

AGENDA ITEM 2.

MINUTES OF THE SEPTEMBER 21, 2007 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

September 21, 2007

College of DuPage
Glen Ellyn, Illinois

COMMISSIONERS PRESENT: Donald J. McNeil, Chair
Dr. Mary Ann Louderback
Warren Daniels, Jr.
Hugh Van Voorst

**COMMISSIONER PRESENT
VIA TELEPHONE:** Dr. Lynda Andre

COMMISSIONERS ABSENT: Sharon Alpi
David Vaught

PRESENT BY INVITATION: Elmer Washington, Designated Liaison, IBHE

STAFF PRESENT: Andrew Davis, Executive Director
Tom Breyer, Senior Policy Advisor
Steve Di Benedetto, Interim Director, IDAPP
Angela Dixon, Information Services
Steve Dorfman, First Deputy General Counsel
Randy Erford, *College Illinois!*
Katharine Gricevich, Special Assistant
Sue Kleemann, Director, RPPA
Kim Barker Lee, General Counsel
Raquel Martinez, Deputy General Counsel
Sam Nelson, Managing Director, Marketing & Communications
Richard Nowell, Special Assistant Attorney General
Chris Peterson, Director, Program Services
John Sinsheimer, CFO/Managing Director, Financial Products & Services
Nancy Stephens, *College Illinois!*
Joanne Tolbert, Managing Director, HRD & Business Support
Claude Walker, Director, State Relations & PIO
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE: Fred Ash, JPMorgan Chase
Kevin Conlon, Conlon Public Strategies, LLC
Judy Erwin, IBHE
Bruce Foote, University of St. Francis
Paul Frank, FIICU
Carrie Hightman, Chairwoman, IBHE
Pat Krolak, Marquette Associates
Nicole Rogers, IBHE
Joseph Starshak, Starshak, Winzenburg & Co.
Leigh Taylor, Robert Morris College
Dave Tretter, FIICU

Item 1. Announcements

Chairman McNeil indicated that two members of the Commission had requested to participate in the meeting electronically because they were unable to be physically present at the meeting for reasons permitted by the Commission's policy on electronic attendance. A roll call vote was taken, which established that a quorum was physically present at the meeting site and the meeting came to order at 9:12 a.m.

Mr. Daniels **MOVED THAT** the Commissioners that had requested to do so be permitted to participate in the meeting via electronic means. Mr. Van Voorst seconded the motion, which was approved unanimously via a roll call vote. It was then verified that Dr. Andre was participating in the meeting electronically.

Chairman McNeil then introduced Dr. Sunil Chand, President of the College of DuPage. Dr. Chand welcomed the Commission to the College of DuPage and thanked them for the work they do on behalf of students.

Chairman McNeil welcomed Ms. Carrie Hightman, Chairwoman of the Illinois Board of Higher Education (IBHE) who took the opportunity to address the Commission.

In her remarks, Ms. Hightman stated that as the State's coordinating board for higher education it is IBHE's top priority to continue to make college education attainable for those students who have been most disadvantaged. She applauded the Commission for its emphasis on Illinois student centered financial aid instruments and its leadership in the development of the new *College Illinois!* Capstone loan program, which is a model of the type of program that should be embraced. She indicated that IBHE is working closely with the Commission on new legislation establishing a P-20 coordinating council to address the transition points and barriers that keep students out of college. And finally, she expressed her eagerness to work with ISAC and other interested parties in the Illinois higher education community in a collaborative process to develop a long-term comprehensive master plan for higher education in Illinois.

Chairman McNeil thanked Chairwoman Hightman for her remarks. He then announced that the next meeting of the Commission will be held on November 16, 2007 at the University of Illinois at Chicago. Continuing, he noted that proposed meeting dates and locations for 2008 have been given to the Commissioners and asked that they review them and let the secretary know if they have conflicts with any of the proposed dates, so that action can be taken on adopting the schedule at the November meeting.

Item 2. Minutes of the July 20, 2007 Meeting

Dr. Louderback **MOVED THAT** the minutes of the July 20, 2007 meeting be approved as submitted. Mr. Daniels seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Opening his remarks, Mr. Davis stated that relative to some other agencies, ISAC had fared reasonably well in the FY2008 budget. He noted that no funding for the Monetary Award Program (MAP) will be required to come from the Student Loan Operating Fund and the MAP Plus program was not renewed. In addition, two smaller programs administered by the Commission were affected by the Governor's veto message, with funding being eliminated entirely for the Forensic Science Grant Program and halved for the Bonus Incentive Grant (BIG) Program.

Continuing with news on the Federal level, Mr. Davis noted that it is expected that the President will sign into law legislation providing for increases in the Pell grant and a cut in interest rates on subsidized loans, with funding for this coming from significant reductions to the revenues of participating guarantors and lenders in the FFELP program. He stated that since ISAC is both a guarantor and a lender in FFELP, the impact of this legislation to the Commission's budget is estimated to be in the \$12 million range. He believes that as a result of the recent restructuring, the Commission will be able to absorb the cuts and hold the students harmless, but it will be a very significant challenge for the entire organization.

Mr. Davis explained the three line items where the agency will be facing the \$12 million budget reductions. First, cuts in the rate of the Special Allowance Payment (SAP), which is a subsidy given to FFELP lenders by the Federal government, will result in the subsidy being reduced by about \$4 million from October 1, 2007 through October 1, 2008, on the roughly \$1 billion FFELP portfolio held by ISAC. Second, ISAC is paid an account maintenance fee on the portfolio of loans it has guaranteed, which is about \$10 billion, resulting in the payment being reduced by about \$4 million. Third, ISAC acts as a collector of defaulted loans for the Department of Education. While in the past ISAC retained 23 percent of every dollar collected, the new legislation reduces this to 16 percent, costing ISAC an additional estimated \$4 million.

Mr. Davis also noted that he is participating in a subcabinet task force on economic development in the State of Illinois, which is being led by the State's Chief Operating Officer, John Filan. Along with ISAC, included in the taskforce are IBHE, the State Board of Education, the Department of Commerce and Economic Opportunity, and several other state agencies. It is the mission of this task force to discuss the long-term strategic needs of the state in the area of economic development. He stated that the presence of organizations such as ISAC on this taskforce shows the importance of higher education in regard to economic development.

Item 4. College Illinois! Prepaid Tuition Plan Investment Performance Report

Opening the agenda item, Mr. Erford noted that in 2007, the *College Illinois!* program had achieved its best investment performance since its inception. He then introduced Pat Krolak of Marquette Associates who gave a brief overview of the program's investment performance through June 30, 2007.

Responding to Mr. Daniels' inquiry about the disposition of funds that were managed by firms whose contracts have been terminated, Mr. Krolak stated that those assets were reallocated to the passive small cap value fund at RhumbLine. He then recapped the procedures involved when putting managers on alert. Mr. Daniels congratulated Marquette Associates on achieving the outstanding 15.7% overall program investment performance for FY2007.

Mr. Davis stated that although they cannot take credit for the market, he feels the Commission can take credit for having the highest proportion of female and minority asset managers of any similar fund in the State of Illinois.

Mr. Daniels inquired about the difference in fees paid to managers. Mr. Krolak indicated that the fees charged by managers differ significantly by mandate and investment style. For instance, passive management will typically have lower fees on a percentage of assets versus active management; large cap fees are usually lower than for small cap; quantitative managers usually have lower fees than fundamental managers; and fees for domestic managers are usually higher than for international managers.

Item 5. College Illinois! Prepaid Tuition Plan Contract Prices and Fees for 2007-2008 Enrollment Period

Mr. Erford present the Commission with proposed contract prices and fees for the 2007-2008 enrollment period, which reflect only a 4% increase for university level contracts, far less of an increase than in the previous six enrollment periods. He indicated that the strong investment performance in 2007 had a strong positive impact on contract pricing, and helped reduce the actuarial deficit by approximately 42% from roughly \$146 million to \$84 million.

Mr. Daniels **MOVED THAT** the Commission approve the schedule of *College Illinois!* Prepaid Tuition Plan contract prices specified for the 2007-2008 enrollment period in Table A, as well as the schedule of *College Illinois!* Prepaid Tuition Plan fees and charges for the program set forth in Table B.

Mr. Van Voorst seconded the motion, which was approved unanimously.

Item 6. IDAPP Quarterly Investment Report

No action is required on this item.

Item 7. Resolution of the Commission to Approve the Execution and Delivery of a Supplement to the 2002 Indenture

Opening the agenda item, Mr. Sinsheimer stated that in conjunction with the third sale of loans from the portfolio, which occurred in August 2007, ISAC was required to have Moody's Investors Service reaffirm the AAA bond rating on the bonds issued under the 2002 Resolution. In conjunction with this request, Moody's is requiring two new conditions, which are being brought before the Commission today in the Supplemental Resolution. The new conditions relate to a limitation on the amount of premium ISAC will pay for loans going into (i.e., being financed under) the 2002 Resolution (the "Limitation"), and a requirement that should the economics of the student loan industry change due to regulatory mandate, ISAC would cease using cash held under the 2002 Resolution to purchase new loans until Moody's is presented an explanation of the impact of those changes and Moody's expresses its satisfaction that the 2002 Resolution and the underlying bonds still warrant the AAA rating which is currently in effect.

Mr. Sinsheimer stated that as a result of recent additional negotiations with Moody's, the Commission is being asked to approve the Supplemental Resolution with the following two modifications to the Supplemental Resolution presented in the Agenda Book: (1) the maximum 5% premium contained in the Limitation shall refer to the weighted average of the student loans going into the 2002 Resolution, and (2) Moody's has agreed to extend the time frame for reaffirmation of bond ratings to October 31, 2007.

Mr. Daniels asked for confirmation from Mr. Sinsheimer as CFO and Ms. Lee as General Counsel that they are comfortable with the changes the Commission is being asked to make by approving the Supplemental Resolution. Mr. Sinsheimer stated that he is disappointed with the request but indicated that this is being asked of all similar participants in the industry, not just focusing on ISAC, and that ISAC could and should accede to the request.

Chairman McNeil observed that the modifications being requested of ISAC through the Supplemental Resolution are not inconsistent with the agency's planned direction; that is, ISAC is not looking to pay more than a 5% premium on loans anyway.

Mr. Davis agreed that he does not like to do this, but what is being asked of the Commission is less onerous than the internal controls currently being done by ISAC.

Ms. Lee agreed with Mr. Sinsheimer and Mr. Davis and reiterated that this is being done across the industry.

Chairman McNeil then called a recess for the CFO and General Counsel to discuss a refinement of the language being presented to the Commission for its approval.

After a ten-minute recess, Chairman McNeil noted that as a result of the discussion with the CFO and General Counsel, the following change has been made to the Supplemental Resolution printed on page 7-2 of the agenda book: Section 1 of the proposed revised covenant should now read, "The Commission hereby covenants and agrees that subsequent to the adoption of this 2007 Second Supplemental Resolution, the Commission shall not pay a premium of more than 5% of the weighted average principal amount of Eligible Loans it purchases under the 2002 Resolution, unless it obtains a Rating Confirmation."

Chairman McNeil then asked for a motion to approve the following resolution:

"BE IT RESOLVED that the Illinois Student Assistance Commission approve the attached '2007 SECOND SUPPLEMENTAL RESOLUTION,' as amended on its face today, providing for the amendment of the 2002 Resolution Authorizing the Issue of Student Loan Revenue Bonds and Other Obligations of the Illinois Student Assistance Commission, adopted July 29, 2002, as supplemented and amended, and providing for certain details with respect to the origination, acquisition and sale of Eligible Loans."

Mr. Daniels **MOVED THAT** the Commission approve the above Resolution as read. Dr. Louderback seconded the motion, which was approved unanimously.

Item 8. Amendment to Medium Term Credit Facility

Mr. Sinsheimer introduced the agenda item noting that the volatility in the markets over the last few months has made it prudent for the Commission to create flexibility within ISAC's financial structure. He stated that originally it was the intent to put only alternative loans in the medium term credit facility and all the FFELP and institutional loans in the 2002 Resolution. However, if ISAC cannot finance the FFELP portfolio within the 2002 Resolution, there should be an alternative. Therefore, Citibank, which provides the medium term facility, has agreed to permit up to \$150 million within this facility for FFELP loans. He reiterated that this is only a precautionary measure in light of the volatility in the market.

Mr. Van Voorst **MOVED THAT** the Commission approve the Resolution contained on pages 8-1 and 8-2 of the agenda book.

Mr. Daniels seconded the motion, which was approved unanimously.

Item 9. Approval of FY2008 Monetary Award Program and Silas Purnell Illinois Incentive for Access Program Payment Claim Deadline Dates

Ms. Kleemann stated that each year at this time the Commission is presented with recommended payment claim deadline dates for the Monetary Award Program and Silas Purnell Illinois Incentive for Access Program (IIA). She indicated that the proposed FY2008 deadline dates are the same as those used last year.

Dr. Louderback **MOVED THAT** the Commission approved the proposed FY 2008 priority payment claim deadline dates for MAP and IIA as shown below:

<u>Term</u>	<u>Deadline</u>
1 st semester or quarter	January 10, 2008
2 nd semester or quarter	April 1, 2008
2 nd semester starting after 2/15/08	June 1, 2008
3 rd quarter	June 1, 2008

Mr. Daniels seconded the motion, which was approved unanimously.

Item 10. Revised Policy Regarding Payment of Federal Default Fee for Balance of Academic Year 2007-2008

Mr. Sinsheimer opened the agenda item by noting that at the January 2007 meeting the Commission approved payment of the one percent Federal Default Fee from the Student Loan Operating Fund for all ISAC-guaranteed loans for the 2007-2008 academic year. He stated that for ISAC to pay this fee on behalf of borrowers would cost an estimated \$12 million for the academic year. As a result of the changes at the federal level, specifically the College Cost Reduction and Access Act, lenders and guarantors will need to review the level of borrower benefits being offered as the industry faces reductions in revenue. He stated staff is recommending that effective December 1, 2007, ISAC pay 50% of the default fee on any new loan which it guarantees with the condition that the lender pay the remaining 50% of the fee, and not charge it back to the borrower.

Mr. Davis stated that while some in the industry are taking a step back and withdrawing this benefit from borrowers, ISAC should continue to do what is best for the students.

Responding to Dr. Louderback, Mr. Davis stated that if a lender refuses to pay 50% of the fee, ISAC will not issue the guarantee.

Mr. Daniels **MOVED THAT** the Commission approve the following resolution:

“BE IT RESOLVED that for any new loans guaranteed by the Illinois Student Assistance Commission (ISAC) on or after December 1, 2007, the Commission approves the payment of 50% of the Federal Default Fee from the Student Loan Operating Fund (SLOF) for the 2007-2008 academic year only if the applicable lender(s) agree to pay the remaining 50% of the Federal Default Fee.”

Mr. Van Voorst seconded the motion, which was approved unanimously.

At this point, Chairman McNeil recognized Mr. Kelvin Wing from DePaul University, who has been nominated by the IBHE Student Advisory Commission to serve as student Commissioner for ISAC, but awaits his nomination being forwarded to the Senate for confirmation.

Item 11. College Illinois! Capstone Loan Program

Mr. Sam Nelson and Ms. Angela Dixon gave a presentation on the new *College Illinois!* Capstone Loan Program.

Responding to Mr. Van Voorst, Mr. Davis stated that funding for this program will come from the medium term credit facility, which was discussed earlier in agenda item 8. Mr. Daniels commended Mr. Davis and staff for their work on this new program and stated that this type of program is outstanding public policy.

Dr. Louderback **MOVED THAT** the September 21, 2007 meeting of the Commission be adjourned. Mr. Daniels seconded the motion, which was approved unanimously. The meeting adjourned at 11:12 a.m.

Respectfully submitted,



Debora A. Calcara
Secretary to the Commission