CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

January 26, 2011

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Wednesday, January 26, 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 (Commissioner of the Connecticut Department of Higher Education) Chairman of the Board, Sarah K. Sanders (designee of Denise Nappier, State Treasurer)

Member Present via Telephone:
Frank W. Ridley (Chairman of the Board of Governors of the Connecticut Department of Higher Education)

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 2:03 p.m. Mr. Meotti presented a letter from Denise L. Nappier, Treasurer of the State of Connecticut, designating Ms. Sanders as her representative to the Board of CSLF until further notice.

II. Approval of Minutes:

A motion was made by Mr. Ridley and seconded by Mr. Meotti to approve as presented the minutes of the Board of Directors Meetings of October 22, 2010. Ms. Sanders abstained from the vote as she was not a member of the Board at that time. The motion was passed.

III. Election of Officer:

A motion was made by Mr. Ridley and seconded by Mr. Meotti to elect Ms. Sanders as the Vice Chairman of the Board. The motion passed unanimously.

IV. Financial Report:

Ms. Dimitrijevs presented the balance sheet, income statement and cash flow statement of CSLF as of December 31, 2010.

Within the balance sheet Ms. Dimitrijevs reported that the unrestricted cash balances were $3.7 million. This is an increase of $300,000 from September 30, 2010. She also noted the receipt of $122, 737 from ECMC as the first annual payment required under the agreement that transitioned the guarantee business of CSLF to ECMC. Total Assets and Total Liabilities are $4.2 million below budget. This is primarily due to cash being utilized for discounted bond redemptions as opportunities arise. $2.2 million of bond redemptions occurred in the quarter ended December 31, 2010.

Ms. Dimitrijevs reported that CSLF had net income of $928,341 for the quarter ended December 31, 2010. This was $598,417 higher than the budget. The primary difference was lower bond interest rates, with several of the bonds paying 0.00% interest. In addition, the Gain on Redemption ($104,500) and Collection Retention from ECMC ($122,737) were not budgeted and therefore represent increased income for CSLF. Ms. Dimitrijevs explained that in the portfolio transfer from Granite State to Edfinancial, a number of late charges previously accrued by Granite State were deemed inappropriate or uncollectable. Adjusting these fees resulted in a negative fee income amount of $51,308 for the quarter. She also noted that all expenses were essentially at or below their budgeted levels.

Ms. Dimitrijevs next reported on the repurchase of outstanding bonds that occurred in September. She reported that $2.2 million of bonds were retired at a price of 95.25%, generating $104,500 of equity for CSLF.

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 December 31, 2010. Specifically all Cash & Cash Equivalent ratios ranged from 4.60% to 5.88% (target between 2.00% and 15.00%) and the Senior Parity Ratio was 123.55% (targeted to exceed 121.00%). He also noted that the Parity Ratio was estimated at 2.93%. The exact parity ratio is subject to receipt of final reports and funds from the U.S. Department of Education and is anticipated to increase.

Ms. Dimitrijevs presented the non-trust related cash flow for CSLF. Unrestricted cash flow totaled $330,144 for the quarter ended December 31, 2010. While there is fluctuation in the monthly cash flow, primarily due to quarterly settlement with the U.S. Department of Education, it is anticipated that average monthly unrestricted cash flow will be approximately $100,000.

Finally, Ms. Dimitrijevs noted that the external auditors should be completing their work on the September 30, 2010 financial by the end of February. It is anticipated that audited financials will be available for the Board to review in the first quarter of calendar year 2011.

V. Bond Issuance:

Mr. Behm presented a structure for refinancing the existing bond debt through a structured sale of the loan portfolio. The objective would be to create a more dependable income stream for CSLF than the current auction rate structure. [REDACTED]In the refinancing CSLF could decide to receive an upfront cash payment, a stream of income over several years, or some other combination. The Board requested ESP to proceed with evaluating such a transaction for the sale of the portfolio and to provide the economics of such a transaction for review by the Board. It was noted that CSLF is currently on strong financial footing and therefore did not need to implement a sale strategy quickly. It was also noted that any restructure would be reviewed by the Connecticut Office of the Treasurer and the Connecticut Office of Policy and Management.

The Board then discussed the various roles that other entities held in relation to the trust estate. Mr. Behm reviewed the functions of the Broker/Dealer (Ramirez & Co.), Auction Agent (Deutsche Bank), Trustee (Bank of New York Mellon) and Bond Counsel (Hawkins Delafield & Wood). It was noted that in addition to its role as Broker/Dealer, Ramirez & Co. was also to serve as a financial advisor and monitor for CSLF. Mr. Behm noted that these later duties had been neglected by Ramirez & Co. in recent months. After some discussion about other individuals or entities that could fulfill this role, it was determined to first try to have Ramirez & Co. fulfill this contractual obligation before any change was made. Ms. Sanders offered to contact Samuel Ramirez in an effort to correct this situation.

VI. Granite State:

Mr. Behm, with the assistance of Ms. Hancock, updated the Board on the lawsuit that had been filed in Federal Court by CSLF against Granite State Management and Resources. The lawsuit claims approximately $1 million in damages primarily related to the cost of imaging the loan files and the transfer fee assessed by Granite State to move the servicing of the loans to Edfinancial. Granite State has countersued, for $82,000, based upon the amount they billed CSLF for the final month of servicing.

Granite State has now provided Edfinancial the servicing history for the period of time that Granite State serviced the loans. Edfinancial is in the process of loading that history information into their servicing system. Granite State has not provided Edfinancial the servicing history information from when CSLF serviced the loans. Granite State has acknowledged receiving the information at the time that they began servicing the loans, but never loaded the information into their servicing system. The lack of this history can result in claim rejections, but can be mitigated in many instances if the more recent history shows the account was current. Edfinancial is assessing the potential financial liability of this missing history information.

Mr. Behm also informed the Board that ESP is aware of some promissory notes that were held by Granite State and not transferred to Edfinancial when the servicing was transitioned. ESP became aware of this in recent weeks from conversations with Edfinancial where they had recently received promissory notes from Granite State when they were requested.

VII. Other Items:

Mr. Behm provided material concerning an issue with rates on some consolidation loans. The nature of the error was that incorrect, discounted rates on underlying loans were used to determine the rate on the new consolidation loan. In the one known example, the rate was low by 1.00%. Without a complete file review the full extent of this issue cannot be determined. However, Mr. Behm noted that the interest rate distribution on the portfolio indicates a small percentage of loans with relatively low rates. It was determined to not pursue this error, acknowledging that the only possible correction would be to increase individual borrower rates.

Mr. Behm reported that ESP had received a dividend check from MetLife for shares owned by KISSystems. KISSystems was dissolved by the Board in 2010. ESP, on behalf of CSLF, has filed a claim with the agent of MetLife for the reissuance of all dividend checks in the name of CSLF and the sale of the MetLife shares.

Mr. Behm noted that CSLF was sent two notices by the Internal Revenue Service. One related to an employee benefit plan issue from 2008, which Ms. Hancock assisted in closing out. The other related to a payroll reporting item from 2010, which Paychex has resolved.

Mr. Behm presented the Board with information on the insurance renewals for CSLF. After a brief discussion, ESP was instructed to proceed with the renewals as presented.

VIII. <u>Executive Session:</u>

Mr. Meotti asked if any Board members had a need for an Executive Session. No such session was requested.

<u>Adjournment</u>

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. Mr. Ridley moved that the meeting be adjourned, Ms. Sanders seconded the motion and it was unanimously passed at 4:12 p.m.

Respectfully Submitted for the
Board of Directors by:

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Frank W. Ridley, Secretary