

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 24, 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
Mr. Harris Simmons
Mr. Mark Stoddard, Chair
Dr. Norm Tarbox

Mr. Richard Davis
Mr. Greg Dyer
Mr. Ryan Nilsen
Mr. Paul Packard
Ms. Ashley Reyes
Mr. Troy Runnells
Mr. Todd Schneider
Mr. David Schwanke
Mr. Travis Soto
Ms. Lynne Ward
Ms. Audry Wood

Staff Present

Ms. Christina Burns
Mr. Scott Dansie

Others Present

Mr. Kevin Olsen
Assistant Attorney General

Chair Stoddard called the meeting to order at 10:01 a.m. and declared the presence of a quorum. Dr. Nadauld and Dr. Stauffer 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. Jensen 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 19, 2015 Meeting.

It was moved by Mr. Hunsaker and seconded by Mr. Combe to approve the minutes of the February 19, 2015, 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 2015 to April 2015.

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

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

It was moved by Mr. Alter and seconded by Ms. Church to approve changes made to the UESP Investment Policy Statement, which was previously approved by the UESP Investment Advisory Committee on May 7, 2015. The motion carried unanimously.

It was moved by Mr. Hunsaker and seconded by Mr. Simmons to approve the UESP Fiscal Year 2016 budget and modifications to the UESP Fiscal Year 2015 budget. The motion carried unanimously.

It was moved by Mr. Marquardt and seconded by Mr. Simmons to approve the UESP Investment Reports for the Administrative and Endowment Funds for April 30, 2015. The motion carried unanimously.

The next agenda item discussed was UESP Board Report II-B, UESP Informational Report. Ms. Ward mentioned Clark Howard named UESP the "top 529 plan in the country." UESP receives many new accounts from his endorsement, which is based on his own industry research. Ms. Ward noted UESP released a new Program Description Supplement on April 16, 2015.

The next agenda item discussed was UHEAA Board Report III-A, UHEAA Executive Director's Report. Mr. Feitz reported the conversion and financing of the newly acquired portfolio is moving forward on schedule. He announced the first of four financings to retire the temporary warehouse facility was completed on June 12, 2015, with the remaining financings to take place over the next fiscal year. He noted UHEAA anticipates completing the conversion from ACS/Xerox in spring 2016.

Mr. Feitz remarked UHEAA was the top performing federal servicer in the nation for the most recent quarter, which was the first quarter all servicers were measured with the same standards. He indicated management recommends continuing in the federal contract and reassessing after the Department of Education (ED) announces new allocations in August 2015. He noted ED released written confirmation allocations will be based on performance.

Mr. Feitz reported UHEAA anticipates launching its new supplemental loan program, Complete Student Loans, at the end of the month. He announced Kim Allen has been hired as the product manager for the program, and indicated she comes from Mountain America Credit Union with extensive student loan program experience. He noted the program will begin as a pilot and will be student friendly, with an interest rate of 6.49%, a 0.50% interest rate reduction for automatic payments, no student fees, no prepayment penalty, and local servicing.

Mr. Feitz summarized key points in the Fiscal Year (FY) 2016 budget. He remarked the budget was impacted by one-time cost of issuance charges, totaling more than \$15 million, related to the recent portfolio acquisition, which must be charged in the year they are incurred. He indicated this heavily impacts both the FY 2015 and FY 2016 budgets, but noted operating income in FY 2017 and FY 2018 is projected to more than offset the one-time charges. Mr. Feitz reported the Loan Guaranty Program (LGP) is expected to decline in an orderly way over time and management intends to reduce expenses consistent with available revenues. He noted the LGP Agency Operating Fund will supplement operating budgets in future years to ensure an orderly wind down of the program.

Mr. Feitz remarked UHEAA's foundation is its trained people and its efficient computer system. He noted personnel and system expenses account for approximately two thirds of UHEAA's budget.

The next agenda item discussed was UHEAA Board Report III-B, Fiscal 2016 Student Loan Operating Budget. Mr. Schwanke pointed to Schedule I and noted the yield on the student loan portfolio is equal to the interest paid by borrowers minus special allowance, which is tied to LIBOR. He remarked both the yield and underlying bonds are indexed to LIBOR and move together with interest rate changes. Mr. Schwanke indicated the budget assumes a modest rising interest rate environment.

Mr. Schwanke explained the operating losses in the FY 2015 and FY 2016 are due to the one-time cost of issuance fees for the newly acquired portfolio, which must be taken as they are incurred according to current accounting rules. Mr. Schwanke noted the charge for uninsured claims, which represents the potential 3% risk share on the acquired portfolio. Mr. Schwanke indicated UHEAA expects to gain efficiencies on the new portfolio after the initial settling period.

Mr. Schwanke noted Complete Student Loans will be a start-up program in the coming year and is not anticipated to break even.

Mr. Schwanke indicated the budget for CornerStone assumes 130,000 new account, which is a reasonable and conservative estimate based on the national volume and past performance. He remarked UHEAA will analyze this budget again after the August 2015 allocations announcement.

Mr. Schwanke remarked the UHEAA will manage expenses to meet the declining revenue in the LGP budget. He noted both the Agency Operating Fund, which UHEAA controls, and the Federal Reserve Fund, which is owned by ED and used to pay claims, are in a healthy position. He reported UHEAA continues to have the highest reserve ratio in the nation.

It was moved by Mr. Marquardt and seconded by Mr. Hunsaker to approve the Fiscal Year 2016 Student Loan Operating Budget. The motion carried unanimously.

Chair Stoddard adjourned the meeting at 10:49 a.m.

Executive Director, UHEAA

Date