CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Board Meeting
March 5, 2013

The State of Connecticut Higher Education Supplemental Loan Authority met at 11:30 a.m. on Tuesday, March 5, 2013.

The meeting was called to order at 11:32 a.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Those present and absent were as follows:

Present:	Barbara Rubin, Chair Jeffrey A. Asher Richard Bishop *(Rep. for Board of Regents for Higher Education)* Martin L. Budd Steven Kitowicz[1] *(Rep. for Secretary Benjamin B. Barnes)* Peter W. Lisi[2] Sarah K. Sanders *(Rep. for Honorable Denise L. Nappier)* Julie B. Savino[3]
Absent:	Paul Mutone
Also Present:	Jeanette Weldon, Executive Director Paula L. Herman, General Counsel, CHEFA Joshua Hurlock, Portfolio and Marketing Assistant Carlee Levin, Accountant, CHEFA JoAnne N. Mackewicz, Controller, CHEFA Debra M. Pinney, Manager of Administrative Services, CHEFA Samuel E. Rush, Deputy Director Jennifer Smyth, Legal Specialist, CHEFA

[1] Mr. Kitowitcz joined the meeting at 11:34 a.m.
[2] Mr. Lisi joined the meeting at 11:38 a.m.
[3] Ms. Savino joined the meeting at 11:51 .a.m.

Guests:	Judith Blank, Esq., Day Pitney Lee Donner, Managing Director, FirstSouthwest[4] Elizabeth Hammer, Vice President, U. S. Bank Jeffrey Wagner, RBC Capital Markets[5] Tim Webb, Vice President, FirstSouthwest[6]

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the November 13, 2012 Board of Directors meeting. Ms. Sanders moved for approval of the minutes, which was seconded by Mr. Asher.

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

AYES	**NAYS**	**ABSTENTIONS**
Barbara Rubin	None	Richard Bishop[7]
Jeffrey A. Asher		
Martin L. Budd		
Sarah K. Sanders		

Ms. Weldon introduced the financial advisors and investment banker on the telephone: Tim Webb and Lee Donner from FirstSouthwest and Jeffrey Wagner from RBC Capital Markets, senior manager on the transaction.

2013 SERIES A BONDS

Ms. Weldon presented a proposal including proposed Authorizing Resolution #2013-01 for a $25 million fixed-rate new money bond financing, 2013 Series A. The tentative sale date is March 19, 2013. Ms. Weldon is expecting a serial structure, although there could be a term bond included at the end. The final maturity is tentatively 2029. A draft POS was included in the board packet for information purposes.

Ms. Weldon pointed out that in the handouts for today's meeting is a memo to Ms. Weldon from Mr. Webb with two attachments. At this time, Ms. Weldon turned the floor over to Mr. Donner.

Mr. Donner provided some background as to how FirstSouthwest arrived at the general structure and methodology for the bond financing. The original intent was to try to start a new master trust resolution and the idea was to try to get MBIA's consent to refund the 2003 Series A & B bonds out of that trust and bring over some released assets. FirstSouthwest could not obtain the consents needed from MBIA, so the decision was made to issue bonds under the 1990 master resolution.

[4] Mr. Donner attended the meeting via telephone.
[5] Mr. Wagner attended the meeting via telephone.
[6] Mr. Webb attended the meeting via telephone.
[7] Mr. Bishop abstained from voting because he did not attend the November 13 meeting.

Mr. Lisi joined the meeting at this time.

Mr. Donner stated that RBC has run multiple cash flows on the issue, which were reviewed by FirstSouthwest and CHESLA staff. He stated that the memo that Mr. Webb sent Ms. Weldon details some of the basic critical components about the transaction. Mr. Donner explained that the two critical factors are the loan rate with respect to the associated student loans and the issuer contribution. He further discussed the impact of the issuer equity contribution and the loan rate on the 1990 trust's ending fund balance, based on the assumptions as displayed in the memo.

In one scenario, there is an assumption of a $500,000 equity infusion into the transaction and a 6.25% loan rate for borrowers. Given the trust's beginning fund balance of $4 million, this scenario results in an ending fund balance of $7 million by 2029, final maturity of the 2013 Series A bonds. For student loan transactions, the $3 million future value increase in net worth would be considered relatively modest. Mr. Donner added that anything below that would represent a fairly significant threat because the Authority could, in adverse circumstances, all of which cannot be anticipated at this time, end up drawing on the SCRF. He stated that FirstSouthwest present valued that residual ending funding balance of $7 million at two different rates, one at 5% and one at 3%. He explained that at a 5% rate, it represents a slight decline from where the Authority started at $3.5 million. At a 3% rate, the result is a slight over the opening fund balance. This scenario contrasts with one assuming no authority contribution and a loan rate of 5.95%. The trust's ending fund balance would be $5.5 million, representing a present value of only $2.7 million or $3.4 million, depending on the discount rate.

Mr. Donner pointed out that by way of comparison, if you look back at the Authority's 2010 Series A transaction, the starting point for the Authority's cash flows were $4.7 million. A modest $1.9 million growth was projected. However, due to unexpected delays in loan origination, the trust's fund balance in 2013 is only $4 million, a decline in net assets. At this time, Mr. Donner asked if there were any questions.

Ms. Savino joined the meeting at this time.

Ms. Rubin inquired about the equity contribution concept. She stated that the contribution seems more like a donation instead of an investment and asked if there was some way to capture it at the back end. Mr. Donner explained that that is exactly what would occur. Once the last bond is paid, the payments coming in on the remaining portfolio that the Authority has at that point, all are going directly to the Authority.

Further discussion ensued.

Ms. Rubin inquired as to where the issuer-contribution funds come from as listed on the balance sheet. Ms. Weldon stated that it comes out of the Authority's operating account. There is a cash and investment line in the operating account and also a board designated line. Ms. Weldon added that it could come out of either line; she suggested it be taken out of the board designated line. There was general discussion of the amount of the equity contribution and the impact on the loan rate.

Mr. Budd moved to un-designate $600,000 from board designated investments and transfer it to the general operating investments. Mr. Kitowicz seconded his motion; all were in favor.

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

AYES	**NAYS**	**ABSTENTIONS**
Barbara Rubin Jeffrey A. Asher Richard Bishop Martin L. Budd Steven Kitowicz Peter Lisi Sarah K. Sanders Julie B. Savino	None	None

Mr. Budd moved to modify the proposed Authorizing Resolution #2013-01 to permit up to $700,000 from operating investments to be contributed to the bond transaction, with the target of achieving a loan rate of 6.10% or 6.20%, if reasonable possible, rather than the 6.25% assumed in the cash flows. Ms. Savino seconded the motion. Ms. Rubin introduced Resolution #2013-01, modified as proposed by Mr. Budd. All were in favor.

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

AYES	**NAYS**	**ABSTENTIONS**
Barbara Rubin Jeffrey A. Asher Richard Bishop Martin L. Budd Steven Kitowicz Peter Lisi Sarah K. Sanders Julie B. Savino	None	None

STRATEGIC BUSINESS PLAN

Ms. Weldon pointed out that included in the board packet was an updated draft Strategic Business Plan based on the comments made at the last board meeting.

Mr. Donner and Mr. Wagner left the meeting at this time.

Ms. Weldon inquired if anyone had any questions. Ms. Sanders asked if the wording could be rephrased in the Vision section where it reads "…to enhance the competitiveness of Connecticut institutions of higher education by providing an additional financial aid option…". The board members agreed to change the wording to read as follows: "…to enhance the competitiveness of Connecticut institutions of higher education by ***providing additional financing options***…"

Ms. Rubin requested a motion to approve the amended Strategic Business Plan. Mr. Budd moved to approve the amended strategic business plan and Mr. Kitowicz seconded the motion. All were in favor.

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

AYES	**NAYS**	**ABSTENTIONS**
Barbara Rubin	None	None
Jeffrey A. Asher		
Richard Bishop		
Martin L. Budd		
Steven Kitowicz		
Peter Lisi		
Sarah K. Sanders		
Julie B. Savino		

CONSULTANT/VENDOR COMMITTEE REPORT

Ms. Weldon stated that the Consultant/Vendor Committee consists of Ms. Sanders, Ms. Savino Mr. Kitowicz and Ms. Rubin. Ms. Weldon included in the board packet the draft minutes of the December 5, 2012 committee meeting for information purposes.

Mr. Kitowicz explained that the Committee interviewed three firms on December 5, 2012: Bank of America Merrill Lynch, RBC Capital Markets and Roosevelt & Cross.

The Committee agreed that all firms qualified and it was decided to identify a pool of eligible firms to be assigned as needed to specific transactions. The eligible firms to serve as Senior Manager are: Bank of America Merrill Lynch and RBC Capital Markets. Roosevelt & Cross will serve as eligible Co-Manager and Fidelity Capital Markets will serve as eligible Selling Group Member.

The Board of Directors accepted Mr. Kitowitcz’s report.

QUARTERLY FINANCIAL REPORT

Ms. Weldon stated that in the board packet was the quarterly financial report for the operating account for the quarter ending December 31, 2012. Included in the handouts today is the quarterly report on the trustee-held bond funds, with trust information provided by Beers Hamerman. This is the first quarterly report on the operating account which was done in-house. At this time Ms. Weldon turned the floor over to Ms. Levin.

Ms. Levin provided a brief overview of the activities over the past few months to get CHESLA’s information into CHEFA’s accounting system. Ms. Levin and Ms. Mackewicz met several times with Beers Hamerman and communicated regularly with them to obtain the information needed. Beers was extremely cooperative during this process and responded to all questions and provided assistance. Ms. Levin reported that Staff now has the agency’s operating financials in the accounting system and Staff is comfortable with the figures. Ms. Levin added that Staff is currently breaking out the bond funds into individual trial balances. Staff expects to have that information in the accounting system within the next two weeks. Staff should be able to provide quarterly reports from the accounting system for both the operating account and the trust accounts beginning with the 3/31/13 quarter.

Ms. Levin reported that on the operating account financial statements for the six months ending December 31, 2012, expenses were over revenues by $6,712. Total revenues, year-to-date, were over budget by $23,437. Year-to-date expenses were over budget by $72,849, primarily due to the amortization of bond issuance costs that were not included as a budgeted item.

Further discussion ensued.

STRATEGIC PLAN DASHBOARD

Mr. Hurlock provided an overview of the graphs identified in his dashboard report. He also included updates on the pending special redemptions.

Mr. Hurlock explained the Firstmark performance charts included in his report.

CHESLA PORTFOLIO FACT SHEET AND LOAN DISBURSEMENT DATA

Mr. Rush reviewed the portfolio fact sheet and loan disbursement data. He pointed out the net default rate for the second quarter is 2.28%. Based on Staff's discussion with the Authority's financial advisors, he stated that it is a very low default rate in comparison to the industry. The first quarter net default rate was also 2.28% for in-house collections and Collection Company of America.

Mr. Rush pointed out that from December 1997 to December 1, 2012, the Authority has recovered $14.2 million in defaulted loans through Collection Company of America. Through income tax refund intercepts from the State of Connecticut, the Authority has recovered approximately $325,000.

Mr. Rush added that the Authority is on track in providing approximately $19 million to $20 million in loan disbursements for this fiscal year.

Further discussion ensued.

Mr. Rush reported that since the last board meeting on November 15, 2012, the Trustee made the normal principal and interest payments on the bonds. Mr. Rush stated that the 2003 resolution bond trust had approximately $3.6 million in excess revenue, so the Authority redeemed $3.6 million in bonds. The 1990 resolution had $1.8 million in excess revenue; therefore, on November 15th, the Authority redeemed $1.8 million in bonds. Mr. Rush stated that for the 2010 Series A bonds, Staff has projected to redeem $2.1 million, from remaining bond proceeds in the loan fund as of December 31, 2012.

Mr. Rush explained the process used with Firstmark to ensure that all 2010 Series A loan disbursements were made by 12/31/12, as required by the bond documents. Mr. Rush added that there was excess revenue in the 2009 Series A of $1.2 million which was recycled. Once that money was utilized, Staff determined the Authority had remaining trust account balances after final payment of the Series 2000A and 1990B bonds totaling $486,000. This amount was also recycled. All recycled funds were loaned at a 5.95% rate.

Further discussion ensued.

EXECUTIVE DIRECTOR’S REPORT

Ms. Weldon reported that the Authority was notified of a downgrade of two GIC’s that the Authority has in which the SCRF dollars are invested for 2006A and 2007A. The GIC provider has agreed to collateralize.
Ms. Weldon stated that the IRS examination is still in process and there was a request for some additional detailed information. That information is being gathered and is due on March 11, 2013. Further discussion ensued.

Mr. Budd inquired about the VCAP program in which the Authority decided not to participate. Ms. Blank stated that VCAP stands for Voluntary Closing Agreement Program. Ms. Blank explained that the Authority has always used direct tracking of the loans to ensure each loan stays with its related series of bonds so there was no reason for the Authority to participate in the VCAP program.

Ms. Weldon stated that the State Audit Report has been issued in final form and asked the Board to contact her if they would like to receive a final copy.

Ms. Weldon mentioned that last month she provided a presentation to the Governor’s policy director about the creation of a STEM (Science, Technology, Engineering and Math) loan program, as a way of augmenting the Governor’s proposal for a STEM initiative with the University of Connecticut. Staff proposed a loan program that would be open to all students going into those fields and attending any university in the State. Staff suggested that the program perhaps could be structured with some additional borrower benefits that might not be available with CHESLA’s regular loan program. Ms. Weldon added that the response from the Governor’s policy director was that they were intrigued with the idea and they would like to consider it but may want to wait until after the end of FY2015.

ADJOURNMENT

There being no further business, at 1:04 p.m., Mr. Kitowicz moved to adjourn and Mr. Lisi seconded his motion.

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

AYES	NAYS	ABSTENTIONS
Barbara Rubin Jeffrey A. Asher Richard Bishop Martin L. Budd Steven Kitowicz Peter Lisi Sarah K. Sanders Julie B. Savino	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director