



# CONNECTICUT STUDENT LOAN FOUNDATION

## **MINUTES OF THE BOARD OF DIRECTORS**

**January 23, 2013**

**A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Wednesday, January 23, 2013 at 2:00 p.m., at the office of the Connecticut Board of Regents for Higher Education, 39 Woodland Street, Hartford, Connecticut 06105.**

### **Members Present in Person:**

Sarah K. Sanders (designee of the State Treasurer of Connecticut) Vice-Chairman of the Board, and James R. Howarth (designee of the President of the Connecticut Board of Regents for Higher Education)

### **Member Present via Conference Call:**

Craig S. Lappen (designee of the Chairman of the Connecticut Board of Regents for Higher Education)

### **Other Attendees:**

Patricia E. McGowan – CohnReznick LLP

Erica Tirado – CohnReznick LLP

Dennis C. Murphy – Connecticut Board of Regents for Higher Education

Nancy A. D. Hancock, Esquire – Pullman & Comley, LLC

Darlene H. Dimitrijevs – Education Solution Partners, LLC

Randall M. Behm – Education Solution Partners, LLC

### **I. Call to Order:**

Ms. Sanders called the meeting to order at 1:34 p.m.

### **II. New Board Member Introduction:**

Ms. Sanders introduced Mr. Craig Lappen and Mr. James Howarth to the others present and welcomed them to the Board. She presented a letter from Mr. Lewis Robinson, Chairman of the Connecticut Board of Regents for Higher Education, designating Mr. Lappen as his representative on the Board until further notice. She presented a letter from Mr. Philip Austin, Interim President of the Connecticut Board of Regents for Higher Education, designating Mr. Howarth as his representative on the Board until further notice.

**III. Election of Officers:**

A motion was made by Mr. Howarth and seconded by Mr. Lappen to elect the following individuals to the indicated Officer positions on the Board of Directors of the Connecticut Student Loan Foundation:

Chairman	Sarah K. Sanders
Vice-Chairman	James R. Howarth
Secretary	Craig S. Lappen
Assistant Secretary	Sarah K. Sanders

The motion passed unanimously.

**IV. Approval of Minutes:**

A motion was made by Ms. Sanders and seconded by Mr. Lappen that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of October 24, 2012 as presented.

(Mr. Lappen and Mr. Howarth abstained from this vote as they were not members on October 24, 2012)

The motion passed unanimously.

A motion was made by Ms. Sanders and seconded by Mr. Lappen that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of January 4, 2013 as presented.

(Mr. Lappen and Mr. Howarth abstained from this vote as they were not members on January 4, 2013)

The motion passed unanimously.

**V. External Auditor Report (Fiscal Year ended September 30, 2012):**

Ms. McGowan and Ms. Tirado were introduced to those attending the meeting. Ms. McGowan thanked the Board for selecting CohnReznick LLP as the External Auditor for CSLF. She noted that their primary responsibility is to express an opinion on the financial statements of CSLF. In order to provide this opinion, they conducted an onsite visit to the Cleveland office of ESP and also retained an electronic copy of the books of CSLF.

Ms. McGowan reviewed their Letter to the Board of Directors as required by SAS 114. She noted the confidential nature of this letter and specifically indicated the sentence in the letter that states: "This information is intended solely for the use of the Board of Directors and management of Connecticut Student Loan Foundation and is not intended to be, and should not be, used by anyone other than these specific parties".

Within the Letter to the Board of Directors she indicated there were no control deficiencies which were considered to be material weaknesses or significant deficiencies as defined by the authoritative literature. **REDACTED**

Ms. McGowan then reviewed the financial statements for CSLF for the fiscal year ended September 30, 2012. She indicated that the format of the report was modified from the previous year to be more in compliance with Government Auditing Standards as issued by the Comptroller General of the United States. She noted that when compared to the prior year, the Assets and Liabilities of CSLF both declined by over \$100 million. On the Asset side of the balance sheet the Loan Receivables declined by \$109 million, while on the Liabilities side the Bonds had declined by \$112.6 million.

Ms. McGowan next reviewed the Change in Net Assets for the fiscal year. She noted that both income and expense had declined from the prior year due to the lower loan balances and reduction in bonds outstanding. Overall the Change in Net Assets was a positive \$7.7 million. This is a decline from \$9.8 million the prior year primarily due to lower gains on the redemption of bonds (\$1.0 million) and an addition to Bad Debt Expense in the current fiscal year where none was made in the prior fiscal year (\$1.4 million).

Ms. McGowan noted that a prior period adjustment of \$1.4 million was made to increase Net Assets as of October 1, 2011. Most of the adjustment was to reflect the amortization of the bond discount (\$898,218) and debt issue costs (\$405,566) over the life of the bonds. In addition, an adjustment was made to the accrued post-retirement benefit based upon the estimated life of the beneficiary (\$94,629).

Mr. Lappen made the following motion, which was seconded by Mr. Howarth:

**WHEREAS**, the Board of Directors of the Connecticut Student Loan Foundation has reviewed the report of the external auditors as of September 30, 2012;

**NOW THEREFORE, BE IT:**

**RESOLVED**, that the Board of Directors of the Connecticut Student Loan Foundation accepts the report of the external auditors for the fiscal year ended September 30, 2012 and approves the release of the audited financials for the fiscal year ended September 30, 2012 as presented.

The motion passed unanimously.

Ms. McGowan next reviewed the Tax Filings for CSLF for the fiscal year ended September 30, 2012.

Mr. Lappen made the following motion, which was seconded by Mr. Howarth:

**WHEREAS**, the Board of Directors of the Connecticut Student Loan Foundation has reviewed the IRS Form 990 and Connecticut Form CT990 as of September 30, 2012;

**NOW THEREFORE, BE IT:**

**RESOLVED**, that the Board of Directors of the Connecticut Student Loan Foundation approves the filing of the Form 990 with the IRS and the Form CT990 with the State of Connecticut for the fiscal year ended September 30, 2012, both as presented.

The motion passed unanimously.

**VI. Authorized Signers for Bank Accounts:**

Ms. Dimitrijevs noted that with the election of officers held earlier in the meeting, that Ms. Sanders, as the new chairman, would be an authorized signer for the financial accounts of CSLF in addition to Ms. Dimitrijevs and Mr. Behm (as Administrative Agents).

**VII. Authorized signer for 403(b) plan:**

Ms. Hancock noted that with the election of officers held earlier in the meeting, that Ms. Sanders, as the new chairman, would be the sole authorized signer for any documents related to the terminated 403(b) plan of CSLF.

**VIII. Financial Report:**

Ms. Dimitrijevs provided the financial report as of December 31, 2012. She presented the Balance Sheet, Net Change in Assets and Non-Trust Cash Flow. She noted that cash within the trust was below budget by \$41.2 million as CSLF has been using the available cash to redeem bonds. She also indicated that loan balances were below plan by \$10.5 million primarily as a result of the Special Consolidation Loan program. For the three months, the Net Change in Assets were \$1.3 million and exceeded the budget by \$0.5 million. This was primarily the result of a higher accrual on the fees to be received from ECMC. This item continues to produce income at levels consistent with the prior year and has not begun to diminish as provided in the budget. The trust parity ratio now stands at 106.12% versus a planned level of 105.14%. She noted that the financial reports reflect the \$1.4 million restatement indicated by the external auditors earlier in the meeting.

Ms. Dimitrijevs also provided the current status of the outstanding bonds, noting that in the quarter ended December 30, bonds totaling \$56,850,000 were redeemed and that four tranches were retired. As of December 30, 2012 the bonds outstanding totaled \$468,150,000. **REDACTED** Finally, she reviewed the funds management levels within the trust estate and indicated that CSLF is in compliance with its internal policies for all three ratios.

**IX. Not for Profit Servicing Update:**

Mr. Behm noted that all of the agreements necessary to implement the Not for Profit servicing program with EdFinancial had been executed. CSLF is waiting to hear on the “go live” date from the U.S. Department of Education, which is anticipated to be in March.

**X. EdFinancial Review:**

Ms. Dimitrijevs presented the report from ESP for the on-site review of EdFinancial Services conducted September 25, 2012. She noted that the review included the Specified Procedures Report as well as the Audited Financials, with no unusual items discovered. The servicing metrics were reviewed against the contractual commitments. All of the processing standards were achieved, but the call center standards in the months immediately prior to the review were not achieved. It was noted that in this time period EdFinancial was training its staff for the conversion to a new servicing system. ESP will continue to monitor EdFinancial’s performance against these standards.

A major emphasis of the review was in regards to missing promissory notes for federal loans. The review was successful in identifying the location of promissory note for rehabilitated loans (the notes are held by the U.S. Department of Education) and PLUS loans (the notes are contained within other imaged conversion documents and not separately identified). ESP will work with EdFinancial to identify any other loans with missing Promissory Notes and attempt to locate them. It was mentioned that no claims have been rejected due to missing promissory notes.

**XI. Loan Loss Reserve Analysis:**

Mr. Behm reviewed an analysis of the loan loss reserves for both the federal and private loans. The analysis indicated that the loan loss reserve for federal loans was adequate. However, the reserve for Private Loan losses needed to be increased. Mr. Behm noted that since the conversion of the loans from Granite State to EdFinancial, ESP has become directly involved in approving some of the longer private loan deferments and forbearances. As a result fewer are being granted. In addition, many of the previously granted deferments are reaching the end of the borrower's eligibility period. Many of these borrowers are defaulting as they exit deferment. He noted that this resulted in a spike in net losses in the quarter ended June 30, 2012 of nearly \$800,000.

In response to a question by Mr. Howarth with regard to loan collection processes, Mr. Behm indicated that EdFinancial will place phone calls and send letters to borrowers that are delinquent up to 150 days. At that point the loans are charged-off and then turned over to a collection agency for further recovery attempts. Ms. Dimitrijevs noted that at all times the loan is maintained on the EdFinancial servicing system as the system of record and continue to be reported to the credit bureaus as delinquent or charged-off.

Mr. Howarth suggested that CSLF should consider using the tax refund offset program of the State of Connecticut to attempt further recovery on these loans. ESP will pursue this option and report back to the Board members.

Ms. Sanders made the following motion which was seconded by Mr. Howarth:

**WHEREAS**, the Board of the Connecticut Student Loan Foundation has reviewed the performance of its Federal and Alternative loan portfolios and believes it is prudent to provide for future losses on such loans;

**NOW THEREFORE, BE IT:**

**RESOLVED**, that the Board will increase the Alternative Loan Loss Reserve by \$800,000 prior to the end of January 2013.

The motion passed unanimously.

**XII. Connecticut Auditors of Public Accounts:**

Ms. Hancock provided a summary of the Report produced by the Connecticut Auditors of Public Accounts, which was presented at the January 4, 2013 Board Meeting, as background for the two new

members of the Board. She also provided a summary of the legislation that created CSLF and the 2009 agreement between CSLF, ECMC and the U.S. Department of Education.

**XIII. Other Items:**

Ms. Sanders indicated that at the next meeting the Board needs to discuss the future direction of CSLF. She offered three possible alternatives for the Board members to consider: (1) continuing as we are until the bonds are fully redeemed, (2) selling the loans to another party and winding down CSLF or (3) folding CSLF into another entity, such as the Connecticut Higher Education Supplemental Loan Authority. She also requested that everyone consider and present other alternatives.

Mr. Behm and Ms. Dimitrijevs agreed to contact several potential underwriters and ask them to provide proposals for refinancing and/or winding down CSLF. ESP, as Administrative Agent, will coordinate with CSLF legal counsel on providing Non-Disclosure Agreements for the underwriters. ESP will also coordinate the dissemination of data to the underwriters.

**XIV. Adjournment**

Ms. Sanders then asked whether there was any other business properly brought before the Board, and there was none. Ms. Sanders requested a motion for adjournment.

Mr. Howarth made a motion, which was seconded by Mr. Lappen to adjourn the meeting.

The motion passed unanimously and the meeting was adjourned at 3:40 p.m.

Respectfully Submitted for the  
Board of Directors by:

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Craig S. Lappen, Secretary