



CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

September 16, 2014

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Tuesday, September 16, 2014 at 1:00 p.m., at the office of the Connecticut Health and Educational Facilities Authority, 10 Columbus Boulevard, Hartford, Connecticut 06106.

Members Present:

Barbara Rubin, Chair of the Board
Sarah K. Sanders (designee of the Honorable Denise Nappier), Vice Chair of the Board
Jeffrey A. Asher
Martin L. Budd
Steven Kitowicz (designee of the Honorable Benjamin Barnes)
Dr. Peter W. Lisi
Julie B. Savino¹
Erika Steiner (designee of Dr. Gregory Gray)

¹joined the meeting at 1:10 p.m.

Members Absent:

Paul Mutone

Other Attendees:

Jeanette Weldon, Executive Director
Paula Herman, General Counsel, CHEFA
Nancy A. D. Hancock, Esquire – Pullman & Comley, LLC
Darlene H. Dimitrijevs – Principal, Education Solution Partners, LLC
Randall M. Behm – Principal, Education Solution Partners, LLC
Tim Webb – Vice President, FirstSouthwest
Jeff Wagner – Managing Director, RBC Capital Markets
Samuel Rush – Deputy Director, CHESLA
Joshua Hurlock, Portfolio and Marketing Associate, CHESLA
Debra M. Pinney, Manager of Administrative Services, CHEFA
Cynthia Peoples, Assistant Director, CHEFA
JoAnne N. Mackewicz, Controller, CHEFA
Carlee Levin, Sr. Accountant, CHEFA
Judith Blank, Esquire, Day Pitney, LLP

I. Call to Order:

Ms. Rubin called the meeting to order at 1:02 p.m.

II. Approval of July 23, 2014 Minutes:

A motion was made by Mr. Budd and seconded by Mr. Kitowicz that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the July 23, 2014 meeting as presented, after correction for a minor typographical error.

The motion passed.

III. Executive Director's Report

Ms. Weldon provided an overview of the agenda for the meeting, indicating that the majority of the meeting would be used on providing background on CSLF and looking at possible alternatives for maximizing the equity/net present value of CSLF's education loan portfolio. She also indicated that the budget for the 2014-15 fiscal year would need to be approved and that action on the Funds Management Policy would need to occur as that policy is scheduled to expire prior to the next Board Meeting. In addition, the legislatively mandated payments would be discussed.

IV. Organization Overview

Mr. Behm presented an overview of CSLF. He indicated that CSLF was created by the Connecticut Legislature as a Non-Profit entity, has been approved by the IRS as a 501(c)(3) organization and was authorized by the U.S. Department of Education to be an originator, holder and guarantor of federal education loans (the originator authority was removed by the U.S. Legislature effective July 1, 2010 and the guarantor authorization was terminated in an agreement with the U.S. Department of Education effective January 1, 2010).

Mr. Behm noted that the mission of CSLF had been legislatively expanded several times during its history. CSLF is now allowed to provide funding for loans for any education purpose, including any level of school, any type of school, for schools located anywhere in the United States and for any students (or their families) located anywhere in the United States.

He also noted that since 2009 the operations of CSLF have been significantly reduced. Today CSLF has only three lines of business. These lines of business consist of: (1) holding education loans, primarily federal loans, but also a small portfolio of private loans; (2) Not-for-Profit servicing under a program with the U.S. Department of Education, which is conducted through an outsourced arrangement with EdFinancial; and (3) the discontinued federal guarantee business where CSLF receives income from Educational Credit Management Corporation (ECMC) as part of a sharing arrangement which contractually ends on December 31, 2014.

Mr. Behm then provided a high-level overview of the finances of CSLF. He also indicated potential options for making the legislatively required payments from CSLF to various programs in the State of Connecticut. Discussion ensued as to the various sources of the funds, the timing of the payments and actions that would be needed to effectuate the payments. It was recognized that no action would be needed prior to the November Board Meeting.

Mr. Behm concluded the presentation with a discussion of the strengths and risks of CSLF. In particular he noted that the financing trust is in a strong position and indicated that even if every education loan

defaulted immediately, the amount of the claims payments on the federal loans would allow all bonds to be paid in full and still allow CSLF to receive cash from the trust.

V. Analysis by FirstSouthwest

Mr. Webb provided the board with an analysis FirstSouthwest had conducted on three options for maximizing the equity/present value of CSLF's loan trust. Those three options consisted of Status Quo, Loan Portfolio Sale and a Financing Restructure. He noted that this was only a preliminary overview analysis based upon publicly available data. A more in-depth analysis would require a loan level data file as well as the full set of Indenture Documents.

Mr. Webb provided a list of benefits and risks associated with each option. He also provided possible pricing ranges for each scenario, noting that a more detailed analysis would be required to complete the analysis.

Further discussion of the various options and their timing ensued.

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

The Executive Director is directed to prepare a cash flow analysis of various options for the future direction of the existing loan portfolio of CSLF.

The motion passed unanimously.

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

The Board of Directors will cause staff to issue a Request for Proposal (RFP) for a Financial Advisor to CSLF and authorizes a subcommittee consisting of Ms. Rubin, Ms. Sanders and Mr. Asher to approve selection of the Financial Advisor and authorize staff to negotiate an agreement with the selected Financial Advisor.

The motion passed unanimously.

VI. Financial Report

Ms. Dimitrijevs provided a financial report for the quarter ended June 30, 2014 as well as a 10-month report as of July 31, 2014. She presented the Net Change in Position, Balance Sheet, Non-Trust Cash Flow, Available Funds Report, Bond Redemptions and Funds Management Ratios.

She noted that the Net Change in Position for CSLF was a positive \$2.2 million for the first ten months of the fiscal year before extraordinary items. After extraordinary items, the Net Change in Position was a negative \$18.9 million. The extraordinary items include the \$25.0 million legislatively mandated payments which are partially offset by the ECMC contract (\$3.8 million) and a Gain of Redemption of bonds (\$22,500). Before the extraordinary items the Net Change is \$1.0 million better than the prior year and \$137,000 below plan.

Ms. Dimitrijevs indicated that the trust parity ratio now stands at 109.03% versus a planned level of 108.94%. Assets within the Trust exceed the Board required parity level by \$18.2 million. Of this amount \$8.5 million is in cash or cash equivalents with the remainder primarily made up of the loan balances exceeding that of the bonds outstanding.

On the Available Funds Report she noted that the Unrestricted Funds totaled \$6.0 million, while the Restricted Funds received from the ECMC contract were \$13.5 million as of June 30, 2014. Within the trust \$2.3 million of funds were immediately available, while another \$20.6 million could become available over the next 4 months if bond redemptions were terminated. The trust currently produces approximately \$5 million in cash each month which is being used to redeem bonds under the existing Board policy.

Ms. Dimitrijevs reviewed the funds management levels within the trust estate and indicated that CSLF is in compliance with its internal policies, as well as the requirements of the trust indenture, for all three ratios.

Ms. Dimitrijevs reviewed the bond redemption activity for the quarter. \$20.75 million in bonds were redeemed in the quarter ended June 30, 2014. As of June 30, 2014, \$362.9 million in bonds remain outstanding. The original issuance was \$935.9 million.

VII. 2014-15 Fiscal Year Budget

Mr. Behm provided a proposed budget for the 2014-15 fiscal year. He noted that because the fiscal year of CSLF had been changed to end on June 30th, this budget was for only nine months – October 1, 2014 through June 30, 2015. He also noted that the budget assumed no changes in the financing for CSLF, that historical trend for loan payments continued (e.g. regular payments, prepayments and claims payments), that excess funds in the trust continued to be used to purchase bonds as directed by the current Funds Management Policy and that interest rates did not change from their current levels. The budget did provide for the cessation of the ECMC contract as scheduled on December 31, 2014 and the payment of the legislatively mandated payments by the last date required in the legislation.

The Net Change in Position for the 2014-15 Budget before extraordinary items is \$1.6 million. This compares to \$1.7 million for the nine months ended June 30, 2014. Mr. Behm noted that the expense items include a \$200,000 “place holder” for Bad Debt Expense. An analysis of the Allowance for Bad Debt will be presented at the November Board Meeting and any adjustment, if needed, will be made at that time.

Mr. Behm also noted that Loans Receivable and Bonds Payable both are budgeted to decline approximately \$60 million during the next fiscal year. The overall parity continues to increase and is projected to be at 110.29% on June 30, 2015.

Discussion ensued concerning the timing of the legislatively mandated payments and the various funds available to make those payments. Mr. Behm indicated that if all the mandated payments were made in December, the budgeted Net Change in Position for 2014-15 would be reduced by approximately \$56,000. The Board did not reach a conclusion with regard to when the legislatively mandated payments would actually be made. Board members agreed to have further discussion on the timing of these payments at the November Board meeting.

There was discussion related to an overhead allocation for time and expenses incurred by staff of CHEFA, or any of its subsidiaries, in managing CSLF. Mr. Kitowicz noted that the budget could be revised at a future meeting whenever any such allocation is determined.

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

The Board of Directors of the Connecticut Student Loan Foundation approves the 2014-15 Budget (for nine months ended June 30, 2015).

The motion passed unanimously.

VIII. Review of Funds Management Policy

Mr. Behm provided an overview of the Funds Management Policy, noting that is currently scheduled to expire at the end of October. It was recommended that further discussion of the Funds Management Policy would occur at the November Board Meeting.

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

The Board of Directors of the Connecticut Student Loan Foundation extends the Funds Management Policy, as presented, to November 30, 2014.

The motion passed unanimously.

IX. Adjournment

Mr. Budd made a motion, which was seconded by Ms. Savino to adjourn the meeting.

The motion passed unanimously and the meeting was adjourned at 2:58 p.m.

Respectfully Submitted by:

Jeanette Weldon, Executive Director