CSLF CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

July 27, 2011

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Wednesday, July 27, 2011 at 2:00 p.m., at the office of the Connecticut Department of Higher Education, 61 Woodland Street, Hartford, Connecticut 06105.

Members Present in Person:
Michael P. Meotti (Interim President of the Connecticut Board of Regents for Higher Education) Chairman of the Board and Sarah K. Sanders (designee of Denise Nappier, State Treasurer) Vice-Chairman

Members Absent:
None

Other Attendees:
Nancy A. D. Hancock, Esquire – Pullman & Comley, LLC
Darlene H. Dimitrijevs – Education Solution Partners, LLC
Randall M. Behm – Education Solution Partners, LLC

I. Call to Order:

Mr. Meotti called the meeting to order at 2:09 p.m.

II. Discussion of Board Structure:

Mr. Meotti reviewed the changes in the State of Connecticut's Government Structure that have resulted in changes to the Board of Directors of the Connecticut Student Loan Foundation. Specifically, with the elimination of the Board of Governors of Higher Education and the creation of the Board of Regents for Higher Education, Mr. Frank Ridley is no longer a member of the Board of Directors of the Connecticut Student Loan Foundation.

With Mr. Ridley's departure from the Board of Directors the officer position of Secretary is vacant. Ms. Sanders offered to serve as the Clerk for this meeting, which was accepted by the Chairman.

III. Approval of Minutes:

A motion was made by Ms. Sanders and seconded by Mr. Meotti that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of April 26, 2011 as presented. The motion passed unanimously.

IV. Tender Offer Results:

Ms. Dimitrijevs presented the results of the Tender Offer conducted by CSLF on June 10, 2011. A total of $63,350,000 in bonds were tendered at an average price of 95.172%. All of the tendered bonds were accepted for purchase, increasing the equity of CSLF by $3,058,500. The tendered bonds included all of the remaining bonds in the 2007 B-2 Tax-Exempt series ($32,000,000). Total bonds outstanding are now at $637,600,000, nearly $300,000,000 below the original issuance amount of $935,900,000.

With the completion of this Tender Offer, CSLF no longer has any Tax-Exempt Bonds outstanding. CSLF authorized Hawkins, Delafield and Wood LLP (Bond Counsel for CSLF) to assess the accrued arbitrage rebate liability and the accrued yield restriction liability resulting from the use of Tax-Exempt Bond Financing by CSLF. CSLF received an opinion letter from Hawkins, Delafield and Wood LLP indicating that CSLF had no tax liability resulting from the Tax-Exempt Bonds and that CSLF did not need to file with the Internal Revenue Service.

It was noted by Ms. Dimitrijevs that the elimination of the Tax-Exempt Bonds also reduced an interest rate risk item for CSLF. Series 2007 B-2 was the only bond series of CSLF that had a multiple of the SIFMA rate as its bond interest rate when its auction fails. The multiple was 2.5 times the SIFMA rate. Currently this is a low rate of interest, but as general market rates rise, the interest rate on this series of bonds would have increased 2.5 times as fast as the market. All other series of the bonds contain a failed auction interest rate that is a spread of 1.20% or 1.50% over the 91-day Treasury Bill. With the elimination of the Tax-Exempt Bonds and the continued failure of the auctions, all of CSLF outstanding bonds are essentially Treasury Bill floating rate bonds.

Mr. Behm noted that an error was made in the calculation of the Senior Parity Ratio at the time of the closing of the Tender Offer. As a result the Senior Parity Ratio was overstated. The current Senior Parity Ratio is 118.38%. This is below the Board established policy level of 121.00%. He noted that the correct ratio is still above the initial Senior Parity Ratio at the time of the closing of the bond issuance in December, 2007. Discussion of this issue among those present in the meeting ensued. The group discussed the fact that because of the way the cash flows of the trust work, it is anticipated the target parity ratio would be restored by July 2012 unless discounted bond repurchases occur which accelerate the return to target.

A motion was made by Ms. Sanders to approve all actions taken by CSLF and its agents in the June 10, 2011 Tender Offer as consummated on that date. Mr. Meotti seconded the motion. The motion passed unanimously.

V. Financial Report:

Ms. Dimitrijevs presented the balance sheet, income statement and the non-trust cash flow statement of CSLF as of June 30, 2011.

On a monthly basis CSLF currently has unrestricted cash flow of approximately $50,000. Currently CSLF has unrestricted available cash of just over $4.0M.

Ms. Dimitrijevs reported that CSLF had net income of $4,950,686 for the 9 months ended June 30, 2011. This was $4,219,292 higher than the budget. The primary differences were the Gain on Redemption ($3,163,000) and Collection Retention from ECMC ($1,711,815) which were not budgeted and therefore represent increased income for CSLF. Offsetting this was the amortization of the Bond Discount and Debt Issuance Costs ($720,904), which have been returned to the books of CSLF after having been initially written off in September 2010.

Within the balance sheet Ms. Dimitrijevs reported that the net assets total just over $31 million and that all three categories of net assets (Unrestricted, Restricted-Non Trust and Restricted-Trust) all exceed their budgeted amounts. She also noted that since the June financials were compiled for this Board Meeting, the quarterly settlement with the U.S. Department of Education has occurred. As a result the current parity ratio of the trust has increased to 1.041%.

Ms. Dimitrijevs also presented the non-trust cash flow statement for CSLF. While there are monthly variations, on average approximately $50,000 is added to the unrestricted cash balance each month. She also noted that while CSLF is accruing income for the collection retention at ECMC, the payment from ECMC only occurs once a year in December. As such there has been no cash activity in this restricted account during the past three months.

Mr. Behm then reported on the funds management within the trust estate versus the CSLF policy targets. He noted that all targets were being met as of June 30, 2011, with the exception of the Senior Parity ratio as noted earlier in the meeting.

Ms. Dimitrijevs led a discussion concerning external auditors for CSLF. She noted that the last bid process for auditors occurred in 2008. She also noted that while Whittlesey and Hadley had done an adequate job of auditing the financial statements of the non-profit and the trust, they missed some of the requirements of the U.S. Department of Education. These were quickly remedied, but it indicated a lack of expertise in this area. Ms. Dimitrijevs noted that with the lateness of the previous audit (due to substantial changes at CSLF), it would be difficult to bid out the audit function for the current fiscal year which will end September 30, 2011. She recommended that CSLF remain with Whittlesey and Hadley for fiscal year 2011 before rebidding the external audit function.

Ms. Dimitrijevs proposed that CSLF plan to rebid the audit function in January following the audited financials being presented to the Board of Directors. The bidding may involve two parts, one covering the non-profit organization and the trust, and the other covering the requirements of the U.S. Department of Education. It was requested that ESP create a policy for review and approval by the Board of Directors with respect to the rebidding of audit work. The general consensus of the Board was to continue with Whittlesey and Hadley for fiscal year 2011 and then rebid the auditing function in January, 2012.

VI. 2011-12 Budget:

Mr. Behm provided the Board with a proposed budget for the fiscal year of October 1, 2011 through September 30, 2012. The proposed budget assumed that there are no changes in the interest rates from the current levels, that the bond auctions continue to fail and that the run-off of the loan portfolio does not diminish. In addition, Mr. Behm noted that at this time the reserves for Federal and Alternative Loan Losses appear to be adequate and do not need to be replenished.

The proposed budget includes three bond redemptions of $35 million each. These redemptions are budgeted at par. It was noted that par was a conservative assumption but is allowed under the bond indenture. It is the desire to execute the redemptions below par, and the Funds Management Policy would require an exception to redeem the bonds at par.

The budget also contains $1.0 million of expense for "public purpose". These funds are budgeted to come from the restricted – non trust net assets (i.e. the ECMC Collection Funds). No specific project has been identified for the use of these funds. This is a place holder for future discussion.

Based upon these assumptions the proposed budget indicates a full-year net income for CSLF of $2.3 million. Unrestricted cash flow will be $0.4 million and restricted-non trust cash flow will be $0.6 million. Cash flow within the trust will be negative $21.5 million as excess cash that currently exists will be utilized to repurchase bonds. Even with these repurchases, cash and cash equivalents within the trust never fall below $10.8 million.

After discussions about possible public purpose opportunities, as well as the need to continue to utilize excess cash inside the trust to repurchase bonds, Ms. Sanders made the following motion which was seconded by Mr. Meotti:

That the Board of Directors of the Connecticut Student Loan Foundation approves the 2011-12 Budget as presented.

The motion passed unanimously.

VII. IRS Form 990

Ms. Dimitrijevs presented IRS Forms 990 and 990T along with Connecticut Form CT990T for CSLF as of September 30, 2010.

After review of the documents, Ms. Sanders made the following motion which as seconded by Mr. Meotti:

WHEREAS, the Board of Directors of the Connecticut Student Loan Foundation has review the IRS Forms 990 and 990T and the Connecticut Form CT990T as of September 30, 2010;

NOW THEREFORE, BE IT:

RESOLVED, that the Board of Directors of the Connecticut Student Loan Foundation approves the filing of the Forms 990 and 990T with the IRS and the Form CT990T with the State of Connecticut as presented.

The motion passed unanimously.

VIII. EdFinancial File Review

Ms. Dimitrijevs presented the results of a file review conducted in June at the site of EdFinancial Services. The review consisted of 270 borrower accounts with a focus on three areas. All non-Connecticut nexus Private Education Loans were reviewed (193). In addition, samples of Connecticut nexus Private Education Loans (67) and of Federal Consolidation Loans (10) were reviewed. The Connecticut nexus sample included all the loans of that segment that were delinquent at least 30 days. The Federal Consolidation Loans were selected to evaluate a potential pricing methodology problem that was reported to the Board in a prior meeting.

Overall the loan files reviewed contained consistent documentation and appeared complete. No major systemic problems were discovered in any of the samples. In the review process it was discovered that the Program Guidelines for the Private Education Loans could be interpreted in multiple ways with respect to underwriting, documentation and loan term maximums. However, the review indicates that CSLF only used one such interpretation. As a result of this review, an Addendum will be added to the Program Guidelines to clarify the procedures that were actually followed by CSLF.

Ms. Dimitrijevs noted that the cumulative default rate for the CSLF Private Education Loans was around 9%, which is low in the industry. She also noted, while not formally part of the review, some of the loans contained Adverse Action letters from an earlier denied application that were out of compliance with Regulation Z. This non-compliance represents minimal risk to CSLF due to the passage of time.

Of the Non-Connecticut nexus loans, 188 (61%) were made to students attending one of five for-profit institutions. A school concentration report has been requested from EdFinancial to better understand the school demographic comprising this portfolio.

The review of the Federal Consolidation Loans did not reveal any further concern with the pricing methodology. The loan reported to the Board in a prior meeting appears to be an isolated error. However, in the review it was noted that former employee accounts need to be coded by EdFinancial to disallow any future or additional borrower benefits.

The complete report of the file review was provided to the members of the Board.

IX. Not-For-Profit Servicing Proposal

Mr. Behm presented a Not-For-Profit Servicing proposal that was received from EdFinancial Services. Under the Health Care and Education Reconciliation Act (HCERA) of 2010 certain not-for-profit organizations are allowed to become a servicer of 100,000 accounts assigned by the U.S. Department of Education (DOE) from the Direct Education Loan program. CSLF is one of approximately 35 entities that are eligible for this program. 21 of the eligible entities have applied to the DOE for inclusion in the program.

The proposal from EdFinancial would essentially outsource all of CSLF's servicing responsibilities for these loans to EdFinancial Services. The program would provide income to CSLF that is estimated at over $700,000 the first year and then approximately $200,000 per year for at least 4 years. CSLF would be able to terminate the arrangement at any time and retain all income that had been received up to that point.

The Board instructed ESP to continue to evaluate the program, receive and review all legal agreements required of the program and then provide a report at the October Board meeting for possible approval.

X. Executive Session:

Mr. Meotti asked if any Board members had a need for an Executive Session.

> A motion was made by Ms. Sanders to enter Executive Session and was seconded by Mr. Meotti. The motion was passed unanimously.

The Board entered Executive Session at 3:26 p.m.

The Board exited Executive Session at 3:45 p.m.

XI. Adjournment

Mr. Meotti then asked whether there was any other business properly brought before the Board, and there was none. Mr. Meotti requested a motion for adjournment.

> Ms. Sanders moved that the meeting be adjourned, Mr. Meotti seconded the motion and it was unanimously passed at 3:46 p.m.

Respectfully Submitted for the
Board of Directors by:

Sarah K. Sanders

Sarah K. Sanders, Acting Clerk