

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

February 19, 2015

Members Present

Mr. Edward Alter
Commissioner David Buhler
Ms. Lisa-Michele Church
Mr. Arnold Combe
Mr. David Feitz
Mr. Fred Hunsaker
Mr. Marlin Jensen
Mr. Robert Marquardt
Dr. Stephen Nadauld
Mr. Mark Stoddard, Chair
Dr. Norm Tarbox

Mr. Alex Janak
Mr. Bob McRae
Ms. Kristie Pederson
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

Mr. Ben Aguayo
Ms. Christina Burns
Mr. Ronell Crossley
Mr. Scott Dansie
Mr. Richard Davis
Mr. Charles Downer

Others Present

Mr. Lee Donner
First Southwest
Mr. Mac Haddow
Upstream Consulting
Mr. Kevin Olsen
Assistant Attorney General

Chair Stoddard called the meeting to order at 10:06 a.m. and declared the presence of a quorum. Mr. Simmons and Dr. Stauffer were excused.

It was moved by Mr. Hunsaker and seconded by Commissioner Buhler 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. Marquardt 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 December 4, 2014 Meeting.

It was moved by Mr. Marquardt and seconded by Mr. Alter to approve the minutes of the December 4, 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 October 2014 to December 2014.

It was moved by Mr. Jensen and seconded by Mr. Hunsaker 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 Mr. Alter and seconded by Mr. Hunsaker 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 II-A, UHEAA Executive Director's Report. Mr. Feitz recalled the challenging events of the previous five years in UHEAA's history. He pointed to UHEAA's legacy Federal Family Education Loan Program (FFELP) portfolio as its anchor business, which has and will continue to grow with the acquisition of other FFELP portfolios, capitalizing on economies of scale. Mr. Feitz shared the projected amortization schedule for the legacy portfolio and summarized the current size of the combined legacy and federal loan servicing portfolios.

Responding to a question from Ms. Church about the breakeven point for federal loan servicing, Mr. Feitz confirmed 500,000 accounts are still needed under the new fee structure for a viable business. Responding to a question from Mr. Marquardt regarding the losses attributable to CornerStone for the previous year, Mr. Schwanke noted losses were in the \$2.5 million range.

Mr. Feitz outlined UHEAA's current business development efforts, including its federal loan servicing contract, its new Complete Student Loans supplemental loan program, its Repay Centsibly default prevention product for schools, and its income driven repayment processing unit for PHEAA.

Mr. Feitz highlighted UHEAA's top metric score for the federal contract in the quarter ending June 30, 2014. He noted management's disappointment that performance on the metrics did not result in more volume.

Mr. Feitz reported four federal NFP servicing developments: 1) the U.S. Department of Education (ED) has issued written confirmation that teaming will not be considered for future allocations; 2) the new servicing fee schedule provides a 33% increase for in-repayment accounts; 3) CornerStone received a renewed three-year Authorization to Operate (ATO) in January 2015; and 4) CornerStone now has access to the Common Origination and Disbursement (COD) system for receiving new volume.

Mr. Feitz remarked a political solution is still needed for additional volume and viability. He indicated a clear path to volume is needed for business planning and projections. He noted the importance of balancing the timing of exiting the contract to limit losses with preserving UHEAA's infrastructure for potential opportunities. Mr. Feitz reported within the past 90 days UHEAA has visited all Utah congressional offices, made visits to the chief staffers for education committees in the House and Senate, and Utah's congressional delegation has sent a letter to U.S. Department of Education Secretary Arne Duncan. He pointed to recent recognition of a \$21.8 billion shortfall in the Direct Loan Program last year, the largest shortfall ever recorded for a government credit program.

Mr. Feitz introduced Mac Haddow, UHEAA's Washington consultant, who is a partner at Upstream Consulting. Mr. Haddow remarked his goal with clients is to build relationships and a positive reputation with congressional staffers. He indicated UHEAA's reputational standing and name recognition has increased, with many of Utah's delegation knowing Mr. Feitz by name. He noted efforts are paying off as ED has abandoned its teaming strategy for allocations. Mr. Haddow commented on the shortfalls in the Direct Loan Program and the possibility

for a shift back to the private sector for student loans. He recalled a political intervention that allowed three NFP servicers to remain in the program despite their comparative underperformance.

Responding to a question from Dr. Nadauld regarding the confidence UHEAA should place in ED, Mr. Haddow acknowledged the politicized environment with a Republican Congress and Democratic President. He noted Secretary Duncan may not know the full depth of the problem, but there has been a solid recognition of the unfairness in the allocation methodology from last August. He indicated the goal for the next allocation cycle is to secure a fair allocation, reflective of performance, and pressure must be kept on ED and Congress until then.

The next agenda item discussed was UHEAA Board Report II-B, Supplemental Student Loan Program.

Ms. Church commented on the importance of maintaining the projected growth pace for the program and the ability to hedge interest rate risk for future financing. She requested an update on growth projections at a future meeting, after the program is launched. Mr. Feitz indicated program updates would be given at each future meeting.

It was moved by Dr. Nadauld and seconded by Mr. Marquardt to approve a supplemental student loan program as presented in closed session. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report II-C, UHEAA Community Outreach Update. Mr. Davis pointed to the list of outreach events from the past quarter provided to the Board. He noted UHEAA Outreach trained 140 counselors on FAFSA completion and hosted more than 23 paying for college nights, which had more than 3,500 people in attendance.

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

It was moved by Mr. Jensen and seconded by Mr. Hunsaker to approve the UESP Investment Reports for the Administrative and Endowment Funds for December 31, 2014. The motion carried unanimously.

It was moved by Dr. Nadauld and seconded by Mr. Hunsaker to approve an additional fund to be offered in UESP's customized investment options. The motion carried unanimously.

The next agenda items discussed were UESP Board Report III-B, UESP Informational Report. Ms. Ward highlighted the February 2, 2015 UESP Program Description under Tab III-B-7. Ms. Ward noted the Vanguard Short-Term Inflation Protected Securities Index Fund share class change on January 30, 2015. She indicated UESP also added two Dimensional global funds to the customized investment options on February 2, 2015. Ms. Ward highlighted the Utah Senate Visual Arts Scholarship Competition, sponsored by Senate President Niederhauser, in which 26 Utah students were awarded UESP scholarships. Ms. Ward announced UESP reached \$8 billion in assets under management on February 18, 2015.

Chair Stoddard adjourned the meeting at 12:42 p.m.

Executive Director, UHEAA

Date