CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

June 12, 2018

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Tuesday, June 12, 2018 at 12:00 p.m., at the office of the Connecticut Health and Educational Facilities Authority, 10 Columbus Boulevard, Hartford, Connecticut 06106.

Members Present:
Dr. Peter Lisi, Chair of the Board
Julie Savino, Vice-Chair of the Board
Steven Kitowicz (designee of the Honorable Benjamin Barnes)
Erika Steiner (designee of the Honorable Mark Ojakian)
Sheree Mailhot (designee of the Honorable Denise Nappier)
Paul Mounds
Jeanette Weldon, Executive Director

Members Absent:
Martin Budd

Other Attendees:
Lisa Cohen, Vice President, Goal Structured Solutions, Inc.*
Ian Meade, Senior Financial Reporting Manager, Goal Structured Solutions, Inc.*
Tim Webb, Vice President, Hilltop Securities*
Denise Aguilera, General Counsel, CHEFA
JoAnne Mackewicz, Controller, CHEFA
Joshua Hurlock, Assistant Director, CHESLA
Natalia Rozio, Intern, CHESLA
Carlee Levin, Senior Accountant, CHEFA

* Participated in the meeting via conference telephone that permitted all parties to hear each other

I. Call to Order

Dr. Lisi called the meeting to order at 1:15 p.m.

II. Approval of Minutes

A motion was made by Mr. Kitowicz and seconded by Ms. Savino that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the March 1, 2018 meeting.

The motion was passed unanimously.

III. Executive Directors Report

Ms. Weldon provided an update on the transition of Portfolio Administrator from Education Solution Partners, LLC to Goal Structured Solutions, Inc. In conjunction with this transition, the accounting functions were transitioned to CHEFA. Ms. Weldon noted that the transition has been successful and all processes and procedures are going well. Ms. Weldon also stated that

Education Solutions Partners, LLC is still performing deliverables for the Not for Profit loan servicing program.

IV. **Financial Report – March 31, 2018**

Ms. Mackewicz reviewed the financial status of CSLF as of March 31, 2018. She presented the Net Change in Position and, Balance Sheet on a consolidated basis, a comparison of the Funds Management ratios to the policy guidelines, the Balance Sheet by fund and information on the current bonds outstanding.

Ms. Mackewicz indicated the Net Change in Position for CSLF was a positive $1.3M for the nine-month period; this was $145k less than budget and $1.1M less than budget after Extraordinary items, driven by higher interest on the Bonds due to the timing of bond redemptions. The CHESLA initiatives exceeded the budget by $1.0M. At the March 1, 2018 meeting, the Board authorized $2.0M for the CHESLA Loan Refinancing Pilot Program, which was transferred to CHESLA on March 23, 2018. Additionally, the Board authorized $2.0M for the CHESLA Scholarship Program, which was posted to the general ledger in March 2018 and is scheduled to be transferred to CHESLA in June 2018.

On the Consolidated Balance Sheet, Ms. Mackewicz indicated Trust Cash and Equivalents is slightly better than the plan at $6.8M versus $6.7M. Loan principal and interest receivable, combined, are $2.3M greater than budget, as compared to $1.8M the previous quarter; the variance can be attributed to student loans not paying down as fast as projected and the level of repurchases processed during the time period.

Ms. Mackewicz noted that the Trust Parity Ratio as of March 31, 2018 stood at 111.55% and the Senior Parity Ratio was 150.60%. Assets within the Trust exceed the Funds Management Policy by $15.7M.

Ms. Cohen reviewed the bond activity for the quarter ended March 31, 2018 and indicated that $4.5M of bonds had been redeemed during the quarter; $1.6M was used to fully retire Senior Bond 2004 A-3 and $2.9M to pay down subordinate bonds from the 2004B tranche.

Ms. Cohen also noted that the Weighted Average Coupon (WAC) increased slightly from 6.08% to 6.11%, noting approximately 90% of the portfolio are fixed rate federal loans so increasing interest rates only has a slight impact. The Weighted Average Remaining Maturity (WARM) of the portfolio also increased slightly from 139.33 to 140.43, noting that consolidation loans, which have longer maturities, continue to represent over 60% of the portfolio.

V. **Loan Loss Reserve Analysis**

Ms. Cohen reviewed the Loan Loss Reserve Analysis that was conducted in May 2018. The methodology for loan loss was unchanged from prior years. The analysis assumes that all delinquent accounts (federal and private) would eventually default for non-payment. It further assumed that historical delinquency rates would also apply to loans that were not yet in repayment and that those delinquencies would also default. Finally, historical claims payment rates (federal loans) and recovery rates (private loans) were applied to determine future loan loss needs.

Ms. Cohen noted that both the Federal and the Private loan portfolios have performed better during the current fiscal year than expected in the analysis conducted last year. For Federal loans the projected net losses over the remaining life of the portfolio are $509k, approximately $58k above the current federal loan loss allowance. For Private Loans the projected future net losses are $385k, approximately $28k above the current private loan loss allowance.

Mr. Kitowicz made the following motion, which was seconded by Mr. Mounds:

> The Board of the Connecticut Student Loan Foundation, after reviewing the performance of its Federal and Private loan portfolios, believes it is prudent to provide for future losses on such loans and authorizes that the Federal Loan Loss Reserve shall be increased by $58k and the Private Loan Loss Reserve shall be increased by $28k.

The motion was passed unanimously.

VI. <u>2018-2019 Fiscal Year Budget</u>

Ms. Cohen reviewed the proposed budget for the 2018-2019 fiscal year. The proposed budget was created assuming status quo for the general operations of CSLF, while including the funding for the CHESLA Scholarships at $2.0M.

The proposed budget provides for continued pay down of the education loan portfolio, although at a somewhat slower rate. CSLF has experienced fewer claim payments as the portfolio ages. In addition, the 10-year Stafford loan portion of the loan portfolio continues to decline faster than the Consolidation loan portion which have 20-30 year terms. During the 2018-2019 fiscal year it is projected that $32.4M of loan principal will pay down. The proposed budget provides for the continued redemption of the outstanding bonds. During the 2018-2019 fiscal year it is projected that $33.6M of bonds will be redeemed while funding the CHESLA scholarship. Essentially, in the proposed budget, cash received from the pay down of the loan portfolio will be used to redeem bonds, while the net earnings ($1.7M) plus $300K of unrestricted assets will be used to fund $2.0M of the CHESLA Scholarships.

The budget assumes that all interest rates (loans, bonds, and earnings on deposits) are unchanged from their current levels. There is a compression of net interest income caused by the use of a static rate forecast in which there is no change in current interest rates. For CSLF, the interest on the student loans essentially varies on a weekly basis as the interest subsidies from the U.S. Department of Education are tied to the auctions of Treasury Bills. While the interest in the CSLF bonds are tied to a trailing 12-month average of interest rates. When it is assumed that rates do not change after a 12-month increase, the rate on the bonds will continue to rise while that of the underlying loans will remain flat.

Nearly all of the other items decline either due to the reduced loan portfolio or the reduced bonds outstanding. The proposed budget calls for $8.7M of income, down from the prior twelve months by $1.5M. Operating expenses are projected at $7.0M; a decline of $1.9M from the prior twelve months. The net change in position is budgeted at $1.7M before extraordinary items. The budgeted extraordinary items are the CHESLA Scholarships at an expense of $2.0M. This results in budgeted net loss of $300k.

Ms. Savino made the following motion, which was seconded by Mr. Mounds:

> The Board of Directors of the Connecticut Student Loan Foundation approves the 2018-2019 Budget as presented.

The motion was passed unanimously.

VII. <u>Adjournment</u>

Dr. Lisi made a motion, which was seconded by Ms. Steiner, to adjourn the meeting.

The motion passed unanimously and the meeting was adjourned at 1:45 p.m.

Respectfully Submitted by:

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Jeanette Weldon, Executive Director