

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

December 4, 2014

Members Present

Mr. Edward Alter
Ms. Lisa-Michele Church
Mr. Arnie Combe
Mr. David Feitz
Mr. Fred Hunsaker
Mr. Marlin Jensen
Dr. Stephen Nadauld
Mr. Harris Simmons
Dr. Gregory Stauffer
Mr. Mark Stoddard, Chair
Dr. Norm Tarbox

Ms. Debbie Phillips
Ms. Ashley Reyes
Mr. Troy Runnells
Mr. Todd Schneider
Mr. David Schwanke
Mr. Travis Soto
Mr. Jimi Thompson
Ms. Lynne Ward
Mr. Randy Willardsen
Ms. Audry Wood

Staff Present

Ms. Christina Burns
Mr. Ronell Crossley
Mr. Scott Dansie
Mr. Richard Davis
Mr. Charles Downer
Mr. Alex Janak
Mr. Bob McRae
Mr. Paul Packard

Others Present

Mr. Bruce Miller
TrueNorth Wealth
Ms. Kathryn Mong
Dimensional Fund Advisors
Mr. Kevin Olsen
Assistant Attorney General
Mr. Spencer Pratt
Legislative Fiscal Analyst
Mr. Ashish Shrestha
Dimensional Fund Advisors

Chair Stoddard called the meeting to order at 10:04 a.m. and declared the presence of a quorum. Commissioner Buhler and Mr. Marquardt were excused.

It was moved by Mr. Hunsaker and seconded by Mr. Alter to convene in 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. Hunsaker 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 August 28, 2014 Meeting.

It was moved by Mr. Hunsaker and seconded by Mr. Jensen to approve the minutes of the August 28, 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 July 2014 to September 2014.

It was moved by Dr. Nadauld and seconded by Ms. Church 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.

It was moved by Dr. Tarbox and seconded by Mr. Alter to accept the Report of the Audit Committee as presented in closed session. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-D, Proposed Fiscal Year 2016 Meeting Schedule. Mr. Feitz presented proposed meeting dates of for Fiscal Year 2016 and reviewed the previously approved remaining Fiscal Year 2015 meeting dates.

It was moved by Dr. Stauffer and seconded by Ms. Church to approve the Fiscal Year 2016 Meeting Schedule. The motion carried unanimously.

The next agenda item discussed was UESP Board Report II-A, UESP Executive Director's Report. Ms. Ward reviewed changes made to the Investment Policy Statement approved by the UESP Investment Advisory Committee on November 13, 2014.

It was moved by Mr. Alter and seconded by Mr. Harris to approve the UESP Investment Reports for the Administrative and Endowment Funds for September 30, 2014. The motion carried unanimously.

It was moved by Mr. Hunsaker and seconded by Dr. Nadauld to approve changes made to the UESP Investment Policy Statement. The motion carried unanimously.

It was moved by Mr. Simmons and seconded by Mr. Jensen to approve two additional funds to be offered in UESP's investment options. The motion carried unanimously.

The next agenda item discussed was UESP Board Report II-B, UESP Informational Report. Ms. Ward reviewed the FDIC-insured account interest rate comparison under Tab II-B-1. Ms. Ward highlighted UESP's mailer that was sent to rural Utahns. She commented on the "Make Your Mark" bookmark contest—a great partnership with Zions Bank, which received over 2,000 entries from all over Utah. Ms. Ward highlighted UESP's "Gold" rating, given by Morningstar, and the associated article under Tab II-B-6. Ms. Ward reviewed Investment Option Performance as of October 31, 2014, under Tab II-B-7. She noted the October 1, 2014 Supplement discussing UESP's lower Administrative Mail Delivery Fee under Tab II-B-8, as well as the UESP Newsletter under Tab II-B-9.

The next agenda item discussed was UHEAA Board Report III-A, UHEAA Executive Director's Report. Mr. Feitz recalled CornerStone has met or exceeded all Department of Education (ED) requirements and has had strong performance in all five metric categories. He remarked CornerStone, tied with MOHELA, led the nation in servicing metrics for Not-For-Profit (NFP) servicers. He noted CornerStone has the lowest delinquency rate among all servicers at 3.84%. He indicated CornerStone's late-state delinquency management group has increased resolution of accounts near default by 470% since September 2013 using a variety of techniques, including creative email campaigns and enhanced skip tracing. Mr. Feitz announced CornerStone was the sole servicer chosen for a pilot with ED for late-state delinquency efforts.

Mr. Feitz indicated CornerStone was informed the three lowest performing NFPs would not continue in the program, but those servicers were unexpectedly reinstated a week later after those NFPs' congressional delegations contacted ED. He reported ED submitted draft allocations where MOHELA would receive 50% of the NFP volume and CornerStone would receive only 4%, despite being tied first place metrics, to which UHEAA submitted an objection. He remarked ED weighted the number of team members over performance in its allocation methodology. Mr. Feitz recalled agencies without capacity to become a Federal servicer teamed with other agencies, with MOHELA and ESA collecting the most team members due to existing servicing contracts under the prior student loan program. He indicated team members did not invest to become a servicer and did not perform any servicing or contribute to achieving performance metrics.

Mr. Feitz reviewed UHEAA's meeting with ED in September, where ED acknowledged the unfairness of allocations and said performance, not teaming arrangements, would be used the following year, which was confirmed in writing shortly after. He noted ED expressed openness to other arrangements for CornerStone volume this year. He indicated CornerStone submitted a proposal, which received favorable feedback from ED, but noted UHEAA has not heard anything since early November. Responding to a question from Ms. Church regarding the political environment, Mr. Feitz noted the challenges of the political climate but indicated UHEAA can only influence the metrics. He commented teaming was never part of UHEAA's business strategy but believed strong performance would result in additional loan volume as stated in the servicing contract with ED.

Responding to a question from Dr. Nadauld about the potential for a change in the student loan model, Mr. Feitz confirmed Republicans do not favor a centralized student loan program funded by taxpayer dollars, but timing for a potential change in student loan policy remains unknown. Dr. Nadauld remarked UHEAA's strategy in pursuing servicing revenue to preserve infrastructure has remained consistent. Mr. Feitz indicated management does not recommend exiting the Federal servicing program now, but will not hesitate to exit if it becomes clear the necessary servicing volume will not be allocated to UHEAA in the near future. Ms. Church requested an analysis of factors UHEAA will consider in making its decision. Responding to a question from Ms. Church about the breakeven point, Mr. Feitz indicated Federal servicing fees increased beginning October 1 and breakeven will occur at about 500,000 accounts depending on the portfolio mix.

Mr. Feitz remarked UHEAA has favorable expectations for Federal servicing in 2015 with the written acknowledgement of performance-based volume and access to ED's Common Origination and Disbursement system. Mr. Feitz outlined UHEAA's three-pronged approach for Federal servicing: focus on leading the metrics, strengthen relationships with ED, and look for a political solution. He noted Utah's full Congressional delegation sent a letter asking ED for a meeting and UHEAA has a meeting scheduled with Senator Alexander's lead education staffer later in December.

Responding to a comment from Chair Stoddard about the timing of UHEAA's decision for continuing in the program, Mr. Feitz confirmed a decision will be made in early 2015 and servicing the portfolio through the summer will require less than half a percent of UHEAA's fund balance. Mr. Feitz indicated a revised budget would be presented to the Board in February 2015, and net income is projected to be \$4.1 million on June 30. Dr. Nadauld remarked UHEAA continues to have a strong operation that produces positive net income and it needs to stay the course for now as Washington policy can change. Mr. Feitz noted UHEAA does have staying power, but management will recommend exiting the program if there is not a viable path to volume and profitability.

Mr. Feitz summarized UHEAA's portfolio. He reiterated the accomplishment of strong performance on Federal servicing metrics. He highlighted several other accomplishments UHEAA has achieved in 2014, including the

purchase of the Wyoming portfolio; the completion of a total debt restructure of more than \$1.3 billion; a \$75.7 million increase in UHEAA's net equity; strengthened business development with the hiring of a new business development and marketing director; the continuation of UHEAA's RepayCentsibly default prevention efforts; clean financial statement audits; implementation of the new Veteran's Tuition Gap Program; a low 4.7% cohort default rate compared to a 13.7% national average; continued support for the financial aid community with training and conferences; contributions of \$820,000 to support scholarships and the Office of the Commissioner; \$10.3 million in borrower benefits; \$176,000 in UHEAA Grants; and \$13 million in rehabilitated loans for 1,067 borrowers.

Mr. Feitz indicated UHEAA will launch a supplemental loan program for students in high-cost, high-demand programs. Responding to questions from Dr. Nadauld and Chair Stoddard about target volume and interest rates, Mr. Feitz noted the program will begin small as a pilot with strong underwriting guidelines. He indicated rates would be in the 6% range, compared to the current 7.21% rate for Federal PLUS loans.

Mr. Feitz remarked UHEAA needs its people to accomplish its goals and highlighted six staff members who were recognized for living the vision. Dr. Nadauld expressed his support for Mr. Feitz and the UHEAA staff and called for a motion of commendation.

It was moved by Dr. Nadauld and seconded by Mr. Alter. The motion carried unanimously.

The next agenda items discussed were UHEAA Board Reports III-B, Pell Grants, and III-C, Student Loan Default Rates. Mr. Feitz remarked the purpose of UHEAA and its Board is to help students pay for college. He pointed to Attachment 4 of the Pell Grant report, which illustrates the heavy use of Pell Grant by Utah students. He reported UVU and BYU are the largest recipients of Pell Grant dollars, accounting for nearly \$100 million of the \$406 million annual total.

Mr. Feitz highlighted UHEAA's recent 4.7% cohort default rate, which is nearly a third of the national average of 13.7%. He indicated most Utah institutions continue to compare favorably to their peer groups for cohort default rates, although open enrollment schools tend to have higher rates. He noted the hardest students to collect from are those who do not complete their education.

The next agenda item discussed was UHEAA Board Report III-D, UHEAA Community Outreach Update. Mr. Davis summarized UHEAA outreach activity for the past quarter. He noted outreach staff trained more than 100 counselors on financial aid, with heavy online participation this year. He remarked UHEAA's paying for college events had more than 5,000 student and parent attendees this fall. He indicated FAFSA completion will be the focus of the outreach group in the coming six months. He reported social media activity is strong and continues to grow.

Chair Stoddard adjourned the meeting at 12:07 p.m.

Executive Director, UHEAA

Date