UHEAA Board of Directors

Quarterly Meeting, June 18, 2020

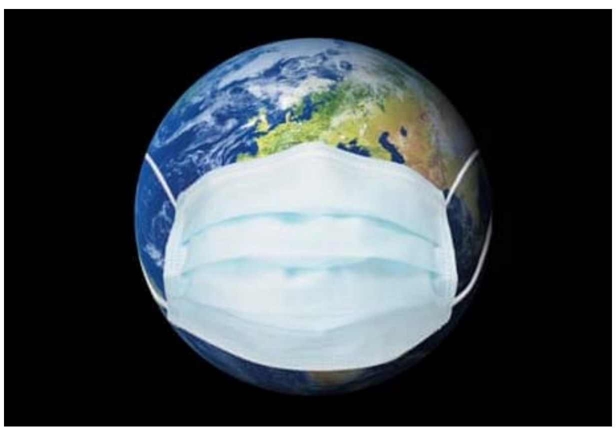
Executive Director's Report

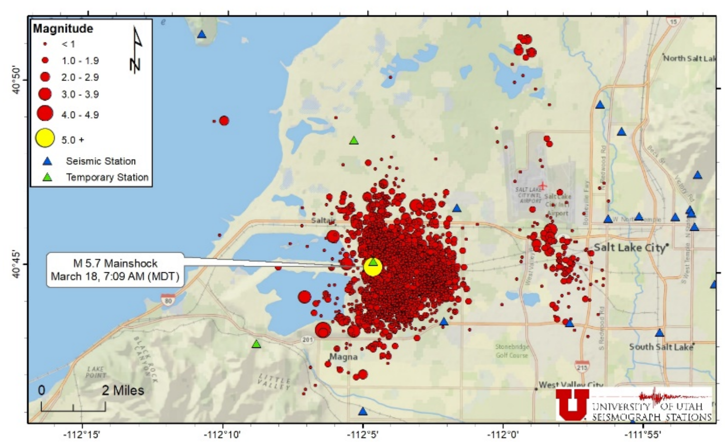
David A. Feitz, Executive Director

Utah Higher Education Assistance Authority
David A. Feitz, Executive Director
60 South 400 West ◆ Salt Lake City, UT 84101

Since we last met . . .

- Just 105 days ago, the UHEAA Board met on March 5, 2020.
- In those 105 days, the world and UHEAA changed dramatically.
- March was the month that changed everything.
- Pandemic . . . and earthquake





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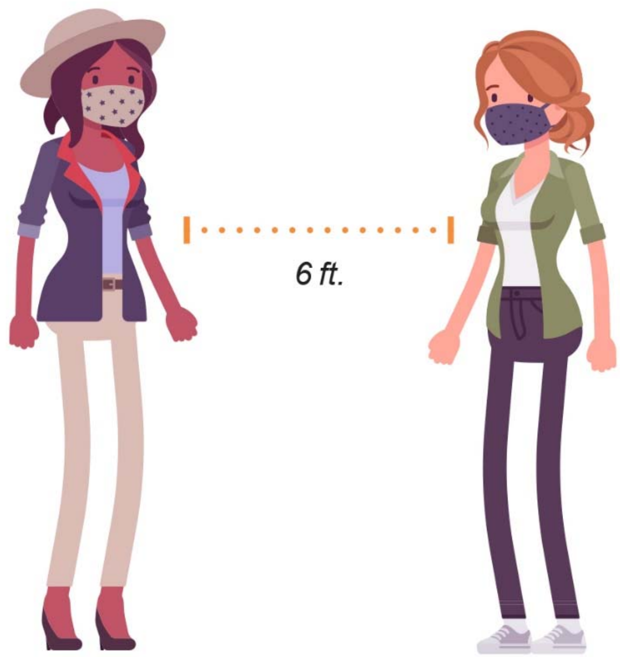
UHEAA's response to COVID-19: Protecting staff

- UHEAA deemed an essential organization under pandemic guidelines from the Department of Homeland Security.
- UHEAA has remained open and fully operational.
- Protecting health and safety of UHEAA staff: top priority
- Aggressive efforts to follow all health directives
  - Hygiene and sanitation
  - Masks and hand sanitizer provided to all employees

UHEAA's response to COVID-19: Protecting staff

- Transferred 75% of UHEAA employees to work-from-home
  - Rapid deployment of technology
  - Successful management oversight
- Social distancing for in-office staff
- COVID-19 testing
  - Limited risk of two reported incidents



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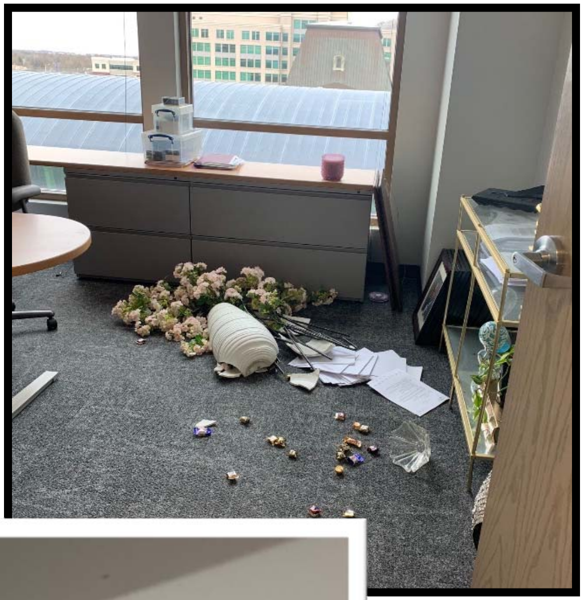
UHEAA's response to earthquake

- March 18, 2020: 7:09 a.m.
- 5.7 magnitude earthquake
- No serious injuries to staff
- No structural damage to facilities
  - Significant cosmetic damage



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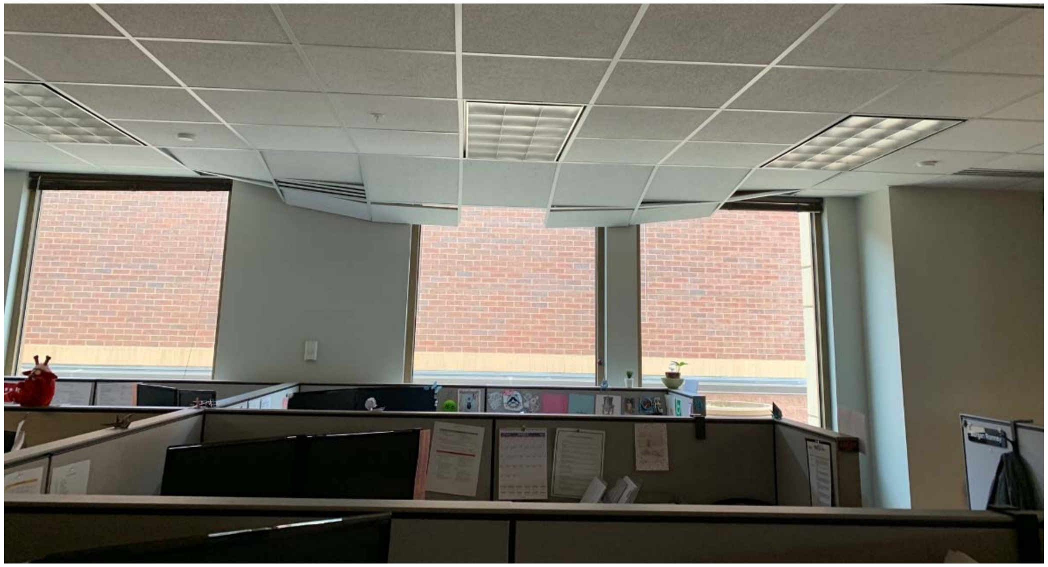
UHEAA's response to earthquake

- Six-hour power outage
- Systems switchover to Richfield backup facility
- Return to full operations in just 48 hours on March 20
- Congratulatory letter from U.S. Department of Education



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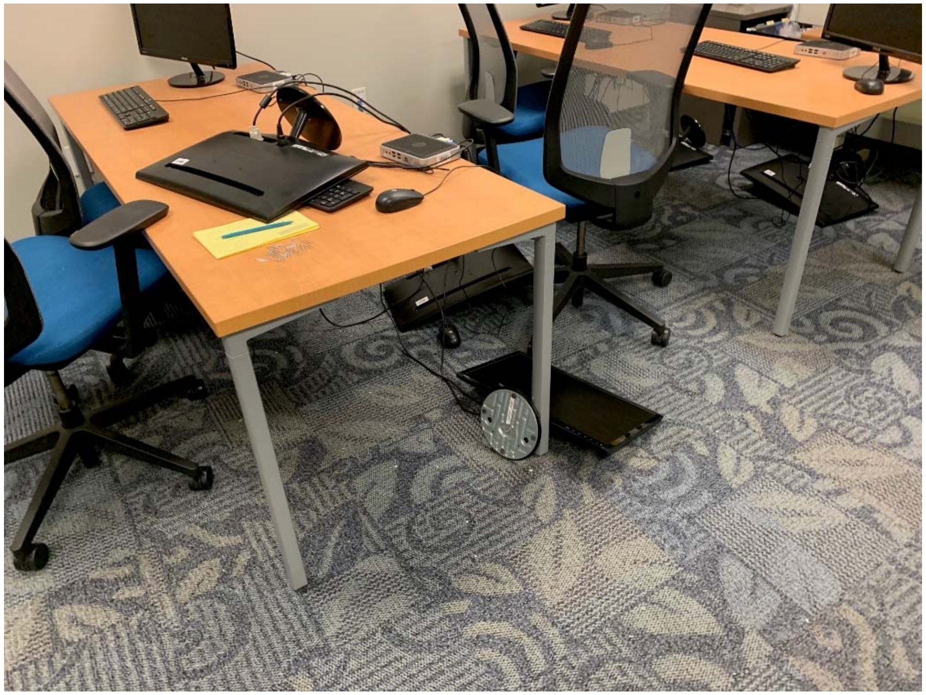
UHEAA's response to earthquake

- April 14 and 17 aftershocks (magnitude 4.2)
- Lessons learned:
  - Elevators (seismic shutoff switches)
  - Space heaters



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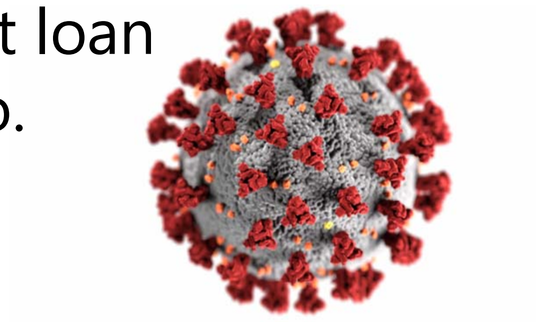
UHEAA's response to COVID-19: Helping borrowers

- COVID-19 federal relief efforts for direct loan student loan borrowers
- UHEAA's extraordinary efforts to place 1.1 million loans into forbearance
- Zero interest rate – no payment due – through September 30, 2020
  - Date may be extended by Congress.
  - Staff reduction May 11, 2020
- Congress also considering relief for student loan borrowers under the legacy FFELP portfolio.
  - Final action not likely until early August 2020.



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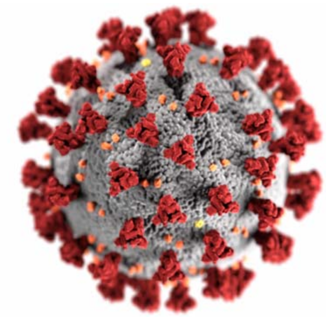
UHEAA's response to COVID-19: Helping borrowers



- UHEAA offering FFELP borrowers
  - Forbearances
  - Payment relief
  - Waiver of late fees
  - Cessation of wage garnishment and collection calls
  - Updated credit bureau reporting for borrowers experiencing COVID-19 hardship

UHEAA's response to COVID-19: Helping borrowers

- Timelines and action logs included in attachments (Tab 6.1)
  - Staff
  - CornerStone portfolio
  - Legacy FFELP portfolio
  - Defaulted loan portfolio
  - Complete Student Loan portfolio
  - RepayCentsibly default prevention

UHEAA's response to COVID-19: Plans for returning to normal

- Action Team formed led by UHEAA Chief Operating Officer, Michael Nemelka
- Plans for reconstituting UHEAA for normal operations
  - As conditions permit
  - Close adherence to all health directive guidelines and beyond

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UHEAA's response to COVID-19:
Plans for returning to normal

- Conservative, appropriate plan to bring staff back into the office
- New cubicle plexiglass shields to be installed in high density cubicle areas.

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UHEAA's response to COVID-19: Plans for returning to normal

- Some working-from-home to become a permanent part of UHEAA's workforce management strategy.

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Staff survey highlights

- Management listening to employee feedback
- Survey results through June 4, 2020
- 55% uncomfortable about returning to work

Overall comfort returning to work

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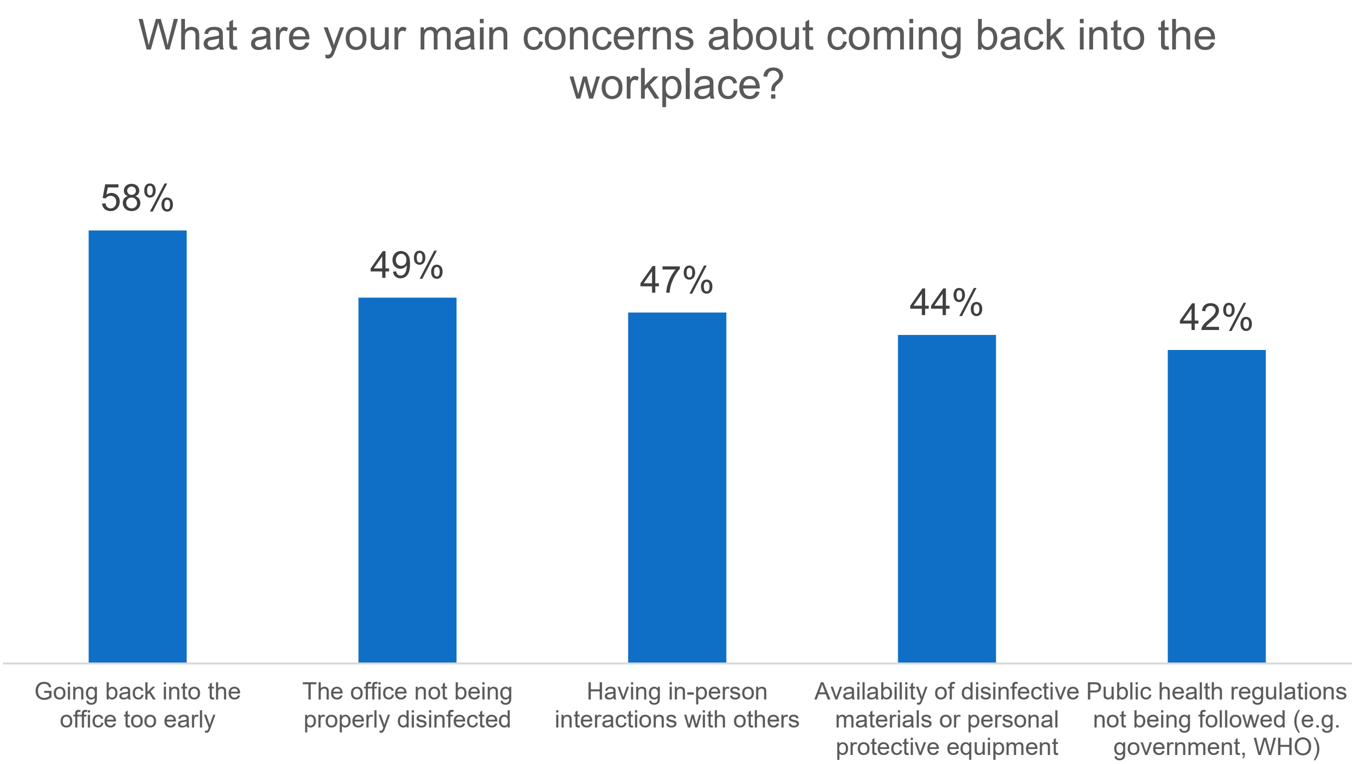
Employee survey



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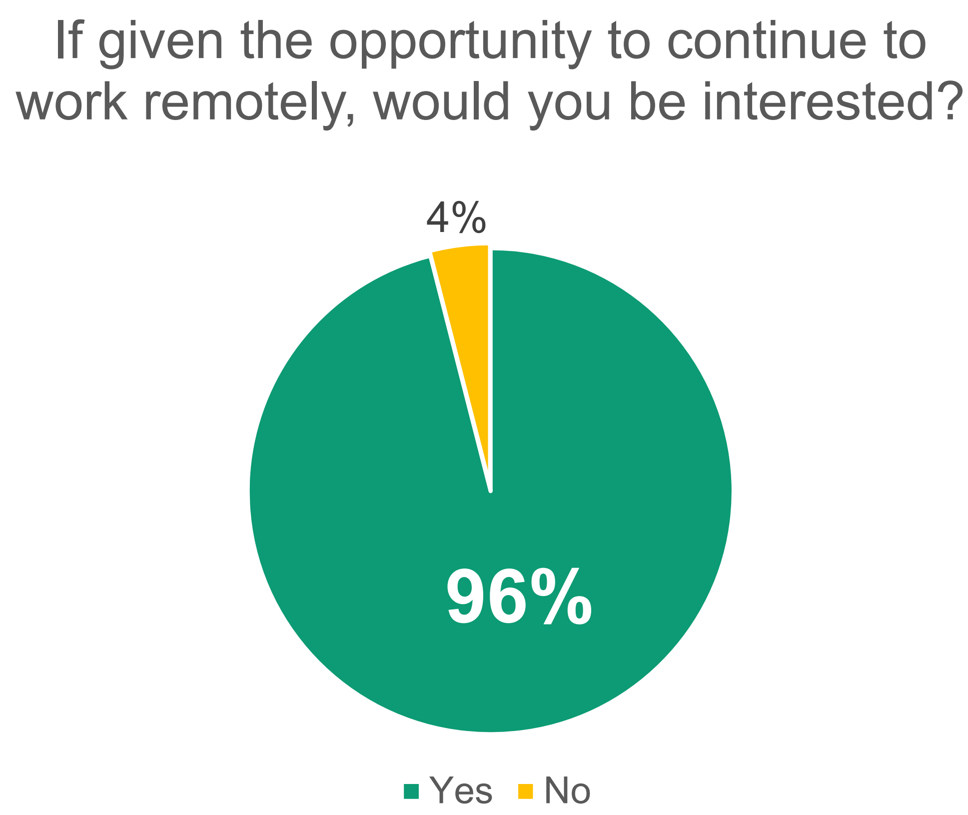
Employee survey



UHEAA bonding

- Total bonds outstanding: $1.13 billion
- Six trusts
- Full compliance with all debt covenants and principal and interest payments

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UHEAA Bond ratings confirmed and upgraded by Standard & Poor's

- April 30, 2020
- Two UHEAA bond ratings confirmed at S&P's highest student loan rating AA+.
  - Series 2016-1
  - Series 2017-1
- Series 2015-1 raised from AA+ to AAA
- Higher financial rating than U.S. government
- Investment grade
- AAA is the top financial rating – the highest level of creditworthiness.

S&P Global Ratings

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UHEAA's other bond ratings

Fitch Ratings

Fitch Ratings – UHEAA's other financial rating agency – rates all UHEAA bonds at **AAA**.

Bond refinancing plan: Significant economic benefits

- Board of Regents approved UHEAA's bond refinancing plan on May 13, 2020.
  - All UHEAA bonding proposals must be approved by the Board of Regents by state statute.

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Three-step refinancing plan

1. Payoff existing 1993 General Indenture through a bondholder consent process.
2. Place the underlying loan collateral in a temporary warehousing financing.
3. Refinance the loans into a new bond structure of up to $327.5 million.

Economic benefits

- Reduce outstanding bonds by up to $21 million
- Release up to $75 million of debt-free loans to UHEAA's balance sheet
- Release an additional amount of cash up to $20 million for UHEAA's operating expenses
- Generate a positive gain of more than $17 million as the interest rate swap is retired

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Federal guaranty reduces risk

- Student loans in this transaction are guaranteed against loss by federal government.
- Even if the student cannot pay and defaults on the loan, UHEAA receives payment for the loan from this federal backstop.
- Execution risk: lessening as markets improve
- Timing: projected completion September 2020

LIBOR

- Key bond index used extensively worldwide as a “benchmark” or “reference rate”
- LIBOR: London Interbank Offered Rate
  - The rate at which global banks lend to each other
- UHEAA’s bonds and student loan interest revenue both pinned to LIBOR (“match funding”)

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LIBOR

- LIBOR likely to be replaced before 2022 with a comparable rate
- Working groups formed worldwide to recommend orderly transition to a new alternative reference rate
- UHEAA monitoring LIBOR transition with its financial advisory team
- UHEAA participating with DC-based trade associations to recommend appropriate action (see attachment under Tab 6.1)

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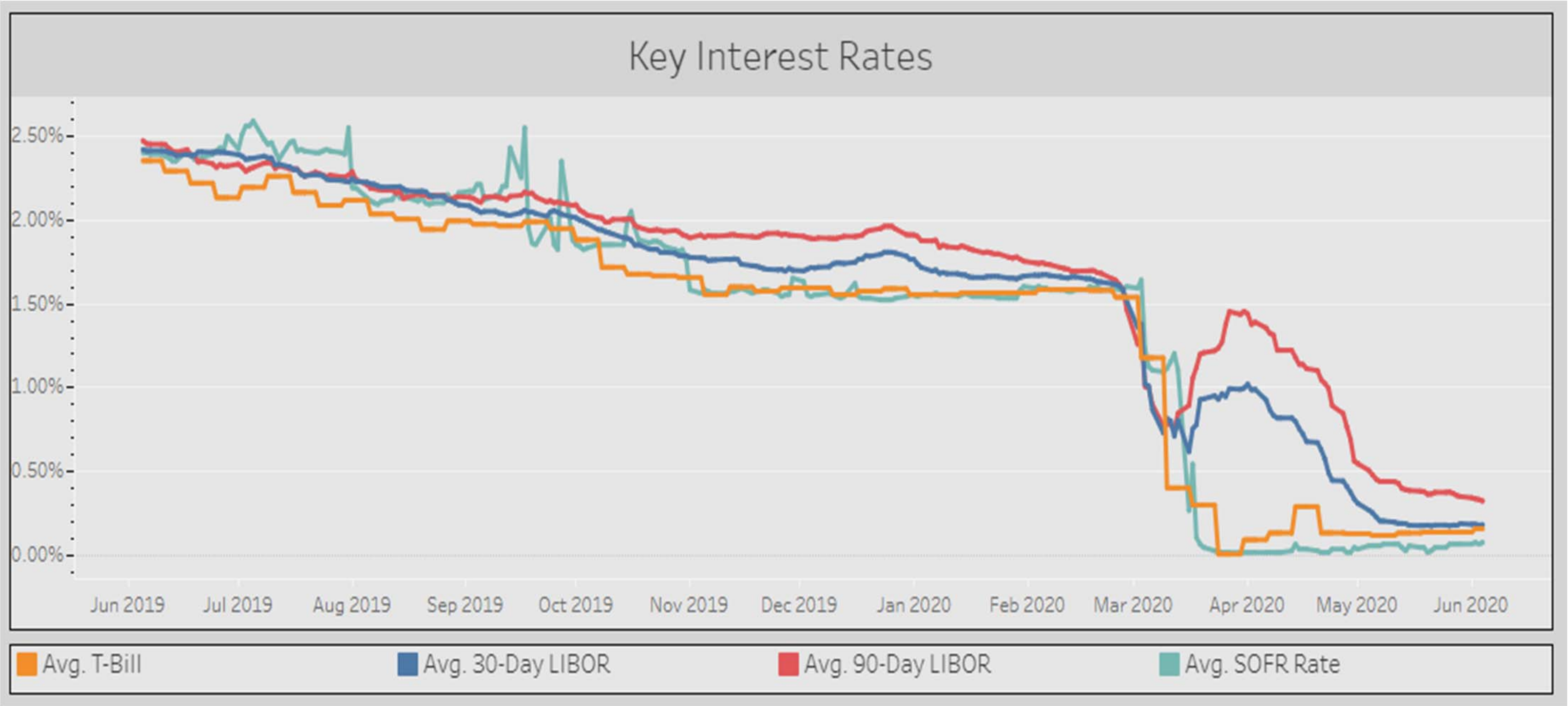
LIBOR and other interest rates

- At or near lowest rates of all time
- Abrupt decline in March 2020



Budgeting and revenue

- Low interest rates, COVID-19, and federal student loan pandemic relief create both budgeting and revenue challenges and near-term losses from operations.
- Management has prudently set aside operating reserves as a bridge to better times.
- Balance sheet muscle gives UHEAA staying power and the ability to weather the storm.

Budgeting and revenue

- With the one-time projected gain from the bond refinancing, UHEAA is budgeting a **black bottom line of $12.5 million** at June 30, 2021.
- Impressive net position gain to nearly $320 million
- UHEAA finances: support for Utah students, the Office of the Commissioner, and higher education in Utah

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UHEAA: Growth in Net Assets

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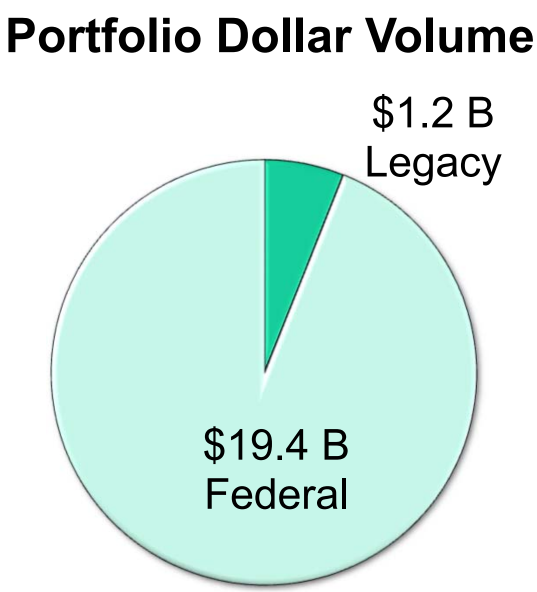
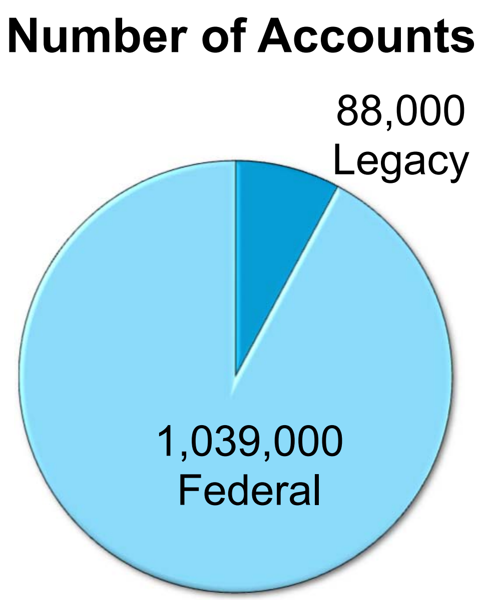
UHEAA portfolio volume

$20.6 billion

1.1 million accounts





As of May 31, 2020

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Federal contract update

- Extended through March 2022
- Keeps UHEAA in consideration for NextGen servicing initiative
- Management continues to push for significant contract reforms
  - Thinning margins
  - Escalating costs

Federal contract

- Previous consultations with the Board
- Retain infrastructure
- Stay involved in the federal contract for now
- Monitor developments for clear path forward
  - Role
  - Compensation
- NextGen servicing initiative: another protest

Federal contract

- Future opportunity
  - Federal student loan holdings
    - 43 million accounts
    - $1.5 trillion
- UHEAA's strong response to U.S. Department of Education procurement solicitation

CARES Act funding

UHEAA continues to play a key role in assisting campuses and students.

- Emergency grants to students under the Coronavirus Aid, Relief, and Economic Security (CARES) Act
- $110 million for Utah schools of which $55 million goes directly to students (see attachment under Tab 6.1)

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CARES Act funding

- Utah System of Higher Education colleges and the UTech campuses received 90% of the funding.
- UHEAA convened the financial aid directors statewide
  - Series of eight conference calls
  - Seven weeks
  - Provided training and guidance for distributing the funds