



UTAH SYSTEM OF HIGHER EDUCATION

EXECUTIVE DIRECTOR'S REPORT

UHEAA Board of Directors

August 27, 2015



UHEAA's strategic business priorities

- Bank of America portfolio
- Federal servicing
- Supplemental loans
- Business development
 - PHEAA document processing
 - Default prevention services for institutions



Successful purchase: Student loan portfolio

- Wyoming portfolio completed February 26, 2014
 - \$208 million
 - 14,900 borrowers
 - 46,250 loans
- Successful financing and conversion
- Performing well and according to plan



Successful purchase: Student loan portfolio

- Bank of America purchase completed February 23, 2015
 - \$1.63 billion
 - 174,000 borrowers
 - 226,000 loans

Bank of America



Successful purchase: Student loan portfolio

- Temporary “warehouse” financing in place with Royal Bank of Canada
- Warehouse facility: retire with a series of permanent financings
- Projected schedule:
 - Summer 2015 (completed)
 - Fall 2015
 - Spring 2016
 - Summer 2016



Successful purchase: Student loan portfolio

- \$415.5 million student loan revenue bond completed June 12, 2015



PRELIMINARY OFFERING MEMORANDUM DATED MAY 28, 2015

NEW ISSUE—BOOK ENTRY ONLY

STATE BOARD OF REGENTS OF THE STATE OF UTAH
Student Loan Backed Notes, Series 2015-1
(LIBOR-INDEXED NOTES)

The State Board of Regents of the State of Utah (the "Board") under the laws of the State of Utah (the "State") is issuing \$415,500,000* aggregate principal amount of its Student Loan Backed Notes, Series 2015-1 (LIBOR-Indexed Notes) (the "notes") in two series as set forth below:

Series	Original Principal Amount	Interest Rate	Price to Public	Final Maturity Date	Expected Ratings Fitch/S&P ¹
Senior Series A	\$408,500,000*	One-Month LIBOR plus ___%	___%	February 25, 2043*	AAAsf / AA+(sf)
Subordinate Series B	\$7,000,000*	One-Month LIBOR plus ___%	___%	May 25, 2043*	Asf / Not Rated

*See the caption "RATINGS" herein.

Credit enhancement for the notes will consist of overcollateralization, excess spread, cash on deposit in certain funds created under the Indenture (as defined herein), and, for the Series A Notes, the subordination of the Series B Notes, as described in this Offering Memorandum.

The notes shall be issued in fully registered form only, without coupons, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC is to act as securities depository for the notes. Individual purchasers of the notes are to be made in book-entry form only in the principal amount of \$100,000 and integral multiples of \$1,000 in excess thereof. Principal and interest on the twenty-fifth day (or the next business day if it is not a business day) of each calendar month as described in this Offering Memorandum, commencing July 27, 2015. Receipts of principal and certain other payments received on the student loans held in the trust estate established under the Indenture will generally be allocated for payment of principal first to the Series A Notes until paid in full and then to the Series B Notes until paid in full. All payments of principal of either series of the notes through DTC, will be treated by DTC, in accordance with its rules and procedures, as "Pro Rata Pass-Through Distributions of Principal."

Investors should consider carefully the risks involved in purchasing the notes, including those described under the caption "RISK FACTORS" herein.

THE NOTES ARE SPECIAL, LIMITED OBLIGATIONS OF THE BOARD, AND ARE PAYABLE SOLELY OUT OF THE REVENUES, ASSETS AND FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. IN ADDITION, THE NOTES DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF UTAH OR ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF UTAH OR ANY POLITICAL SUBDIVISION THEREOF. THE BOARD HAS NO TAXING POWER.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY OTHER ACT OF 1939, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS SET FORTH IN SUCH ACTS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

The Board is not registered or required to be registered as an "investment company" under the Investment Company Act of 1940, as amended, pursuant to Section 2(b) thereof, and is not a "covered fund" for purposes of the Volcker Rule under the Dodd-Frank Act.

In the opinion of Ballard Spahr LLP, note counsel, interest on the notes is not excludable from gross income for purposes of federal income tax. Note counsel is also of the opinion that, under currently existing law, interest on the notes is exempt from Utah individual income tax. See the caption "TAX MATTERS" herein.

The notes are being offered through the underwriter named below (the "Underwriter"), subject to prior sale and to the right of the Board or the Underwriter to withdraw, cancel or modify such offer and to reject orders in whole or in part. The notes are offered when, as and if issued by the Board and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and the approval of legality by Ballard Spahr LLP. Certain legal matters will be passed upon, for the Board by its counsel, the Attorney General of the State of Utah, and for the Underwriter by its counsel, Kutak Rock LLP. It is expected that the notes in definitive form will be available for delivery through the facilities of DTC on or about June 12, 2015.

* Preliminary, subject to change.
4815-9957-1490.8

Strong investor demand

charles SCHWAB \$170 million

**Goldman
Sachs** \$110 million

 **Bank** \$100 million

 **CORPORATE AMERICA
FAMILY CREDIT UNION** \$25 million

 **n e l n e t** \$10 million

Successful purchase: Student loan portfolio

- Best ratings available:

AAA

FitchRatings

AA+

**STANDARD
& POOR'S**

- Strong balance sheet and favorable market reputation
- Long history of high quality servicing
- Transformational transaction for UHEAA
- Financial market challenges – may modify schedule

Student loan portfolio conversion plan

- Plan to convert loans from Xerox Education Services to UHEAA's in-house servicing operation
- Notice given to Xerox (See May 20, 2015 letter under Tab II-A)
- Servicing conversion planning underway
 - Scope document
 - Data file layout
- Estimated timing of servicing conversion: First quarter 2016

Successful purchase: Student loan portfolio

- In-house servicing preparation
- Office reconfiguration
- 74 new workstations created



Successful purchase: Student loan portfolio

Approximately 45-50 new positions will be created.

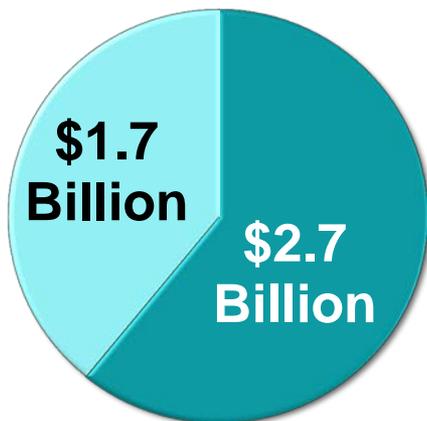


	<u>Before</u> <u>Bank of America</u>	<u>After</u> <u>Bank of America</u>
Total staff	219	271
Dollar amount serviced	\$3.13 billion	\$4.4 billion
Borrowers serviced	149,000	313,000

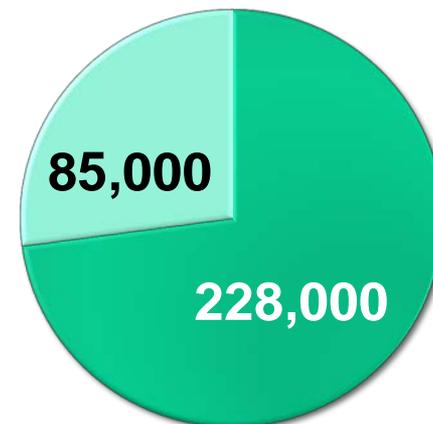
UHEAA loan servicing volume

\$4.4 Billion
313,000 Accounts

Portfolio Dollar Volume



Number of Accounts



■ Legacy FFELP Portfolio ■ Federal Contract

■ Legacy FFELP Portfolio ■ Federal Contract

Federal servicing update

- Federal contract allocation announcement: More than doubles CornerStone's current volume
- CornerStone's continued strong performance metrics
- Current accounts: 85,000
- Estimated 2016 allocation: 101,000 accounts
- Estimated total 2016 federal accounts: 186,000



Federal servicing update

- Management recommendation: Continue federal contract for 2016
- 2016 allocation: Important step forward – performance based
- Key consideration: Exiting federal contract would be viewed unfavorably by financial markets.



Federal servicing update

- Federal servicing contract: a positive in the financial markets
- Viewed as an endorsement of UHEAA's servicing capabilities
- Directly impacts UHEAA's ability to attract investors and execute favorable transactions in the financial markets



Federal servicing update

- UHEAA will refinance \$1.2 billion to retire the temporary warehouse facility in coming months.
- Estimated value of federal servicing contract in financial markets: 5-7 basis points
 - \$2.6 to \$3.6 million over weighted-average life of bonds
 - More than offsets cost of remaining in federal contract



Federal servicing update

FY 2016 CornerStone

- Projected revenue = \$3.1 million
- Direct expenses = \$3.7 million
- Incremental cost to remain in the Federal contract = \$600,000 this year



CornerStoneSM
EDUCATION LOAN SERVICES
by uheaa

Federal servicing update

With 100,000 new accounts each year,

- CornerStone will cover its directly attributable costs by 2018; and
- Make a \$500,000 positive contribution to the overall costs of UHEAA.

2016 **2017** **2018** **2019**

Federal servicing update

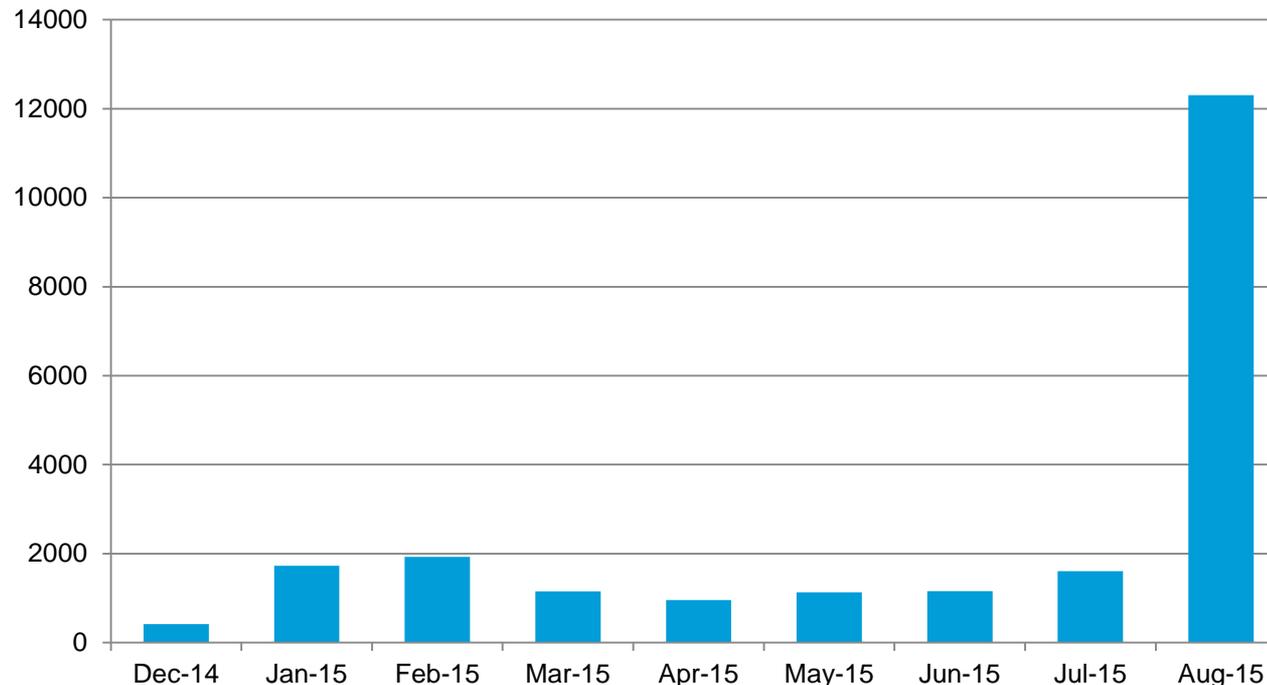
- Received renewed Authority to Operate from U.S. Department of Education (ED) January 14, 2015
- 33% fee increase for in-repayment accounts
- New loan volume being received daily from ED



Federal servicing update

22,400 additional accounts totaling \$134 million received December 2014 – August 26, 2015

New COD Allocations



Federal servicing update

- Written confirmation from ED that future allocations will be based on performance.

“ . . . we’re just trying to do it strictly on performance, and, there are metrics, so that’s the way to go.”

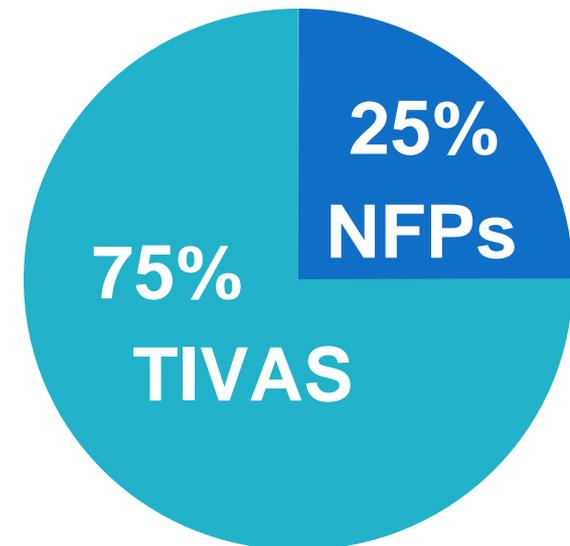
- Arne Duncan, April 16, 2015 at a hearing by the Senate Appropriations Committee Labor-HHS-Education Subcommittee responding to a question on future loan volume allocations.



Federal servicing update

- Senate letter encouraging Secretary to eliminate 25% cap on NFP servicers
 - Base allocations *“strictly on performance.”*
 - Senator Hatch and Senator Lee signed the letter

(See May 26, 2015 letter under Tab II-A)



Continued advocacy

1. Level playing field
2. Consolidation loans
 - Consumer choice



Loan guaranty agency: business opportunity

- U.S. Department of Education contacted UHEAA
- Explored UHEAA's interest to acquire an exiting guaranty agency
- UHEAA business analysis of opportunity:
 - Limited economic benefit
 - Unrealistic conversion schedule
 - Other higher priorities for UHEAA



Financial strength: Federal Reserve Ratio

Consistently the strongest federal reserve ratio among the nation's guarantors.

Federal Reserve Ratios of Guaranty Agencies						
Ranked by FY 2014 Strongest Ratio						
GA Code	State Guarantor	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
749	Utah	2.087%	2.316%	2.585%	2.862%	3.168%
748	Texas	1.475%	1.913%	2.261%	2.400%	2.606%
951	Virginia/ECMC	1.217%	0.753%	0.915%	1.103%	1.433%
712	Florida	0.920%	0.988%	1.024%	1.069%	1.202%
733	New Hampshire	0.746%	0.894%	0.985%	1.000%	1.074%
740	Oklahoma	0.753%	0.809%	0.929%	0.993%	1.061%
738	North Dakota	0.868%	0.861%	0.892%	0.931%	1.021%
750	Vermont	0.802%	0.811%	0.841%	0.906%	0.938%
717	Illinois	0.762%	0.764%	0.797%	0.826%	0.863%
734	New Jersey	0.736%	0.812%	0.837%	0.870%	0.830%
722	Louisiana	0.635%	0.650%	0.612%	0.662%	0.688%

The Reserve Ratio is calculated by dividing the GA Federal Fund balance by the Original Principal Outstanding.

Loan Guarantee Program (LGP)

- Orderly business conclusion over time
- Direct lending eliminated LGP's role in new loan origination
- Continue to collect defaulted loans
- Rehabilitation
- Prudent establishment of an operating fund reserve
- Supplement operating budgets in future years



UHEAA's student focus: UHEAA Grants

- \$100,000 allocated for 2016
- \$11.4 million since 2000
- 12,550 students
- Flexible for institutions
- Focused on completion
- Directed at “high-need” students

