



CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

November 18, 2014

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Tuesday, November 18, 2014 at 1:00 p.m., at the office of the Connecticut Health and Educational Facilities Authority, 10 Columbus Boulevard, Hartford, Connecticut 06106.

Members Present:

Barbara Rubin, Chair of the Board
Sarah K. Sanders (designee of the Honorable Denise Nappier), Vice Chair of the Board
Jeffrey A. Asher
Martin L. Budd
Steven Kitowicz (designee of the Honorable Benjamin Barnes)
Dr. Peter W. Lisi
Julie B. Savino
Erika Steiner (designee of Dr. Gregory Gray)

Members Absent:

Paul Mutone

Other Attendees:

Jeanette Weldon, Executive Director
Paula Herman, General Counsel, CHEFA
Darlene Dimitrijevs – Principal, Education Solution Partners, LLC
Randy Behm – Principal, Education Solution Partners, LLC
Tim Webb – Vice President, FirstSouthwest
Samuel Rush – Deputy Director, CHESLA
Joshua Hurlock, Portfolio and Marketing Associate, CHESLA
Norberto Ramirez, Compliance Internal Auditor, CHEFA
Cynthia Peoples, Assistant Director, CHEFA
JoAnne Mackewicz, Controller, CHEFA
Carlee Levin, Sr. Accountant, CHEFA
Judith Blank, Esquire, Day Pitney, LLP
Joseph Santoro, Director – Education Finance, Bank of America Merrill Lynch

I. Call to Order:

Ms. Rubin called the meeting to order at 1:03 p.m.

Ms. Rubin, recognizing that Dr. Lisi may need to leave the meeting before its conclusion, requested that the order of the agenda be changed to place the Financial Report and the 2015 Meeting Dates after the Executive Session.

II. Approval of September 16, 2014 Minutes:

A motion was made by Dr. Lisi and seconded by Ms. Savino that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the September 16, 2014 meeting as presented.

The motion passed unanimously.

III. Executive Director's Report

Ms. Weldon provided an update on the selection of the financial advisor for CSLF. She indicated that a request for proposals had been issued to nine entities and posted on the CSLF and State Department of Administrative Services websites. Three entities responded with proposals. At a meeting of the Ad Hoc Committee on September 29, 2014, FirstSouthwest was selected as the Financial Advisor.

Ms. Weldon discussed changes in insurance coverage for CSLF that are being recommended. She indicated that the insurance carriers for the Connecticut Health and Educational Facilities Authority (CHEFA) that provide policies for General Liability, Umbrella Excess Liability and Crime Coverage had agreed to cover CSLF at no additional cost. That coverage would be retroactive to July 1, 2014, the date CSLF became a subsidiary of CHEFA. She indicated that the Directors and Officers insurance would need to be renewed in February 2015 as a separate policy for CSLF. Indications from CHEFA's Insurance Consultant are that the renewal should have no more than a 10% increase, for a total annual premium of less than \$54,300. In regards to the Fiduciary Liability policy, the need for this policy was tied to the 403(b) plan for former employees of CSLF that was terminated in May 2014. However, for a period of time beyond the current expiration date of March 2015, CSLF may need some continuing coverage under this policy. The CHEFA Insurance Consultant is evaluating the need for this policy. The recommended changes for all the insurance policies will result in a savings for CSLF of approximately \$1,000 per month on a going forward basis.

A motion was made by Mr. Budd and seconded by Ms. Steiner to authorize the Executive Director to renew the Directors and Officers insurance policy as recommended. Furthermore, the Fiduciary Liability insurance policy should be renewed, if deemed necessary by the Executive Director upon consultation with the CHEFA Insurance Consultant.

The motion passed unanimously.

Ms. Weldon next updated the Board on the status of two audits that are being conducted of CSLF. Cohn Reznick, the Independent Public Accountants for CSLF, is conducting their annual audit for the fiscal year ended September 30, 2014. They conducted a two-day on site visit to the offices of Education Solution Partners in November. The results of their audit will be presented at the March 2015 Board meeting. In addition, the Connecticut Auditors of Public Accounts are finalizing their report on the audit of CSLF for the fiscal year ended September 30, 2013. The draft report presented to CSLF last week indicates a clean audit with no findings. It is anticipated that the final report will be published in the near future.

IV. Legislatively Required Payments

Ms. Steiner excused herself from this agenda item and exited the meeting at 1:09 p.m.

Mr. Behm provided a summary of the payments that were required by Public Act No. 14-47. He indicated that with the CHET Baby Scholars payment having already been made, there was currently \$20.6 million of payments to be made. As of October 31, 2014 CSLF had \$19.1 million available in the Restricted (\$13.4 million) and Unrestricted (\$5.7 million) funds that could be used for making these payments. He indicated that, except for Tuition Support under the Transform CSCU project, Restricted Funds could be used for any of the required expenditures. Mr. Behm also noted that there was one final influx of funds to be made to the Restricted Funds after December 31, 2014. The amount of that final deposit is estimated at \$500,000 and is anticipated to be made in January 2015; however it is not contractually required until December 31, 2015. He also noted that in order to complete the required payments, some funds will need to be drawn from the trust estate. The amount will be at least \$1.0 million and could be as much as \$1.6 million based upon the amount and timing of the final deposit into the Restricted Fund.

After some discussion on the funding sources, Mr. Budd made the following motion which was seconded by Ms. Savino:

The Board of Directors of the Connecticut Student Loan Foundation approves the following payments to fulfill the payments required under Connecticut Public Act No. 14-47:

- Transform CSCU
 - \$13.3 million from the Restricted Funds
 - Paid no later than December 31, 2014
 - \$5.7 million from the Unrestricted Fund
 - Paid no later than December 31, 2014

- Governor's Scholarship
 - All funds remaining in the Restricted Fund
 - Paid no later than June 30, 2015
 - Up to \$1.6 million from the Unrestricted Funds
 - As needed to complete the required \$1.6 million total for the Governor's Scholarship;
 - Funds generated from the release of up to \$1.6 million from the trust, as needed; and
 - Paid no later than June 30, 2015

The Board of Directors of the Connecticut Student Loan Foundation further authorizes the Executive Director, at her sole discretion, to request a distribution from the Trust of up to \$1.6 million to complete the above actions and maintain adequate operating funds for CSLF.

The motion passed unanimously.

V. Loan Loss Provision Analysis

Ms. Steiner rejoined the meeting at 1:17 p.m.

Mr. Behm provided a review of the current loan loss allowance versus the actual performance of both the Federal and the Private loan portfolios. He began with an analysis of the Federal loan portfolio. If it is assumed the current delinquency rate of 12.6% will apply to the entire Federal loan portfolio (including the loans that have not yet entered repayment) and that all the delinquent loans will default,

CSLF's risk share would result in \$918,000 of losses in the future on the Federal Loans. This is approximately \$120,000 less than the current loan loss allowance on the Federal loan portfolio. As a result, it was recommended that no adjustment be made to the Allowance for Federal Loan Losses at this time.

Mr. Behm next reviewed the performance of the Alternative Loan portfolio with regard to its Loan Loss Allowance. He noted that the net defaults (after recoveries) for the 2013-14 fiscal year were \$285,000, with over \$200,000 of that amount occurring in the quarter ended March 30, 2014. The last two quarters of the fiscal year experienced net loan charge-offs of \$2,000 and \$6,000 respectively. Mr. Behm indicated that the delinquency rate on the loans in repayment was now at 4.3%, a significant decline from the 11.8% peak in December 2012. Assuming that the loans that are not yet in repayment (\$1.5 million) default at the same level as those that have already entered repayment and that all loans that are currently delinquent default with recoveries at the historical recovery rate of 19.7%, produces a total of \$554,000 in expected future loan losses. This is above the current Alternative Loan Loss Allowance of \$429,340. Mr. Behm concluded that an additional provision to the Alternative Loan Loss Allowance would be prudent and recommended that any such adjustment be made retroactively to September 30, 2014, the date used in the analysis.

A motion was made by Ms. Savino and seconded by Mr. Budd as follows:

WHEREAS, the Board of the Connecticut Student Loan Foundation has reviewed the performance of its Federal and Alternative loan portfolios and believes it is prudent to provide for future losses on such loans;

NOW THEREFORE, BE IT:

RESOLVED, that the Alternative Loan Loss Reserve shall be increased by \$150,000 retroactive to September 30, 2014.

VI. Executive Session

Mr. Asher made a motion, which was seconded by Ms. Steiner to enter Executive Session to discuss an item involving trade secrets.

The motion passed unanimously.

The Board entered Executive Session at 1:27 p.m. In addition to the Board members, the chair requested the following individuals to remain in the meeting: Ms. Weldon, Ms. Herman, Mr. Webb, Ms. Dimitrijevs, Mr. Behm, Mr. Rush and Mr. Hurlock.

The Board exited Executive Session at 2:26 p.m. Ms. Ruben indicated that there were no decisions made and no votes taken during the Executive Session.

VII. Existing Municipal Bond Structure

Mr. Budd made the following motion which was seconded by Dr. Lisi:

The Board of the Connecticut Student Loan Foundation has determined that CSLF will continue to use the existing municipal bond structure for the financing of its education loan portfolio and will reevaluate the financing structure from time to time. Management is directed to provide the Board with potential uses for funds generated from the loan portfolio at the March 2015 meeting and redemptions of bonds are directed to continue in accordance with the Funds Management Policy.

The motion passed unanimously.

VIII. Financial Report

Dr. Lisi exited the meeting at 2:28 p.m.

Ms. Dimitrijevs provided financial reports for the fiscal year ended September 30, 2014 as well as a 1-month report as of October 31, 2014. She presented the Net Change in Position, Balance Sheet and a summary of the quarterly Surveillance Report, which included the amount of Bond Redemptions during the quarter.

She noted that the Net Change in Position for CSLF was a positive \$3.0 million for the fiscal year before extraordinary items. After extraordinary items, the Net Change in Position was a negative \$17.6 million. The extraordinary items include the \$25.0 million legislatively mandated payments which are partially offset by the ECMC contract (\$4.3 million) and a Gain on Redemption of Bonds (\$22,500). Before the extraordinary items the Net Change is \$1.1 million better than the prior year and \$0.2 million better than plan. For the month of October 2014 the Net Change in Position was \$374,403.

On the Balance Sheet she indicated the Loans Receivable stood at \$371.3 million as of September 30, 2014, which was \$59 million below prior year, but \$17.9 million over budget. Bonds Payable were \$352.4 million compared to \$415.7 million the prior year and a budget of \$339.7 million.

Ms. Dimitrijevs indicated that the trust parity ratio as of September 30, 2014 stands at 109.35% versus a planned level of 108.94%. Assets within the Trust exceed the Board required parity level by \$20.9 million. Of this amount \$13.2 million is in cash or cash equivalents with the remainder primarily made up of the loan balances exceeding that of the bonds outstanding.

Ms. Dimitrijevs reviewed a summary of the quarterly surveillance report that is made available publicly on the CSLF website. She indicated that \$10.5 million in bonds were redeemed in the quarter ended September 30, 2014. As of September 30, 2014, \$352.4 million in bonds remain outstanding. The original issuance was \$935.9 million.

IX. 2015 Meeting Dates

Mr. Budd made the following motion, which was seconded by Ms. Steiner:

The Board of Directors of the Connecticut Student Loan Foundation approves the 2015 Meeting Schedule as presented with the start time modified to 12:30 p.m., subject to potential modification by the Executive Director prior to filing of the Schedule with the Secretary of the State. Any such modification shall be effected to adjust certain dates as may be necessary to accommodate maximum availability of Board members, as shall be determined by a poll of board members via e-mail.

The motion passed unanimously.

X. Review of Funds Management Policy

Mr. Budd made the following motion, which was seconded by Mr. Kitowicz:

The Board of Directors of the Connecticut Student Loan Foundation extends the Funds Management Policy, as presented, to March 31, 2015.

The motion passed unanimously.

XI. Adjournment

Ms. Savino made a motion, which was seconded by Mr. Budd to adjourn the meeting.

The motion passed unanimously and the meeting was adjourned at 2:42 p.m.

Respectfully Submitted by:

Jeanette Weldon, Executive Director