

**AGENDA ITEM 2.**

**MINUTES OF THE APRIL 4, 2008 AND MAY 20, 2008 MEETINGS**

**MINUTES OF A MEETING**  
**OF THE**  
**ILLINOIS STUDENT ASSISTANCE COMMISSION**

**April 4, 2008**

**University of Illinois at Springfield  
Springfield, Illinois**

**COMMISSIONERS PRESENT:**

Donald J. McNeil, Chair  
Sharon Alpi  
Dr. Lynda Andre  
Warren Daniels, Jr.  
David Vaught

**COMMISSIONERS PRESENT  
VIA TELEPHONE:**

Dr. Mary Ann Louderback

**COMMISSIONERS ABSENT:**

Hugh Van Voorst  
Kelvin Wing

**STAFF PRESENT:**

Andrew Davis, Executive Director  
Eduardo Brambila, Director, Public Service, Community Partnerships  
Tom Breyer, Senior Policy Advisor  
Steve Dorfman, First Deputy General Counsel  
Jackie Eckley, Program Services  
Katharine Gricevich, Special Assistant  
Susan Kleemann, Director, RPPA  
Kim Lee, General Counsel  
Jacqueline Moreno, Director, Public Service, College Access Initiatives  
Sam Nelson, Managing Director, Marketing & Communications  
Chris Peterson, Director, Program Services and Compliance  
John Sinsheimer, CFO/Managing Director, Financial Products & Services  
Joanne Tolbert, Managing Director, HRD & Business Support  
Claude Walker, State Relations  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:**

Fred Ash, JPMorgan Chase  
Judy Erwin, IBHE  
Jerry Joseph, UIS  
Carey Cranston, Fox College  
Elaine Johnson, ICCB  
Pat Krolak, Marquette Associates  
Brian Pomeroy, Citibank  
Nicole Rogers, IBHE  
Christina Rose, Citibank  
Sandy Street, University of Illinois  
Leigh Taylor, Robert Morris College  
Jennifer Timmons, ICCB  
Dave Tretter, FIICU

### **Item 1. Announcements**

Chairman McNeil called the April 4, 2008 meeting of the Commission to order at 10:15 a.m. and asked that a roll call be taken, which established that a quorum was present.

He then introduced Dr. Richard Ringeisen, Chancellor of the University of Illinois at Springfield and thanked him for the University's hospitality in hosting the meeting.

Dr. Ringeisen welcomed the Commission to the "Public University in the State Capitol" and took the opportunity to share with the Commission a number of the capital improvements the University has been making over the past few years. He shared some personal observations on the development of the institution, its programs and its student body, as it has matured into a "public liberal arts university". On behalf of his colleagues, the Presidents and Chancellors of the public universities, he thanked the Commission for the work that is being done on behalf of students.

Chairman McNeil, again thanking Dr. Ringeisen, reflected on his past visits to the campus, noting how impressed he was with the creativity and innovation at the University, especially in the area of online learning. Chairman McNeil noted that he was wearing a lapel ribbon bearing the colors of Northern Illinois University in memory of the tragic events that occurred at their campus. On behalf of the Commission, he extended his condolences to the families and friends of the students who were killed and to the faculty and administration at Northern Illinois University.

Chairman McNeil then noted that the next meeting of the Commission is scheduled for Friday, June 27, 2008 at Carl Sandburg College in Galesburg.

### **Item 2. Minutes of the January 25, 2008 Meeting**

Mr. Daniels **MOVED THAT** the minutes of the January 25, 2008 meeting be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

### **Item 3. Executive Director's Report**

Mr. Davis noted that while today's agenda had few action items, it was nonetheless a very substantive meeting, and would be dealing with a number of significant issues of change and turmoil in higher education funding. Mr. Davis also thanked Chancellor Ringeisen for his hospitality. He, too, reflected on his previous visits to the campus, including a past event at which the Chancellor had shared with him the concerns students were having on the availability of loans to attend school. Mr. Davis said he was pleased to assure the Chancellor and his students that ISAC is still in the lending business for students to continue their education, and is undertaking every effort to remain so. He referred to an article appearing that morning reporting six more state programs exiting or suspending their lending operations and ISAC was the only state agency noted as stating a commitment to staying in the lending business. He observed that there are challenges ahead, but during a time of uncertainty is when a state agency is most needed to be performing this role and function. Mr. Davis expressed his belief that the state of Illinois can no more abandon student lending at this point in time than it would walk away from public schools or bridges; it is infrastructure, an essential part of a civilized society, and the idea that a state agency would turn away from its mission because it was no longer lucrative or no longer easy is unacceptable. To the extent that students are dependent on the Commission to borrow money to go to school, ISAC intends to be there for them. He stated that the agency is prepared to deal with change, is innovative in its ways of financing and carrying out its mission and the agenda today reflects that change.

After a brief discussion on the financials printed in the agenda book, Mr. Sinsheimer stated that staff is developing enhanced financial statements with reports showing both a consolidated view as well as detail by division and will be sharing that information with the Commission at future meetings. Mr. Davis indicated that it is management's objective to put additional agency financial information online for the public to view.

#### **Item 4. College Illinois!<sup>SM</sup> Investment Performance Report**

Mr. Pat Krolak of Marquette Associates, the program's investment consultant, indicated that while normally at this time he would discuss the Investment Performance Report sent to the Commissioners with their agenda book, which covers the period through December 2007, given the recent turmoil in the financial markets, he thought it more appropriate to try to update the Commissioners on the performance of the investment managers through February 2008, the most recent period of measured performance. As a point of reference, he indicated that the data on page 3-11 of the Agenda Book served as a good starting point for such a review.

Mr. Krolak began with a comprehensive overview of the financial markets as a whole, and then provided further information on some of the specific sectors of the markets in which the program has assets invested. Finally, Mr. Krolak provided some information regarding the performance of individual asset managers, focusing most closely on those managers in danger of being placed on alert.

Mr. Vaught thanked Mr. Krolak for the report, and said he was particularly pleased to see the disclosure of investment management fees in the report, and noted that the overall fee level was quite reasonable. Mr. Vaught also questioned the significant use of soft dollar trades by Nicholas-Applegate. Mr. Krolak confirmed that the investment managers had been directed to phase out such trades, and that these numbers were reflective of the trading occurring during prior periods, and should have been reduced dramatically since then. Mr. Davis reiterated the Commission's commitment to eliminating this practice.

In response to a question from Ms. Alpi, Mr. Krolak reassured the Commissioners that during this period of volatility in the marketplace, Marquette is meeting with the fund managers on a regular basis, and has maintained a high level of due diligence on the entire portfolio.

Mr. Davis noted that given the level of program assets under management, it now made sense to have a permanent, full-time Chief Investment Officer on staff to work closely with our outside investment consultants, and announced that he has recently extended an offer to a highly qualified individual to serve in that capacity.

Dr. Louderback inquired if the Investment Advisory Panel has been meeting and expressed her opinion that it is important to have the input of outside advisors during times such as these. Mr. Davis confirmed that the Advisory Panel continues to meet, but that their input is primarily focused in the area of asset allocation. Dr. Louderback questioned why the agency was hiring new people at the same time as it was undergoing layoffs. Mr. Davis indicated that different individuals possess different skill sets and the agency has laid off staff in positions that were not critical to achieving its strategic objectives, and was hiring people in positions that were critical to achieving those objectives.

Mr. Vaught indicated that, given the nature and purpose of the program, he would find it very helpful if future reports could show additional information regarding the level of exposure to inflation-protected securities within our fixed-income portfolio. Mr. Davis expressed a commitment to provide that information in the future.

### **Item 5. *College Illinois!*<sup>SM</sup> Investment Policy**

Opening this item, Mr. Krolak suggested that this might be a good time to meet with the Investment Advisory Panel to have a more comprehensive review of the investment policy, with a particular focus on asset allocation, and ensuring that the policy is providing the necessary degree of flexibility. He also indicated that it is important to provide adequate communications between the Commissioners and the advisory panel.

Mr. Davis suggested that it would be helpful to have some of the Commissioners participate in the review process, prior to bringing a revised policy back to the full Commission for its approval.

Mr. Daniels agreed that this would be a good idea, and indicated that in addition to just reviewing the investment guidelines, he felt it would also be helpful to review the investment manager selection process, in order to ensure that it was sufficiently open and inclusive.

Chairman McNeil suggested an informal approach in which each Commissioner would be provided a copy of the current investment policy and be given the opportunity to weigh in on what they feel are appropriate changes to the current policy before the next meeting. Mr. McNeil encouraged all Commissioners to take advantage of the opportunity to provide input.

### **Item 6. *College Illinois!*<sup>SM</sup> Low Income Savings Plan**

Mr. Davis introduced the agenda item by noting that the *College Illinois!* Prepaid Tuition Program is in its tenth year of operation and has nearly \$1 billion in assets. He stated that it is a very good program, a very well-run program and the Commission should be proud of what has been accomplished thusfar. The program, he continued, has been thought of by some as being primarily for higher income families with more discretionary income to invest. As the agency is undergoing a reevaluation of its programs, Mr. Davis said, he asked a group to come together to try to come up with creative ideas to meet the significant challenge of trying to make the prepaid tuition plan more affordable and attainable for all families in the state, not just for those with higher incomes. The following presentation, he noted, grew out of that challenge.

Mr. Davis stated that the proposed program contained in this agenda item is being brought before the Commission as an information item in order to give the Commission the opportunity to give their thoughts and guidance as to whether or not this proposal should be further pursued.

Ms. Jacqueline Moreno, Director, Public Service, College Access Initiatives, presented an overview of the proposed low-income savings plan. She stated that in order to fulfill the legislative intent of making *College Illinois!* available to all Illinois families, the establishment of an Individual Development Account (IDA) program for the lowest income families is being proposed. The IDA is a matching savings account for families with incomes not exceeding 200% of the poverty level, with the intent of accumulating assets toward the purchase of a prepaid tuition contract under *College Illinois!*. Once this account is established for a newborn there would be a three-to-one match. For every dollar the family contributes, a one dollar match would come from the federal government, state government and a private entity and after five years when the child enters kindergarten the account would have accumulated enough to purchase the equivalent of a two-year community college contract with *College Illinois!*.

Mr. Eduardo Brambila, Director, Public Service, Community Partnerships, explained that by purchasing a two-year community college contract the student would at a minimum be able to achieve a certificate or associate degree. If circumstances change for the contract holder and they are able, they

would have the option of upgrading to continue their education. He stated that at the minimum, a child will be guaranteed the opportunity to go to a two-year institution, an option that may not been available to them without the help of the three-to-one match of an IDA.

Ms. Andre indicated her excitement about the concept of reaching out to the full spectrum of families, creating the expectation that college is affordable. She expressed her concern about how the agency will educate and work with other entities that already work with these families, such as local school districts, so that they can properly help pass on our message. Ms. Moreno expressed her confidence in being able to do so, since the current outreach activities of the agency already rely heavily on establishing partnerships within the communities to assist us in reaching students and their families.

Ms. Alpi suggested additional organizations to work with, and also expressed reservations about staffing the agency to deliver such a program. Ms. Moreno stated that the Public Service division at ISAC has increased over the past year from four staff to 15 and the regular responsibilities of Mr. Brambila and his staff include the development of community partnerships to assist ISAC with disseminating information to our clients. Mr. Davis reiterated that he envisions ISAC staff working closely with organizations that already reach out to new parents in local communities to include our program information, rather than us adding significantly to current staffing levels.

Responding to Ms. Alpi's inquiry as to where the matching funds will come from, Mr. Davis stated that the federal government already has a program that provides matching funds for IDA's. He is hopeful that ISAC will be able to generate adequate funding from its lending and guaranty activities to provide the state match. And finally, for the private match, he is optimistic that foundations and community not-for-profits will be willing to provide this match.

Dr. Louderback agreed that this seems to be a wonderful social service program, although not necessarily one that we ought to be administering. She also expressed concern as to whether any assets accumulated under this program might have a negative impact on a student's eligibility for ISAC's scholarship and grant programs. Ms. Moreno assured her that due to asset protection allowances contained in the federal methodology for determining a family's financial need, in 2008-2009 a two parent family would have to have over \$43,400 in savings before any of that is considered when determining need, and then only 12% of the amount over \$43,400 would be factored into the formula.

Mr. Davis assured Dr. Louderback that this program does not preclude a student's eligibility for ISAC's MAP. He stated that this program would guarantee that at age 18 the student would, at the minimum, have two years at a community college guaranteed, while there is no guarantee that at age 18 the student would qualify for MAP.

Chairman McNeil stated that the Illinois Board of Higher Education (IBHE) is currently developing a strategic plan where two of the five most important issues identified are college affordability and the significant under-representation in the ranks of baccalaureate graduates among African-Americans and Hispanics. He feels this program will intervene in the very beginning of a child's life and create an environment in the family where the expectation is that the child will go on to higher education.

Ms. Elaine Johnson, with the Illinois Community College Board, took the opportunity to applaud the Commission for considering a program such as this. She stated that there are 48 community colleges throughout the state, which offer certificates, applied science degrees, and apprenticeship programs, and they would be happy to partner with the Commission to help promote this program.

Mr. Vaught was pleased to hear the discussion and targeting the expansion of *College Illinois!*. He feels the Commission has the responsibility to fulfill the legislative authorization and to have a long-term strategic plan to take the program to the next level.

Hearing no other discussion, Chairman McNeil then announced a ten-minute recess.

### **Item 7. Student Lending Industry Update**

Mr. Davis said that as staff was preparing for this meeting, he thought it would be a good idea to prepare a report to summarize the changes that have been occurring recently in the student lending industry. He indicated that he had asked Tom Breyer, Senior Policy Advisor, to prepare and present a report giving an overview of the recent upheaval in the industry nation-wide, following which John Sinsheimer, CFO, would provide some more specific information as to how these environmental changes are impacting ISAC and its ability to finance its student lending activities.

The “Student Loan Credit Crisis,” Mr. Breyer explained, relates to possible threats to the continued availability of student loans. While there is some disagreement as to whether or not there is a crisis already, he continued, the “how we got here” is somewhat more clear. The roots of the current situation lie squarely at the intersection of two significant events: the enactment last September of the federal College Cost Reduction and Access Act (CCRAA) followed by the global credit crisis that was touched off by a meltdown of the U.S. subprime mortgage market.

The CCRAA made cuts of nearly \$21 billion over the next five years in federal subsidy and fee payments to lenders and guarantors in FFELP (the Federal Family Education Loan Program, the primary federally-guaranteed loan program, in which ISAC acts in the capacity as both a lender and a guarantor). The sweeping changes instituted by CCRAA profoundly changed the economics of the student loan industry overnight, and rendered some previously viable business entities unprofitable.

On the heels of CCRAA, Mr. Breyer continued, the subprime mortgage crisis that had begun in mid-2007 brought credit market disruptions that spread to the student loan industry. Early on, the industry experienced a tightening of liquidity in the market for asset-backed securities (ABS), the primary form of financing for student loans as well as mortgages. Soon, the market for auction-rate securities, the specific type of debt instrument used in the majority of student-loan financings, including ISAC’s, seized up completely, literally choking off the supply of new capital for student loans.

Rather quickly, he observed, FFELP lenders experienced a double whammy -- CCRAA dramatically reduced the yield on their loan portfolios, and the credit crisis dramatically increased their cost of funds. Margins plummeted and in many instances turned negative. In some cases, lenders viewed the changes as permanently prohibitive and left the FFELP program for good. In some cases, they view the yield reductions as permanent, but the capital markets disruptions as temporary, and have just suspended their participation. And in other cases, lenders have remained in the program, but have run out of funding and been forced to suspend new loan originations and purchases.

In recent months, numerous private lenders have announced their intention to either suspend their participation in the market for originating and/or purchasing federally-guaranteed loans under this program, or to leave it permanently. During the first quarter of 2008, more and more suspensions of participation were announced, first by state agencies and not-for-profit lenders, and then by bank lenders of increasing size and FFELP market share. As of this morning, Mr. Breyer noted, lenders accounting for 10% of Stafford and PLUS loan origination volume and 30% of consolidation volume had ceased participation. While there were no general widespread shortages of FFELP loans yet, certain markets had experienced disruptions, and shortages could become more widespread if lenders continued to depart.

Among those lenders remaining in FFELP, it is likely that many borrowers will encounter a reduction in what had become typical borrower benefits, such as interest rate reductions and fee waivers.

Within the past few weeks, he continued, a number of schools, becoming increasingly alarmed by the prospects of a disruption in the flow of loan capital to their students for the coming year, have begun to explore the possibility of switching from FFELP to the Direct Loan Program, under which loan funds are provided to student and parent borrowers by the Federal Government rather than by private lenders, as a means of protecting their students from this prospect. In Illinois, Northern Illinois University, ISAC's number one public institution in terms of loan guarantee volume, has already announced its intention to switch from FFELP to Direct Lending, and Augustana College and Olivet Nazarene University have made similar announcements.

Following the passage of CCRAA, the dramatically reduced profitability of the FFELP program made the school-as-lender programs no longer feasible under their existing cost structures. As school-as-lender contracts mature, if the school is out-of-state, ISAC will seek to terminate the agreement, and if the school is in Illinois, ISAC will seek to continue the agreement, but will attempt to renegotiate the agreement under more favorable terms appropriate to current market conditions.

Changes in lending practices for private loans, which lack a federal guarantee and are subject to fewer regulations and less oversight, have been dramatic and immediate. A survey released the prior week, Mr. Breyer noted, showed that 46 percent of the institutions reported that one or more of their preferred lenders are tightening credit requirements; 43 percent reported that one or more lenders were no longer providing private loans; 30 percent reported that one or more lenders are reducing or eliminating borrower benefits; and 20 percent reported that one or more lenders were increasing interest rates.

Federal agencies, most notably the Department of Education and the Treasury, have come under increasing pressure to address the possibility of a loan access crisis, particularly in the FFELP program. Among proposed safety nets to be put in place to ensure continued access to federal loans for all eligible students are: 1) a Lender of Last Resort program structured to eliminate administrative obstacles to students; 2) a Direct Loan program prepared to handle a sharp increase in loan volume; and 3) federal intervention to provide liquidity in the financing markets relied upon by many FFELP lenders.

In closing, Mr. Breyer said he would like to add some perspective on all of this through two quotes. The first, from the President of a state-based, not-for-profit loan agency in another state, spoke to a number of value-added services for students that would be lost should his organization and others like it no longer participate in FFELP. "The current market situation directly affects what we can do to serve students and families in our states. If my organization ceased to be a partner in the FFEL program, not only would a local mission-based organization vanish and 235 dedicated and service-minded employees be out of a job, but critical services would also be unavailable to our citizens. These include financial literacy programs, college planning, career planning, outreach, debt management programs, teacher and military loan forgiveness programs, and training opportunities for higher education professionals, to name a few."

The second came from the minutes of the Commission's last meeting, approved earlier in the day. "Mr. Davis observed that it has been approximately one year since he became Executive Director and noted what a difference a year makes. A year ago, he recalled, he was greeted with some initial skepticism regarding the future of ISAC, and today he was delighted to report that the agency is alive, vital and strong, and in an excellent position to respond to events in the economy and elsewhere. In fact, he stated, based on observing recent events in the industry as it responds to the credit crisis, the agency appears to have positioned itself far better than many of its counterparts in the private sector. He thanked the Commissioners for the sound decisions they have made and the policies they have adopted, as well as

the staff for their hard work and tireless efforts toward achieving the agency's mission. The changes that have been made in the agency's balance sheet, and the structural changes that have taken place, have put the agency in a position to do what many others in the industry are unable to do, and this bodes well for the students of Illinois."

### **Item 8. Debt Restructuring**

Mr. Sinsheimer began this item noting that he would break his comments into four sections: an update on the student loan financial markets; actions the agency has taken to date; a brief discussion of the agency's liquidity; and inquiries ISAC has received from colleges and universities.

He stated that unfortunately, the state of the financial markets with regard to student loans is not good and getting worse day by day. The auction-rate product prevalent in the student loan industry was based on the premise that there would always be willing buyers available at each auction. The broker-dealers have all stepped away from supporting auctions and ISAC, as well as every other student lender, is seeing broker-dealers fail to auction the paper when it has come up for auction every 28 days. What has resulted, he said, is not a credit issue but a liquidity issue.

The market conditions have already had a tangible impact on ISAC. For example, he continued, that sale of the portfolio of Washington University in St. Louis loans to MOHELA, which was approved at the January meeting, was scheduled to close the first week in February, but as a result of the market, MOHELA contacted ISAC stating that funds were no longer available and they were unable to purchase the loans from ISAC. ISAC continues to own these loans until a buyer can be found at a reasonable price.

Mr. Sinsheimer explained that due to the market crisis the ability to secure liquidity for student loans is basically non-existent. He, along with Mr. Davis, have had in-depth discussions with over 20 potential investors, liquidity providers, rating agencies, government entities as well as the Federal Reserve Bank in Chicago, in an attempt to secure funds. Staff will continue to seek nontraditional avenues for raising money because it is our belief that the traditional avenues are closed.

With regard to liquidity and inquiries from the colleges and universities, Mr. Sinsheimer stated that he is receiving calls from schools that the agency has not heard from in years. He is expressing to them that the agency has limited resources and wants to work with the schools and support the students of Illinois, but will work carefully and cannot possibly meet all their financial needs. He believes the agency has enough liquidity to provide funding through the end of the calendar year and potentially through the entire academic year.

With regard to the outstanding bonds of the agency, Mr. Sinsheimer explained that in reviewing the current documents, they are finding the documents are structured with three levels of interest rate ceilings. The agency has retained counsel to assist in the analysis of some of the finer details of the interest rate mechanisms. Mr. Sinsheimer stated that it is the intent of the agency to have its auction rate securities refinanced and paid out in due course, but at the current interest rate levels, they are not causing any financial harm to the agency.

Mr. Vaught expressed his concern that the agency is not able to meet the lending needs of the colleges and university. Mr. Davis agreed that it is staff's concern also and he and staff will continue to seek out resources in order to meet their needs, but until additional financing is secured, we are being cautious in order to avoid any over-commitment of funding.

Ms. Alpi wanted to ensure that ISAC is honoring the needs of institutions that have been partners with the agency before giving our limited resources to new institutions. Mr. Davis and Mr. Sinsheimer confirmed that this is the case.

Mr. Daniels expressed his concern that although current interest rates are advantageous, ISAC must maintain its reputation in the marketplace and treat investors fairly, because we do intend to borrow again. He also expressed his opinion that even after liquidity has improved in the markets, some fundamental changes are occurring and he anticipates that longer-term, it will cost more to borrow in the future.

Mr. Davis agreed that Mr. Daniels' points were well taken. He also assured the Commission that going forward, he and Mr. Sinsheimer are committed to developing a diversity of different funding sources to help avoid the likelihood of a similar liquidity issue arising in the future.

Mr. Vaught commended Mr. Davis, Mr. Sinsheimer and staff for the hard work they have been doing in dealing with this crisis. To have reduced the agency's risk prior to the market crisis by selling the portfolios last year, which put the agency in a position to say we are still in the student loan business and able to meet the financial needs of the community, is a significant accomplishment. He encouraged staff to continue to seek alternative financing to meet the lending needs of the colleges in the future.

Mr. Daniels agreed with Mr. Vaught in commending staff, but also thanked the Governor's office for being supportive in the process as well. Mr. Davis thanked the Commission for their support on behalf of staff and agreed with Mr. Daniels that the Governor's office understands and appreciates the need for ISAC to be there when others in the market aren't.

#### **Item 9. Institutional Application to Participate in ISAC Gift Assistance Programs**

Ms. Christine Peterson, Director, Program Services and Compliance, opened the item by introducing Mr. Carey Cranston, President of Fox College, who was present at the meeting, she said, to answer any specific question the Commissioners may have about the College. Ms. Peterson stated that Fox College has met the criteria and submitted the required documentation for participation in MAP and certain other ISAC gift assistance programs. Such participation requires approval by the Commission, she noted, and staff is recommending that the application of Fox College be approved.

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

**“BE IT RESOLVED** that the Commission approves the application of Fox College to participate, on a provisional basis, in ISAC-administered gift assistance programs for which it is eligible, effective for the fall term of the 2008-2009 academic year, with payment of awards to be subject to available funding.”

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

#### **Item 10. Proposed Rules Amendments**

Ms. Peterson opened the next item by noting that the 45-day public comment period had ended on the proposed amendments, and no comments had been received. The proposed amendments are now being brought to the Commission for approval to be submitted for review by the Joint Committee on Administrative Rules (JCAR). Should JCAR, as expected, vote “no objection” to the amendments, they will be brought back to the Commission at its June meeting for final adoption.

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

**“BE IT RESOLVED** that the Commission accepts the proposed rules amendments, as modified thus far during the rulemaking process, for submission to the Joint Committee on Administrative Rules.”

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

Ms. Alpi **MOVED THAT** the April 4, 2008 meeting of the Commission be adjourned. Mr. Vaught seconded the motion, which was approved unanimously and the meeting was adjourned at 1:10 p.m.

Respectfully submitted,



Debora A. Calcara  
Secretary to the Commission

**MINUTES OF A SPECIAL MEETING**  
**OF THE**  
**ILLINOIS STUDENT ASSISTANCE COMMISSION**

**May 20, 2008**

**James R. Thompson Center**  
**Room 2-025**  
**100 W. Randolph St.**  
**Chicago, Illinois**

**COMMISSIONERS PRESENT:**

Donald J. McNeil, Chair  
Sharon Alpi  
Dr. Lynda Andre  
Warren Daniels, Jr.  
Dr. Mary Ann Louderback

**COMMISSIONERS ABSENT:**

Hugh Van Voorst  
David Vaught  
Kelvin Wing

**STAFF PRESENT:**

Andrew Davis, Executive Director  
Frank Bello, *College Illinois!*<sup>SM</sup> Chief Investment Officer  
Steve Dorfman, First Deputy General Counsel  
Kim Lee, General Counsel  
Raquel Martinez, Deputy General Counsel  
John Sinsheimer, CFO/Managing Director, Financial Products & Services  
Joanne Tolbert, Managing Director, HRD & Business Support  
Claude Walker, State Relations  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:**

Fred Ash, JPMorgan Chase  
Thomas Starshak, Starshak, Winzenburg & Company  
Larry White, Chapman and Cutler

## **Item 1. Announcements**

Chairman McNeil opened the May 20, 2008 special meeting of the Commission at 10:41 a.m. and asked that a roll call be taken, which established that a quorum was present. He then noted that the next regular meeting of the Commission would be held on June 27, 2008 at Carl Sandburg College in Galesburg.

## **Item 2. Executive Director's Report**

Mr. Davis reported to the Commission that Sam Nelson, ISAC's Managing Director for Marketing and Communications unfortunately had been involved in a serious accident and will be recuperating at a rehabilitation facility for the next 12 weeks but is expected to have a successful recovery.

Mr. Davis introduced Mr. Frank Bello, the new *College Illinois!*<sup>SM</sup> Chief Investment Officer. Mr. Davis noted that Mr. Bello previously served as Deputy Treasurer for the City of Chicago. Mr. Bello is a CPA and received his Masters of Business Administration degree from IIT and a Bachelor of Science in Accounting from the University of Illinois. Mr. Bello will have oversight responsibilities for the more than \$1 billion investment portfolio of the *College Illinois!*<sup>SM</sup> Prepaid Tuition Program.

Continuing his report, Mr. Davis was pleased to report that preliminary results from the 2007-2008 enrollment period for the *College Illinois!* Prepaid Tuition Program indicate that contract sales were up nearly 10% from last year's enrollment period, and that this was the first increase in contract sales in several years. He commended the new advertising efforts of Romani Brothers. He also noted the recent addition to the sales and marketing team of Mary Roberts and Tonya Polk, who have been holding events throughout Illinois for the 65,000 state employees to encourage participation in *College Illinois!*, and to increase awareness of the newly established payroll deduction option. He also commended the continuing efforts of *College Illinois!* staff Nancy Stephens, Darla Puckel and Mitsy Mellor.

Mr. Davis provided the Commission with an abbreviated update on current litigation between the agency and its former outside collection law firm, Wexler and Wexler. Mr. Davis asked that Commissioners refrain from discussion of the litigation during the Commission's open meeting.

Mr. Davis then stated that the main purpose of the special meeting today was to discuss the current state of the student lending industry and to seek the Commission's preliminary comments on possible financing opportunities. He provided the Commission with background on recent events in the student loan industry and within the United States Department of Education. It is expected that the Department of Education will make an announcement soon that they will offer to make forward commitments agreeing to purchase FFELP loans from lenders at 100% of the face value plus accrued interest. He stressed the importance of the Department of Education's need to get cash flow into the schools to begin the lending season. If funds are not made available for schools to lend to students, he fears that the ramifications would have a disastrous ripple effect across the entire country.

Chairman McNeil noted that Commissioners had requested periodic updates regarding the status of the financial markets, both in general and as that impacts ISAC's outstanding debt and the student loans ISAC holds in its loan portfolio. Chairman McNeil stated that this morning the staff would be providing Commissioners with such an update that would include some preliminary discussion of potential future transactions structures. Chairman McNeil stated that, since the discussion will involve potential future transactions structures that are not yet final, the discussion will need to occur in a closed meeting of the Commission (also known as a closed session) identified as agenda item number three, Executive Session.

Chairman McNeil stated that, in addition, the staff will be providing Commissioners with detailed information regarding staff reductions that took place during November and December 2007 and January 2008 and a second phase of staff reductions that will commence this week. This is sensitive information that includes the identification of impacted staff members, so this will also need to be discussed in a closed meeting (also known as a closed session) identified as agenda item number four, Executive Session.

Chairman McNeil stated that while the Illinois Open Meetings Act generally requires that public bodies conduct their business as meetings that are open to the public, that law also provides various exceptions for matters to be discussed in closed session such as the Executive Session for agenda items three and four this morning.

The Chairman noted that there are four exceptions under subsection 2(c) of the Open Meetings Act that apply here in support of holding the discussion of these various matters in a closed session - - closed to the public - - by doing so in an Executive Session. The four exceptions are:

1. Under exception number "1" of subsection 2(c)...the closed session is for discussing the dismissal of specific employees of ISAC; and
2. Under exception number "6" of subsection 2(c)...the closed session is for the setting of a price for the sale or lease of property owned by a public body, and
3. Under exception number "7" of subsection 2 (c)...the closed session is for the sale or purchase of securities, investments or investment contracts, and
4. Under exception number "11" of subsection 2 (c)... the closed session is for discussing pending litigation .

Dr. Louderback **MOVED THAT** the Commission adjourn the regular meeting and go into Executive Session. Ms. Alpi seconded the motion, which was approved by a roll call vote of 5-0 in favor.

The Commission then went into Executive Session to discuss agenda items three and four at 11:02 a.m.

After the Commission's Executive Session was concluded, Mr. Daniels **MOVED THAT** the Commission reconvene its regular open meeting. Ms. Alpi seconded the motion, which passed unanimously. The Commission then reconvened in open session at 12:00 p.m.

#### **Item 5. Update on Real Estate**

Ms. Lee opened the agenda item by describing the current status of the agency's three current operating locations, i.e., one office location in Springfield, one in the James R. Thompson Center (JRTC) in Chicago, and one in Deerfield. Ms. Lee then advised the Commission that on April 14, 2008, the agency's procurement officer has issued, through the State of Illinois Department of Central Management Services (CMS), a Request For Proposals (RFP) for a real estate advisor.

Ms. Lee noted that the RFP contains a detailed description of the contemplated advisory services, that the RFP indicates that ISAC is continually evaluating and implementing strategies to reduce operating expenses, that real estate "rightsizing" is one of the efficiency strategies ISAC intends to

pursue, that ISAC needs to evaluate its space requirements due to the fact that the agency has reduced its overall headcount by approximately 20% (about 100 employees) since January 2007. The RFP seeks a vendor who can assess and provide counsel to ISAC regarding its real estate options in order to address ISAC's current business needs and plans.

Mr. Davis gave the Commission an overview of what he envisions as a suitable arrangement for the ISAC operating locations. The Springfield office location would remain the same, and two locations would be operated in Chicago, one well-located facility for a public outreach center where it would be accessible to enrolled students and potential applicants, and office space downtown to accommodate about 50 staff members. Finally, depending upon the recommendations of the real estate advisor, there would be a suitable suburban location to serve ISAC's remaining operations staff needs, but that the suburban location would be smaller than the current Deerfield facilities.

Seeing no other business, Chairman McNeil asked for a motion to adjourn.

Mr. Daniels **MOVED THAT** the May 20, 2008 meeting of the Commission be adjourned. Ms. Alpi seconded the motion, which was approved unanimously. The meeting adjourned at 12:22 p.m.

Respectfully submitted,



Debora A. Calcara  
Secretary to the Commission