CSLF CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

June 20, 2019

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Thursday, June 20, 2019 at 12:00 p.m., at the Office of the Connecticut Health and Educational Facilities Authority, 10 Columbus Boulevard, Hartford, Connecticut 06106.

Members Present:
Peter Lisi, Chair of the Board
Sheree Mailhot (designee of the State Treasurer)
Jeanette Weldon, Executive Director
Steven Kitowicz (designee of the Secretary of the Office of Policy and Management)
Martin L. Budd

Members Absent:
Benjamin Barnes (designee of the President of Connecticut State Colleges and Universities)
Andrew Foster*
Julie Savino, Vice-Chair of the Board

Other Attendees:
Lisa Cohen, Vice President, Goal Structured Solutions, Inc. *
Ian Meade, Senior Financial Reporting Manager, Goal Structured Solutions, Inc. *
Andrea Lenox, Structured Finance Director, Goal Structured Solutions, Inc. *
Ryan Gray, CFO, Goal Structured Solutions, Inc.
Tim Webb, Vice President, Hilltop Securities
Denise Aguilera, General Counsel, CHEFA
JoAnne Mackewicz, Controller, CHEFA
Kevin Barry, Accountant, CHEFA
Joshua Hurlock, Assistant Director, CHESLA
Shannon Reynolds, Portfolio Assistant, CHESLA
Natalia Rozio, Student Intern, CHESLA
Carlee Levin, Senior Accountant, CHEFA
Kevin Barry, Accountant, CHEFA
Debra Galli, Manager of Administrative Services, CHEFA

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

I. Call to Order

Mr. Lisi called the meeting to order at 12:52 p.m.

II. Approval of Minutes:

A motion was made by Mr. Budd and seconded by Mr. Kitowicz that the Board of Directors of the Connecticut Student Loan Foundation approve the minutes of the March 5, 2019 meeting**.**

The motion was passed unanimously.

III. Executive Director's Report

Ms. Weldon noted that there no items to currently address.

IV. 2019-2020 Fiscal Year Budget

Mr. Gray summarized the memo prepared by Ms. Cohen noting that we have continued the basic approach to the budget by retaining the "status quo" at CSLF while including the funding for the CHESLA Scholarships at $0.5M. Additionally, Mr. Gray noted the uptick in the CDR (Constant Default Rate) and the overall effect on the portfolio.

The proposed budget provides for continued pay down of the education loan portfolio, although at a somewhat slower rate. Mr. Gray noted that over the last year CSLF has experienced an uptick in the CDR (Constant Default Rate). While default rates had steadily improved from an annualized 5% level in 2014 to 4% in 2017, this trend reversed itself in the second half of fiscal year 2019, when default rates went back up to 5%. During the 2019-2020 fiscal year it is projected that $28.3M of loan principal will pay down. The proposed budget provides for the continued redemption of the outstanding bonds. During the 2019-2020 fiscal year it is projected that $28.0M 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 ($0.4M) plus $120K of unrestricted assets will be used to fund $0.5M 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

Nearly all the other items decline either due to the reduced loan portfolio or the reduced bonds outstanding. The proposed budget calls for $8.6M of income, down from the prior twelve months by approximately $1.8M. Operating expenses are projected at $7.7M; a decline of $2.1M from the prior twelve months. The net change in position is budgeted at $0.9M before extraordinary items. The budgeted extraordinary items are the CHESLA Scholarships at an expense of $0.5M. This results in budgeted net income of $387k.

Mr. Budd inquired about future scholarship funding amounts and asked about the potential of increasing the current proposed scholarship of $0.5M. Mr. Webb addressed the topic with the board noting that there are potential risks of raising the scholarship amounts without running another set of cash flows. He noted the risk posed by IBR loans (Income Based Repayment), and the need to ensure adequate funds to pay off the bonds. Current IBR on the portfolio is around 11%; however, some portfolios throughout the country are at 30%.

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

The Board of Directors of the Connecticut Student Loan Foundation approves the 2019-2020 Budget as presented.

The motion was passed unanimously.

V. <u>Loan Loss Analysis</u>

Mr. Gray reviewed the Loan Loss Reserve Analysis that was conducted in May 2019. 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.

Mr. Gray noted that the performance of the Federal loans in the portfolio deteriorated over the course of fiscal year 2019, after several years of improvement as opposed to the Private Student loan portfolio which was in line with prior expectations. Mr. Gray noted that over the last year CSLF has experienced an uptick in the CDR (Constant Default Rate). While default rates had steadily improved from an annualized 5% level in 2014 to 4% in 2017, this trend reversed itself in the second half of fiscal year 2019, when default rates went back up to 5%. Additionally, Mr. Gray highlighted the effect of IBR on future loan loss adjustments. Incorporating the changes in performance into projections of future losses results in a shortfall in the federal loan loss reserve of $441,399 and an excess of private loan loss reserve of $47,332.

Mr. Budd 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, believes it is prudent to provide for future losses on such loans and authorizes that the Federal Loan Loss Reserve shall be increased by $441k and the Private Loan Loss Reserve shall be decreased by $47k.

The motion was passed unanimously.

VI. Financial Report – March 2019

Ms. Mackewicz introduced Kevin Barry, who will be taking a lead role in producing financial statements for CSLF.

Mr. Barry reviewed the financial status of CSLF as of March 31, 2019. He 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.

Mr. Barry indicated the Net Change in Position for CSLF was a positive $1.0M for the nine-month period noting that this was $0.1M less than budget. The Net Change in Position after transfers was a negative $1.0M and $2.1M less than budget due to the CHESLA initiatives ($2.0M) which were budgeted and approved during the June 2018 board meeting. Agency Cash and Equivalents are $0.3M as compared to $0.8M during March 31, 2018. This reflects the transfer of $0.8M to CHESLA to provide funds for student loans, pending their Bond Issuance, which occurred on September 17, 2018.

On the Balance Sheet, he indicated the trust cash was over budget by $1.8M which also included a $1.2M transfer to CHESLA for student loans. As noted in the December 31, 2018 report, loan principal and interest receivable remain at a combined $4.2M over budget.

Mr. Barry noted that the Trust Parity Ratio as of March 31, 2019 stood at 112.45% and the Senior Parity Ratio was 129.83%. Assets within the Trust exceed the Funds Management Policy by $15.1M.

Ms. Cohen reviewed the bond activity for the quarter ended March 31, 2019 and indicated that $6.0M of subordinate bonds from the 2004B tranche had been redeemed. Ms. Cohen noted that the strategy remains to utilize excess cash to prepay the bonds except for the funds reserved for CHESLA scholarship fund.

Ms. Cohen noted that the Weighted Average Coupon (WAC) had a slight increase from 6.27% to 6.29%, nothing that we continue to see only slight changes in the WAC as approximately 90% of the portfolio is comprised of fixed rate federal loans. The Weighted Average Remaining Maturity (WARM) of the portfolio also increased slightly from 142.89 to 144.59. Consolidation loans, which have longer maturities, represent 64% of the portfolio, a slight increase from prior quarter. Mr. Budd and Mr. Webb requested additional information related to IBR percentages and trends over the last few years. Ms. Cohen made note and will research and provide information.

VII. Trust Cash Flows

Mr. Webb, Financial Advisor to CSLF, provided comments and an explanation of the cash flow process. Loan data received from EdFinancial, CSLF's loan servicer, is loaded into the DBC student software as "replines". Mr Webb then discussed how the replines and assumptions are used to create a cash flow. Mr. Webb provided additional insight as to how the assumptions are utilized.

The cash flows that were prepared and reviewed were generated using the November 2018 month-end data. The cash flows were run to determine if the outstanding bonds (Series 2004 trust) could sustain a $500,000 annual withdrawal to support the CHESLA scholarship program.

Based upon the cash flows and the assumptions used, the scholarship can be maintained. Mr. Webb pointed out that cash flows should be run annually to test the strength of the Trust to continue with the scholarship withdrawal. Mr. Webb cautioned that the FFELP portfolio could experience a significant drop off in loan receipts (principal and interest), should the FFELP loan portfolio see an increase in the principal amount of loans in Income Based Repayment ("IBR"). Mr. Webb relayed the concern that higher percentages of IBR may stress the 2004 Trust to the point that the annual scholarship withdrawal would need to be discontinued.

Mr. Webb provided additional information as the how IBR loans perform and how these loans may impact the trust's future. M. Webb suggested that CSLF's administrator (GS2) work with the servicer to provide updates on the status of IBR loans in the 2004 Trust.

<u>Approval of Amended Schedule A</u>

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

BE IT RESOLVED, that

The Connecticut Student Loan Foundation (the "Foundation") hereby approves amended Schedule A (attached hereto) to the Memorandum of Agreement, dated March 7, 2017, between the Foundation and the Connecticut Health and Educational Facilities Authority for the provision of operational services.

The motion was passed unanimously.

VIII. <u>Adjournment</u>

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

The motion passed unanimously and the meeting was adjourned at 1:33 p.m.

Respectfully Submitted by:

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Jeanette Weldon, Executive Director