



CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

June 6, 2017

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Tuesday, June 6, 2017 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
Sarah Sanders (designee of the Honorable Denise Nappier), Vice Chair of the Board
Martin Budd *
Steven Kitowicz (designee of the Honorable Benjamin Barnes)
Julie Savino
Jeanette Weldon, Executive Director

Members Absent:

Erika Steiner (designee of the Honorable Mark Ojakian)

Other Attendees:

Denise Aguilera, General Counsel, CHEFA
Darlene Dimitrijevs, Principal, Education Solution Partners, LLC
Randy Behm, Principal, Education Solution Partners, LLC
Tim Webb, Vice President, Hilltop Securities *
Cynthia Peoples H., Managing Director, CHEFA
JoAnne Mackewicz, Controller, CHEFA
Carlee Levin, Sr. Accountant, CHEFA
Samuel Rush, Deputy Director, CHESLA
Joshua Hurlock, Assistant Director, CHESLA
Namita Shah, Esq., Day Pitney LLP
Judith Blank, Esq., Day Pitney LLP
Molly Sullivan, Intern, Office of the State Treasurer

* 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 1:31 p.m.

II. Approval of Minutes:

A motion was made by Mr. Budd and seconded by Ms. Savino that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the March 7, 2017 meeting.

The motion was passed unanimously, with an abstention by Ms. Sanders who was absent from the March 7, 2017 meeting.

III. Executive Directors Report

Ms. Weldon noted that a Request for Proposal for the CSLF Administrative Agent would be issued by the end of June. In conjunction with that RFP, the accounting functions will be transitioned to CHEFA. She noted that in the proposed budget, to be discussed later in the meeting, the CHEFA Administration costs had been increased due to the proposed transfer of the accounting functions, but that the Administrative Agent fees had not been reduced because the results of the RFP were not known at this time.

IV. Financial Report – March 31, 2017

Ms. Dimitrijevs reviewed the financial status of CSLF as of March 31, 2017. She presented the Net Change in Position, the 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. Dimitrijevs indicated the Net Change in Position before Extraordinary Items for CSLF was a positive \$1,772,203 for the nine month period, \$38,640 better than budgeted. After the CHESLA Scholarships of \$2,000,000, the Net change in Position for CSLF was a negative \$227,797, also \$38,640 better than planned. Due to slightly higher interest rates, both Interest Income and Interest on the Bonds were over budget. Interest rate movements are not forecast in the budget since both the bonds and the loans have variable interest rates and tend to move together.

On the Balance Sheet she indicated the Unrestricted Cash was slightly over \$1.5 million as of the end of March. \$1.0 million of this cash will be used during June to fund half of the CHESLA Scholarships. The rest of the Scholarships will be funded from the CSLF Trust.

Ms. Dimitrijevs noted that Cash & Cash Equivalents in the Trust were at 2.65% of the Bonds outstanding, which exceed the requirement in the Funds Management policy of 2.00%. She indicated that CSLF experiences some buildup of cash prior to a redemption. The Trust Parity Ratio as of March 31, 2017 stood at 110.41% and the Senior Parity Ratio was 144.25%. Assets within the Trust exceed the Funds Management Policy by \$15.4 million.

Ms. Dimitrijevs reviewed the bond activity for the quarter ended March 31, 2017 and indicated that \$10.5 million of bonds had been redeemed in the quarter, all of which were subordinate bonds from the 2004B tranche. She also reviewed the Weighted Average Coupon (WAC) and the Weighted Average Remaining Maturity (WARM) of the portfolio. In particular she noted that consolidation loans, which have longer maturities, now represent over 60% of the portfolio.

It was also noted that S&P Global Ratings had raised the ratings on the two subordinate classes of the bonds from AA to AA+ on April 7, 2017. At the same time S&P also affirmed the AAA rating of the three senior classes of bonds.

V. Loan Loss Reserve Analysis

Mr. Behm reviewed the Loan Loss Reserve Analysis that was conducted as of May 15, 2017. The analysis assumed 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.

Mr. Behm noted that both the Federal and the Private loan portfolios had performed better during the current fiscal year than had been expected in the analysis conducted last year. For Federal loans the projected net losses over the remaining life of the portfolio are \$579,102, approximately \$68,000 above the current federal loan loss allowance. For Private Loans the projected future net losses are \$192,000, approximately \$230,000 less than the current private loan loss allowance.

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

The Board of the Connecticut Student Loan Foundation, after reviewing the performance of its Federal and Private loan portfolios, authorizes the transfer of \$100,000 from the Allowance for Private Loan Losses to the Allowance for Federal Loan Losses, prior to June 30, 2017.

The motion was passed unanimously.

VI. 2016-17 Fiscal Year Budget

Mr. Behm reviewed the proposed budget for the 2017-18 fiscal year. He indicated that the budget was created assuming status quo for the general operations of CSLF, while including the funding for the CHESLA Scholarships at \$2.0 million and other CHESLA Initiatives at \$1.0 million. It was noted that the CHESLA Initiatives have not yet been determined and would require a request for the funds from the CHESLA Board.

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 2016-17 fiscal year it is projected that \$34.3 million of loan principal will pay down. Mr. Behm also noted that the proposed budget provides for the continued redemption of the outstanding bonds. During the 2016-17 fiscal year it is projected that \$37.5 million 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 is used to redeem bonds, while the net earnings (\$2.0 million) is used to fund the CHESLA Scholarships.

Mr. Behm described 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.

He further indicated that nearly all of the other items declined either due to the reduced loan portfolio or the reduced bonds outstanding. The proposed budget calls for \$8.8 million of income, down from the prior 12 months by \$1.3 million. Operating expenses are projected at \$6.8 million; a decline of \$0.9 million from the prior 12 months. The net change in position is budgeted at \$2.0 million before extraordinary items. The budgeted extraordinary items are the CHESLA Scholarships and the CHESLA Initiatives at an expense of \$2.0 million and \$1.0 million, respectively. This results in budgeted net loss of \$1.0 million.

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

The Board of Directors of the Connecticut Student Loan Foundation approves the 2017-18 Budget as presented.

The motion passed unanimously.

VII. Executive Session

A motion was made by Ms. Sanders and seconded by Mr. Kitowicz to enter Executive Session.

The motion passed unanimously.

Ms. Weldon requested Ms. Aguilera, Ms. Mackewicz, Ms. Levin, Mr. Rush, Mr. Hurlock, Mr. Webb, Ms. Dimitrijevs and Mr. Behm remain during the Executive Session.

The Board entered Executive Session at 2:04 p.m.

Ms. Sanders departed the meeting at 2:16 p.m.

The Board exited Executive Session at 2:21 p.m.

Dr. Lisi stated that no actions or votes were taken during the Executive Session.

VIII. Funds Management Policy

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

The Board of Directors of the Connecticut Student Loan Foundation approves the revised Funds Management Policy dated June 6, 2017.

The motion passed unanimously.

IX. Adjournment

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

The motion passed unanimously and the meeting was adjourned at 2:22 p.m.

Respectfully Submitted by:

Jeanette Weldon, Executive Director