CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

June 27, 2012

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Wednesday, June 27, 2012 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:
Michael P. Meotti (designee of Dr. Robert Kennedy, President of the Connecticut Board of Regents for Higher Education) Chairman of the Board and Sarah K. Sanders (designee of Denise Nappier, State Treasurer) Vice-Chairman of the Board.

Members Absent:
Lewis J. Robinson, Esquire (Chairman of the Connecticut Board of Regents for Higher Education) Secretary of the Board.

Other Attendees:
Nancy A. D. Hancock, Esquire – Pullman & Comley, LLC
Darlene H. Dimitrijevs – Education Solution Partners, LLC
Randall M. Behm – Education Solution Partners, LLC
Jeffrey E. Jackson – Ramirez & Co, Inc.

I. Call to Order:

Mr. Meotti called the meeting to order at 2:01 p.m. Mr. Meotti noted that Mr. Robinson would not be able to attend the meeting in order to attend a memorial service for a friend who had passed away recently.

II. Approval of Minutes:

A motion was made by Ms. Sanders and seconded by Mr. Meotti that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the January 25, 2012, May 8, 2012 and May 22, 2012 meetings as presented.

Ms. Sanders noted that she had conferred with her staff about the meetings in which she was not in attendance. According to her staff, the minutes accurately reflect the meetings.

The motion passed unanimously.

III. Financial Report:

Ms. Dimitrijevs presented the balance sheet, income statement and the non-trust cash flow statement of CSLF as of March 31, 2012.

Within the balance sheet Ms. Dimitrijevs reported that the net assets total just over $40.1 million and that all three categories of net assets (Unrestricted, Restricted-Non Trust and Restricted-Trust) exceeded their budgeted amounts. Ms. Dimitrijevs noted that the financials included accruals for the last quarter for both the settlement with the U.S. Department of Education and the anticipated income from ECMC. Using the accrual amount for the U.S. Department of Education, the current parity ratio for the trust is 104.70%.

Ms. Dimitrijevs reported that CSLF had net income of $3,879,712 for the six months ended March 31, 2012. This was $2,732,504 higher than the budget. The primary differences were the Gain on Redemption ($1,444,000) which was not budgeted and Collection Retention from ECMC ($1,079,887). Net Change in Assets before these items was a negative $59,176. However, it was noted that this included an accrual for the payment from the U.S. Department of Education. If the actual amount, received after the end of the quarter, had been available, the Net Change in Assets would have been positive by over $400,000.

Ms. Dimitrijevs also presented the non-trust cash flow statement for CSLF. While there are monthly variations, on average approximately $46,000 was added to the unrestricted cash balance each month of the first six months of this fiscal year. She also noted that while CSLF is accruing income for the collection retention at ECMC, the payment from ECMC only occurs once a year. The payment for the fiscal year ended September 30, 2011 was received in October, 2011. It was noted that funds received from ECMC are available for use by CSLF for Public Purposes.

Ms. Dimitrijevs also noted that the acquisition of Connecticut Bank & Trust by Berkshire Hills Bancorp had been completed. CSLF recorded a small gain on the transaction at this time. However, this transaction did not fully recoup previous losses on this investment. As a result of this transaction CSLF now owns 6,326 shares of Berkshire stock.

Ms. Dimitrijevs indicated that Standard & Poors had confirmed the Senior Bond ratings (‘AAA’) and placed the Subordinate Bonds on CreditWatch Positive for a possible upgrade (currently ‘A’).

Finally, she noted that the sale of the Sallie Mae serviced loans to Sallie Mae at a premium, approved at a prior Board meeting, was underway. The sale of $14.7 million in loans would close before the end of the week.

IV. Loan Loss Reserve Analysis:

Mr. Behm reviewed an analysis of the Loan Loss Reserves of CSLF for both Federal and Private Loans. Projections for Federal Loan Losses indicate that the Federal Loan Loss Reserve will be just below $480,000 at the end of the fiscal year. He noted that 28.3% of the Federal Loan portfolio had already defaulted and that only 68.1% of the outstanding loans were in active repayment. It was recommended that the reserve level be increased to allow a 2% risk share on an assumed 15% default rate for the remaining outstanding portfolio. This requires the Federal Loan Loss Reserve be increased by $1 million.

In reviewing the Private Loan Loss Reserve, Mr. Behm noted that the reserve is projected to be slightly below $420,000 at the end of the current fiscal year. He also indicated that while delinquency rates have been declining for several years, they have increased sharply in the last 5 months. Furthermore, the percentage of loans in deferment or forbearance has climbed over 20% for the past 6 months after having steadied at 18% for the past two years. Historically the CSLF private loans have exhibited net default rates of 20% over the life of their repayment. Only 65% of the outstanding portfolio is in active repayment. It was recommended that the loan loss reserve be increased to provide for a 20% net loss rate on those loans that are not yet in active repayment. This requires the Private Loan Loss Reserve be increased by $400,000.

In response to a question that was raised, it was noted that the loan loss reserves are continually monitored each month and formally reviewed with the Board as needed. The last adjustment to the reserve levels was made approximately two years ago. While it is anticipated that no further reserves will be needed, the reserves will continue to be monitored and if actual performance differs from the assumptions made in this analysis then a recommendation will be presented to the Board.

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

> **WHEREAS,** the Board of the Connecticut Student Loan Foundation has reviewed the performance of its loan portfolios and believes it is prudent to provide for future losses on such loans;
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> **NOW THEREFORE, BE IT:**
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> **RESOLVED,** that the Board will increase the Federal Loan Loss Reserve by $1,000,000 prior to the end of September 2012; and further
>
> **RESOLVED,** that the Board will increase the Alternative Loan Loss Reserve by $400,000 prior to the end of September 2012.

The motion passed unanimously.

V. 2012-13 Budget:

Mr. Behm presented a proposed budget for fiscal year 2012-13. He reviewed the assumptions used to forecast the full 2011-12 fiscal year (e.g. additions to the Loan Loss Reserves, sale of Sallie Mae serviced loans, $200,000 Public Purpose Expenditure, etc…). Mr. Behm also discussed the assumptions used for the 2012-13 fiscal year budget (e.g. no funds of the Trust released to CSLF, no change in interest rates, continued bond redemptions, Not-for-Profit servicing implemented in September 2013, etc…).

The proposed budget, based upon the assumptions presented, provides for net income of $2.2 million after an expenditure of $1.2 million for unspecified Public Purpose initiatives. Cash Flow would be a positive $11.7 million for CSLF in its entirety. Furthermore, each of the components (Trust Estate, ECMC Collections and General Fund) also have positive Cash Flow in the proposed budget for 2012-13.

The Parity Level within the Trust is projected to be at 5.22% in September 2012 and to increase to 5.56% in September 2013.

Mr. Behm noted that the income from ECMC Collections was dependent on current regulations. Specifically, there have been proposals to reduce the fee income received by guarantors when the guarantee agency is able to rehabilitate a defaulted loan. A reduction in this fee may impact the amount ECMC is required to pay CSLF under the existing contract.

Following discussion and review of the various assumptions and projections used in the proposed budget, Ms. Sanders made the following motion which was seconded by Mr. Meotti:

> That the Board of Directors of the Connecticut Student Loan Foundation approves the 2012-13 Budget as presented.

The motion passed unanimously.

VI. <u>Public Purpose Programs:</u>

Mr. Meotti indicated that he would like CSLF to contact entities and determine their interest and capability in providing comprehensive debt management services to students and alumni of Connecticut Public Higher Education Institutions, as well as to Connecticut residents. The process would be similar to a Request for Information, providing CSLF with the types of services the entities could provide and allow CSLF to determine the entity's level of interest and capabilities in providing education debt management services. The timeframe for implementing some type of program would be the Fall of 2012. Mr. Meotti will work with the Administrative Agent and the Legal Counsel on this project.

VII. <u>Pension Plan Termination:</u>

Ms. Hancock provided a copy of a letter from the IRS indicating that they have determined that the CSLF Pension Plan has been terminated in accordance with the IRS guidelines. She indicated that this was the final step in closing the Pension Plan.

Ms. Hancock noted, however, that the 403(b) plan has not been completely closed. There remains one individual, whose financials are administered by a guardian, who has not opted to convert their 403(b) account to an annuity. As a result USI Consulting is still managing a custodial account for CSLF of approximately $139,000 at an annual cost to CSLF of $950. Ms. Hancock is working with USI Consulting to contact the guardian of this one account in an attempt to have it converted to an annuity.

VIII. <u>External Auditor Selection:</u>

Ms. Dimitrijevs reviewed a document exhibiting the results of the recent solicitation for an External Auditor for CSLF beginning with the audit of the 2011-12 fiscal year. Twelve firms, all with Connecticut offices, were solicited. Ten of the firms responded and seven submitted proposals.
[REDACTED]
A summary of the proposals was presented to the Board.

Through a review of the proposals, an analysis of public information and phone interviews, ESP evaluated the capabilities of each organization. Particular emphasis was placed on experience with Non-Profit Organizations and with Education Loan entities. ESP narrowed the list to three potential candidates, Blum Shapiro, Grant Thornton LLP and J.H. Cohn LLP. ESP recommended to the Board the selection of Grant Thorton LLP as the external auditor for CSLF.

After discussion of the information and the interviews, Ms. Sanders made the following motion which was seconded by Mr. Meotti:

> **WHEREAS,** the Board of the Connecticut Student Loan Foundation has reviewed the Request for Proposals and discussed the interviews and analysis;
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> **NOW THEREFORE, BE IT:**
>
> **RESOLVED,** that the Board selects Grant Thornton LLP as the external auditor for CSLF beginning with the fiscal year ended September 30, 2012.

The motion passed unanimously.

IX. External Reviews:

Mr. Behm indicated that reviews were currently being conducted of CSLF by the Connecticut Auditors of Public Accounts and by the U.S. Department of Education. The Connecticut Audit Report is expected to be completed shortly. It will cover the fiscal years ending in 2009, 2010 and 2011. Two findings have been provided to ESP for comment prior to the report being issued. The first finding notes that the full membership of the Board has not been appointed as permitted, but not required, by current legislation. Based upon the draft report, the auditors will be recommending that a legislative change be introduced to reflect the current make-up of the board. The second finding notes that certain aspects of the Freedom of Information Act with respect to posting of information on the CSLF website have not been adhered to by CSLF. CSLF does not believe that this is a requirement that applies to CSLF, but has agreed to voluntarily begin posting meeting agendas and minutes on its website later this year once appropriate modifications can be made to the website.

The U.S. Department of Education (DOE) review is the result of a servicer review that was being conducted last summer at Granite State Management and Resources (GSMR). That review included the CSLF portfolio prior to the conversion of the loans to EdFinancial. As part of the review, the DOE was unable to receive copies of the Promissory Note and Notice of Guarantee for some of the loans from GSMR. The DOE issued a request to CSLF, in the form of a Lender Review, for copies of these documents for 18 accounts. The initial response from CSLF provided Notices of Guarantee for all 18 accounts and Promissory Notes for 15 of the accounts. It was subsequently determined that the three remaining loans were Rehabilitated Loans purchased by CSLF from the DOE. Under the purchase arrangement for these loans the DOE holds the Promissory Notes and only supplies them to CSLF (or its servicers) when needed. As a result ESP was able to provide all the requested documents to the DOE. No final report has yet been issued by the DOE.

Mr. Behm noted that over 24,000 of the Rehabilitated Loans exist in the CSLF portfolio. As a result of this review, ESP has worked with EdFinancial and the DOE to establish retrieval procedures for these documents. He also noted that a review of this process will be part of the annual on-site review at EdFinancial that will be conducted in the next few months.

X. Not for Profit Servicing:

Mr. Behm indicated that the DOE has pushed back the implementation date for several of the Not-for-Profit servicers. CSLF's final implementation date has moved back from July 2013 to September 2013. Weekly conference calls have been conducted between Campus Partners and all of the Not-for-Profit entities that will be using Campus Partners' systems. CSLF has been actively working with the other entities to develop common processes, documents and webpages that can be used by all. Mr. Behm noted that the major interfaces required by the agreement with the DOE have already been tested and approved by the DOE. The first entity scheduled by the DOE for implementation using Campus Partners is South Carolina, which is currently scheduled to "go live" during the first week of August 2012.

XI. Executive Session:

A motion by Ms. Sanders, and seconded by Mr. Meotti, to enter Executive Session to discuss CSLF financing arrangements was passed unanimously.

The Board entered Executive Session at 3:10 pm.

The Board exited Executive Session at 3:32 pm.

XII. Adjournment

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

Ms. Sanders moved that the meeting be adjourned, Mr. Meotti seconded the motion and it was unanimously passed at 3:33 p.m.

Respectfully Submitted for the
Board of Directors by:

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Michael P. Meotti, Chairman