

**UTAH HIGHER EDUCATION ASSISTANCE AUTHORITY  
BOARD OF DIRECTORS MEETING  
MINUTES**

**Board of Regents Building, The Gateway  
60 South 400 West  
Salt Lake City, UT 84101-1248**

**March 21, 2013**

**Members Present**

Mr. Edward Alter  
Commissioner Dave Buhler  
Mr. Dan Campbell  
Mr. David Feitz  
Mr. Fred Hunsaker, Vice Chair  
Mr. Robert Marquardt, Chair  
Ms. Maria Sweeten  
Mr. Mark Stoddard

**Staff Present**

Mr. John Andrus  
Mr. Mike Atkinson  
Ms. Maureen Brakke  
Ms. Brenda Cox  
Mr. Ronell Crossley  
Mr. Richard Davis  
Mr. Charles Downer  
Mr. Brian Elcock  
Ms. Jenn Howard  
Mr. Alex Janek  
Ms. Diane Johnson  
Mr. Clive Killpack

Mr. Dee Larsen  
Mr. Bob McRae  
Mr. Andrew Madsen  
Mr. Bruce Miller  
Mr. Michael Nemelka  
Mr. Paul Packard  
Ms. Debbie Phillips  
Ms. Ashley Reyes  
Mr. Troy Runnells  
Mr. David Schwanke  
Ms. Carly Seely  
Ms. Lynne Ward  
Mr. Randy Willardsen

**Others Present**

Mr. Kevin Olsen  
Assistant Attorney General  
Mr. Spencer Pratt  
Legislative Fiscal Analyst  
Mr. Vince Sampson  
President, Education Finance Council

Chair Marquardt called the meeting to order and declared the presence of a quorum. Mr. Combe, Mr. Karras, Dr. Nadauld, Dr. Stauffer, and Dr. Tarbox were excused.

The first agenda item discussed was Report from Vince Sampson, President, Education Finance Council. Mr. Feitz introduced Mr. Sampson, president of Education Finance Council, the trade association in Washington DC for the non-profit student loan organizations. He noted Mr. Sampson is highly experienced and previously worked for the U.S. Department of Education (ED). Mr. Sampson currently serves as the chief representative for the nation's non-profit student loan finance organizations.

Mr. Sampson remarked UHEAA has consistently emerged as a leader in the student loan industry with a reputation for focusing on student interests. He indicated UHEAA has strong relationships with Congressional representatives and noted UHEAA's favorable positioning on Capitol Hill and with ED. He noted UHEAA's leadership with its tax-exempt financing will allow UHEAA to be nimble and able to adapt to

future outcomes in the industry. He commented on UHEAA's impressive social media and outreach efforts, which represent UHEAA's ability to provide valuable services for students.

Mr. Sampson described the stagnant environment in Washington. He indicated the President is driving the agenda and referred to recent Executive orders. He commented on the intra-structural tension in Congress and the 2014 midterm elections, which make it difficult for leadership to promote an agenda. Mr. Sampson noted the continued budget stalemate in Washington. He indicated the length and specific implications of sequestration are unknown. He remarked ED is under budget and agencies have some flexibility for implementing the spending cuts. He commented on the possible transition of some government programs back to the private sector. He remarked the Direct Loan program is projected to add \$1 trillion in new Federal debt within 10 years and the Treasury is exploring options for liquidity, which may open future opportunities for UHEAA.

Mr. Sampson summarized UHEAA's position as a Federal servicer. He remarked the servicing program provides students with access to best-in-class servicing, provides increased revenue and job creation for servicers like UHEAA, and provides the Federal government with high-quality, low-cost expertise. He noted staff changes at ED make it difficult to communicate the not-for-profit servicing program's value proposition, but indicated EFC members are working to reignite interest and relationships to advocate for more volume. He remarked there is abundant volume and the not-for-profits can perform under the servicing metrics and provide value to students.

Mr. Sampson described a potential threat to tax exemption for municipal bonds as tax reform is considered. He summarized the progress towards reauthorization of the Higher Education Act and some of the initiatives being considered in that process, including the future direction for Pell Grants.

Responding to a question from Chair Marquardt regarding ED's strategy and timing for servicing allocations, Mr. Sampson indicated ED appears to have a plan in place, although details have not been shared. He remarked EFC is encouraging a regional distribution that is equitable and performance based.

The next agenda item discussed was UHEAA Board Report I-A, Minutes of the December 6, 2012 Meeting.

It was moved by Mr. Stoddard and seconded by Ms. Sweeten to approve the minutes of the December 6, 2012 Board of Directors Meeting. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-B, Money Management Investment Reports. Mr. Schwanke summarized money management investment activity for the months of November 2012 to January 2013.

It was moved by Mr. Hunsaker and seconded by Mr. Campbell to approve the Money Management Investment Reports. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-C, Report of the Audit Committee. Mr. Alter reported on a clean Department of Education audit of CornerStone operations and two Ernst and Young SOC 1 audits for the legacy and CornerStone servicing operations, which were free of major findings. He commented on the revised 2013 Internal Audit Plan, the results of which will be monitored regularly. He

reported recent internal audits, including clean money management audits for UHEAA and UESP and a clean printer and copier machine security audit. He provided an update on the Ethics Point system and BCP progress.

It was moved by Mr. Campbell and seconded by Mr. Stoddard to accept the Report of the Audit Committee. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report II-A, UHEAA Executive Director's Report. Mr. Feitz remarked an additional allocation of approximately 17,000 borrowers totaling \$500 million were loaded to the servicing system in March 2013. He indicated total servicing volume is now \$3.7 billion and 225,000 student accounts, with \$2.3 billion under the Federal contract and \$1.4 billion in the legacy portfolio. He noted UHEAA's project plan for Federal loan servicing is on target, but at least 500,000 accounts are needed for economic sustainability. He recalled the next allocation announcement is expected in August 2013, with the volume amounts, timing, and quality of the allocation still unknown.

Mr. Feitz described the demographics of the total Federal contract portfolio and the most recent allocation. He highlighted the low delinquency rate and high percentage of borrowers who owe more than their original balance in the new allocation. He remarked Utah colleges and universities prefer UHEAA to service their loans locally, but ED's allocation methodology provides servicers with a representative slice of the nation, and UHEAA currently services only 722 Utah accounts. He indicated UHEAA services accounts from all 50 states as well as Puerto Rico and elsewhere. He summarized the top five states for servicing, including California and Texas, and noted UHEAA has hired more bilingual agents to accommodate the increase in Spanish speaking borrowers.

Responding to a question from Mr. Stoddard about the way top tier is defined, Mr. Feitz indicated UHEAA scored in the top tier for metrics performance and is well positioned for more volume. Mr. Feitz noted CornerStone remains a start-up operation after one year of business and is adapting to challenging circumstances with resiliency. He reiterated more volume is needed and noted the importance of maintaining UHEAA's infrastructure for future opportunities. Responding to a question from Mr. Campbell regarding current and projected expenses, Mr. Feitz confirmed UHEAA is controlling costs and has a profitable legacy portfolio, which will help serve as a bridge until more CornerStone volume is available. Responding to questions from Mr. Stoddard about whether the August 2013 date is firm and what reasons ED could give for not allocating more volume to UHEAA, Mr. Feitz indicated the August date was provided by ED. He indicated the possible effects of Federal budget reductions are unknown but that UHEAA continues to perform well under ED's metrics. He indicated UHEAA's relatively small size is its largest obstacle.

Mr. Feitz indicated sequestration has been in place since March 1, 2013, and it is still not clear if or how it will affect UHEAA. He noted the Supplemental Educational Opportunity Grant and College Work Study program, which are heavily relied upon by Utah students, are scheduled for cuts.

Mr. Feitz reported on a presentation he gave to a large group of staff for freshman Congressmen and Senators at the EFC Capitol Hill Day in February. Mr. Feitz described a new student loan model the industry continues to support that would combine public and private partners and allow UHEAA to purchase loans from ED and provide local servicing thereby removing debt from the Federal balance sheet.

Mr. Feitz reported an ED review of CornerStone operations took place in February and produced no findings. He noted ED will return for a review of the Guarantor financial operations in April. He highlighted the Guarantor's continued strong financial performance and its best-in-the-nation Federal Reserve Ratio.

Mr. Feitz indicated the Nelnet conversion is progressing and is expected to save UHEAA \$6.2 million over seven years. Responding to questions from the Board about the initiation of the conversion and the existence of other servicing contracts, Mr. Feitz confirmed the conversion was initiated by UHEAA as a cost savings measure and the conversion will bring all legacy portfolio loans in-house.

Mr. Feitz indicated Regent Clyde has been designated as a member of the Private Activity Bond Authority Board, which deals with tax-exempt bonding. He reported on the annual UHEAA Financial Aid Directors Forum hosted in St. George earlier in March. He summarized the historical funding of the need-based UHEAA Grant, totaling more than \$10 million since inception, with a \$100,000 restart in 2013. He noted several university presidents have expressed appreciation for the program and shared the story of a student who was able to stay in school because of a UHEAA Grant award. Mr. Feitz announced Michael Nemelka has been selected to become the President and CEO of New Mexico Student Loans and expressed appreciation for his 10 years of service at UHEAA and his key role in developing UHEAA's servicing operation.

It was moved by Mr. Alter and seconded by Ms. Sweeten to pass a motion of appreciation for the service of Michael Nemelka at UHEAA. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report II-B, Pell Grant Program. Mr. Feitz remarked Pell Grants are heavily relied upon by Utah students. He highlighted the large increase in Pell Grant recipients and dollar amounts since 2009 when the downturn in the economy occurred. He noted Utah schools received a total of \$414 million in Pell funds for 119,000 students in the 2011-2012 award year. Responding to questions from Mr. Stoddard about the percent of Pell recipients in Utah compared to nationally, Mr. Feitz indicated Utah has a higher percentage of recipients because of demographics. Commissioner Buhler commented on the disproportionately high use of Pell at proprietary schools. Mr. Feitz confirmed proprietary schools are under scrutiny. Mr. Feitz remarked Utah is also 50th in the nation for need-based aid at a state level.

The next agenda item discussed was UHEAA Board Report II-C, UHEAA: Five-Year Financial Projections. Mr. Schwanke remarked Schedule 1 separates legacy portfolio and CornerStone servicing operations for the Loan Purchase Program. He indicated the yield on student loans to UHEAA is tied to LIBOR, and the difference between that rate and borrower interest revenue is returned in the form of Special Allowance. He noted bond interest is also indexed to LIBOR. He outlined several assumptions contained in the projections, including a 7-10% annual amortization of the portfolio, an increase in LIBOR to 1.5% over the next five years, and the transfer of the Nelnet portfolio in-house by June 30, 2013. He remarked CornerStone operations are expected to break even at about 500,000 accounts.

Mr. Schwanke noted the change in net assets is projected to be positive in all years except 2013, when past origination fees and certain other costs will be cleared from the balance fee and charged as a non-cash expense in accordance with accounting rules contained in GASB 65. The net assets are projected to increase from \$298 million to \$335 million over the five year timeframe. Responding to a question from Mr.

Campbell regarding the 2013 write-off of borrower benefit costs and the deferment of the gain on bond redemption, Mr. Schwanke confirmed the auditors instructed UHEAA to take the charge now and defer the gain.

Mr. Schwanke referred to Schedule 2 concerning the Loan Guaranty Program (LGP) Operating Fund. He noted revenue is derived mostly from collections on defaulted accounts and is expected to stay steady through 2014 and decline thereafter as the portfolio declines. He indicated operating expenses will be reduced by 3% per year to keep expenses under projected revenues. He remarked operating income is expected to stay above \$1 million per year through 2018 and noted this program is in wind down. He noted net assets are projected to climb from \$14 million to \$17 million over the five years. Turning to the LGP Reserve Fund, which is used to pay claims, Mr. Schwanke indicated the fund has the highest reserve ratio in the country, the net assets are stable, and there is sufficient liquidity to pay claims.

The next agenda item discussed was UHEAA Board Report II-D, UHEAA Community Outreach Update. Mr. Nemelka pointed to the handouts provided to the Board that summarize UHEAA's outreach activities for the period of December 31, 2012 to March 4, 2013.

The next agenda item discussed was UESP Board Report III-A, UESP Informational Reports. Ms. Ward reviewed the FDIC-insured savings account interest rate comparison. The rates continue to go down, but Zions Bank is still paying more than a money market or regular savings account.

Ms. Sweeten asked if there are plans to have Zions Bank present again at a future Board Meeting. Ms. Ward said the primary contact at Zions Bank, Mr. George Hofmann, retired the end of last year. We will schedule them to present in a future Board Meeting. Ms. Ward stated that UESP plans to invite Vanguard to present to the Board in September 2013. Ms. Ward mentioned that the contract with Zions Bank is up for renewal next year.

Ms. Sweeten asked if there are plans to split investments between two banks. Ms. Ward stated that UESP may look at adding an additional bank. Ms. Ward spoke about some of the local advantages UESP has with Zions Bank. Ms. Ward said the relationship manager at Zions Bank has continued so there have been no service issues with Mr. Hofmann's retirement. UESP continues to have a quarterly review completed by an outside consultant on Zions Bank.

Ms. Ward highlighted several points in the UESP Outreach Report, under Tab III-A-2. Ms. Ward also highlighted some of the articles mentioning UESP. Ms. Ward noted the Program Description Supplement included in the board packet and stated that a new Program Description will be issued this summer. The last item under Report III-A is the latest UESP newsletter.

The next agenda item discussed was UESP Board Report III-B, UESP Executive Director's Report.

It was moved by Mr. Stoddard and seconded by Mr. Campbell to move into a closed session for the purpose of discussing fiduciary or commercial information as authorized in Utah Code Section 52-4-205. The motion carried unanimously.

It was moved by Mr. Stoddard and seconded by Mr. Alter to reconvene the UHEAA Board in open session. The motion carried unanimously.

It was moved by Mr. Alter and seconded by Ms. Sweeten to approve the program changes as represented on slide 16, the allocation of investments to the administrative fund as represented on slide 17, and the allocation of investments to the endowment fund as represented on slide 18. The motion carried unanimously.

Chair Marquardt formally recognized Mr. Combe entered the meeting during the closed session.

Chair Marquardt adjourned the meeting at 12:06 p.m.

*Dila Fitz*  
Executive Director, UHEAA

6/27/13  
Date