

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

June 27, 2013

Members Present

Mr. Edward Alter
Commissioner Dave Buhler
Mr. Arnie Combe
Mr. David Feitz
Mr. Fred Hunsaker, Vice Chair
Dr. Stephen Nadauld
Mr. Mark Stoddard
Dr. Norm Tarbox

Ms. Diane Johnson
Mr. Clive Killpack
Mr. Dee Larsen
Mr. Bob McRae
Mr. Jeremy Morrison
Ms. Margarit Nersisian
Mr. Paul Packard
Mr. Scott Pettett
Ms. Debbie Phillips
Ms. Ashley Reyes
Mr. Troy Runnells
Mr. David Schwanke
Ms. Carly Seely
Mr. Jimi Thompson
Ms. Lynne Ward
Mr. Randy Willardsen

Staff Present

Mr. John Andrus
Mr. Mike Atkinson
Ms. Maureen Brakke
Ms. Brenda Cox
Mr. Ronell Crossley
Mr. Charles Downer
Mr. Brian Elcock
Mr. Cody Hatch
Ms. Jenn Howard
Mr. Alex Janak

Others Present

Mr. Kevin Olsen
Assistant Attorney General

Mr. Hunsaker called the meeting to order and declared the presence of a quorum. Mr. Campbell, Mr. Marquardt, Ms. Sweeten, and Dr. Stauffer were excused.

Mr. Hunsaker welcomed Marlin Jensen to the UHEAA Board of Directors and noted Mr. Jensen was also excused.

Mr. Hunsaker recognized the service on the Board of Mr. Karras.

It was moved by Mr. Alter and seconded by Dr. Nadauld to approve the Resolution of Appreciation for Nolan Karras. The motion carried unanimously.

Mr. Hunsaker recognized the service of Mr. Marquardt as Chair of the Board.

Mr. Feitz introduced Cody Hatch as the new Information Security Officer.

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

The first agenda item discussed was UHEAA Board Report I-A, Minutes of the March 21, 2013 and May 2, 2013 Meetings.

It was moved by Mr. Stoddard and seconded by Dr. Nadauld to approve the minutes of the March 21, 2013 Board of Directors Meeting. The motion carried unanimously.

It was moved by Dr. Nadauld and seconded by Dr. Tarbox to approve the minutes of the May 2, 2013 Board of Directors Meeting. The motion carried unanimously.

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

It was moved by Dr. Tarbox and seconded by Mr. Combe to approve the Investment Reports. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-C, Report of the Audit Committee. Dr. Tarbox reported on several audits conducted by Federal auditors and Internal Audit staff. He noted engagement letters have been received from the State auditors and the audit team will remain the same as in past years. He commented on the importance of continuity with the State auditor team due to the degree of financial complexity in the programs. Responding to a question from Dr. Nadauld about the cost of the audit, Dr. Tarbox indicated the cost is fixed and is expected to increase this year. Dr. Tarbox reported on the efforts in business continuity and information security and summarized the direction information security will take under new leadership. Responding to a comment from Dr. Nadauld regarding the practice of hiring outside firms to test system security, Dr. Tarbox indicated UESP recently hired Accuvant to perform system penetration testing.

It was moved by Mr. Combe and seconded by Dr. Nadauld to accept the Report of the Audit Committee. The motion carried unanimously.

The next agenda item discussed was UESP Board Report II-A, UESP Executive Director's Report. Ms. Ward requested a motion to accept the UESP Budget.

It was moved by Dr. Tarbox and seconded by Mr. Stoddard to approve the UESP budget for Fiscal Year 2014 and the projected Fiscal Year 2013 budget, which includes a transfer of funding from the Administrative Fund to the Endowment Fund. The motion was carried unanimously.

The next agenda item discussed was UESP Board Report II-B, UESP Informational Report. Ms. Ward reviewed the items under this tab. The first attachment, II-B-1, was the recently issued UESP press

release. The next page, II-B-2, included the comparison of FDIC-insured savings account rates. Ms. Ward noted the health of Zions Bank is reviewed each quarter by an outside consultant. She spoke about the current rate Zions is paying, which is tied to the PTIF rate. She indicated an omnibus account has been set up at Zions Bank, the FDIC-insurance flows through to the account owner, and Zions Bank has no access to personal information for UESP's account owners. Ms. Ward mentioned she has spoken with Zions about paying UESP a rate more similar to that of an online savings account. UESP's contract requires Zions Bank to pay at least what the PTIF is paying.

Ms. Ward reviewed page II-B-3, UESP's Outreach Summary, as well as the attached articles mentioning UESP. She noted page II-B-9 included UESP's monthly returns; page II-B-10 was the April UESP newsletter; and page II-B-11 was UESP's new Program Description.

Responding to a question from Mr. Hunsaker about who requires UESP to put together a Program Description, Ms. Ward said the SEC and the Municipal Securities Rulemaking Board requires UESP to disclose what is offered.

The next agenda item discussed was UHEAA Board Report III-A, UHEAA Executive Director's Report. Mr. Feitz highlighted the accomplishment of positive projected operating income for Fiscal Years 2013 and 2014 (FY13 and FY14) for both the Loan Purchase Program (LPP) and the Loan Guarantee Program (LGP) in this challenging financial environment. He summarized UHEAA's current \$3.7 billion portfolio which consists of 221,000 student loan accounts. He commented on the progress of the Federal servicing contract and noted it is a start-up operation and more accounts are needed for economic viability. He recalled the Board's June 2010 action in favor of preserving UHEAA's infrastructure to pursue Federal loan servicing and indicated future federal student loan policy remains unknown.

Responding to a question from Dr. Nadauld regarding timing for more volume, Mr. Feitz reported the Department does not intend to make more allocations in Federal FY13 to the not-for profit (NFP) servicers due to sequestration, the Department's indicated need for more time to evaluate metrics, and limited funds for the NFP program. He noted more information is expected sometime after September 30, 2013. Responding to questions from the Board about UHEAA's metrics, Mr. Feitz remarked UHEAA received the highest score for overall U.S. Department of Education satisfaction among NFP servicers. Responding to a question from Dr. Nadauld about the expected size of future allocations, Mr. Feitz indicated UHEAA's metrics are competitive, but if the process is politicized the size of future allocations may be affected. He remarked UHEAA is working toward legislation with other NFP servicers and student loan trade associations to create a path for more NFP volume. He noted the proposal was going to be attached to the student loan interest rate bill, but it seems unlikely to pass through Congress before the July 1 deadline. He thanked Commissioner Buhler for his continued support.

Mr. Feitz discussed three recent Department of Education reviews: a February review of the CornerStone servicing operation, an April review of the guaranty agency, and a May review of UHEAA internal controls, all of which had no findings. Responding to a question from Mr. Stoddard about the performance of other agencies on these reviews, Mr. Feitz reported the results are not publically released, but anecdotally others have had findings. Mr. Feitz indicated a fourth audit is scheduled for August to review LGP's default claims processing.

Mr. Feitz reiterated with UHEAA's good metric performance and clean audits, there is no reason for the Department not to allocate more volume. Responding to a question from Dr. Tarbox about changes in the political climate that may affect allocations, Mr. Feitz confirmed more volume is anticipated based on Senator Harkin's comments, which identified 100,000 accounts as the minimum. He indicated UHEAA has performed well, but future Department decisions are still unknown. He noted without more volume, UHEAA would need to exit the servicing business. Commissioner Buhler indicated political affiliations and the ease of dealing with fewer, large servicers may impact the process. Responding to a question from Dr. Nadauld about whether Utah's legislative delegation is able to help, Commissioner Buhler remarked they are supportive, but unable to have any effect at this time.

Responding to a question from Mr. Hunsaker about initial allocations for other NFPs, Mr. Feitz confirmed all NFPs received 100,000 accounts, but some have partnered with other agencies in subcontracting arrangements by sharing the revenue, allowing the accumulation of more accounts. Responding to another question from Mr. Hunsaker about differential in future allocations, Mr. Feitz remarked UHEAA's metrics are top tier, which should lead to larger allocations. Responding to a question from Dr. Nadauld about the possibility of buying accounts from struggling agencies, Mr. Feitz indicated it may be a possibility, but UHEAA's preferred model is to buy loans from the Federal government, finance them through bonding, and service them locally. He noted this model is being pushed in Washington and gaining traction with the Treasury because it would reduce the Federal deficit. Responding to a question from Commissioner Buhler about whether the Department is continuing to allocate to other servicers, Mr. Feitz confirmed new loans are going to the four large servicers, Sallie Mae, Great Lakes, PHEAA, and Nelnet, collectively known as the Title IV Additional Servicers or TIVAS.

Mr. Feitz reported the Nelnet conversion was completed mid-May, which transferred servicing for \$343 million in loans for 22,000 borrowers from Nelnet to UHEAA's in-house servicing. He indicated the transfer will provide \$6.2 million in savings over seven years and will provide borrowers with UHEAA's local servicing.

Mr. Feitz summarized historical funding for the UHEAA Grant, a need-based grant awarded to students with substantial financial need. He noted \$200,000 in funding is proposed for FY14. He pointed to letters of appreciation from university presidents and remarked the program is a great benefit to Utah students and an example of the importance of maintaining UHEAA's viability.

The next agenda item discussed was UHEAA Board Report III-B, Fiscal 2014 Student Loan Operating Budget. Mr. Schwanke reviewed the LPP budget for FY14. He outlined key assumptions, including amortization of the legacy portfolio to \$1.25 billion and a decline in the outstanding bond balance to \$1.16 billion by June 2014, as well as a 200,000 Federal servicing allocation in February 2014. He indicated portfolio revenue is expected to decline 10% with amortization and interest rates are expected to remain flat. He noted special allowance, which is tied to LIBOR, is expected to decline 10% as well. He remarked bond interest is also tied to LIBOR, which protects the portfolio's yield from interest rate volatility. Mr. Schwanke indicated the 2011A bond, a temporary letter of credit agreement, is expected to expire and will convert to a taxable floating rate note, which decreases the bond related expenses. He noted the Nelnet conversion will reduce the student loan servicing expense from \$9.1 to \$6.3 million in FY14 and a \$1 million conversion fee will be paid to Nelnet in FY13.

Responding to a question from Dr. Nadauld about LPP operating income if the CornerStone allocation is not received, Mr. Schwanke remarked it would still be positive, but the CornerStone bottom line will worsen as fixed costs will be spread over fewer accounts. Responding to a question from Dr. Tarbox about the breakeven point, Mr. Schwanke confirmed breakeven for CornerStone occurs at approximately 500,000 accounts.

Mr. Schwanke noted the \$2 million provision for interest arbitrage is related to the VCAP agreement and the elimination of a \$10 million liability. He indicated the \$34 million non-operating revenue charge is due to changes in accounting rules outlined in GASB 65 provisions, which allow for the immediate recognition of unamortized costs. He remarked the charge will reduce the fund balance in FY13, but it will relieve the balance sheet from non-cash items going forward and allows for a clearer picture of operating income. He highlighted the projected FY14 operating income of \$2.3 million and ending net asset balance of \$300 million.

Mr. Schwanke turned to the combined LGP FY14 budget. He recalled UHEAA controls the Agency Operating Fund and the Student Loan Reserve Fund is the property of the U.S. government and is primarily used to pay claims. He noted LGP is not issuing any new guarantees and is a static program. He summarized expected claim activity for the year. He indicated collection fee income is assumed to remain at about 16% of collected dollars and is expected to decline to \$7.7 million, the account maintenance fee is expected to decline with the portfolio, and total revenue is expected to be about \$54 million. He remarked total operating income is expected to be \$1.7 million and net assets are expected to increase by \$1.8 million. He noted ending net assets are projected to be about \$60 million, of which UHEAA controls about \$15.5 million.

It was moved by Dr. Nadauld and seconded by Mr. Alter to approve the Fiscal Year 2013 UHEAA Operating Budget. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report III-C, UHEAA Community Outreach Update. Mr. Feitz remarked UHEAA continues to play an important role in outreach to help students pay for college, all free of charge as part of UHEAA's public service mission. He commended UHEAA's outreach team for their tremendous work in hosting 43 pay for college events that reached nearly 5,000 people last quarter. He highlighted UHEAA's continued active social media presence and its recent "Scholarship Stories Contest" in which it awarded nearly \$12,000 in scholarships to seven students.

Mr. Hunsaker adjourned the meeting at 11:54 a.m.

Executive Director, UHEAA

Date