	5,470	3,050
Nonoperating income (expenses):			
Investment income	43	1,261	29
Payment to State (legislative mandate)	(3,500)	-	-
Grants and child care subsidy expense	(2,260)	-	-
Contribution from CSLF	-	2,000	-
Contribution to CHESLA	-	-	(9,889)
Total nonoperating income (expenses)	(5,717)	3,261	(9,860)
Increase (decrease) in net position	(1,407)	8,731	(6,810)
Net position, July 1, 2015	15,690	18,340	32,035
Net position, June 30, 2016	\$ 14,283	\$ 27,071	\$ 25,225

See Notes to Financial Statements.

Connecticut Health and Educational Facilities Authority

Statement of Cash Flows
For the Year Ended June 30, 2016
(In Thousands)

	Primary Government	Component Units	
	CHEFA	CHESLA	CSLF
Cash flows from operating activities:			
Cash received from loan payments	\$ -	\$ 21,538	\$ 45,142
Interest received on loans	-	7,595	11,914
Contributions received from CSLF	-	6,000	-
Cash received for administrative fees	7,004	1,313	-
Cash received for loan recoveries	-	303	-
Cash received for general administrative fees	205	-	-
Cash received for not-for-profit servicing	-	-	176
Cash received for other revenues	13	-	-
Cash received for bond issuance fees	86	-	-
Cash payments for employee wages and benefits	(2,736)	(62)	-
Cash payments for interest on bonds	-	(5,978)	(3,974)
Cash payments for loans issued	-	(18,692)	-
Cash payments for loan servicing fees	-	(561)	(1,192)
Cash payments for consolidation fees	-	-	(1,797)
Cash payments for contracted services	(279)	(43)	(517)
Cash payments for refinance pilot program	-	(171)	-
Cash payments for other operating expenses	(2,595)	(2,690)	(795)
Net cash provided by (used in) operating activities	<u>1,698</u>	<u>8,552</u>	<u>48,957</u>
Cash flows from noncapital financing activities:			
Proceeds from bond sales	1,122,995	36,465	-
Proceeds from bond premiums	54,059	611	-
Proceeds from institutions	2,123	-	-
Proceeds from investment income for amounts held for others	426	-	-
Contributions from CSLF	-	3,889	-
Releases from amounts held for institutions	(1,181,024)	-	-
Cash paid to State (legislative mandate)	(3,500)	-	-
Cash paid to grantees and childcare subsidy	(2,260)	-	-
Payments for amount held on behalf of child care	(8)	-	-
Payments of scholarships	-	(1,886)	-
Payments of bond principal	-	(21,050)	(37,300)
Payment to refunded bond escrow agent	-	(16,720)	-
Bond issuance costs	-	(727)	-
Payment of discount on bonds issued	-	(28)	-
Contributions to CHESLA	-	-	(11,889)
Net cash provided by (used in) noncapital financing activities	<u>(7,189)</u>	<u>554</u>	<u>(49,189)</u>
Cash flows from investing activities:			
Proceeds from sale of investments	13,743	26,587	572
Purchase of investments	(8,579)	(35,557)	-
Investment income	43	2,288	29
Net cash provided by (used in) investing activities	<u>5,207</u>	<u>(6,682)</u>	<u>601</u>

Connecticut Health and Educational Facilities Authority

Statement of Cash Flows
For the Year Ended June 30, 2016
(In Thousands)

	Primary Government	Component Units	
	CHEFA	CHESLA	CSLF
Cash flows from capital and related financing activities:			
Purchase of capital assets	\$ (19)	\$ -	\$ -
Net increase (decrease) in cash	(303)	2,424	369
Cash (including restricted cash), July 1, 2015	441	48	965
Cash (including restricted cash), June 30, 2016	<u>\$ 138</u>	<u>\$ 2,472</u>	<u>\$ 1,334</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	<u>\$ 4,310</u>	<u>\$ 5,470</u>	<u>\$ 3,050</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	64	-	-
Provision for loan losses	-	646	100
(Increase) decrease in:			
Accounts receivable	(494)	-	(25)
Accounts receivable - related party	(27)	2,000	-
Loans receivable	-	2,200	45,167
Prepaid expense and other assets	(6)	(93)	19
Loan interest receivable	-	19	1,165
Increase (decrease) in:			
Accounts payable	(332)	(1,748)	(586)
Accrued expenses	(1,817)	168	67
Accrued interest payable	-	(110)	-
Net adjustments to operating income (loss)	<u>(2,612)</u>	<u>3,082</u>	<u>45,907</u>
Net cash provided by (used in) operating activities	<u>1,698</u>	<u>\$ 8,552</u>	<u>\$ 48,957</u>

See Notes to Financial Statements.

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016
(in thousands)**

History and organization

The Connecticut Health and Educational Facilities Authority (CHEFA) - CHEFA is a quasi-public agency and component unit of the State of Connecticut (the State). CHEFA was established pursuant to Chapter 187 of the General Statutes of Connecticut, Revision of 1958, as amended by Public Acts 93-102, 93-262 and 97-259 (the Act). CHEFA is constituted as a public instrumentality and political subdivision of the State whose board of directors is appointed by the Governor of the State of Connecticut. The purpose of CHEFA, as stated in the Act, is to assist certain health care institutions, institutions of higher education and qualified not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to the programs for these institutions. Debt issued by CHEFA is payable from the revenues of the institutions and is not an obligation of CHEFA or the State of Connecticut. Neither the State nor CHEFA is obligated for such debt (except for loans or bonds issued under the Child Care Facilities Loan Program, as discussed in Note II.F, and the Special Capital Reserve Fund Program. Under the Special Capital Reserve Fund Program, the State is obligated for replenishment of debt service reserve funds).

Reporting Entity

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) - CHESLA is a quasi-public agency established in 1982 pursuant to Section 4 of the Connecticut Higher Education Supplemental Loan Authority Act, Public Act 82-313 of the Connecticut General Assembly. CHESLA was established to assist students, their parents and institutions of higher education in financing the cost of higher education through its bond funds. CHESLA maintains separate financial statement accounts for its agency operating fund and two separate bond funds. The 1990 Bond Fund is governed by the 1990 Revenue Bond Resolution, as amended, supplemented and restated, pursuant to which all outstanding bonds were issued prior to 2003 and after 2007. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution pursuant to which all outstanding bonds were issued between 2003 and 2007.

Public Act 12-149 statutorily consolidated CHESLA with CHEFA by making CHESLA a subsidiary of CHEFA. As a subsidiary of CHEFA, CHESLA retains its legal identity as a separate quasi-public authority, continues to be subject to suit and liability solely from its own assets, revenues and resources, and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut.

Public Act No. 14-217 statutorily consolidated Connecticut Student Loan Foundation (CSLF) with CHEFA by making CSLF a subsidiary of CHEFA. As a subsidiary of CHEFA, CSLF retains its legal identity as a separate quasi-public authority, continues to be subject to suit and liability solely from its own assets, revenues and resources, and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut.

Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)

Notes to Financial Statements
June 30, 2016
(in thousands)

Reporting Entity

CSLF was originally established as a Connecticut State chartered nonprofit corporation established pursuant to State of Connecticut Statute Chapter 187a and governed by Title IV, Part B of the Higher Education Act of 1965, as amended, for the purpose of improving educational opportunity. CSLF no longer originates or acquires student loans but continues to provide appropriate services incident to the administration of programs, which are established to improve educational opportunities.

CSLF has entered into an agreement to participate in the not-for-profit servicer program established under the Health Care and Education Reconciliation Act of 2010 (HCERA), Public Law 111-152.

I. Summary of significant accounting policies

A. Financial statements

The financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the Authority's activities. The Authority relies to a significant extent on fees and charges for support.

As required by accounting principles generally accepted in the United States of America (GAAP), the financial statements of the reporting entity, CHEFA, include those of CHEFA (the primary government) and its component units (CHESLA and CSLF). In accordance with GAAP, the financial statements of the component units have been included in the financial reporting entity through a discrete presentation.

Discretely Presented Component Units - CHESLA and CSLF meet the criteria for discrete presentation and are presented separately from CHEFA in separate columns within these financial statements to clearly distinguish their balances and transactions from the primary government, CHEFA. CHEFA and its component units, CHESLA and CSLF are referred to together as the "Authority", throughout these financial statements when a common disclosure applies.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In accordance with GAAP, transactions between a primary government and discretely present component units are not eliminated from the financial statements. The fees charged by CHEFA to CHESLA and CSLF for administrative support and transfers of funds between entities are recorded in the same manner as unrelated entity transactions.

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016
(in thousands)**

I. Summary of significant accounting policies

B. Measurement focus, basis of accounting and financial statement presentation

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for administrative fees and interest on loan repayments. Operating expenses for the Authority include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Administrative fees

CHEFA is self-supporting and charges an administrative fee to institutions with outstanding bond issues to cover its operating expenses. All issues, other than those under the Special Capital Reserve Fund Program for long-term care facilities, are charged an annual fee of nine basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds. Long-term care bonds issued under the Special Capital Reserve Fund Program are charged an annual fee of fourteen basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds.

CHESLA also is self-supporting and charges an administrative fee on outstanding loan balances to cover its operating expenses. The fees are assessed to the bond resolution funds and vary in accordance with the related bonds series and range from 50 to 100 basis points and have been eliminated at the component unit level.

Loan reserve fee revenue

CHESLA charges a 3% reserve fee on loans governed by the 2003 Master Revenue Bond Resolution and a 2% to 4% reserve fee on loans governed by the 1990 Revenue Bond Resolution, depending on the originating series. This fee is recognized as an origination fee to the loans and is included in interest income on loans receivable on the statement of revenues, expenses and changes in fund net position.

Interest income on loans

For CHESLA and CSLF, interest income on loans is recognized based on the rates applied to principal amounts outstanding. For CHESLA, the accrual of interest income is generally discontinued when a loan is classified as nonperforming. Loans are currently considered nonperforming by management when the borrower has not made payments for the most recent 120 days. For CSLF, the accrual of interest income generally is discontinued when a claim is paid on a FFEL Program loan, or for alternative loans, when a loan is delinquent for 120 days.

Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)

Notes to Financial Statements

June 30, 2016

(in thousands)

I. Summary of significant accounting policies

B. Measurement focus, basis of accounting and financial statement presentation

Nonoperating activity

Activities not related to CHEFA's primary purpose are considered nonoperating. Nonoperating activities consist primarily of income on investments and expenses related to CHEFA's grant program. All of CHESLA's revenues and expenses are considered operating, except for income on investments and expenses associated with CHESLA's scholarship program. CSLF's nonoperating expenses relate to contributions to CHESLA as authorized by the Board of Directors.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, liabilities, deferred inflows of resources and net position

1. Deposits and investments

Deposits - The Authority's cash and cash equivalents consist of cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - The eligible investments are governed by each entity's enabling legislation (Connecticut Statutes) as follows:

CHEFA

In general, State of Connecticut Statutes allows CHEFA to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

CHESLA

In general, State of Connecticut Statutes allows CHESLA to invest in (1) direct obligations of the United States or the State of Connecticut, (2) obligations as to which the timely payment of principal and interest is fully guaranteed by the United States or the State of Connecticut, and Connecticut Short-Term Investment Fund,

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016
(in thousands)**

I. Summary of significant accounting policies
C. Assets, liabilities, deferred inflows of resources and net position

CHESLA

(3) obligations of the United States Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, United States Maritime Administration, United States Department of Housing and Urban Development, Farm Credit System, Resolution Funding Corporation, federal intermediate credit banks, federal banks for cooperatives, federal land bank, federal home loan banks, Federal National Mortgage Association, Government National Mortgage Association and the Student Loan Marketing Association, (4) certificates of deposit or time deposits constituting direct obligations of any bank in the state, provided that investments may be made only in those certificates of deposit or time deposits in banks which are insured by the Federal Deposit Insurance Corporation if then in existence, (5) withdrawable capital accounts or deposits of federal chartered savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation, (6) other obligations which are legal investments for savings banks in the state, (7) investment agreements with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner or whose short-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, or investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States, and (8) securities or obligations which are legal investments for savings banks in Connecticut, subject to repurchase agreements in the manner in which such agreements are negotiated in sales of securities in the marketplace, provided CHESLA shall not enter into any such agreement with any securities dealer or bank acting as a securities dealer unless such dealer or bank is included in the list of primary dealers, as prepared by the Federal Reserve Bank of New York, effective at the time of the agreement. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of CHESLA, the funds so invested will be required for expenditure. The express judgment of CHESLA as to the time when any funds shall be required for expenditure or be redeemable is final and conclusive.

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

Notes to Financial Statements

June 30, 2016

(in thousands)

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

CSLF

In general, State of Connecticut Statutes allows CSLF to invest in the Connecticut Short-Term Investment Fund and in such other investments and investment agreements as may be approved by resolution of the issuer. In connection with, or incidental to, the issuance or carrying of bonds, notes or other obligations, or acquisition or carrying of any investment or program of investment, the corporation may enter into any contract with any financial institution having a rating of at least "A", or into any contract secured by security so rated, which the issuer determines to be necessary or appropriate to place the obligation or investment of the issuer, as represented by the bonds, notes or other obligations, investment or program of investment and the contract or contracts, in whole or in part, on the interest rate cash flow or other basis desired by the issuer.

Investment policies

CHEFA's investment policy provides that the investment portfolio for its unrestricted investments be designed with the objective of regularly exceeding the average return of ninety-day U.S. Treasury Bills. The investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable Connecticut State law. Whenever possible, restricted investments are to be held to maturity and invested in an appropriate manner so as to ensure the availability for specified payment dates, planned construction draws and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

CHESLA and CSLF's specific investment policy complies with the underlying bond resolution requirements. In addition, to minimize interest rate risk, the structuring of the investment portfolios is done so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell investments on the open market prior to maturity. Operating funds are primarily invested in shorter-term securities, money market mutual funds or similar investment pools.

**Connecticut Health and Educational Facilities Authority
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**Notes to Financial Statements
June 30, 2016
(in thousands)**

I. Summary of significant accounting policies
C. Assets, liabilities, deferred inflows of resources and net position

Concentrations of credit risk

CHEFA, for unrestricted investments, places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of investments.

CHESLA and CSLF do not have a formalized investment policy that restricts investment in any one issuer that is in excess of 5% of total investments. The deposit and investment policies comply with the underlying bond resolution requirements as previously described.

Investment income is recorded in the fund in which it was earned.

Method used to value investments

Investments for the Authority are reported at fair value. Connecticut Short-Term Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27a - 3-27c. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

The Authority presents all investments at fair value, except for non-participating investment contracts, which are recorded at cost.

**Connecticut Health and Educational Facilities Authority
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**Notes to Financial Statements
June 30, 2016
(in thousands)**

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

2. Fees and loan receivables

All receivables are shown net of an allowance for uncollectibles. The allowance is based upon a review of the outstanding receivables and past collection history.

a. Loans receivable and allowance for loan losses

CHESLA: Interest on loans receivable is accrued and credited to operations based upon the principal amount outstanding. Loans are placed on nonaccrual status when management believes principal or interest on such loans may not be collected in the normal course of business. The allowance for loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio and maintained at a level believed adequate to absorb potential losses in the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) in the period in which the loans become nonperforming and no payments have been made for 12 consecutive months. However, a loan may be written off at any time management believes the repayment of such loan is doubtful. Collections of loans previously written off are pursued until management believes that further recoveries are doubtful.

CSLF: The allowance for Federal Education Loan Program loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) at the point in which the guarantee has been paid and CSLF has a risk sharing component or it is determined that all recovery options have been exhausted and the loans have lost their Federal guarantee and are no longer eligible for reinstatement. Federal guarantees are reinstated if the lender or servicer successfully performs certain Federally prescribed "cure" procedures. In general, the lender has three years from the initial claim rejection date or the latest timely filing date if a claim has not been filed to cure a loan.

For alternative loans, periodic monitoring of loan performance has been established to ensure the adequacy of the reserve allowance. Loans are typically written off against the allowance for loan losses (net of recoveries) at 120 days delinquent.

Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements

June 30, 2016

(in thousands)

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

b. Nonperforming loans

CHESLA currently defines nonperforming loans as defaulted loans in collections, whereby no payment has been made for 120 days, but have not been written off.

3. Restricted assets

Restricted assets are maintained under trust agreements in separate sub-funds for each debt issue in accordance with the requirements of the underlying bond issue documents.

CHEFA's restricted assets include assets held in construction and project funds for which CHEFA has fiduciary responsibility. Construction and project funds reflect the receipt of bond proceeds, costs of issuance and disbursement of monies for the payment of construction or renovation projects and equipment for the institutions.

The interest earned on restricted assets held for institutions is not reflected in the statements of revenues, expenses and changes in fund net position, as such income accrues to the benefit of the institutions.

The restricted investments classified as noncurrent include funds held by CHEFA as a result of its partnership with the State of Connecticut Department of Education (SDE), the Office of the State Treasurer, and banking institutions to provide childcare providers with access to financing under the following loan programs: the Tax-Exempt Pooled Bond Issue Program, the Guaranteed Loan Fund Program and the Small Revolving Direct Loan Program.

The State of Connecticut Department of Social Services (DSS) is responsible for paying a portion of the debt service on the Child Care Facilities Program Series F and G bonds and all of the debt service on the State Supported Child Care Revenue Bonds, subject to available appropriations and pursuant to a Memorandum of Understanding.

Guaranteed Loan Fund Program - The purpose of the Guaranteed Loan Fund Program is to guarantee loans for the expansion or development of childcare and child development centers in the State. CHEFA is responsible for guaranteeing 20% to 50% of each loan outstanding.

**Connecticut Health and Educational Facilities Authority
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**Notes to Financial Statements
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(in thousands)**

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

The DSS contributions to the Guaranteed Loan Fund Program and the Small Revolving Direct Loan Program, net of payouts and accrued expense, along with the amount of CHEFA's support to the Guaranteed Loan Fund Program, are recorded within restricted investments.

Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, CHEFA was required to fund a first loss loan guarantee of 20% on the outstanding balance on each loan.

CHESLA's restricted assets include assets held by the individual bond funds as governed by the bond resolutions as previously described. Under the provisions of the bond resolutions, certain assets are restricted for the repayment of bond principal and interest and for the issuance of student loans. In accordance with the bond resolutions, each bond issue has separate accounts which includes individual funds as defined by each bond resolution, including but not limited to combinations of some of the following: the Loan Fund, Revenue Fund, Debt Service Fund and Special Capital Reserve Fund.

The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 and 2005 Series A and B and 2006 and 2007 Series A bonds were issued.

The 1990 Bond Fund is governed by the 1990 Revenue Bond Resolution pursuant to which all outstanding bonds were issued prior to the 2003 Series A and B bonds as well as the 2009, 2010, 2012, 2013 and 2014 Series A bonds.

CHESLA's restricted investments classified as current include the fund investments held by CHESLA pursuant to the bond resolutions in the individual Loan Fund, Revenue Fund and Debt Service Funds.

CHESLA's restricted investments classified as noncurrent include funds held by CHESLA pursuant to the bond resolutions in individual Special Capital Reserve Funds.

**Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements

June 30, 2016

(in thousands)

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

Deficiencies, if any, in the Debt Service Fund balances within the CHESLA Bond Funds will be funded from the amount on deposit in the applicable Special Capital Reserve Fund. Both the Debt Service Fund and the Special Capital Reserve Fund are components of restricted investments. In accordance with Public Act 82-313, the State must deposit with the trustee monies necessary to restore the Special Capital Reserve Fund requirement. As of June 30, 2016, the State has not made nor was it required to make any such deposit.

CSLF's restricted assets include the Trust Estate net position, as follows:

Trust Estate - Includes assets and liabilities associated with the bond offerings as detailed in the Bond Indenture:

- Trust cash and investment accounts - The indenture created special trust accounts to be held by the Trustee to be used for recordkeeping and reporting purposes as defined by the indenture.
- The bonds included in the Trust Estate are special and limited obligations of CSLF, secured by and payable from the Trust Estate held under the indenture, without recourse to any other assets of CSLF. The bonds are secured by eligible student loans as identified in the indenture.
- Release of amounts from the Trust Estate - The indenture provides that CSLF may withdraw amounts from the Trust Estate under certain limited circumstances as defined in the indenture.
- Redemption and acceleration provisions - The indenture sets forth provisions for the redemption and acceleration of the bonds prior to maturity under certain circumstances.

**Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements

June 30, 2016

(in thousands)

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

4. Capital assets

Capital assets, which include property, plant and equipment, are reported in the fund financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$500 for all assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	5 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Office equipment	3-6 years

5. Amounts held for institutions

Amounts held for institutions represent amounts payable to institutions, bondholders and others from CHEFA's restricted assets.

6. Amounts held on behalf of the State of Connecticut

Amounts held on behalf of the State of Connecticut represent funds transferred to CHEFA under its agency relationship with SDE related to the childcare program pursuant to Public Act 97-259.

7. Arbitrage rebate and excess loan yield liability

Under the Internal Revenue Code of 1986 (the Code), CHESLA is required to rebate to the federal government certain excess earnings on investments from funds obtained with its tax-exempt bonds, as defined by the Code, or reduce its excess loan yield on student loans financed with tax-exempt bonds.

**Connecticut Health and Educational Facilities Authority
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**Notes to Financial Statements
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(in thousands)**

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

8. Compensated absences

Employees of the Authority earn sick leave, which can accumulate, and vacation leave based on the provisions of personnel policies. Vacation leave vests with the employee and is payable upon termination of employment.

9. Long-term obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

10. Deferred inflows of resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports a deferred inflow of resources related to unearned amounts received for the scholarship program that occurs in the subsequent fiscal year.

11. Net position flow assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016
(in thousands)**

I. Summary of significant accounting policies

C. Assets, liabilities, deferred inflows of resources and net position

12. Fund equity and net position

In the fund financial statements, net position is classified into the following categories:

Net Investment in Capital Assets

This category presents the net position that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes is excluded.

Restricted Net Position

This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Position

This category presents the net position of the Authority, which is not restricted.

13. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues and expenses during the fiscal year. Accordingly, actual results could differ from those estimates.

14. Comparative data/reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Connecticut Health and Educational Facilities Authority
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**Notes to Financial Statements
June 30, 2016
(in thousands)**

II. Detailed notes

A. Cash and investments

Deposits - Custodial Credit Risk - Custodial credit risk is risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk.

CHEFA

As of June 30, 2016, \$205 of CHEFA's bank balance of \$455 (including certificates of deposit and money market accounts classified as investments) was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 159
Uninsured and collateral held by the pledging bank's trust department, not in CHEFA's name	_____ 46
Total amount subject to custodial credit risk	<u>\$ 205</u>

CHESLA

As of June 30, 2016, \$2,295 of CHESLA's bank balance of \$2,734 (including certificates of deposit and money market accounts classified as investments) was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 2,040
Uninsured and collateral held by the pledging bank's trust department, not in CHESLA's name	_____ 255
Total amount subject to custodial credit risk	<u>\$ 2,295</u>

CSLF

As of June 30, 2016, \$1,085 of CSLF's bank balance of \$1,335 (including certificates of deposit and money market accounts classified as investments) was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 951
Uninsured and collateral held by the pledging bank's trust department, not in CSLF's name	_____ 134
Total amount subject to custodial credit risk	<u>\$ 1,085</u>

Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements
June 30, 2016
(in thousands)

II. Detailed notes

A. Cash and investments

Financial instruments that potentially subject the Authority to significant concentrations of credit risk consist primarily of cash. From time to time, the Authority's cash account balances exceed the Federal Deposit Insurance Corporation limit. The Authority reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

CHEFA's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5 Years	5-10 Years	Over 10
Mutual Funds:					
Government Agency Funds	\$ 215,430	\$ 215,430	\$ -	\$ -	\$ -
Short-Term U.S.					
Government Securities	27,494	27,494	-	-	-
Short-Term U.S.					
Government Agency Securities	35,828	35,828	-	-	-
Pooled Fixed Income	11,340	11,340	-	-	-
U.S. Government Securities	20,705	5,591	15,114	-	-
Municipal Bonds	23,482	18,385	4,344	308	445
Total	<u>\$ 334,279</u>	<u>\$ 314,068</u>	<u>\$ 19,458</u>	<u>\$ 308</u>	<u>\$ 445</u>

CHESLA's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5 Years	5-10 Years	Over 10
Money Market (bank)	\$ 189	\$ 189	\$ -	\$ -	\$ -
Mutual Funds:					
Bond Funds	2	-	-	-	2
Money Market	15,475	15,475	-	-	-
Pooled Fixed Income	34,436	34,436	-	-	-
U.S. Government Securities	7,658	-	-	-	7,658
Guaranteed Investment Contracts	7,351	-	1,034	6,317	-
Total	<u>\$ 65,111</u>	<u>\$ 50,100</u>	<u>\$ 1,034</u>	<u>\$ 6,317</u>	<u>\$ 7,660</u>

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**II. Detailed notes
A. Cash and investments**

CSLF's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	<u>Investment Maturities (In Years)</u> Less Than 1
Short-Term U.S. Government Agency Securities	\$ 9,181	\$ 9,181
Pooled Fixed Income	<u>2,069</u>	<u>2,069</u>
Total	<u>\$ 11,250</u>	<u>\$ 11,250</u>

Fair value of investments

CHEFA measures and records its investments using fair value measurement guidelines established by GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs.

CHEFA had the following recurring fair value measurements:

CHEFA

Investments by fair value level	Amount	Level 1	Level 2	Level 3
Government Agency Mutual Funds	\$ 215,430	\$ 215,430	\$ -	\$ -
Short-Term U.S. Government Securities	27,494	27,494	-	-
U.S. Government Securities	20,705	-	20,705	-
Short-Term U.S. Government Agency Securities	35,828	-	35,828	-
Municipal Bonds	<u>23,482</u>	<u>-</u>	<u>23,482</u>	<u>-</u>
Total investments by fair value level	322,939	<u>\$ 242,924</u>	<u>\$ 80,015</u>	<u>\$ -</u>
<u>Other Investments</u>				
Pooled Fixed Income	<u>11,340</u>			
Total Investments	<u>\$ 334,279</u>			

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**II. Detailed notes
A. Cash and investments**

CHESLA

Investments by fair value level	Amount	Level 1	Level 2	Level 3
Money Market Mutual Funds	\$ 15,475	\$ 15,475	\$ -	\$ -
Bond Mutual Funds	2	2	-	-
U.S. Government Securities	<u>7,658</u>	<u>-</u>	<u>7,658</u>	<u>-</u>
Total investments by fair value level	<u>23,135</u>	<u>\$ 15,477</u>	<u>\$ 7,658</u>	<u>\$ -</u>
 <u>Other Investments</u>				
Money Market (bank)	189			
Guaranteed Investment Contracts	7,351			
Pooled Fixed Income	<u>34,436</u>			
Total other investments	<u>41,976</u>			
Total Investments	<u>\$ 65,111</u>			

CSLF

Investments by fair value level	Amount	Level 1	Level 2	Level 3
Short-Term U.S. Government Agency Securities	\$ 9,181	<u>\$ 9,181</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>Other Investments</u>				
Pooled Fixed Income	<u>2,069</u>			
Total Investments	<u>\$ 11,250</u>			

Securities classified in Level 1 are valued using prices quoted in active markets for those securities. Securities classified in Level 2 are valued using the following approaches:

- U.S. government securities, short-term U.S. government agency securities, and municipal bonds: quoted prices for identical securities in markets that are not active

**Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements

June 30, 2016

(in thousands)

II. Detailed notes

A. Cash and investments

Interest rate risk

To minimize interest rate risk, CHEFA, CHESLA and CLSF's policy requires the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Operating funds should primarily be invested in shorter-term securities, money market mutual funds or similar investment pools.

Credit risk

CHEFA has an investment policy that would further limit its investment choices beyond those limited by Connecticut State Statutes for both unrestricted and restricted investments. Investments that may be purchased with the written approval of an officer, provided the instrument has a maturity date of 365 days or less from the date of purchase, are as follows: obligations issued or guaranteed by the U.S. Government, including the Federal Deposit Insurance Corporation (FDIC); qualified money market funds or institutional money market funds investing in short-term securities as permitted by enabling legislation; the Connecticut Short-Term Investment Fund provided it maintains a "AAA" rating by Standard and Poor's; and qualified repurchase agreements secured by obligations issued or guaranteed by the U.S. Government. With approval by the Audit-Finance Committee or Board of Directors, the following unrestricted investments are also permissible: any otherwise permitted investment with a maturity greater than 365 days from purchase; obligations issued or guaranteed by the State of Connecticut, including the State's medium-term or long-term investment fund; other debt obligations which are statutorily permissible; and qualified guaranteed investment contracts complying with Connecticut General State Statutes 10a-180(s), Authority guidelines and applicable trust indentures.

**Connecticut Health and Educational Facilities Authority
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(in thousands)**

II. Detailed notes

A. Cash and investments

CSLF's policy states that credit risk will be minimized by limiting investments to the safest type of securities and pre-qualifying the financial institutions with which CSLF will do business. The investment portfolio must be diversified so that potential losses on individual securities will be minimized.

CHEFA's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Average Rating	Pooled Fixed Income	Municipal Bonds	Short-Term U.S. Government Agency Securities	Government Agency Mutual Funds
AAA	\$ 11,340	\$ 12,226	\$ 35,828	\$ 215,430
AA	-	11,256	-	-
TOTAL	\$ 11,340	\$ 23,482	\$ 35,828	\$ 215,430

CHESLA's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Average Rating	Pooled Fixed Income	Guaranteed Investment Contracts	Bond Mutual Funds	Money Market Mutual Funds
AAA	\$ 34,436	\$ 7,351	\$ 2	\$ 15,475

CSLF's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Average Rating	Pooled Fixed Income	Short-Term U.S. Government Agency Securities
AAA	\$ 2,069	\$ 9,181

Custodial credit risk - custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Connecticut Health and Educational Facilities Authority
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(in thousands)

II. Detailed notes

A. Cash and investments

Certain investments are covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000, including \$250,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

The following investments are held by the counterparty's trust department or agent but not in the entity's name and, therefore, are subject to custodial credit risk as follows:

CHEFA

	<u>Total</u>	<u>Less Insured Amounts</u>	<u>Amount Subject To Custodial Credit Risk</u>
U.S. Government Securities	\$ 48,199	\$ -	\$ 48,199
Short-Term U.S. Government Agency Securities	35,828	500	35,328
Municipal Bonds	23,482	500	22,982
Total	<u>\$ 107,509</u>	<u>\$ 1,000</u>	<u>\$ 106,509</u>

CHESLA

	<u>Total</u>	<u>Less Insured Amounts</u>	<u>Amount Subject To Custodial Credit Risk</u>
U.S. Government Securities	<u>\$ 7,658</u>	<u>\$ 500</u>	<u>\$ 7,158</u>

CSLF

	<u>Total</u>	<u>Less Insured Amounts</u>	<u>Amount Subject To Custodial Credit Risk</u>
Short-Term U.S. Government Agency Securities	<u>\$ 9,181</u>	<u>\$ 500</u>	<u>\$ 8,681</u>

**Connecticut Health and Educational Facilities Authority
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II. Detailed notes

A. Cash and investments

Concentrations of credit risk - For unrestricted investments, CHEFA places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of investments. CHEFA places no limit on the amount of investment in any one issuer for restricted investments.

B. Receivables

Receivables as of June 30, 2016 for the Authority's financial statements by type are as follows:

CHESLA makes loans to students from the proceeds of bonds issued by CHESLA. Loans receivable as of June 30, 2016 are as follows:

	Active Loans	Loans in Collection	Total
Current portion	\$ 21,280	\$ -	\$ 21,280
Long-term portion	95,854	2,428	98,282
Less Allowance	(2,151)	(515)	(2,666)
Net Long-term portion	93,703	1,913	95,616
Total Net Receivables	\$ 114,983	\$ 1,913	\$ 116,896

During the fiscal year, CHESLA wrote off loans receivable of \$646 which had previously been provided for through the allowance for loan losses.

During the fiscal year, CHESLA recovered \$177 in loans receivable and other credits that were written off in previous years.

Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements
June 30, 2016
(in thousands)

II. Detailed notes
B. Receivables

CSLF, up until 2010, also made loans to students from the proceeds of bond issues.

	<u>FFELP</u>	<u>Alternative</u>	<u>Total</u>
Current portion	\$ 18,615	\$ 395	\$ 19,010
Long-term portion	260,148	6,222	266,370
Less Allowance	<u>(641)</u>	<u>(481)</u>	<u>(1,122)</u>
Net Long-term portion	<u>259,507</u>	<u>5,741</u>	<u>265,248</u>
Total Net Receivables	<u>\$ 278,122</u>	<u>\$ 6,136</u>	<u>\$ 284,258</u>

During the fiscal year, CSLF wrote off Federal loans receivable of \$228 (CSLF risk share only), and \$85 of private loans, which is net \$93 in recoveries, which had previously been provided for through the allowance for loan losses.

Federal Family Education Loan Program ("FFELP") loans are student loans insured by the U.S. Department of Education. FFELP loans are repaid by borrowers on a monthly basis for a term of up to thirty years. The interest rate on these loans varies and ranges from approximately 1.0% to 12%.

Alternative loans are student loans that are not insured by the U.S. Department of Education. Alternative loans are repaid monthly over a period of years ranging from 10 to 30 years. For loan applications received prior to April 1, 2008, the interest rate is variable, calculated to equal prime plus 2% with a 10% cap. Borrowers were charged a fixed non-refundable origination fee of \$150 and a 2% reserve fee. For loan applications received on or after April 1, 2008, the interest rate and reserve fee varied depending on the borrower's credit score. Interest rates range between prime and prime plus 4% with no cap and the reserve fee ranged from 2% to 6%. Interest rates on all Alternative loans are reset quarterly and origination fees, where applicable, were withheld from loan proceeds.

Student loans are classified as being "In-school" status during the period from the date the loan is made until a student graduates or leaves school. Loans are classified as being "In-grace" status from the time the student leaves school until repayment begins six months later. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" and "forbearance" status are periods during the life of the loan where repayment is suspended for authorized purposes.

Connecticut Health and Educational Facilities Authority
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Notes to Financial Statements
June 30, 2016
(in thousands)

II. Detailed notes

B. Receivables

CSLF Loan portfolio assets' scheduled maturities are summarized as follows:

June 30, 2017	\$	19,010
2018		20,205
2019		21,434
2020		22,738
2021		24,123
2022-2026		122,167
2027-2031		<u>55,703</u>
Total	<u>\$</u>	<u>285,380</u>

C. Capital assets

CHEFA capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July, 1 2015	Increases	Decreases	Balance June 30, 2016
Capital assets being depreciated:				
Leasehold improvements	\$ 154	\$ -	\$ -	\$ 154
Computer equipment	657	13	-	670
Furniture and fixtures	276	-	-	276
Office equipment	578	6	-	584
Total capital assets being depreciated	<u>1,665</u>	<u>19</u>	<u>-</u>	<u>1,684</u>
Less accumulated depreciation for:				
Leasehold improvements	150	2	-	152
Computer equipment	632	17	-	649
Furniture and fixtures	252	6	-	258
Office equipment	462	39	-	501
Total accumulated depreciation	<u>1,496</u>	<u>64</u>	<u>-</u>	<u>1,560</u>
Total capital assets being depreciated, net	<u>\$ 169</u>	<u>\$ (45)</u>	<u>\$ -</u>	<u>\$ 124</u>

Connecticut Health and Educational Facilities Authority
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II. Detailed notes**D. Changes in long-term obligations****1. Summary of changes**

The following is a summary of changes in long-term obligations for the year ended June 30, 2016:

CHESLA

Description	Original Amount	Date of Issue	Date of Maturity	Interest Rate	Balance			Amount Refunded	Balance June 30, 2016	Current Portion
					July 1, 2015	Additions	Deductions			
Bond 2003 A	\$ 18,000	11/15/2004	11/15/2020	1.7 - 4.5%	\$ 4,780	\$ -	\$ -	\$ 4,780	\$ -	\$ -
Bond 2003 B	12,915	11/15/2004	11/15/2017	2.0 - 5.0%	2,875	-	-	2,875	-	-
Bond 2005 A	31,455	11/15/2005	11/15/2021	2.5 - 4.375%	9,065	-	-	9,065	-	-
Bond 2006 A	33,270	8/17/2006	11/15/2022	3.9 - 4.8%	9,900	-	2,740	-	7,160	1,150
Bond 2007 A	41,000	8/23/2007	11/15/2024	4.125 - 4.875%	20,700	-	4,360	-	16,340	2,405
Bond 2009 A	30,000	8/6/2009	11/15/2027	1.9 - 5.05%	19,120	-	3,050	-	16,070	1,135
Bond 2010 A	45,000	10/19/2010	11/15/2035	2.0 - 5.25%	36,140	-	3,445	-	32,695	2,310
Bond 2012 A	13,085	3/28/2012	11/15/2021	.4 - 3.125%	4,830	-	2,160	-	2,670	1,220
Bond 2013 A	25,000	4/2/2013	11/15/2029	2.0 - 4.0%	23,680	-	2,315	-	21,365	475
Bond 2014 A	23,000	6/18/2014	11/15/2030	3.0 - 5.0%	23,000	-	495	-	22,505	500
Bond 2015 A	21,465	7/2/2015	11/15/2031	1.65 - 4.375%	-	21,465	2,485	-	18,980	1,320
Bond 2016 A	15,000	6/30/2016	11/15/2033	3.0 - 5.0%	-	15,000	-	-	15,000	-
Total CHESLA					154,090	36,465	21,050	16,720	152,785	10,515
Premiums					2,542	611	154	-	2,999	-
Discounts					(954)	(28)	(178)	-	(804)	-
Total bonds and related amounts					\$ 155,678	\$ 37,048	\$ 21,026	\$ 16,720	\$ 154,980	\$ 10,515

CSLF

Description	Original Amount	Date of Issue	Date of Maturity	Variable Interest Rate	Balance			Balance June 30, 2016	Current Portion
					July 1, 2015	Additions	Deductions		
Bond 04 A-1	\$ 75,000	10/15/2004	6/1/2034	0.021% - 1.627%	\$ 9,800	\$ -	\$ 9,800	\$ -	\$ -
Bond 04 A-3	75,000	10/15/2004	6/1/2034	0.051% - 1.932%	70,575	-	27,500	43,075	-
Bond 06 A-1	80,000	7/27/2006	6/1/2046	0.000% - 1.934%	72,925	-	-	72,925	-
Bond 06 A-2	100,000	12/14/2006	6/1/2046	0.000% - 1.933%	81,475	-	-	81,475	-
Bond 04 B	62,900	10/15/2004	6/1/2034	0.290% - 1.904%	57,350	-	-	57,350	-
Bond 06 B	20,000	7/27/2006	6/1/2046	0.284% - 1.928%	19,975	-	-	19,975	-
Total Bonds					312,100	-	37,300	274,800	-
Discounts					(874)	-	(164)	(710)	-
Total bonds and related amounts					\$ 311,226	\$ -	\$ 37,136	\$ 274,090	\$ -

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II. Detailed notes

D. Changes in long-term obligations

The annual requirements to amortize bonds payable at June 30, 2016, are as follows:

CHESLA

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 10,515	\$ 2,969
2018	11,510	5,680
2019	12,250	5,251
2020	12,350	4,771
2021	12,380	4,311
2022-2026	55,875	13,939
2027-2031	32,530	4,346
2032-2036	5,375	541
Total	<u>\$ 152,785</u>	<u>\$ 41,808</u>

CSLF

The approximate future annual principal and interest payments are due as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ 3,801
2018	-	3,801
2019	-	3,801
2020	-	3,801
2021	-	3,801
2022-2026	-	19,002
2027-2031	-	19,002
2032-2036	100,425	16,238
2037-2041	-	12,092
2042-2046	174,375	12,092
Total	<u>\$ 274,800</u>	<u>\$ 97,431</u>

The interest rate payable to the bondholders for these issues are variable auction rate certificates ("ARCs"), which generally have interest rate reset periods of either 28 or 35 days. The interest rates associated with the various bond issues at the last reset period prior to the June 30, 2016 year-end ranged from 0.051% to 1.934%.

Connecticut Health and Educational Facilities Authority
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II. Detailed notes

D. Changes in long-term obligations

The maximum rate on the ARCs is defined in each bond prospectus and is based on one of the following:

- The average of the 91-day United States Treasury Bill rate plus 1.2% or 1.5% or the LIBOR rate plus 1.5% depending on the bond's rating. It may not exceed 17.0%. The capital markets for student loans have experienced a significant disruption resulting in decreased marketability of student loans and related ARCs. The bonds are not callable if the auction period expires, as the bonds revert back to the existing bondholders prior to the auction.

Approximate future interest payments were estimated based on an average of the interest rate applicable during the most recent fiscal year.

2. Conduit debt

As of June 30, 2016, CHEFA had total outstanding principal balances of special obligation bonds of \$8,314,847. The bonds are issued on behalf of institutions to finance the construction of various health and educational facilities. These bonds are conduit debt obligations of CHEFA and do not constitute obligations of CHEFA and, therefore, not reported within the statement of net position. The significant loan programs that comprise the total outstanding bonds are as follows:

Bonds Outstanding by Sector

Assisted Living Facilities	\$ 15,295
Charter Schools	4,948
Child Care Facilities	55,960
Continuing Care Retirement Community	199,281
Cultural / Educational	11,650
Family Services	8,881
Higher Education	4,565,003
Hospitals	2,735,653
Human Services	8,865
Independent Living	12,000
Independent Schools	630,805
Nursing Homes	36,441
YMCA / YWCA	<u>30,065</u>
Total	<u>\$ 8,314,847</u>

Under terms of the agreement between the Authority and its borrowers, any costs associated with litigation related to bond issuance are the obligations of the borrowers. CHEFA is indemnified under the terms of the bond agreements

**Connecticut Health and Educational Facilities Authority
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II. Detailed notes

D. Changes in long-term obligations

3. Current year advance refunding

In July 2015, CHESLA issued \$21,465 of revenue refunding bonds with an interest rate of 1.65% to 4.375%. These refunding bonds were issued to advance and defease bonds issued in November 2004 and November 2005. The refunding resulted in an economic gain of \$644 with a total savings of \$7,189.

4. Authorized/unissued debt

At June 30, 2016, the amount of authorized unissued debt for CHESLA was \$6,535.

E. Restricted net position

The amount of restricted net position, which was restricted by enabling legislation, totaled \$3,818 for CHEFA.

F. Net position classification

A summary of the components of net position is as follows:

	CHEFA	CHESLA	CSLF
Invested in capital assets	\$ 124	\$ -	\$ -
Restricted:			
Child care facilities loan program	4,320	-	-
State budget Act 15-244	3,500	-	-
Student loan guarantee program	318	-	-
Bond funds	-	18,502	-
Trust Estate	-	-	7,557
Total restricted	8,138	18,502	7,557
Unrestricted	6,021	8,569	17,668
Total net position	\$ 14,283	\$ 27,071	\$ 25,225

Child Care Facilities Loan Program - CHEFA's net position is restricted to be used for loan guarantees under this program, if borrowers default on their loans. As of June 30, 2016, outstanding loan balances totaled \$6,933.

CHEFA is under no obligation to provide additional funds for loan guarantees.

**Connecticut Health and Educational Facilities Authority
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II. Detailed notes

F. Net position classification

Student Loan Programs - Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, CHEFA was required to fund a first loss loan guarantee of 20% on the outstanding balance on each loan. The current amount of the guarantee is \$318.

State Budget Act - Public Act 15-244 requires CHEFA to transfer to the State of Connecticut general fund \$3,500 during fiscal year 2017.

Trust Estate - For CSLF, the Bond Indenture requires that CSLF maintain a parity of 102.5% (Trust Estate asset to Trust Estate liability ratio), which represents its restricted net position. If parity exceeds 102.5%, CSLF is able, but not required, to transfer funds above the parity ratio to operations. At June 30, 2016, the ratio was 108.31%. At June 30, 2016, the Board has not authorized any funds to be transferred to operations; however, the amount available to transfer is \$17,552.

Both CHEFA and CHESLA Board of Director's have designated internal amounts for operations and the remainder for programs that are part of each entity's mission and purpose, as well as for contingencies.

III. Other information

A. Risk management

The Authority is exposed to various risks of loss including torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disaster; and officer and director liability. The Authority generally obtains commercial insurance for these risks. The Authority has not had any claims against their commercial insurance in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

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III. Other information

B. Related party transactions

During the fiscal year, CHEFA charged CHESLA an annual fee of \$155 for providing management, accounting, legal and other services, sharing of rental space, and office equipment. CHEFA charged CLSF an annual fee of \$50 for providing management, accounting, legal and other services. In addition, CHESLA and CSLF reimbursed CHEFA directly for specific general and administrative expenses incurred. The amount due from CSLF at year end was \$27. CSLF contributed \$9,889 to CHESLA which included \$6,000 for the Refinance Pilot Program, \$2,000 equity contribution to the CHESLA 1990 Trust, and \$1,889 to CHESLA for scholarships.

C. Operating leases

CHEFA leases office space and other office equipment for use in operations. Lease expense was \$243. As of June 30, 2016, minimum future rental commitments of the leases are as follows:

2017	\$	239,766
2018		244,080
2019		123,444

D. Pension plan

The Authority administers a single employer defined contribution plan, which covers certain employees of the Authority. The Board of Director's approved and adopted this plan on January 1, 1971, and they have the authority to make any subsequent amendments.

CHEFA maintains a defined contribution money purchase plan (the Plan) covering all employees with three months of continuous service and 1,000 anticipated hours of service annually. The Plan is administered by CHEFA and can be amended by the trustees of the Plan. CHEFA and CHESLA contribute annually to the Plan an amount equal to 10% of each qualified employee's annual salary. For the year ended June 30, 2016, retirement plan expense was \$221.

There were 23 employees covered under the Plan. All employees can participate in the Plan after three months of service. A participant's employer contribution account fully vests after four years of service. At age 65, participants are entitled to begin receiving benefits based upon the option selected.

Supplemental Schedules

Connecticut Higher Education Supplemental Loan Authority

Combining Schedule of Net Position
June 30, 2016
(In Thousands)

	Agency operating fund	Non-bond fund	Bond funds		Total CHESLA
			1990 resolution	2003 resolution	
<u>Assets</u>					
Current assets:					
Unrestricted assets:					
Cash	\$ 472	\$ 2,000	\$ -	\$ -	\$ 2,472
Investments	2,593	-	20	8	2,621
Prepaid expenses and other assets	66	-	-	41	107
Total unrestricted assets	<u>3,131</u>	<u>2,000</u>	<u>20</u>	<u>49</u>	<u>5,200</u>
Restricted assets:					
Bond indenture trusts	-	5,503	31,571	3,546	40,620
Current portion of loans receivable	-	-	17,620	3,660	21,280
Interest receivable on investments	-	4	61	40	105
Loan interest receivable	-	-	370	76	446
Total restricted assets	<u>-</u>	<u>5,507</u>	<u>49,622</u>	<u>7,322</u>	<u>62,451</u>
Total current assets	<u>3,131</u>	<u>7,507</u>	<u>49,642</u>	<u>7,371</u>	<u>67,651</u>
Noncurrent assets:					
Restricted assets:					
Restricted investments	-	-	16,570	5,300	21,870
Loans receivable, net of current portion	-	-	79,117	16,499	95,616
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>95,687</u>	<u>21,799</u>	<u>117,486</u>
Total assets	<u>\$ 3,131</u>	<u>\$ 7,507</u>	<u>\$ 145,329</u>	<u>\$ 29,170</u>	<u>\$ 185,137</u>
<u>Liabilities</u>					
Current liabilities:					
Accounts payable	\$ 56	\$ -	\$ 246	\$ 23	\$ 325
Accrued expenses	10	114	44	-	168
Accrued interest payable	-	-	561	143	704
Current portion of bonds payable	-	-	6,960	3,555	10,515
Total current liabilities	<u>66</u>	<u>114</u>	<u>7,811</u>	<u>3,721</u>	<u>11,712</u>
Noncurrent liabilities:					
Bonds payable, net of current portion	-	-	124,744	19,721	144,465
Total liabilities	<u>66</u>	<u>114</u>	<u>132,555</u>	<u>23,442</u>	<u>156,177</u>
<u>Deferred Inflows of Resources</u>					
Unearned revenue	-	1,889	-	-	1,889
Net position:					
Restricted	-	-	12,774	5,728	18,502
Unrestricted	3,065	5,504	-	-	8,569
Total net position	<u>3,065</u>	<u>5,504</u>	<u>12,774</u>	<u>5,728</u>	<u>27,071</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,131</u>	<u>\$ 7,507</u>	<u>\$ 145,329</u>	<u>\$ 29,170</u>	<u>\$ 185,137</u>

Connecticut Higher Education Supplemental Loan Authority

**Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016
(In Thousands)**

	Agency operating fund	Non-bond fund	Bond funds		Total CHESLA
			1990 resolution	2003 resolution	
Operating revenues:					
Interest income on loans receivable	\$ -	\$ -	\$ 6,005	\$ 1,571	\$ 7,576
Administrative fees	758	-	555	-	1,313
Contributions from CSLF	500	5,500	-	-	6,000
Total operating revenues	1,258	5,500	6,560	1,571	14,889
Operating expenses					
Interest expense	-	-	4,704	1,360	6,064
Salaries and related expenses	118	-	-	-	118
General and administrative	272	2	736	221	1,231
Refinance pilot program	171	-	-	-	171
Loan service fees	-	-	492	69	561
Contracted services	43	-	-	-	43
Bond issuance and insurance costs	13	-	716	11	740
Other expenses	-	-	148	-	148
Provision for loan losses (net of recoveries)	-	-	444	(101)	343
Total operating expenses	617	2	7,240	1,560	9,419
Operating income (loss)	641	5,498	(680)	11	5,470
Nonoperating income (expenses):					
Investment income	7	6	951	297	1,261
Contribution from CSLF	-	-	2,000	-	2,000
Total nonoperating income (expenses)	7	6	2,951	297	3,261
Increase in net position	648	5,504	2,271	308	8,731
Net position, July 1, 2015	2,417	-	10,503	5,420	18,340
Net position, June 30, 2016	\$ 3,065	\$ 5,504	\$ 12,774	\$ 5,728	\$ 27,071

Compliance

Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

Board of Directors
Connecticut Health and Educational Facilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component units of Connecticut Health and Educational Facilities Authority, which comprise the statement of net position as of June 30, 2016, and the related statement of revenues, expenses and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Connecticut Health and Educational Facilities Authority's basic financial statements and have issued our report thereon dated September 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Connecticut Health and Educational Facilities Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Hartford, Connecticut
September 22, 2016

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Exhibit B – Loans Disbursed to Schools by Bond Series

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY - HISTORICAL LENDING (06/2016)

Institution	[1990 Resolution] Pre-2003 Series AB		[2003 Resolution] 2003 Series A/B		[2003 Resolution] 2005 Series A		[2003 Resolution] 2006 Series A		[2003 Resolution] 2007 Series A		[1990 Resolution] 2009 Series A		[1990 Resolution] 2010 Series A		[1990 Resolution] 2013 Series A/B		[1990 Resolution] 2014 Series A/B		[1990 Resolution] 2015 Series A		Total Number of Students	Total Distribution to Students	
	Number of Loans Disb. (1)	Amount of Loans Disb. (1)	Number of 4.99% Loans Disb. (2)	Amount of 4.99% Loans Disb. (2)	Number of 5.50% Loans Disb. (3)	Amount of 5.50% Loans Disb. (3)	Number of 6.15% Loans Disb. (4)	Amount of 6.15% Loans Disb. (4)	Number of 6.99% Loans Disb. (5)	Amount of 6.99% Loans Disb. (5)	Number of 6.80% Loans Disb. (6)	Amount of 6.80% Loans Disb. (6)	Number of 5.95% Loans Disb. (7)	Amount of 5.95% Loans Disb. (7)	Number of 5.99% Loans Disb. (8)	Amount of 5.99% Loans Disb. (8)	Number of 6.75% Loans Disb. (9)	Amount of 6.75% Loans Disb. (9)	Number of 4.95% Loans Disb. (10)	Amount of 4.95% Loans Disb. (10)			
Albertus Magnus College	222	\$1,560,074	8	\$80,243	10	\$123,675	11	\$138,406	42	\$252,345	25	\$145,068	12	\$76,824	6	\$39,750	4	\$39,320	0	\$0	340	\$2,455,705	
ARC - Alt. Route to Cert. (CT DHE)	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	14	\$55,856	23	\$85,370	12	\$46,060	4	\$16,885	1	\$3,875	54	\$208,046	
Asnuntuck Community College	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	1	\$6,990	2	\$10,689	0	\$0	1	\$7,000	1	\$4,995	5	\$29,674	
Capital Community College	1	\$3,500	3	\$12,000	2	\$10,544	2	\$27,000	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	8	\$53,044	
Charter Oak State College	10	\$34,425	0	\$0	2	\$18,250	0	\$0	0	\$0	0	\$0	2	\$12,400	0	\$0	0	\$0	0	\$0	14	\$66,075	
Central Connecticut State University	399	\$2,052,575	61	\$507,550	76	\$679,672	105	\$679,277	126	\$585,488	56	\$237,543	74	\$420,134	73	\$381,166	73	\$376,821	21	\$86,746	1,064	\$6,006,972	
Connecticut College	310	\$3,334,887	4	\$59,284	5	\$86,404	0	\$0	7	\$50,534	0	\$0	13	\$91,245	10	\$77,502	4	\$54,693	4	\$54,673	357	\$3,809,222	
Eastern Connecticut State University	439	\$2,246,962	68	\$463,738	46	\$435,874	82	\$439,968	134	\$679,879	84	\$416,037	129	\$686,508	72	\$374,593	90	\$436,851	20	\$105,485	1,164	\$6,285,895	
Fairfield University	1,323	\$14,016,580	90	\$1,170,839	81	\$1,471,856	123	\$1,504,909	191	\$2,152,537	130	\$1,407,402	144	\$1,472,145	57	\$575,603	48	\$593,761	13	\$170,615	2,200	\$24,536,246	
Gateway Community College	3	\$8,725	0	\$0	0	\$0	1	\$4,000	0	\$0	1	\$6,000	0	\$0	0	\$0	0	\$0	0	\$0	5	\$18,725	
Goodwin College	0	\$0	0	\$0	0	\$0	2	\$13,285	1	\$5,000	2	\$12,250	9	\$60,378	2	\$7,000	4	\$11,400	4	\$15,680	24	\$124,993	
Graduate Institute	0	\$0	8	\$74,711	3	\$25,918	6	\$81,305	14	\$119,830	23	\$241,177	25	\$203,920	20	\$187,700	6	\$64,776	4	\$29,848	109	\$1,029,185	
Hartford Seminary	0	\$0	0	\$0	0	\$0	0	\$0	2	\$8,000	0	\$0	2	\$21,000	3	\$30,000	0	\$0	0	\$0	7	\$59,000	
Housatonic Community College	1	\$2,734	1	\$3,000	0	\$0	3	\$8,500	1	\$8,000	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	6	\$22,234	
Rensselaer at Hartford	19	\$124,240	0	\$0	1	\$16,846	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	20	\$141,086	
Lyme Academy of Fine Arts	3	\$27,574	1	\$11,815	4	\$39,438	3	\$17,224	13	\$89,765	11	\$76,060	15	\$71,920	5	\$29,250	0	\$0	0	\$0	55	\$363,046	
Manchester Community College	5	\$16,743	2	\$7,000	0	\$0	0	\$0	0	\$0	0	\$0	1	\$2,000	3	\$17,882	2	\$10,000	2	\$5,000	15	\$58,625	
Middlesex Community College	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	2	\$4,500	4	\$17,250	6	\$21,750	
Mitchell College	36	\$342,634	2	\$35,000	4	\$94,907	4	\$71,989	25	\$165,853	35	\$243,001	30	\$227,409	9	\$89,750	4	\$23,000	2	\$23,938	151	\$1,317,481	
Naugatuck Valley Community College	8	\$21,000	0	\$0	0	\$0	2	\$4,000	0	\$0	0	\$0	3	\$8,100	0	\$0	4	\$15,000	0	\$0	17	\$48,100	
Northwestern CT Community College	164	\$2,098,570	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	3	\$16,000	0	\$0	3	\$5,550	0	\$0	170	\$2,120,120	
Norwalk Community College	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	4	\$23,500	0	\$0	4	\$23,500	
Quinnebaug Valley Community College	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	2	\$2,403	0	\$0	0	\$0	2	\$2,403	
Quinnipiac University	1,410	\$12,560,536	181	\$2,532,499	305	\$5,223,158	365	\$4,727,215	485	\$5,081,973	213	\$2,168,088	367	\$4,200,529	135	\$1,636,437	136	\$1,537,835	38	\$425,969	3,635	\$40,094,239	
Quinnipiac University Graduate & Medical	368	\$4,744,832	1	\$16,094	2	\$33,530	5	\$61,620	1	\$15,118	3	\$25,000	0	\$0	5	\$59,928	5	\$42,964	2	\$15,328	392	\$5,014,414	
Sacred Heart University	1,406	\$13,201,359	430	\$6,134,756	379	\$6,657,012	296	\$5,172,170	675	\$6,856,582	395	\$3,853,288	513	\$5,707,849	370	\$3,985,418	315	\$3,475,507	46	\$444,600	4,825	\$55,488,540	
Southern Connecticut State University	226	\$1,231,519	32	\$249,688	35	\$269,612	51	\$249,687	62	\$245,390	32	\$128,689	75	\$386,089	72	\$365,885	54	\$322,181	16	\$92,316	685	\$3,541,056	
Saint Joseph College (Univ. of Saint Joseph)	429	\$3,139,887	29	\$252,624	21	\$256,595	28	\$203,379	56	\$395,704	47	\$293,337	53	\$422,967	41	\$327,861	29	\$273,905	14	\$116,562	747	\$5,682,821	
Saint Vincent's College	20	\$132,468	0	\$0	3	\$33,466	0	\$0	1	\$11,000	0	\$0	0	\$0	2	\$9,000	1	\$7,000	3	\$18,210	39	\$275,777	
Teikyo Post University	77	\$493,191	11	\$81,596	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	88	\$574,787	
Three Rivers Community College	11	\$133,200	3	\$13,386	0	\$0	1	\$2,000	3	\$11,000	2	\$8,400	2	\$2,000	2	\$12,000	2	\$14,000	0	\$0	26	\$195,986	
Trinity College	225	\$2,371,706	4	\$18,760	7	\$85,745	5	\$32,790	21	\$159,209	11	\$134,000	21	\$252,240	10	\$140,103	7	\$88,473	4	\$63,882	315	\$3,346,908	
Tunxis Community College	15	\$78,588	2	\$7,250	1	\$2,400	1	\$5,000	4	\$9,852	1	\$16,000	4	\$15,498	0	\$0	4	\$10,049	0	\$0	32	\$144,637	
University of Bridgeport	206	\$1,469,031	4	\$33,854	2	\$29,886	0	\$0	4	\$19,200	16	\$148,364	14	\$74,690	10	\$59,010	4	\$32,000	3	\$35,778	263	\$1,901,813	
University of Conn. - School of Law	17	\$106,462	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	17	\$106,462	
University of Conn. - School of Social Work	24	\$129,219	1	\$4,500	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	25	\$133,719	
University of Conn. - Dental/Health Center	89	\$654,242	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	89	\$654,242	
University of Conn. - School of Medicine	45	\$309,457	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	45	\$309,457	
University of Conn. - Storrs/Offsite Campuses	2,107	\$13,610,768	113	\$906,646	51	\$481,586	135	\$987,156	223	\$1,241,013	130	\$795,942	193	\$1,339,390	146	\$1,161,012	231	\$1,681,711	59	\$473,618	3,388	\$22,678,842	
University of Hartford	1,971	\$19,430,253	298	\$3,780,324	292	\$4,571,895	388	\$3,846,396	580	\$4,836,951	311	\$2,539,545	178	\$1,587,565	109	\$932,880	89	\$876,969	36	\$282,209	4,252	\$42,684,987	
University of New Haven	371	\$2,993,773	23	\$245,626	17	\$205,247	12	\$128,508	57	\$559,065	119	\$970,143	183	\$1,602,650	150	\$1,351,255	144	\$1,347,565	37	\$312,359	1,113	\$9,716,191	
Wesleyan University	618	\$7,015,771	3	\$52,500	10	\$117,534	13	\$203,460	47	\$506,282	32	\$276,587	24	\$308,025	8	\$102,628	6	\$92,000	2	\$50,825	763	\$8,725,612	
Western Connecticut State University	69	\$381,233	15	\$123,875	9	\$94,331	22	\$143,841	56	\$263,495	41	\$154,426	46	\$244,865	31	\$190,000	44	\$251,693	12	\$98,864	345	\$1,946,623	
Wilcox College of Nursing	153	\$2,653,678	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	153	\$2,653,678	
Yale University - College	1,460	\$18,796,969	156	\$2,604,811	131	\$2,292,272	175	\$2,613,232	346	\$3,933,971	124	\$1,426,415	193	\$2,548,425	119	\$1,880,534	48	\$654,811	12	\$171,289	2,764	\$36,922,729	
Yale University - Graduate School	77	\$760,842	0	\$0	0	\$0	0	\$0	1	\$38,000	1	\$20,000	0	\$0	0	\$0	0	\$0	0	\$0	79	\$818,842	
Yale University - School of Art	17	\$136,506	0	\$0	1	\$3,000	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	18	\$139,506	
Yale University - School of Drama	4	\$19,235	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	4	\$19,235	
Yale University - School of Forestry	6	\$64,650	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	6	\$64,650	
Yale University - School of Law	281	\$3,101,938	1	\$4,700	0	\$0	0	\$0	3	\$86,600	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	285	\$3,193,238	
Yale University - School of Medicine	138	\$1,108,608	0	\$0	0	\$0	0	\$0	0	\$0	29	\$415,596	0	\$0	0	\$0	0	\$0	0	\$0	167	\$1,524,204	
Yale University - School of Nursing	111	\$856,349	3	\$34,886	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	114	\$891,235	
Yale University - School of Management	325	\$3,181,976	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	325	\$3,181,976	
Total Disbursed to Students-																							
Attending Connecticut Institutions	15,219	\$140,759,469	1,558	\$19,523,554	1,500	\$23,360,653	1,842	\$21,377,317	3,189	\$28,440,768	1,889	\$16,221,204	2,353	\$22,158,824	1,484	\$14,072,610	1,372	\$12,391,720	360	\$3,119,914	30,766	\$301,426,032	
10.98% Loans	1,575	\$9,138,627.00																			1,575	\$9,138,627	
Total Disbursed to CT Students-																							
Attending Out-of-State Institutions	3,600	\$36,178,687	410	\$5,502,189	366	\$4,960,399	466	\$5,149,868	999	\$9,430,573	959	\$8,482,377	1,676	\$15,230,410	1,126	\$10,378,566	1,172	\$11,613,082	318	\$3,205,758	11,092	\$110,131,909	
Grand Total	20,394	\$186,076,783	1,968	\$25,025,743	1,866	\$28,321,052	2,308																

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Exhibit C – CHESLA Loan Program and Refi CT Program Manuals

CONNECTICUT HIGHER EDUCATION

SUPPLEMENTAL LOAN AUTHORITY

CHESLA LOAN PROGRAM

PROGRAM MANUAL

ADOPTED AUGUST 14, 1996,

AMENDED AS OF DECEMBER 10, 1999

AMENDED AS OF OCTOBER 2, 2001

AMENDED AS OF JULY 30, 2008

AMENDED AS OF MAY 8, 2014

AMENDED AS OF MAY 15, 2015

* * * * *

ADDENDUM, AUGUST 19, 1998

ADDENDUM, OCTOBER 27, 1999

ADDENDUM, NOVEMBER 2, 2000

ADDENDUM, OCTOBER 31, 2001 & NOVEMBER 2, 2001

ADDENDUM, JUNE 30, 2003

ADDENDUM, MARCH 2, 2005

ADDENDUM, AUGUST 2, 2006

ADDENDUM, AUGUST 10, 2007

ADDENDUM, JULY 29, 2009

ADDENDUM, OCTOBER 5, 2010

ADDENDUM, MARCH 19, 2013

ADDENDUM, MAY 15, 2014

ADDENDUM, JUNE 10, 2015

ADDENDUM, JUNE 3, 2016

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Education Loan Interest Rates

I. GUIDELINES

A. PURPOSE

The Connecticut Higher Education Supplemental Loan Authority is a public institution founded for the purpose of providing long-term, low interest education loans for Connecticut students attending colleges and universities within the United States of America and its possessions and for out-of-state students attending colleges and universities within Connecticut.

In accordance with the policy and provisions of Chapter 187b of the Connecticut General Statutes, as amended, the CHESLA Loan Program seeks to provide long-term education loans for students, parents and others responsible for paying the costs of higher education.

B. DEFINITIONS

Unless otherwise expressly stated herein or unless the context otherwise requires, the following definitions shall apply with respect to this Manual:

“Act” means the Connecticut Higher Education Supplemental Loan Authority Act, being Chapter 187b of the General Statutes of Connecticut, Sections 10a-221 through 10a-246, inclusive, as heretofore amended and as further amended from time to time.

“Applicant” means any individual who is an Eligible Undergraduate Student, an Eligible Graduate Student, and any parent, legal guardian, or sponsor of an Eligible Undergraduate Student or Eligible Graduate Student attending an Eligible College or University, who completes, signs and submits an Application on behalf of such student with the intention of being accepted as a Borrower or Co-Borrower under the Program.

“Application” means an application for a CHESLA Loan Program Loan submitted to the Authority in the form prescribed by the Authority from time to time, together with such supporting information and documentation as the Authority may reasonably require prior to a final determination with respect thereto.

“Authority” means the Connecticut Higher Education Supplemental Loan Authority, a body politic and corporate of the State of Connecticut, constituting a public instrumentality created by the Act.

“Bonds” means all bonds issued by the Authority pursuant to the Resolution, or any other bonds of the Authority the proceeds of which are used to fund Loans under the Program.

“Borrower” means any approved Applicant who has agreed to repay a Loan and who obtains a Loan in accordance with the terms and conditions of a Promissory Note (See also Co-Borrower).

“Business Day” means any day other than Saturday, Sunday, or a day on which banks located in the city in which the principal office of the Trustee or the Servicer is located are required or authorized to remain closed.

“Capitalized Interest Loan” means an Education Loan made to an Eligible Graduate Student which provides for the capitalization of interest during the Capitalized Interest Period.

“Capitalized Interest Period” means the period during which interest on a Capitalized Interest Loan is deferred and added to the principal balance of the Capitalized Interest Loan and subject to additional interest, which shall be the period while the Eligible Graduate Student is enrolled in an Eligible College

or University and for a six month period after the Eligible Graduate Student is no longer enrolled, which period shall not exceed five (5) years, or such lesser period specified by the Borrower.

“Carry-Over Amount” means, with respect to the proceeds of Bonds of the Authority issued on or before November 15, 2000, \$200,000 of the proceeds of a Series of Bonds which may be used to make loans bearing a stated interest rate equal to (a) the stated rate of interest borne by Loans originated with proceeds of the Series of Bonds most recently issued by the Authority to originate loans pursuant to the Program or (b) the stated rate of interest borne by Loans originated with proceeds of the immediately succeeding Series of Bonds issued by the Authority to originate Loans pursuant to the Program, as may be determined by the Executive Director; with respect to the proceeds of a Series of Bonds issued after November 15, 2000, “Carry-Over Amount” means up to \$500,000 of the proceeds of a Series of Bonds which may be used to make loans bearing such stated rate of interest as the Authority shall determine in accordance with the provisions of the Resolution and any related Tax Compliance Agreement entered into by the Authority in connection with the issuance of such Series of Bonds.

“Co-Applicant” means any Applicant other than the Eligible Student.

“Co-Borrower” means any parent, legal guardian or sponsor of an Eligible Student attending an Eligible College or University who shall be jointly and severally liable with a Borrower for the repayment of a Loan.

“Cost of Education” means the cost of education for a Loan Year as certified by the financial aid administrator at the Eligible College or University and is to include direct and indirect costs associated with attendance at such Eligible College or University, but shall not exceed the amounts determined by the United States Department of Education to be the cost of education, except as otherwise determined by the Executive Director and the Deputy Director, or either of them.

“Current Year Loan” means a Loan other than a Tuition Prepayment Loan and may include a Loan to cover an Eligible Student’s Cost of Education for the next preceding Loan Year.

“Defaulted Loans” means all Loans for which any payment is one hundred and twenty (120) days or more past due.

“Delinquent Loans” means all Loans for which any payment is thirty (30) days or more past due.

“Education Loan Mortgage” means the Deed of Mortgage or similar instrument recorded on the land records where the mortgaged property is located given by a Borrower or Co-Borrower or both to secure an Education Loan, and any related documents.

“Electronic Fund Transfer” means the electronic method of disbursing proceeds of an Education Loan on behalf of an Eligible Student as set forth in an agreement entered into by the Authority, acting by its duly authorized officer, the Servicer and the Trustee.

“Eligible College or University” means any non-profit degree- granting educational institution within the United States of America and its possessions authorized by law to provide a program of education beyond the high school level and (1) described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or any subsequent corresponding Internal Revenue Code, as from time to time amended, and exempt from Federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, or any subsequent corresponding Internal Revenue Code, as from time to time amended, with respect to a trade or business carried on by such institution which is not an unrelated trade or business, determined by applying Section 513(a) of the Internal Revenue Code of 1986, or any subsequent corresponding Internal

Revenue Code, as from time to time amended, to such institution, or a foundation established for its benefit, or (2) exempt from taxation under said code as a governmental unit.

“Eligible Graduate Student” means a student who is a resident of Connecticut and who is enrolled in and pursuing an educational program leading to a post-baccalaureate certificate or a masters, doctorate or professional degree at an Eligible College or University on at least a half-time basis as defined by such college or university, who is in good academic standing and is making satisfactory progress, as determined by such college or university. “Eligible Graduate Student” also means a student who is not a resident of Connecticut, but who is enrolled and pursuing such an educational program at an Eligible College or University in Connecticut, on at least a half-time basis as defined by such college, university, or program, who is in good academic standing and is making satisfactory progress, as determined by such college or university.

“Eligible Student” means an Eligible Graduate Student or an Eligible Undergraduate Student.

“Eligible Undergraduate Student” means a student who is a resident of Connecticut and who is enrolled in and pursuing an educational program leading to a certificate or an associate or baccalaureate degree at an Eligible College or University, or a student enrolled in the Connecticut Alternate Route to Certification Program, on at least a half-time basis as defined by such college, university, or program, who is in good academic standing and is making satisfactory progress, as determined by such college, university, or program. “Eligible Undergraduate Student” also means a student who is not a resident of Connecticut, but who is enrolled and pursuing such an educational program at an Eligible College or University in Connecticut, or a student enrolled in the Connecticut Alternate Route to Certification Program, on at least a half-time basis as defined by such college, university, or program, who is in good academic standing and is making satisfactory progress, as determined by such college, university, or program.

“Interest Only Payment Period” means the period during which a Borrower pays interest only on the Loan, which shall be while the Eligible Student is enrolled in an Eligible College or University and for a six month period after the Student is no longer enrolled, but which period shall not exceed five (5) years.

“Loan” or “Education Loan” means a loan originated by the Authority under the Program and disbursed from the proceeds of the Bonds, including a Capitalized Interest Loan, and any other loan which the Authority determines to originate or administer under the Program.

“Loan Year” means a period of twelve consecutive months, commencing September 1 and ending August 31 each year, in which an Eligible Student is attending an Eligible College or University on at least a half-time basis.

“Net Cost of Education” means the Cost of Education as calculated by the College or University, minus any financial assistance including education loans, work study, grants, scholarships, etc. awarded for the period for which the Loan is requested (Social Security and Veterans’ Administration benefits should not be considered financial aid).

“Prepayable Costs” means tuition and fees, and room and board, as detailed in Section D(3)(a)(i) and (ii) hereof.

“Principal and Interest Repayment Period” means the period during which a Borrower repays the Loan in level monthly installments of principal and interest.

“Program” means the Connecticut CHESLA Loan Program described herein.

“Promissory Note” means the note signed by a Borrower and any Co-Borrower(s) (“Borrowers”) promising to pay the Authority and evidencing a Loan, in the form prescribed by the Authority from time to time.

“Reserve Fee” means the non-refundable fee of four percent (4%) of each Loan, or such other amount, if any, as the Authority shall determine in connection with each Series of Bonds used to finance Education Loans, paid by the Borrower to the Authority out of the proceeds of each such Loan at the time of disbursement thereof.

“Resolution” means the Revenue Bond Resolution of the Authority adopted June 12, 1990, as supplemented and amended June 29, 1990, March 10, 1992, March 16, 1993, June 7, 1994, as supplemented, amended and restated July 19, 1996, as further supplemented and amended June 9, 1998, September 14, 1999, November 2, 2000, and October 31, 2001, and as further supplemented and amended.

“Servicer” means the entity with whom the Authority contracts (which may be the Trustee) for the purpose or providing services with respect to the origination, servicing and administration of Education Loans, Education Loan Mortgages or any other service offered by the Authority under the Program.

“Trustee” means the trustee under the Resolution.

“Truth-in-Lending Disclosure Statement” means the Truth-in-Lending Disclosure Statement sent to each Borrower in connection with the Loan.

“Tuition Prepayment Loan” means a Loan made for payment or reimbursement of a payment made pursuant to a Tuition Prepayment Plan.

“Tuition Prepayment Plan” means any plan adopted by an Eligible College or University whereby an Eligible Student’s Prepayable Costs, or any portion thereof, as determined by the Eligible College or University, may be prepaid.

C. OVERVIEW OF CHESLA LOAN PROGRAM

1. Amount.

- (a) Current Year Loan. A Loan may be made in a principal amount of not less than \$2,000 and not more than any one Eligible Student’s Net Cost of Education in any one Loan Year. In no Loan Year shall the total of all forms of financial assistance (including Loans under the Program) exceed the Cost of Education.
- (b) Tuition Prepayment Loan. A Loan may be made in a principal amount of not less than \$2,000 and not more than \$125,000 in any one Loan Year, for the purpose of prepaying any one Eligible Student’s Prepayable Costs pursuant to a Tuition Prepayment Plan.
- (c) Maximum Borrowing. In no case may any Borrower or Co-Borrower borrow proceeds over the life of the Program for any one Eligible Student in excess of \$125,000.

2. Frequency of Loans. There is no limit on the number of separate Loans a Borrower may apply for and accept during a Loan year.

3. Interest Rate. Loans shall bear interest at the rate or rates as the Authority shall determine in connection with each Series of Bonds used to finance Education Loans. Interest due is calculated daily based on the actual number of days, elapsed, or as otherwise determined by the Authority.
4. Repayment Term and Schedule.
 - (a) For Education Loans other than Capitalized Interest Loans, the initial monthly payment of interest only will be due thirty (30) to sixty (60) days from the date of the disbursement. Interest-only payments shall be paid while the student is enrolled in school and for a six-month period after the student is no longer enrolled, for a maximum period of five (5) years. Thereafter, level payments of principal and interest on the Loans shall be paid monthly until maturity, which shall be 140 months after the date of the first principal payment. All Loans must be repaid in full on or prior to their maturity date. Loans may be prepaid in full, but not in part, subject to a four percent (4%) prepayment fee, waivable at the Authority's option. The Executive Director and the Deputy Director, or either of them are authorized to waive any such prepayment fee on behalf of the Authority.
 - (b) For Capitalized Interest Loans interest will accrue and be added to the principal Loan balance annually beginning on a date which is not more than one year following the date of disbursement and continuing annually thereafter during the Capitalized Interest Period and ending on the last day of the Capitalized Interest Period, so that an increased principal Loan balance shall be computed annually upon which interest shall accrue. Level payments of principal and interest shall commence upon the expiration of the Capitalized Interest Period and shall be paid monthly until maturity, which shall be 140 months after the date of the first principal payment. All Loans must be repaid in full on or prior to their maturity date. Loans may be prepaid in full, but not in part, subject to a four percent (4%) prepayment fee, waivable at the Authority's option. The Executive Director and the Deputy Director, or either of them are authorized to waive any such prepayment fee on behalf of the Authority.
5. Promissory Note. Each Loan will be evidenced by a Promissory Note executed by the Borrower and Co- Borrower(s), if any. A Promissory Note will be sent to the Borrower and any Co-Borrower for execution upon approval of the Application by the Servicer, as authorized by the Authority.
6. Mortgages. In the event the Authority and the Servicer enter into an agreement for the purpose of servicing Loans secured by Mortgages, Borrowers and Co-Borrowers may, to the extent permitted thereby and in accordance with the procedures and subject to the limitations set forth therein, deliver such documents as are specified therein for the purpose of securing an Education Loan.
7. Credit Life Insurance. In the event the Authority and the Servicer enter into an agreement for the purpose of offering Borrowers an option to purchase credit life insurance, Borrowers may include with their Loan payments the cost thereof, in accordance with the terms of such agreement; provided, however, that Loan payments shall first be credited to principal, interest and prepayment fees as set forth herein and in the Promissory Note.

8. Reserve Fee. The non-refundable Reserve Fee will be paid by the Borrower from the proceeds of each Loan at the time of disbursement thereof.
9. Nondiscrimination. The Authority shall not discriminate on the basis of the location within the United States and its possessions of the Eligible College or University or on the basis of the residency of Eligible Students attending Eligible Colleges or Universities located in Connecticut.
10. Borrowers not to Acquire Bonds. Each Borrower shall agree that neither the Borrower, the Co-Borrower, nor any person who is a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended, has or will acquire any of the Bonds in an amount related to any Loan received by such Borrower.
11. Release of Co-Borrowers. In connection with Education Loans originated with proceeds of the 2014 Series A Bonds and bonds issued thereafter, upon request, a Co-Borrower may be released from responsibility for repayment of a Loan for which not fewer than 60 consecutive Timely payments of principal and interest have been received following the end of the Interest Only Payment Period, and for which the remaining Borrower would satisfy the then current credit criteria for Education Loan eligibility as set forth in Section E. A payment shall be considered Timely so long as it is received not later than ten days after the due date therefor and all other payments within the prior twelve-month period have been received on or before the due dates therefor.

The Authority may charge a fee for processing any such request for release.

D. APPLICATION PROCESS

1. Obtaining the Application. The Authority shall make Applications available , on its internet web site and in such other manner as the Authority may determine.
2. Submitting the Application. An Applicant seeking a Loan must submit a completed Application, to the address stated on the Application. A School Certification Form in the form or medium prescribed by the Authority from time to time must be forwarded to the Eligible College or University’s financial aid office. An Application is complete when the Applicant furnishes all required documentation and information on the Application and when a School Certification Form has been completed and returned to the Servicer.
3. School Certification Form and Calculation of Net Cost of Education. The financial aid administrator completes the School Certification Form. The School Certification Form includes (a) a representation that the institution in which the Eligible Student is enrolled is an Eligible College or University, (b) a confirmation that the student is enrolled at such institution on at least a half-time basis and is making satisfactory progress, (c) a determination and certification of the expected Cost of Education and the Net Cost of Education and (d) with respect to Capitalized Interest Loans, a determination and certification that the Eligible Student meets the requirements of an Eligible Graduate Student. The following shall be used by each Eligible College or University in estimating the expected Cost of Education:
 - a. Direct Costs:

- (i) Tuition & Fees: The amount paid or expected to be paid directly to the Eligible College or University for such charges for the period covered by the Loan.
 - (ii) Room & Board: If a student resides at the Eligible College or University, the amount to be paid to the Eligible College or University for such charges for the period covered by the Loan.
 - (iii) Books & Supplies: An allowance as determined by the Eligible College or University.
- b. Indirect Costs:
- (i) Room & Board: If a student does not reside at the Eligible College or University, an allowance as determined by the Eligible College or University, for each month of expected attendance during the Loan Year, which shall not exceed the amount of such costs as determined by the United States Department of Education, provided that the Executive Director and the Deputy Director, or either of them, shall be authorized to determine such other amount as they shall deem appropriate.
 - (ii) Miscellaneous Personal Expenses: An allowance as determined by the Eligible College or University, for each month of expected attendance.

The financial aid office, after completing the School Certification Form, shall return it as the Authority shall direct.

E. LOAN ORIGINATION

1. Application Processing by the Servicer. Upon receipt of a completed Application, including the School Certification Form, the Servicer shall:
 - a. Check for completeness of the Application, including the School Certification Form, including all necessary attachments. Applications for Capitalized Interest Loans shall be accepted only upon the Servicer's determination that the Borrower is an Eligible Graduate Student. If an Application is incomplete or otherwise rejected, the Servicer may return the document, or send a form for correction or completion of information contained in the document, to the Applicant or Co-Applicant, as appropriate, for missing information;
 - b. Verify the Applicant's and a Co-Applicant's income(s);
 - c. Verify the employment status of the Applicant and a Co-Applicant in such manner as the Authority may prescribe;
 - d. Request and review the Credit Report(s) of the Applicant and/or Co-Applicant and investigate any derogatory information contained therein to the extent deemed necessary;
 - e. Review Form 1040, as agreed by the Authority and the Servicer;

- f. Review and verify that Applicant and/or Co-Applicant have acceptable credit history with current and former creditors;
 - g. Review the credit reports according to the following guidelines: judgments, liens, bankruptcies by or against the Applicant or Co-Applicant, if any, and defaults by the Applicant or a Co-Applicant on installment loans of any type, including other education loans, to the extent deemed necessary in order to make the recommendation required;
 - h. Review to determine that the Applicant, a Co-Applicant, and the Loan, if made, would meet the requirements of the Program; for example, with respect to the amount of the Loan to be made in one Loan Year and the aggregate amount the Borrower may borrow for any one Eligible Student over the life of the Program.
 - i. Review to determine that the Applicant and each Co-Applicant is of a legal age to commit to a contract.
2. Debt-to-Income Determination by Servicer. The Servicer shall calculate a debt-to-income ratio based on information provided on the Application. For Loans originated prior to June 15, 2015, total monthly debt obligations plus the total monthly housing expense (rent or mortgage payments) may not exceed 40% of the stable gross monthly income. For Loans originated on and after June 15, 2015, total monthly debt obligations plus the total monthly housing expense (rent or mortgage payments) may not exceed 43% of the stable gross monthly income. For purposes of calculating a debt-to-income ratio of applicants for Capitalized Interest Loans, the Servicer shall calculate the Capitalized Interest Loan principal amount as of the end of the Capitalized Interest Period. If debt-to-income ratio is satisfactory, the Servicer will complete the credit analysis. If debt-to-income ratio exceeds the amount permitted in this Section E.2, Servicer will reject Application or follow the procedures under Section F.1. or F.2.
3. Credit Analysis by the Servicer. The Servicer shall perform a credit analysis in keeping with normal industry standards and shall consider such factors as it shall mutually agree upon with the Authority.
4. Credit History. The Servicer shall obtain a written credit report prepared by a commercial credit reporting agency with respect to each Application.
- a. To be eligible, no Applicant or Co-Applicant may be currently in default on any Stafford Loan, Parent Loan for Undergraduate Students (PLUS), Perkins Loan, formerly known as National Direct Student Loan (NDSL), Supplemental Loan for Students (SLS), or any other education loan, or owe refunds on a Pell Grant or Supplemental Education Opportunities Grant (SEOG).
 - b. The Servicer shall review the credit report to determine:
 - (i) That no more than one account is rated sixty (60) or more days delinquent at the time of the credit report.
 - (ii) That no more than two accounts have been sixty (60) or more days delinquent during the preceding two (2) years.

- (iii) That no account has been delinquent ninety (90) or more days during the preceding two (2) years.
- (iv) That there is no record of a collection or charged-off account during the preceding two (2) years.
- (v) That there is no record of a foreclosure, repossession, open judgment or suit, unpaid prior educational loan default or other negative public record items in the past six (6) years.
- (vi) That there is no record of a bankruptcy in the past seven (7) years.

Credit reports that list any of the above conditions may result in a rejection of the Applicant's application.

If any of the above items adversely affect credit-worthiness or differ substantially from the information on the Application, the Servicer may, with the consent of the Authority, consult with the Applicant and Co-Applicant and obtain written explanations of any problems satisfactory to the Servicer and the Authority before considering the Loan further.

F. LOAN APPROVAL/DISAPPROVAL

1. Limited Review of Applications Which Exceed Debt-to-Income Ratio. On a limited basis, the Servicer may review with the Authority Applications which exceed the debt-to-income ratio or otherwise do not meet the credit criteria, and decide in consultation with the Authority whether such Applications can be shown to support the credit-worthiness of the Applicant. However, the principal amount of Loans approved pursuant to this Section may not exceed the maximum amount of such Loans permitted, as determined by the Authority in connection with each Series of Bonds. The Executive Director and the Deputy Director, or either of them, are authorized to approve the making of any such Loan.
2. Approval of Loans in Lesser Amount. If the Servicer determines that the Applicant is eligible for a Loan in an amount less than that applied for, the Servicer shall recommend a lesser Loan amount which would enable the Applicant to qualify.
3. Notice of Adverse Determination. If the Servicer determines that the Applicant's income is insufficient, utilizing the debt-to-income ratio of forty percent (40%), or if credit history does not meet the Authority's standards, or the Application is rejected for any other reason the Servicer shall send a notice to the Applicant at the address of the Borrower advising the reasons for rejection, to the extent required by law.
4. Time Period for Approval/Disapproval. The Servicer shall approve or disapprove a Loan upon receipt of a completed Loan Application, and the Servicer shall thereafter process all additional Loan documentation, the School Certification Form and Promissory Note. The time period within which such actions shall occur shall be as agreed upon by the Authority and the Servicer. If the Servicer cannot so act within such time frame, it shall give the Authority, the Applicant, and the Eligible College or University written notice that it will not be able to complete the required processing procedures within the said period, in which case it shall complete the requested processing within twenty (20)

Business Days of the receipt of a completed Loan Application, and within ten (10) Business Days of receipt of additional Loan documents, School Certification Forms, and Promissory Notes.

5. Loan Disbursement Process. For each approved Loan,
 - (a) The Servicer shall:
 1. Originate and mail to the approved Applicant, at the Borrower's address, a Promissory Note and, if applicable, an Education Loan Mortgage, to be signed by the Borrower and each Co-Borrower, and returned to the Servicer.
 2. Upon receipt of an executed Note and School Certification Form, and, if applicable, an Education Loan Mortgage, notify the Authority in report form of Loan approvals and deliver to the Trustee via a secure means (such as overnight courier) the original Note and any Education Loan Mortgage. The Servicer shall keep the Application and shall keep a copy of such Note and any Education Loan Mortgage for safekeeping. The Servicer shall also determine disbursement dates for each approved Loan upon receipt of the executed Note and School Certification Form, and shall list such Loan on the disbursement roster, which shall be forwarded to the Authority and the Trustee.
 - (b) The Trustee shall, upon receipt of a signed Promissory Note and, if applicable, Education Loan Mortgage, and disbursement roster from the Servicer, and a signed requisition from the Authority, (a) pay from the Loan Account, via such means as the Servicer shall direct, to the Servicer the amount of the Loan less the applicable Reserve Fee and (b) advise the Authority of the disbursement. The Reserve Fee shall be retained in the Loan Account held by the Trustee.
 - (c) The Servicer shall disburse by check or by Electronic Fund Transfer, to the Institution, the Borrower or the Borrower's designee as specified in the Promissory Note, the Loan proceeds upon receipt of funds from the Trustee.
 - (d) The Servicer shall notify major credit bureaus of the making and status of each Borrower's obligation to the Authority.
6. Receipt of Check. If a Loan is disbursed by check, the Borrower and each Co-Borrower must endorse the check. In the case of a Tuition Prepayment Loan, the check must be endorsed by the Borrower, each Co-Borrower, and the Eligible College or University. If the Loan is disbursed by Electronic Fund Transfer, the Borrower, each Co-Borrower and the Eligible College or University receiving such disbursement shall execute such documents as the Authority shall require.

G. LOAN SERVICING AND REPAYMENT

Loans will be serviced by the Servicer in accordance with the following:

1. Transmittal of Information. Eligible Colleges and Universities will forward to the Servicer any changes of name, address, telephone number, date of birth, and social security number of Borrower(s) of which they are aware.

2. Monthly Statements. The Servicer will, with respect to Loans other than Capitalized Interest Loans, within a period of sixty (60) days after the disbursement of funds, commence, and continue throughout the Interest Only Payment Period and the Principal and Interest Repayment Period, to send monthly statements to the Borrower. The Servicer will, with respect to Capitalized Interest Loans, within a period of sixty (60) days after the expiration of the Capitalized Interest Period, commence, and continue throughout the Principal and Interest Repayment Period, to send monthly statements to the Borrower. In the event the Servicer and the Authority have entered an agreement for the purpose of offering Borrowers the option of purchasing credit life insurance, such statements may also include such information as the Authority deems appropriate with respect to the credit life insurance in accordance with the terms of such agreement. All payments must be made by check or money order payable to the order of the Servicer and mailed to the post office box maintained by the Servicer or as otherwise agreed by the Servicer and the Authority.
3. Processing of Payments Received. The Servicer, on behalf of Authority, will maintain a post office box to receive payments on the Loans, and will transfer such payments into an account maintained by the Trustee, on such basis as the Servicer and the Authority shall agree. Such payments shall be deemed held in trust for the Authority and the bondholders. The Authority and the Trustee shall be responsible for negotiating the terms of said account with respect to fees, interest, and transfers therefrom. The Servicer shall prepare a report monthly with respect to payments received, identifying (to the extent ascertainable) the Borrower with respect to each payment and shall deliver such report to the Authority.
4. Application of Loan Payments. Payments of Loans will be applied, to the extent sufficient, in the following order of priority: (a) interest and (b) principal. In the event that a Borrower shall have more than one Loan outstanding, partial payments shall be applied to each such Loan based upon the percentage each such Loan bears to the total Loans of such Borrower outstanding, or as otherwise agreed by the Authority and the Servicer.
5. Loan Repayments. For Loans other than Capitalized Interest Loans, interest-only payments will be due commencing no later than sixty (60) days after disbursement of funds and shall continue during the Interest Only Payment Period. Thereafter level monthly payments of principal and interest shall be due for a period of 140 months, or until the Loan is prepaid, if earlier. For Capitalized Interest Loans, level monthly payments of principal and interest shall be due commencing on the expiration of the Capitalized Interest Period and ending after 140 months or until the Loan is prepaid, if earlier.
6. Prepayments. A Loan may only be prepaid in full. The Authority will assess a fee of four percent (4%) of the balance due for such prepayments which fee may be reduced or waived by the Authority. If a Borrower wishes to prepay a Loan in full, the Borrower must contact the Servicer to determine the amount of principal and interest outstanding. If payment of more than one month is made, which payment is less than full payment including any prepayment fee, the additional moneys will be credited first towards interest and second towards principal by the Servicer or, at the option of the Authority, will be returned to the Borrower. Excess payments may be applied to the prepayment fee. Collection of the prepayment fee is the responsibility of the Authority.

7. Payments in Full. Based on information received and its records, the Servicer will notify the Authority of payment in full of a Loan before or at maturity. Upon receipt of payment in full of each account, notification will be given to the Authority in writing that payment in full has been received. For purposes of servicing only, an account will be deemed paid in full if its balance is less than \$5.00.

H. LOAN COLLECTION PROCESS

1. Servicing of Delinquent Loans. The Servicer must responsibly service Delinquent Loans so as to enable, to the maximum extent possible, payment in full of such Loans on their respective repayment schedules. For accounts which continue to be delinquent, the Servicer must notify the Borrower and any Co-Borrower of the delinquency. If any payment is one hundred twenty (120) days past due, the Servicer will notify the Authority.
2. Delinquency Requirements. The Servicer will send delinquency notices and make contact with the Borrower and any Co-Borrowers in accordance with the Servicing Agreement or such other process agreed to by the Authority.
3. Defaults. The Authority, upon the 120th day of delinquency, will consider the Loan to be in default. The Authority will begin collection proceedings against the Borrower and any Co-Borrower upon receipt of the Note from the Trustee and related documents from the Servicer.
4. Death of Borrower or Co-Borrower. If, at any time, the Servicer is notified or otherwise becomes aware of the death of a Borrower or a Co-Borrower, it shall notify the Authority immediately.
5. Bankruptcy. If a Borrower or a Co-Borrower is adjudicated bankrupt and has liability for a Loan discharged, the other obligor(s) remains liable for unpaid principal and interest. The Authority and its counsel shall consult with respect to the filing of a claim in any bankruptcy proceeding of a Borrower or Co-Borrower.
6. Due Diligence. The Servicer shall exercise reasonable care and due diligence in the collection of Loans made by the Authority and shall utilize collection practices no less extensive and rigorous than those generally in use by commercial lenders for loans of comparable amounts. The Servicer shall use such collection practices as are set forth in the Servicing Agreement between the Authority and the Servicer.
7. Mortgages. The Servicer's additional responsibilities with respect to Education Loans secured by Education Loan Mortgages shall be set forth in the separate agreement, if any, entered into between the Servicer and the Authority for the servicing of Education Loans secured by Education Loan Mortgages.
8. Credit Life Insurance. The Servicer's additional responsibilities with respect to credit life insurance shall be set forth in the separate agreement, if any, entered into between the Servicer and the Authority for the purpose of offering Borrowers the option to purchase credit life insurance.

ADDENDUM TO
CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
CHESLA LOAN PROGRAM
PROGRAM MANUAL

Dated August 19, 1998

Per the determination of the 1998 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$15,000,000 Revenue Bonds (Family Education Loan Program) 1998 Series A and the Authority's \$3,560,000 Revenue Refunding Bonds (Family Education Loan Program) 1998 Series B shall bear interest at a stated rate of 7.50% per annum, except any loan made with the Carry Over amount.

2. 1998 Loans will be serviced by The Connecticut Student Loan Foundation.

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CONNECTICUT HIGHER EDUCATION
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Dated October 27, 1999

Per the determination of the 1999 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$12,500,000 Revenue Bonds (Family Education Loan Program) 1999 Series A and the Authority's \$4,390,000 Revenue Refunding Bonds (Family Education Loan Program) 1999 Series B shall bear interest at a stated rate of 7.50% per annum, except any loan made with the Carry Over amount.
2. Prior to December 10, 1999, the Reserve Fee shall be four percent (4%) for Loans made with proceeds of the Authority's \$12,500,000 Revenue Bonds (Family Education Loan Program) 1999 Series A and the Authority's \$4,390,000 Revenue Refunding Bonds (Family Education Loan Program) 1999 Series B. On and after December 10, 1999, the Reserve Fee for 1999 Loans shall be three percent (3%).
3. 1999 Loans will be serviced by the Connecticut Student Loan Foundation.

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Dated November 2, 2000

Per the determination of the 2000 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$16,410,000 Revenue Bonds (Family Education Loan Program) 2000 Series A and the Authority's \$5,975,000 Revenue Refunding Bonds (Family Education Loan Program) 2000 Series B (collectively the "2000 Bonds") initially shall bear interest at a stated rate of 7.25% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2000 Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2000 Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.

2. Initially, the Reserve Fee shall be two percent (2%) for Loans made with proceeds of the 2000 Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2000 Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2000 Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.

3. 2000 Loans will be serviced by the Connecticut Student Loan Foundation.

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Dated October 31, 2001 & November 2, 2001

Per the determination of the 2001 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$25,000,000 Revenue Bonds (Family Education Loan Program) 2001 Series A (the "2001 Series A Bonds") initially shall bear interest at a stated rate of 6.70% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2001 Series A Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2001 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.

2. Initially, the Reserve Fee shall be two percent (2%) for Loans made with proceeds of the 2001 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2001 Series A Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2001 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.

3. 2001 Loans will be serviced by the Connecticut Student Loan Foundation.

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Dated June 30, 2003

Per the determination of the 2003 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$18,000,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2003 Series A (the "2003 Series A Bonds") and the Authority's \$12,915,000 Senior Revenue Refunding Bonds (Connecticut Family Education Loan Program) 2003 Series B Bonds (the "2003 Series B Bonds," and, with the 2003 Series A Bonds, the "2003 Series Bonds") initially shall bear interest at a stated rate of 4.990% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.
2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2003 Series Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.
3. 2003 Loans will be serviced by the Connecticut Student Loan Foundation.

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Dated March 2, 2005

Per the determination of the 2005 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$31,455,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2005 Series A (the "2003 Series A Bonds") and the Authority's \$5,900,000 Senior Revenue Refunding Bonds (Connecticut Family Education Loan Program) 2005 Series B Bonds (the "2005 Series B Bonds," and, with the 2005 Series A Bonds, the "2005 Series Bonds") initially shall bear interest at a stated rate of 5.50% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.
2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2005 Series Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.
3. 2005 Loans will be serviced by Firstmark Services LLC.

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Dated August 2, 2006

Per the determination of the 2006 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$33,270,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2006 Series A (the "2006 Series A Bonds") initially shall bear interest at a stated rate of 6.15% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2006 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.

3. 2006 Loans will be serviced by Firstmark Services LLC.

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Dated August 10, 2007

Per the determination of the Executive Director, as provided in the Determination of the 2007 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority on August 9, 2007:

1. Loans made with proceeds of the Authority's \$41,000,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2007 Series A (the "2007 Series A Bonds") initially shall bear interest at a stated rate of 6.99% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2007 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.

3. 2007 Loans will be serviced by Firstmark Services LLC.

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Dated July 29, 2009

Per the Determination of the Bond Committee of the Connecticut Higher Education Supplemental Loan Authority on July 29, 2009:

1. Loans made with proceeds of the Authority's \$30,000,000 Revenue Bonds (CHESLA Loan Program) 2009 Series A (the "2009 Series A Bonds") initially shall bear interest at a stated rate of 6.80% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority provided the Authority has notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc., if such agency is then rating the 2009 Series A Bonds, that such increase or decrease, in and of itself, will not cause the rating on the 2009 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2009 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority provided the Authority has notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc., if such agency is then rating the 2009 Series A Bonds, that such increase or decrease, in and of itself, will not cause such rating on the 2009 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

3. 2009 Loans will be serviced by Firstmark Services LLC.

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Dated October 5, 2010

Per the Determination of the Bond Committee of the Connecticut Higher Education Supplemental Loan Authority on October 5, 2010:

1. Loans made with proceeds of the Authority's \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the "2010 Series A Bonds") initially shall bear interest at a stated rate of 5.95% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority provided the Authority has notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc., if such agency is then rating the 2010 Series A Bonds, that such increase or decrease, in and of itself, will not cause the rating on the 2010 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2010 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority provided the Authority has notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc., if such agency is then rating the 2010 Series A Bonds, that such increase or decrease, in and of itself, will not cause such rating on the 2010 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

3. 2010 Loans will be serviced by Firstmark Services LLC.

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Dated March 19, 2013

Per the Determination of the Executive Director of the Connecticut Higher Education Supplemental Loan Authority on March 19, 2013:

1. Loans made with proceeds of the Authority's \$25,000,000 Revenue Bonds (CHESLA Loan Program) 2013 Series A (the "2013 Series A Bonds") initially shall bear interest at a stated rate of 5.99% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by the Authority provided there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such finding shall be required.
2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2013 Series A Bonds. The Reserve Fee may be increased or decreased by the Authority, provided that for any decrease, there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required.
3. 2013 Loans will be serviced by Firstmark Services LLC.

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Dated May 15, 2014

Per the Determination of the Executive Director of the Connecticut Higher Education Supplemental Loan Authority on May 15, 2014:

1. Loans made with proceeds of the Authority's \$25,000,000 Revenue Bonds (CHESLA Loan Program) 2014 Series A (the "2014 Series A Bonds") initially shall bear interest at a stated rate of 6.75% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by the Authority provided there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such finding shall be required.
2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2014 Series A Bonds. The Reserve Fee may be increased or decreased by the Authority, provided that for any decrease, there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required.
3. 2014 Loans will be serviced by Firstmark Services LLC.

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Dated June 10, 2015

Per the Determination of the Executive Director of the Connecticut Higher Education Supplemental Loan Authority on June 10, 2015:

1. Education Loans made with proceeds of the Authority's \$21,465,000 Revenue and Revenue Refunding Bonds (CHESLA Loan Program) 2015 Series A (the "2015 Series A Bonds") initially shall bear interest at a stated rate of 4.95 % per annum, except any loan made with the Carry Over amount; and Education Loans made with proceeds of the Authority's 2015 Equity Contribution initially shall bear interest at a stated rate of 4.95 % per annum. The interest rate borne by such Education Loans may be increased or decreased by the Authority provided there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such finding shall be required.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2015 Series A Bonds and Loans made with proceeds of the Authority's 2015 Equity Contribution. The Reserve Fee may be increased or decreased by the Authority, provided that for any decrease, there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required.

3. 2015 Loans will be serviced by Firstmark Services LLC.

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Dated June 3, 2016

Per the Determination of the Executive Director of the Connecticut Higher Education Supplemental Loan Authority on June 3, 2016:

1. Education Loans made with proceeds of the Authority's \$15,000,000 Revenue Bonds (CHESLA Loan Program) 2016 Series A (the "2016 Series A Bonds") initially shall bear interest at a stated rate of 4.95 % per annum, except any loan made with the Carry Over amount; and Education Loans made with proceeds of the Authority's 2016 Equity Contribution initially shall bear interest at a stated rate of 4.95 % per annum. The interest rate borne by such Education Loans may be increased or decreased by the Authority provided there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such finding shall be required.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2016 Series A Bonds and Loans made with proceeds of the Authority's 2016 Equity Contribution. The Reserve Fee may be increased or decreased by the Authority, provided that for any decrease, there has been a finding by the Authority that the Revenues and other amounts derived by the Authority from the Program shall continue to be sufficient at all times (a) to pay the cost of maintaining and servicing the Program and keeping it properly insured, (b) to pay the principal or Redemption Price of, and the interest on, all Outstanding Bonds of the Authority issued with respect to such Program, (c) to establish, increase as required hereunder and maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement, and (d) to pay such other Program Costs as shall be required.

3. 2016 Loans will be serviced by Firstmark Services LLC.

The stated rates of interest borne by Loans originated pursuant to the CHESLA Loan Program with proceeds of the Authority's Bonds (except for Carry-Over amounts) is as set forth below:

Stated Rate of Interest on Outstanding Loans

Revenue Bonds	Stated Rate of Interest (per annum)
1990 Series A	9.70 %
1991 Series A	9.20 %
1993 Series A	8.40 %
1994 Series A	8.25 %
1996 Series A	8.10 %
1998 Series A	7.50 %
1998 Series B	7.50 %
1999 Series A	7.50 %
1999 Series B	7.50 %
2000 Series A	7.25 %
2000 Series B	7.25 %
2001 Series A	6.70%
2003 Series A	4.99%
2003 Series B	4.99%
2005 Series A	5.50%
2005 Series B	5.50%
2006 Series A	6.15%
2007 Series A	6.99%
2009 Series A	6.80%
2010 Series A	5.95%
2013 Series A	5.99%
2014 Series A	6.75%
2015 Equity Loans	4.95%
2015 Series A	4.95%
2016 Series A	4.95%
2016 Equity Loans	4.95%

CONNECTICUT HIGHER EDUCATION

SUPPLEMENTAL LOAN AUTHORITY

CHESLA Refi CT

LOAN PROGRAM MANUAL

ADOPTED MAY 16, 2016

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GUIDELINES

A. PURPOSE

The Connecticut Higher Education Supplemental Loan Authority is a quasi-public agency of the State of Connecticut established for the purpose of providing lower cost financial assistance for Connecticut residents attending colleges and universities within the United States of America and its possessions and for out-of-state students attending colleges and universities within Connecticut.

In accordance with the policy and provisions of Chapter 187b of the Connecticut General Statutes, as amended, the CHESLA Refinance Loan Program seeks to provide long-term financing for Borrowers who are seeking to refinance their Eligible Education Debt. The CHESLA Refinance Loan may also be used by parents.

B. DEFINITIONS

Unless otherwise expressly stated herein or unless the context otherwise requires, the following definitions shall apply with respect to this Manual:

“Act” means the Connecticut Higher Education Supplemental Loan Authority Act, being Chapter 187b of the General Statutes of Connecticut, Sections 10a-221 through 10a-246, inclusive, as heretofore amended and as further amended from time to time.

“Applicant” means any individual who applies for a Program Loan, as a Borrower or a Cosigner, whether or not eligible for such Program Loan.

“Application” means an application for a Program Loan submitted to the Authority in the form prescribed by the Authority from time to time, together with such supporting information and documentation as the Authority may reasonably require prior to a final determination with respect thereto.

“Approval Disclosure Statement” means the closed-end disclosure statement provided to the Applicant at the time the Program Loan is approved as required by the federal Truth-in-Lending Act, or as otherwise required by law.

“Authority” means the Connecticut Higher Education Supplemental Loan Authority, a body politic and corporate of the State of Connecticut, constituting a public instrumentality created by the Act.

“Bonds” means (1) any bonds issued by the Authority the proceeds of which are used to fund Program Loans and (2) any bonds secured by Program Loans.

“Borrower” means an Eligible Borrower who receives a Program Loan.

“Capitalized Interest” means accrued and unpaid interest added to the principal balance of the Loan. The sum is thereafter considered the principal, and interest will accrue on the new principal balance.

“CHESLA Refinance Loan” means a loan made under this program to Borrowers who are seeking to refinance their Eligible Education Debt. The CHESLA Refinance Loan may also be used by parents to refinance Eligible Education Debt.

“Cosigner” means an individual who along with the Borrower is liable for payment of a Program Loan.

“Defaulted Loans” means all Program Loans for which payment is one hundred and twenty (120) days or more past due.

“Disbursement Date” means the date on which the Program Loan is disbursed on behalf of the Borrower to pay Eligible Education Debt.

“Eligible Borrower” means, subject to eligibility and underwriting criteria: (1) with respect to outstanding CHESLA Loans, a current CHESLA loan borrower and any co-borrower and (2) a student loan beneficiary of Eligible Education Debt who is a Connecticut resident and such student’s parent borrowers.

“Eligible Education Debt” means a loan that is in repayment and (A) may be either (1) a CHESLA loan(s) or (2) a loan(s) made by any other private lender or governmental lender to a student loan beneficiary who is a Connecticut resident, and such student’s parent borrowers, to finance attendance at a Program School and (B) for which there is provided by or on behalf of the Borrower to CHESLA evidence to CHESLA’s satisfaction that at the time of origination the amount of the loan(s) did not exceed the difference between the total cost of attendance and other forms of student assistance for which the student beneficiary was then eligible. [By way of example, the school certification obtained in connection with the origination of CHESLA loans and Parent Loans to Undergraduate Students (PLUS) would satisfy the requirement of (B) above.] For purposes of this definition, “private lender” means a bank, credit union or other commercial lender, and does not mean a natural person. The definition of “Eligible Education Debt” may be limited by the Authority in order to assure or maintain the tax-exempt status of any Bonds.

“Final Disclosure Statement” means the closed-end disclosure statement provided to the Borrower before Loan proceeds are disbursed as required by the federal Truth-in-Lending Act, or as otherwise required by law.

“Hardship Forbearance” At the sole discretion of the Authority, the borrower may be eligible for Hardship Forbearance. Any such forbearance period duration will be approved by the Authority and administered by the Servicer. In the event the Borrower is not required to make monthly interest payments during this period, any accrued and unpaid interest will be capitalized and added to the principal balance of the Loan and such interest will become Capitalized Interest. If forbearance is granted, the Loan maturity will not extend beyond the maturity date listed on the Final Disclosure Statement.

“Loan” means the loan described in the Final Disclosure Statements accepted by the Borrower, plus (1) interest on the principal amount(s) thereof, (2) interest on any Capitalized Interest, and (3) any other charges and fees that may become due as provided in the Promissory Note.

“Loan Amount Requested” means the dollar amount of the Program Loan requested at the time of the Application necessary to pay the outstanding balance of the Eligible Education Debt being refinanced.

“Loan Program” means the CHESLA Refinance Loan Program described herein.

“Military Forbearance” is available any time a Borrower is called to active military service. The Borrower may request a Military Forbearance and any such forbearance, including any modification of the terms of the Loan, will be made in accordance with Servicemembers Civil Relief Act, if applicable, or as otherwise required by law. In the event the Borrower is not required to make monthly interest payments during this period, any accrued and unpaid interest will be capitalized and added to the principal balance of the loan and such interest will become Capitalized Interest. If a forbearance is granted, the loan maturity will not extend beyond the maturity date listed on the Final Disclosure Statement.

“Minimum Payment” means the higher of 1) the consecutive equal monthly installments of principal and interest, calculated to be the amount necessary to amortize the unpaid principal balance (including any Capitalized Interest) of the loan over the months remaining in the Repayment Period, or 2) \$50.00.

“Originator” means any qualified entity with whom the Authority contracts for the purpose of providing loan origination and disbursement of Program Loans.

“Program Loan” means a CHESLA Refinance Loan.

“Program School” means any non-profit or governmental degree granting educational institution within the United States of America and its possessions.

“Promissory Note” means the note signed by a Borrower and any Cosigner promising to pay the Authority and evidencing a Loan, in the form prescribed by the Authority from time to time.

“Repayment Period” means the period beginning on the Disbursement Date and continuing for the number of months the Borrower selected in the Application process and shown on the Final Disclosure Statement, up to a maximum of one hundred eighty (180) months.

“Servicer” means the entity with whom the Authority contracts for the purpose of providing loan servicing of Program Loans.

C. OVERVIEW OF THE CHESLA Refi CT LOAN PROGRAM

1. Amount. The minimum Program Loan principal amount is \$5,000. The maximum Program Loan principal amount is \$100,000. An Applicant may not apply for a loan in a principal amount that exceeds the sum of the Eligible Education Debt payoff balance(s) and accrued and unpaid interest of the Eligible Education Debt to be refinanced. The payoff balance will be evidenced in accordance with requirements established by the Authority.

2. Interest Rate. Loans shall bear interest at such rate or rates and in such manner as the Authority shall determine from time to time and as disclosed to the Applicant in the Final Disclosure Statement.
3. Other Charges. Loans shall bear late charges or any other fee, at such rate or rates and in such manner as the Authority shall determine from time to time and as disclosed to the Applicant in the Final Disclosure Statement.
4. Repayment Term and Schedule. The initial monthly payment will be due thirty (30) to forty-five (45) days from the Disbursement Date. Consecutive monthly installments of principal and interest, calculated to be the amount necessary to amortize the unpaid principal balance of the Loan over the months remaining in the Repayment Period will be required. However, the monthly payment shall not be less than fifty dollars (\$50). All Loans must be repaid in full on or prior to their maturity date. Loans may be prepaid in full, or in part, with no prepayment penalty.

The Repayment Period will be determined by the Applicant up to a maximum of one hundred eighty (180) months.

5. Promissory Note. Each Loan will be evidenced by a Promissory Note executed by the Borrower and Cosigner (if any). A Promissory Note will be delivered to the Borrower and any Cosigner for execution upon approval of the Application by the Originator as authorized by the Authority.
6. Nondiscrimination. The Authority shall not discriminate on the basis of the location within the United States and its possessions of the Program School or on the basis of the residency of Eligible Borrowers.
7. Borrowers not to Acquire Bonds. Each Borrower shall agree that neither the Borrower, the cosigner, nor any person who is a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended, has or will acquire any of the Bonds in an amount related to any Loan received by such Borrower.

D. APPLICATION PROCESS

1. Obtaining the Application. The Authority shall make Applications available, on its internet website and in such other manner as the Authority may determine from time to time.
2. Submitting the Application. An Applicant seeking a Loan must submit a completed Application. An Application is complete when the Applicant furnishes all required documentation and information on the Application.
3. Application Notices. The Borrower will be notified of important facts about how refinancing their student loans may affect their rights as it relates to any federal loans included in their Refinance Application, and as to other matters, as required by law.

E. LOAN ORIGINATION

1. Application Processing performed by the Originator. Upon receipt of a completed Application, the Originator shall:
 - a. Check for completeness of the Application, including all necessary attachments. If an Application is incomplete or otherwise rejected, the Originator may return the document or send a form for correction or completion of information contained in the document, to the Applicant or Cosigner, as appropriate, for missing information;
 - b. Verify Applicant income;
 - c. Verify employment status of the Applicant in such manner as the Authority may prescribe from time to time;
 - d. Request and review the credit report of the Applicant and investigate any derogatory information contained therein to the extent deemed necessary;
 - e. Review the credit reports according to the following guidelines: judgments, liens, bankruptcies by or against the Applicant and defaults by the Applicant on installment loans of any type, including other education loans, to the extent deemed necessary in order to make the recommendation required;
 - f. Review to determine that the Applicant and the Program Loan, if made, would meet the requirements of the Program.
 - g. Review to determine that the Applicant is of a legal age to commit to a contract.
 - h. Confirm the Applicant's Eligible Education Debt balances in a manner agreed to by the Authority and the Originator.
2. Debt-to-Income-Determination by Originator.

The Originator shall calculate a debt-to-income ratio based on information provided on the Application. Total monthly debt obligations plus the total monthly housing expense (rent or mortgage payments) may not exceed 43% of the stable gross monthly income. If the debt-to-income ratio is satisfactory, the Originator will complete the credit analysis. If the debt-to-income ratio exceeds the amount permitted in this Section, the Originator will follow the procedures under Section F.1 or F.2.
3. Credit Override. The credit status of a qualified Cosigner may be relied upon to override an Applicant's credit denial in the event the Applicant does not meet the minimum Debt-to-Income Requirement.
4. Credit Analysis. The Originator performs a credit analysis in keeping with normal industry standards and shall consider such factors as it shall mutually agree upon with the Authority from time to time.
5. Credit History. The Originator shall obtain a written credit report prepared by a commercial credit reporting agency with respect to each Application. In addition to the criteria described herein, Applicants must meet minimum FICO scores established by the Authority from time to time.

- a. To be eligible, no Applicant may be currently in default on any Stafford Loan, Parent Loan for Undergraduate Students (PLUS), Perkins Loan, Supplemental Loan for Students (SLS), or any other education loan.
- b. The Originator shall review the credit report to determine:
 - i. That no more than one account is rated ninety (90) or more days delinquent in the past twelve (12) months
 - ii. That no collection or charged off accounts greater than \$500 outstanding exist in the past twelve (12) months
 - iii. That there is no record of a bankruptcy, foreclosure, repossession, open judgment or suit, or other negative public record items in the past five (5) years.

Credit reports that list any of the above conditions may result in a rejection of the Applicant's application.

Errors in the credit report may be corrected upon submission of appropriate documentation by the Applicant.

F. LOAN APPROVAL/DENIAL

1. Limited Review of Applications Exceeding the Debt-to-Income Ratio. On a limited basis, the Originator may submit to the Authority Applications which exceed the debt-to-income ratio or otherwise do not meet the credit criteria, and the Authority, in its sole discretion, may approve the Loan. The Executive Director and the Deputy Director, or either of them, are authorized to approve the making of such Loan, subject to the limitations set forth in any resolution of the Authority.
2. Notice of Adverse Determination. If the Originator determines that the Applicant does not meet the Authority's standards or if the Applicant is rejected for any other reason the Originator shall send an adverse action notice as required by law advising the Applicant of the reasons for rejection.
3. Time Period for Approval/Disapproval. The Originator shall approve or deny a Loan upon receipt of a completed Loan Application, and the Originator shall thereafter process all additional loan documentation. The time period within which such actions shall occur shall be as agreed upon by the Authority and the Originator from time to time and will not exceed any time periods required by law.
4. Loan Disbursement Process. For each approved Loan, the Originator shall :
 Deliver to the approved Applicant, a Promissory Note to be signed by the Borrower and any Cosigner. The Applicant may sign the Application/Promissory Note manually and return the application with all supporting loan documents. The Applicant may also choose to e-sign the Application/Promissory Note and provide all supporting loan documents (via fax, regular mail or secure email via the application portal), to the Originator. Applications will be considered complete when the Applicant submits all necessary documents.

- i. Upon receipt of an executed Promissory Note, notify the Authority of loan approvals. The Originator shall maintain the Application and the evidence of loan origination including a copy of the Promissory Note for safekeeping.
- ii. The Originator will remit the loan payoff amounts on behalf of CHESLA for credit to the Borrower's Eligible Education Debt. The loan servicers of the refinanced Eligible Education Debt will be responsible for processing any overpayments or underpayments according to their operating policies. Any underpayment of the refinanced Eligible Education Debt will result in continued billing by the loan servicer of the refinanced Eligible Education Debt until the loan is paid in full, and the Borrower shall remain liable for all such payments.
- iii. The Originator will provide the Servicer with all loan information necessary to service the Loan.

G. LOAN SERVICING AND REPAYMENT

Loans will be serviced by the Servicer in accordance with the following:

1. Monthly Statements. The Servicer will, with respect to Loans, within a period of forty-five (45) days after the disbursement of funds, commence, and continue monthly throughout the Repayment Period, to deliver statements to the Borrower.
2. Processing of Payments Received. The Servicer, on behalf of Authority, will receive payments on the Loans, and will transfer such payments into an account maintained by the Trustee, on such basis as the Servicer and the Authority shall agree. Such payments shall be deemed held in trust for the Authority and the holders of any Bonds. The Authority and the Trustee shall be responsible for negotiating the terms of said account with respect to fees, interest and transfers therefrom. The Servicer shall prepare a report monthly with respect to payments received, identifying (to the extent ascertainable) the Borrower with respect to each payment and shall deliver such report to the Authority.
3. Application of Loan Payments. Payments of Loans will be applied, to the extent sufficient, in the following order of priority: (a) late fees and other charges, (b) interest and (c) principal.
4. Loan Repayment. Level monthly payments of principal and interest shall be due for a period not exceeding one hundred (180) months, or until the loan is paid in full, and, except for the final payment, shall not be less than fifty dollars (\$50.00) per month.
5. Prepayments. A loan may be prepaid in full or in part at any time.

6. Credit Bureau Reporting. The Servicer shall notify the major credit bureaus of the making and status of each Borrower's and any Cosigner's obligation to the Authority.

H. LOAN COLLECTION PROCESS

1. Servicing of Delinquent Loans. The Servicer must responsibly service Delinquent Loans so as to enable, to the maximum extent possible, payment in full of such Loans on their respective repayment schedules. For accounts which continue to be delinquent, the Servicer must notify the Borrower and any Cosigner of the delinquency. If any payment is one hundred twenty (120) days delinquent, the Servicer will notify the Authority.
2. Delinquency Requirements. The Servicer will send delinquency notices and make contact with the Borrower and any Cosigner in accordance with the Servicing agreement or such other process agreed to by the Authority from time to time.
3. Defaults. The Authority, upon the 120th day of delinquency, will consider the Loan to be in default. The Authority may then begin collection proceedings against the Borrower and any Cosigner.
4. Death of Borrower or Cosigner. If at any time, the Servicer is notified or otherwise becomes aware of the death of a Borrower or a Cosigner it shall notify the Authority immediately.
5. Bankruptcy. If a Borrower or a Cosigner is adjudicated bankrupt and has liability for a Loan discharged, the other obligor(s) shall remain liable for unpaid principal and interest. The Authority and its counsel shall consult with respect to the filing of a claim in any bankruptcy proceeding of a Borrower or Cosigner.
6. Due Diligence. The Servicer will exercise reasonable care and due diligence in the collection of Loans made by the Authority and shall utilize collection practices no less extensive and rigorous than those generally in use by commercial lenders for loans of comparable amounts. The Service shall use such collection practices as set forth in the Servicing Agreement between the Authority and the Servicer from time to time.

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Exhibit D – 2016 – 2018 Strategic Plan

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

STRATEGIC PLAN

FY 2016-2018

Approved by CHESLA Board of Directors March 22, 2016

INTRODUCTION

The CHESLA FY 2016-2018 Strategic Plan is patterned after the plan of its parent entity - the Connecticut Health and Educational Facilities Authority (CHEFA). The CHESLA plan uses the same Strategic Priority Areas as the CHEFA plan, but identifies underlying strategies and initiatives that are specific to CHESLA.

CHESLA will also be adopting CHEFA's set of values that define the "corporate culture". These six values will guide staff and management and will be incorporated into daily activities. This Plan covers the three-year period ending June 30, 2018 in a comprehensive fashion, describing overarching goals and strategies. Each year, management will identify specific initiatives to be achieved during that period and will report to the CHESLA Board on management's performance in relation to the stated initiatives. This will make the plan a flexible blueprint, giving management the ability to accelerate or defer actions as strategically necessary.

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.

(Amended Mission and Vision Approved by CHESLA Board 9/20/2016)

CHESLA VALUES

Excellent Service

Timely, responsive and effective service to the public and to our clients, both external and internal

Respect

Recognition through our attitudes and actions of the value of diversity and the worth and dignity of all, including the public, our clients and one another

Can-Do Attitude

A creative, leading-edge, open-minded approach to meeting the needs of the public and of our clients in a constantly changing environment

Transparency

Openness and accountability with respect to all aspects of the Authority and its operations

Professionalism

A commitment to teamwork, to expertise and to personal behavior that projects a positive image of the Authority

Integrity

Maintenance of an internal culture that reinforces the message that personal integrity and ethical behavior are valued and rewarded by the Authority

STRATEGIC PRIORITY AREAS

Strategic Priority Area 1: *Superior Client Service*

Goal: *Be recognized as a lender that is responsive to our borrowers' needs, providing cost-effective financing options with customer-focused loan origination and servicing.*

Key Strategies and Initiatives

- 1.1** Seek to provide low cost financing for students and borrowers in or from Connecticut
 - A. Continue to monitor CHESLA rates and fees relative to other lenders with comparable products
 - B. Maintain ongoing relationships with schools and financial aid officers to enhance student awareness of CHESLA
 - C. Structure CHESLA bond transactions in ways that over time will support lower loan rates and enhanced access to CHESLA loans, including through the building of trust equity
- 1.2** Provide high quality origination, servicing and collection services that are responsive to CHESLA and its borrowers
 - A. Continually evaluate the performance of CHESLA's loan originator, loan servicer, and other vendors through regular RFP processes to ensure that excellent customer service is being achieved at a competitive price
 - B. Maintain ongoing communication with originator and servicer to ensure that all issues are being addressed
- 1.3** Enhance the CHESLA website to ensure its ease of use and informative content
 - A. Refresh look of website and modify to accommodate the loan refinance product
 - B. Make website compatible with mobile devices
 - C. Link site to other relevant State information and web portals
- 1.4** Make prudent use of social media to inform CHESLA constituents

Strategic Priority Area 2: *Programs and Services that Meet the Demands of a Changing Market*

Goal: *Develop new products that will help make the costs of higher education more manageable for Connecticut borrowers.*

Key Strategies and Initiatives

2.1 Evolve and update existing products

- A. Consider loan structures that can broaden the base of eligible students and/or make payments more manageable (e.g., variable rates, FICO band tiers, extension of in-school principal deferral period)
- B. Enhance CHESLA marketing efforts to make more students and borrowers aware of its products

2.2 Explore development and/or implementation of new programs and technologies

- A. Develop an ongoing loan refinance product
- B. Expand the reach and presence of CHESLA by offering new, non-loan products such as the Scholarship Program or financial literacy programs
- C. Through CHESLA's Student Aid – Financial Literacy Working Group, develop web portal designed to serve as a “one-stop shop” for CT student aid and financial literacy
- D. Refresh CHESLA website and make it mobile device compatible
- E. Use social media to expand reach of CHESLA
- F. Develop quarterly electronic newsletter for distribution to financial aid officers, guidance counselors, legislators and others

Strategic Priority Area 3: *Partner in Public Policy*

Goal: *Be perceived as contributing expertise and added value to the development of public policy affecting the sectors served by CHESLA*

Key Strategies and Initiatives

3.1 Support continued availability of tax-exempt financing under the Internal Revenue Code

- A. Continue active participation in Education Finance Council (EFC)
- B. Maintain ongoing communication with Congressional delegation to encourage their sensitivity to need for, and value of, tax-exempt financing

3.2 Be proactive in providing non-partisan expertise to Governor's Office, CT General Assembly, and CT congressional delegation concerning student loans

- A. Maintain good working relationship with Governor's Office, key legislators, and their staffs
- B. Serve as a resource to Governor's Office and General Assembly when appropriate
- C. Work to raise the profile of CHESLA so that elected officials and their staffs are well informed about Authority activities

3.3 Work collaboratively with other State entities and advocacy groups active in the sectors served by CHESLA

- A. Collaborate with CHET and the Office of Higher Education through creation of the student aid – financial literacy web portal
- B. Collaborate as appropriate with advocacy groups such as the CT Association of Professional Financial Aid Administrators (CAPFAA)
- C. Collaborate, and maintain active channels of communication, with other quasi-public agencies

Strategic Priority Area 4: *Sustainable Organization*

Goal: *Maintain an organization with a sound identity and infrastructure while optimizing human and technological resources*

Key Strategies and Initiatives

4.1 Expand opportunities for continuous personnel development

- A. Encourage and support opportunities for staff to participate in relevant continuing educational opportunities
- B. Encourage staff participation in wellness programs and related opportunities
- C. Enhance teambuilding through regular communications with staff and other activities
- D. Promote continuous process improvement and related business system infrastructure
- E. Provide opportunities for internal advancement when consistent with the needs of the organization
- F. Expand staff to support broader product array

4.2 Continue the process of Board development and oversight

- A. Conduct periodic presentations to the Board on industry issues and developments
- B. Provide orientation for new Board members as warranted

4.3 Increase public awareness of CHESLA's programs by working to raise CHESLA's profile throughout the State

- A. Enhance CHESLA website and use of social media
- B. Increase media presence of CHESLA

Strategic Priority Area 4: *Sustainable Organization*

Goal: *Maintain an organization with a sound identity and infrastructure while optimizing human and technological resources*

Key Strategies and Initiatives *(continued)*

4.4 Ensure effective management processes that promote a sustainable environment

- A. Institutionalize communication to staff through regular staff meetings, updates and activities
- B. Determine cross-training opportunities where appropriate for continuity and staff development
- C. Establish annual operational objectives, program needs and resources
- D. Implement continuous business continuity planning
- E. Continually assess and update succession plan
- F. Evaluate how to best monitor areas of risk, given the departure of the internal auditor
- G. Use CHEFA infrastructure as a resource; pattern policies and procedures after those of CHEFA

Strategic Priority Area 5: *Ethical Culture*

Goal: *Maintain a culture that values teamwork and ethical behavior and recognizes CHESLA's responsibility to steward its assets for the benefit of its clients and the community*

Key Strategies and Initiatives

- 5.1** Ensure that management communicates, and staff and Board have a working knowledge of Authority and State Ethics Policies
 - A. Provide annual ethics policy training for staff and Board
- 5.2** Promote adherence to the organizational identity (mission, vision, values, etc.)
 - A. Establish recognition initiatives to inspire staff to be the best they can be
 - B. Involve staff and Board in the development and evolution of values, etc. that shape workplace culture
 - C. Inclusion of compliance with ethics policy and CHESLA values in annual performance appraisal
 - D. Express CHESLA culture through community service and good citizenship
- 5.3** Achieve audited financial results that reflect high ethical standards

CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Exhibit E – FY 2017 Operating Budget

CHESLA Budget
Budget for the Twelve Months Ending June 30, 2017

	FYE June 30, 2014 Actual	FYE June 30, 2015 Budget	FYE June 30, 2015 Actual	FYE June 30, 2016 Budget	FYE June 30, 2016 Proj Actual *	FYE June 30, 2017 Budget
Revenues						
Admin Fee Income						
In-school product	\$ 699,022	\$ 644,283	\$ 641,626	\$ 758,163	\$ 758,360	\$ 697,840
Refinance product	0	0	0	0	0	19,606
Investment Income	3,133	3,600	3,254	2,800	7,324	8,428
Refinance Pilot Program from CSLF	0	0	0	0	500,000	0
Misc Income & Recovery	1,440	0	1,263	0	0	0
Total Revenues	\$ 703,595	\$ 647,883	\$ 646,144	\$ 760,963	\$ 1,265,684	\$ 725,874
Expenses						
Compensation	\$ 144,224	\$ 151,435	\$ 146,762	\$ 159,007	\$ 81,513	\$ 166,860
Employee Benefits	52,668	49,757	45,283	48,994	36,849	50,445
General and Administrative	73,683	87,886	81,656	92,190	88,574	93,842
Refinance Pilot Program Start-up Costs	0	0	0	0	170,625	0
Business Education, Board and Reimbursable	6,710	13,250	6,853	11,750	4,558	9,900
Membership Dues	11,644	14,500	11,879	12,500	12,980	12,800
CHEFA Support Services	142,874	149,587	149,587	154,955	154,955	180,557
Outside Services	34,624	36,038	35,038	38,800	37,350	35,150
Total Expenses	\$ 466,426	\$ 502,453	\$ 477,058	\$ 518,195	\$ 587,404	\$ 549,554
Excess Revenue from Operations	\$ 237,169	\$ 145,430	\$ 169,086	\$ 242,768	\$ 678,279	\$ 176,320
Bond Issuance Costs & Amortization & Transfer to Trust	325,627	22,227	22,227	29,795	29,795	10,627
Total Excess Revenue	\$ (88,458)	\$ 123,203	\$ 146,858	\$ 212,973	\$ 648,485	\$ 165,693
Benefit % to Compensation	36.52%	32.86%	30.85%	30.81%	45.21%	30.23%

* Projected Actual is based on Actual Financials as of March 31, 2016, plus 3 months of projected amounts.

CHESLA Salary & Benefits Expense
Budget for the Twelve Months Ending June 30, 2017

	FYE June 30, 2013 Actual	FYE June 30, 2014 Budget	FYE June 30, 2014 Actual	FYE June 30, 2015 Budget	FYE June 30, 2015 Actual	FYE June 30, 2016 Budget	FYE June 30, 2016 Proj Actual	FYE June 30, 2017 Budget
Staff Compensation	\$ 139,558	\$ 145,140	\$ 144,224	\$ 151,435	\$ 146,762	\$ 159,007	\$ 81,513	\$ 166,860
Total Compensation	\$ 139,558	\$ 145,140	\$ 144,224	\$ 151,435	\$ 146,762	\$ 159,007	\$ 81,513	\$ 166,860
Payroll Taxes	\$ 10,689	\$ 11,061	\$ 10,995	\$ 11,677	\$ 11,349	\$ 12,258	\$ 7,378	\$ 12,903
Medical & Life Insurance								
CBIA Medical w/CBIA Life	6,781	9,334	7,885	3,796	3,419	3,732	3,459	3,658
Deductible Funding HSA (CHEFA)	1,875	3,750	5,625	2,812	2,813	1,875	1,968	2,063
Less: CBIA Co-insurance	(2,005)	(2,321)	(1,960)	(562)	(505)	(552)	(511)	(541)
Net Medical Insurance	6,651	10,763	11,550	6,046	5,726	5,055	4,916	5,180
CHEFA Alternative Insurance	2,800	2,800	3,033	2,800	2,800	2,800	1,050	2,800
Life Insurance	717	769	815	953	697	658	217	685
Dental	2,218	2,335	2,767	2,907	2,490	2,273	2,272	2,335
Total Medical, Life Insurance & Other	12,386	16,667	18,166	12,706	11,713	10,786	8,455	11,000
Pension								
Contributions	13,387	14,514	14,384	15,144	15,045	15,901	7,671	16,436
Administrative Fee	0	574	574	594	594	594	594	594
Total Pension	13,387	15,088	14,958	15,738	15,639	16,495	8,265	17,030
457 Plan	2,515	2,551	2,508	3,000	2,508	2,508	1,878	2,508
Vacation	5,125	0	0	0	0	0	5,241	0
Disability Insurance - Long Term	549	597	625	621	507	453	207	468
Disability Insurance - Short Term	570	620	649	647	632	679	302	683
Workers Compensation	351	600	748	368	836	815	823	853
Tuition	4,020	5,000	4,020	5,000	2,100	5,000	4,300	5,000
Total Employee Benefits	49,592	52,184	52,668	49,757	45,283	48,994	36,849	50,445
Total Employment	\$ 189,150	\$ 197,324	\$ 207,887	\$ 201,192	\$ 192,046	\$ 208,001	\$ 118,362	\$ 217,305

CHESLA Non Salary Expense
Budget for the Twelve Months Ending June 30, 2017

	FYE June 30, 2014 Budget	FYE June 30, 2014 Actual	FYE June 30, 2015 Budget	FYE June 30, 2015 Actual	FYE June 30, 2016 Budget	FYE June 30, 2016 Actual	FYE June 30, 2017 Budget
Lease & Storage							
Lease - Office Space	\$ 12,048	\$ 12,048	\$ 12,362	\$ 12,388	\$ 12,668	\$ 12,693	\$ 12,972
Lease - Taxes/CAM fees	0	29	196	369	1,437	903	228
Offsite Storage & Filesanywhere (electronic storage)	400	433	114	100	114	100	114
Total Lease & Storage	12,448	12,509	12,672	12,856	14,219	13,696	13,314
Business Insurance							
Office Package	642	608	653	587	677	531	584
Cyber Policy	10,000	4,563	6,567	5,909	5,609	4,973	5,031
Fiduciary & Performance Bond & Terrorism	150	48	303	277	445	277	284
Directors and Officers Liability / Public Officials	33,540	18,723	16,753	13,648	14,591	14,522	15,119
Total Business Insurance	44,332	23,943	24,276	20,420	21,323	20,302	21,018
Office Supplies and Non Capital Equipment							
General Office Expense and Supplies	1,200	1,350	1,300	795	1,300	798	1,000
Non-Capital furniture, Equipment & Software Licensing	500	654	1,000	316	3,060	2,019	3,000
Total Office Supplies and Non Capital Equip	1,700	2,004	2,300	1,111	4,360	2,817	4,000
Communications: Telephone & Internet							
Phone, Data Svc & Conferencing	2,616	2,650	2,600	2,323	2,600	2,935	3,000
Email (McAfee)						0	142
Website Development & Hosting	452	268	500	862	500	508	500
Total Communications: Phone & Internet	3,068	2,917	3,100	3,185	3,100	3,443	3,500
Postage Expense							
Postage & Courier Expense	2,750	2,568	2,761	3,334	3,000	1,814	2,500
Maintenance Contracts	5,534	5,635	5,277	5,056	6,288	5,846	7,210
Publications & Resource Materials	500	144	500	164	300	223	300
Marketing Costs	35,000	22,330	34,000	33,974	37,500	38,601	40,000
Miscellaneous	3,966	1,633	3,000	1,555	2,100	1,833	2,000
Total General and Administrative Expenses	\$ 109,298	\$ 73,683	\$ 87,886	\$ 81,656	\$ 92,190	\$ 88,574	\$ 93,842
Refinance Pilot Program Start-up Costs	\$ -	\$ -	0	0	0	170,625	0
Bond Insurance Cost - Amortization	25,627	25,627	22,227	22,227	29,795	29,795	10,627
Bond Issuance Costs	0	300,000	0	0	0	0	0
Total Bond Issuance Cost	\$ 25,627	\$ 325,627	\$ 22,227	\$ 22,227	\$ 29,795	\$ 29,795	\$ 10,627

CHESLA Non Salary Expense
Budget for the Twelve Months Ending June 30, 2017

	FYE June 30, 2014 Budget	FYE June 30, 2014 Actual	FYE June 30, 2015 Budget	FYE June 30, 2015 Actual	FYE June 30, 2016 Budget	FYE June 30, 2016 Proj Actual	FYE June 30, 2017 Budget
Depreciation	\$ 0		\$ 0		\$ 0	0	\$ 0
Employee Reimbursable							
Staff business and travel expenses	750	268	750	200	500	208	500
Total Employee Reimbursable	750	268	750	200	500	208	500
Board Expense							
Board lunches	1,500	830	1,500	612	1,000	426	500
Board education	1,000	-	1,000	0	0	0	0
Total Board Expense	2,500	830	2,500	612	1,000	426	500
Conference & Education Expense							
CAPFAA	1,000	1,606	1,500	1,316	1,500	1,044	1,400
EFC	4,000	1,859	3,000	2,003	2,750	895	2,500
EASFAA	1,000	0	1,000	0	0	0	0
NASFAA	2,500	2,049	3,500	2,723	5,000	1,945	4,500
Other (Conferences and non tuition education)	1,000	99	1,000	0	1,000	40	500
Total Conference & Education Expense	9,500	5,612	10,000	6,041	10,250	3,924	8,900
Education - Board	-	0	0	0	0	0	0
Total Business Education, Board and Reimbursable	\$ 12,750	\$ 6,710	\$ 13,250	\$ 6,853	\$ 11,750	\$ 4,558	\$ 9,900
Memberships Dues	\$ 14,500	\$ 11,644	\$ 14,500	\$ 11,879	\$ 12,500	\$ 12,980	\$ 12,800
CHEFA Support Services	\$ 142,874	\$ 142,874	\$ 149,587	\$ 149,587	\$ 154,955	154,955	\$ 180,557

CHESLA Non Salary Expense
Budget for the Twelve Months Ending June 30, 2017

	FYE June 30, 2014 Budget	FYE June 30, 2014 Actual	FYE June 30, 2015 Budget	FYE June 30, 2015 Actual	FYE June 30, 2016 Budget	FYE June 30, 2016 Proj Actual	FYE June 30, 2017 Budget
Accounting Systems							
Enhancements (IT)	1,000	374	1,000	0	1,000	-	500
Total Accounting and IT Systems	1,000	374	1,000	0	1,000	0	500
Consultant Others							
Beers Hamerman & Co.	0	0	0	0	0	0	0
CCIC	0	0	0	0	0	0	0
Insurance Consultant	8,000	8,000	8,000	8,000	6,300	6,300	6,300
Total Consultant Others	8,000	8,000	8,000	8,000	6,300	6,300	6,300
Legal	0	0	0	0	0	0	0
Independent Auditors	27,000	26,250	27,038	27,038	31,500	31,050	28,350
Total Outside Services	\$ 36,000	\$ 34,624	\$ 36,038	\$ 35,038	\$ 38,800	\$ 37,350	\$ 35,150

