

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 5, 2014

**Members Present**

Mr. Edward Alter  
Mr. Dan Campbell  
Mr. Arnie Combe  
Mr. David Feitz  
Mr. Fred Hunsaker  
Mr. Robert Marquardt  
Dr. Gregory Stauffer  
Mr. Mark Stoddard, Chair  
Dr. Norm Tarbox

Ms. Margarit Nersisian  
Mr. Ryan Nilsen  
Mr. Jeremy Morrison  
Mr. Paul Packard  
Ms. Debbie Phillips  
Ms. Ashley Reyes  
Mr. Steve Rogers  
Mr. Troy Runnells  
Mr. David Schwanke  
Mr. Jimi Thompson  
Ms. Lynne Ward  
Mr. Randy Willardsen

**Staff Present**

Ms. Christina Burns  
Mr. Ronell Crossley  
Mr. Richard Davis  
Mr. Charles Downer  
Mr. Greg Dyer  
Mr. Alex Janak  
Mr. Bob McRae

**Others Present**

Mr. Kevin Olsen  
Assistant Attorney General  
Mr. Spencer Pratt  
Legislative Fiscal Analyst

Chair Campbell called the meeting to order at 10:10 a.m. and declared the presence of a quorum. Commissioner Buhler, Ms. Church, Mr. Jensen, and Dr. Nadauld were excused.

Chair Campbell announced his appointment as Chair of the Utah State Board of Regents. He introduced Mr. Stoddard as the new Chair of the UHEAA Board of Directors, and turned the time over to Mr. Stoddard to conduct the meeting.

It was moved by Dr. Tarbox and seconded by Mr. Marquardt to move into 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. Marquardt and seconded by Mr. Alter 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 February 20, 2014 Meeting.

It was moved by Mr. Hunsaker and seconded by Mr. Alter to approve the minutes of the February 20, 2014, Board of Directors Meeting. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-B, Investment Reports. Mr. Schwanke summarized investment activity for the months of January 2014 to March 2014.

It was moved by Mr. Marquardt and seconded by Dr. Tarbox 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 a UESP FDIC coverage review performed by an external banking consultant. He indicated audit staff and the consultant are confident with the new banking relationships and UESP's FDIC eligibility. Dr. Tarbox reported on a WyoLoan due diligence review performed by internal audit staff to test the portfolio quality prior to purchase. He expressed high confidence in the audit staff and management. Dr. Tarbox summarized the results of a physical security walkthrough conducted by internal audit staff. He noted several improvements were suggested and are being implemented. Lastly, Dr. Tarbox reported on a background check procedure review conducted by internal audit after a vendor for Federal background checks was found to be fraudulent. He confirmed confidence in the process for UHEAA's in-house background checks, which are completed for all employees, and in addition to Federal background checks for staff working on the Federal contract.

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

The next agenda item discussed was UHEAA Board Report II-A, Fiscal 2015 Student Loan Operating Budget. Mr. Schwanke summarized budget assumptions for the Loan Purchase Program (LPP), including amortization of the portfolio from \$1.47 billion to \$1.33 billion by June 2015; a decrease in bonds outstanding from \$1.27 billion to \$1.19 billion in the same period; an addition of 500,000 accounts to the Federal contract portfolio; and \$200,000 for the need-based UHEAA Grant program. Responding to questions from the Board, Mr. Schwanke clarified the additional Direct Loan accounts are assumed to be added to the portfolio incrementally beginning October 2014.

Mr. Schwanke outlined several key financial assumptions for the LPP budget, including an increase in the student borrowing rate to 4.31%; completion of a \$300 million bonding deal in July 2014 to secure permanent financing to replace the letter of credit temporary financing used to purchase the Wyoming portfolio; and a slight increase in interest rates. He noted both the bonds and the student loan portfolio are indexed to LIBOR, providing a hedge against interest rate volatility. Responding to a question from Mr. Campbell about the guaranteed amount on the portfolio, Mr. Schwanke confirmed the Loan Guarantee Program (LGP) guarantees the entire portfolio and assumes a 5% risk share on accounts which default with the Department of Education (ED). He noted UHEAA holds approximately \$3 million in reserves based on historical claim rates.

Mr. Schwanke turned to Schedule 1, the LPP income statement. He noted the student loan interest is projected to stay relatively flat. He indicated UHEAA's yield is the difference between student loan interest and special allowance fees paid to ED. He remarked CornerStone is projected to end Fiscal 2015 slightly above breakeven because of the assumed addition of 500,000 accounts. He noted bond interest is

projected to increase, due largely to the refinancing of the \$300 million letter of credit. Responding to a question from Mr. Campbell about the CornerStone breakeven assumption, Mr. Schwanke confirmed the additional accounts reduce expected costs enough to produce a slight positive margin. Mr. Schwanke highlighted the projected increase in net position by \$7.5 million in Fiscal 2015. Responding to a question from Mr. Marquardt about the change in operating income in the event of no additional CornerStone volume, Mr. Schwanke indicated it would decrease by \$1-2 million as the legacy portfolio would assume some additional fixed costs. Mr. Campbell attributed the relatively small operating income decrease in that scenario to a more optimistic outlook for the legacy portfolio.

Mr. Schwanke pointed to Schedule 2, the LPP balance sheet. He summarized the asset and liability balances and highlighted the positive fund balance.

Mr. Schwanke outlined Schedule 3, the LGP balance sheet. He noted the collection fee income is projected to decline from over \$7 million to \$4.8 million in Fiscal 2015. He attributed the drop to the cut in retention for loan rehabilitation. He noted LGP Operating Fund expenses were cut significantly and the financial assistance budget was moved to LPP to accommodate the \$2.7 million projected decrease in collection fee income.

Mr. Schwanke summarized Exhibit B, the fund balance breakdown for LPP & LGP. He remarked the majority is restricted in the bond indentures or property of the Federal government and the remaining is reserved for future projects, bond refinancing, funding of rehabilitation loans, and working capital.

It was moved by Mr. Campbell and seconded by Mr. Marquardt to approve the Fiscal Year 2015 Student Loan Operating Budget. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report II-B, UHEAA Longer-Term Investment Options. Mr. Schwanke explained UHEAA management has been exploring longer-term investment option for funds which are not expected to be needed in the short term. . He noted UHEAA's options are limited by the Money Management Act and only unencumbered funds were considered for the longer-term investments. He reported the projected unencumbered fund cash balance is \$60 million in 2015 and as low as \$14 million in 2017, making a 24-36 month investment timeframe optimal. He remarked UHEAA could earn an estimated \$400,000 more over that timeframe with longer-term investment options. Responding to a question from Mr. Campbell about whether an amount of truly idle cash could be committed for longer to take advantage of higher yields, Mr. Schwanke indicated a specific amount is impossible to project due to the potential need to fund future projects, including a supplemental loan program and opportunities to purchase other portfolios. He confirmed UHEAA will continue to refine the analysis.

The next agenda item discussed was UHEAA Board Report III-C, UHEAA Community Outreach Update. Mr. Davis summarized outreach activity for the previous quarter. He remarked the Outreach team hosted 78 events with over 5,000 in attendance, focused largely on train-the-trainer sessions and FAFSA completion nights. He highlighted the many thank you notes and expressions of gratitude received from students, parents, and counselors. He noted UHEAA has taken on a new Federally-appointed task of publishing FAFSA completion statistics for the state.

The next agenda item discussed was UESP Board Report III-A, UESP Executive Director's Report. Ms. Ward requested a motion to approve the Projected Fiscal Year 2014 Budget and the Fiscal Year 2015 Budget for UESP, as presented in the closed session.

It was moved by Mr. Marquardt and seconded by Mr. Hunsaker to approve the UESP budget for Fiscal Year 2015 and the projected Fiscal Year 2014 budget. The motion was carried unanimously.

Ms. Ward requested a motion to approve the delegation of any UESP fee modification decisions to Executive Director Ward for Fiscal Year 2015.

It was moved by Mr. Marquardt and seconded by Chair Campbell to delegate UESP fee modification decisions to Executive Director Ward for Fiscal Year 2015. The motion was carried unanimously.

Ms. Ward requested a motion to approve the UESP Investment Reports for the Administrative and Endowment Funds for April 2014, as presented in the closed session.

It was moved by Chair Campbell and seconded by Mr. Hunsaker to approve the April 2014 UESP Investment Reports. The motion was carried unanimously.

The next agenda item discussed was UESP Board Report III-B, UESP Informational Report. Ms. Ward reviewed the FDIC-insured account interest rate comparison under Tab III-B-1. She indicated the FDIC-insured accounts were moved from Zions Bank to Sallie Mae Bank (90%) and U.S. Bank (10%) on April 9, 2014.

Ms. Ward highlighted several points in the UESP Outreach Summary, under Tab III-B-2. She highlighted a press release issued on April 4, 2014, to announce the opening of the 250,000th account, under Tab III-B-6. She pointed to a second press release issued on April 22, 2014, when UESP reached \$7 billion in assets under management, under Tab III-B-7. Ms. Ward reviewed the Investment Option Performance as of April 30, 2014, under Tab III-B-8. She noted the April 2014 Newsletter under Tab III-B-9. Ms. Ward discussed the March 17, 2014 Supplement, under Tab III-B-10, and the April 8, 2014 Supplement, under Tab III-B-11.

Chair Stoddard adjourned the meeting at 12:25 p.m.

---

Executive Director, UHEAA

---

Date