CSLF CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

January 25, 2012

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Wednesday, January 25, 2012 at 2:00 p.m., at the office of the Connecticut Board of Regents for Higher Education, 39 Woodland Street, Hartford, Connecticut 06105.

Members Present in Person:
Michael P. Meotti (designee of Dr. Robert Kennedy, Interim President of the Connecticut Board of Regents for Higher Education) Chairman of the Board and Don Kirshbaum (designee of Denise Nappier, State Treasurer).

Members Absent:
Lewis J. Robinson, Esquire (Chairman of the Connecticut Board of Regents for Higher Education).

Other Attendees:
Nancy A. D. Hancock, Esquire – Pullman & Comley, LLC
Darlene H. Dimitrijevs – Education Solution Partners, LLC
Randall M. Behm – Education Solution Partners, LLC
Edward Sullivan – Whittlesey & Hadley, P.C.
Jean Callan – Whittlesey & Hadley, P.C.

I. Call to Order:

Mr. Meotti called the meeting to order at 2:02 p.m. Mr. Meotti provided a letter from Ms. Nappier designating Mr. Kirshbaum as her representative on the Board of Directors for this January 25, 2012 meeting.

II. Election of Secretary:

A motion was made by Mr. Meotti and seconded by Mr. Kirshbaum to elect Mr. Robinson as the Secretary of the Board of Directors of the Connecticut Student Loan Foundation. The motion passed unanimously.

III. Approval of Minutes:

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

IV. Audited Financials, September 30, 2011:

Mr. Sullivan presented the Audited Financial Report for CSLF as of September 30, 2011, the end of the 2010-11 fiscal year. He noted that this was the earliest the audited financials had been completed for CSLF in at least a decade.

This is the first set of CSLF audited financials that do not contain guarantor services, loan servicing or subsidiaries. Because of this change, the Federal Single Audit (required of Guarantors) no longer needs to be filed with the U.S. Department of Education. He also indicated that the attestation engagements for the two servicers would be completed by his firm in the next couple of months and then submitted to the U.S. Department of Education.

Mr. Sullivan noted that because of the actions taken by CSLF, the financial strength of the organization continues to improve. Net Assets increased $10 million during the fiscal year and Unrestricted Net Assets improved from $3.2 million at September 30, 2010 to $14.1 million at September 30, 2011. Mr. Sullivan indicated that the going forward financial condition of CSLF looked good and that Whittlesey & Hadley, P.C. would be providing an unqualified opinion on the financial reports of CSLF.

He indicated that while Operating Revenue had declined from the prior year by $2.6 million, this was more than offset by a decline in Operating Expense of $10.3 million. He noted that the change in Net Assets from Continuing Operations was a positive $2.7 million compared to a negative $5.0 million the prior year. Mr. Sullivan also explained that since the parity level exceeded the 2.50% requirement of the trust estate, that the funds above this level could be withdrawn at the request of CSLF. As a result, any funds within the trust above the 2.50% parity level are considered unrestricted. The audited financials reflect this change in presentation.

Mr. Sullivan discussed the segregation of duties within ESP with respect to the payment of invoices for CSLF. He noted that this concern was raised last year and has been mitigated, but cannot be completely eliminated. He noted that ESP has transferred the largest transactions, the cash receipt and payment functions related to the trust estate, to the Trustee. This limits ESP's involvement in those transactions to authorization only. His firm reviewed all payments by CSLF to ESP and found that they were all authorized by the Chairman prior to being made by ESP. Mr. Sullivan noted that complete segregation of duties could not be achieved by ESP due to the size of the organization. He also noted that the monthly bank statements are provided to an individual of the Connecticut Board of Regents for Higher Education for ongoing review of CSLF transactions.

The Board discussed the segregation of duties concern. It was determined that the use of employees from the Board of Regents for assistance in this review process, and other activities, should be formalized between the two organizations. Ms. Hancock was directed by the Chairman to draft a letter for that purpose.

Finally, Mr. Sullivan reviewed the Form 990 Federal Income Tax document which was completed subject to the approval of the audited financials. It is anticipated that the Form 990 will be filed in March when the IRS has opened the electronic filing portal.

Mr. Meotti made the following motion which was seconded by Mr. Kirshbaum:

> **WHEREAS,** the Board of Directors of the Connecticut Student Loan Foundation has reviewed the report of the external auditors as of September 30, 2011;
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> **NOW THEREFORE, BE IT:**
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> **RESOLVED,** that the Board of Directors of the Connecticut Student Loan Foundation accepts the report of the external auditors for the fiscal year ended September 30, 2011 and approves the release of the audited financials for the fiscal year ended September 30, 2011 as presented.

The motion was passed unanimously.

Mr. Meotti made the following motion which was seconded by Mr. Kirshbaum:

> **WHEREAS,** the Board of Directors of the Connecticut Student Loan Foundation has reviewed the IRS Form 990 as of September 30, 2011;
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> **NOW THEREFORE, BE IT:**
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> **RESOLVED,** that the Board of Directors of the Connecticut Student Loan Foundation approves the filing of the Form 990 with the IRS for the fiscal year ended September 30, 2011 as presented.

The motion was passed unanimously.

Mr. Sullivan and Ms. Callan left the meeting at this point – 2:17 p.m.

V. Whistleblower Policy:

Ms. Hancock led a discussion of the need for a Whistleblower Policy for CSLF and the unique scenario presented by CSLF as it has no current employees. Ms. Hancock presented a proposed Whistleblower Policy (Attachment A).

After further discussion of the Whistleblower Policy, Mr. Kirshbaum made the following motion which was seconded by Mr. Meotti:

> That the Board of Directors of the Connecticut Student Loan Foundation approves and adopts the Whistleblower Policy as presented.

The motion passed unanimously.

VI. Financial Report:

Ms. Dimitrijevs presented the income statement, non-trust cash flow statement and the balance sheet of CSLF for the quarter ended December 31, 2011.

Ms. Dimitrijevs reported that CSLF had net income of $2,568,813 for the quarter ended December 31, 2011. This was $1,889,363 higher than the budget. The primary differences were the Gain on Redemption ($1,216,750) which was not budgeted and Collection Retention from ECMC ($527,855). She noted that the lower than budgeted Interest Income was more than offset by the lower than budgeted Interest Expense on the Bonds. The higher than budgeted Debt Issuance Cost was due to the write-off of previously deferred expenses resulting from the tender offer conducted in December.

A question was raised in regards to the ongoing net operating income of CSLF. Ms. Dimitrijevs noted that, as presented in the audited financials, the Net Operating Income (change in net assets from continuing operations) for the past fiscal year was $2.7 million.

Ms. Dimitrijevs also presented the non-trust cash flow statement for CSLF. While there are monthly variations, on average approximately $63,000 was added to the unrestricted cash balance each month of the quarter. She also noted that while CSLF is accruing income for the collection retention at ECMC, the payment from ECMC only occurs once a year. The payment for the fiscal year ended September 30, 2011 was received in October, 2011.

Within the balance sheet Ms. Dimitrijevs reported that the net assets total just over $38.8 million and that all three categories of net assets (Unrestricted, Restricted-Non Trust and Restricted-Trust) exceeded their budgeted amounts. All of the major variances in the balance sheet are the result of two unbudgeted items – the tender offer in December and the positive results from the ECMC contract. Ms. Dimitrijevs noted that the financials included accruals for the last quarter for both the settlement with the U.S. Department of Education and the anticipated income from ECMC. Using the accrual amount for the U.S. Department of Education, the current parity ratio for the trust is 104.62%. Ms. Dimitrijevs also noted that approximately $5 million of reserve funds within the Trust Estate that had been previously invested by Bank of New York were moved to the Connecticut Short-Term Investment Fund for a substantial improvement in yield.

Mr. Behm then reported on the funds management within the trust estate versus the CSLF policy targets. He noted that with the tender offer conducted in December, the Senior Parity ratio at 121.01% is again above the minimum required by the Funds Management Policy. Mr. Behm also reminded the Board that immediately following the tender offer CSLF was temporarily below the Cash & Cash Equivalent minimum of 2.00%, but that by the end of December that ratio was now at 2.99%. Finally, Mr. Behm noted that the Parity Ratio, at 4.62%, now exceeds the release policy established by the Board. The general consensus was to not release funds from the trust at this time.

Ms. Dimitrijevs reported the summary results of the tender offer concluded in December. $55.2 million of Senior Bonds were redeemed at an average price of 97.8% of par. She noted that the tender offer had received additional tender requests of approximately $30 million that could not be filled. As a result, those who offered their bonds at the maximum price of 98.5% received only a proration of their tender amount. The December tender offer provided $1.2 million of additional equity to CSLF. A list of historical tender offer results for CSLF was provided to the Board. Mr. Behm then reviewed a list of

Outstanding Bonds by Owner, noting that 6 entities had tendered their entire position in the CSLF bonds. However, only one of them tender their bonds below the maximum price and had all of their bonds retired. The other 5 entities received a pro-ration of their tendered bonds.

Ms. Dimitrijevs discussed the plan to rebid the audit function following this meeting of 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. Ms. Dimitrijevs presented a list of 13 accounting firms, with offices in Connecticut, that she intended to solicit for bids. She noted that the list included the current auditors of CSLF, Whittlesey and Hadley,P.C. ESP will present the results of this bidding process at the April CSLF Board meeting.

VII. Regulatory Changes:

Mr. Behm presented the Board with a potential change in the index rate used for determining the interest received by CSLF on the federal education loans that it owns. Under the Consolidated Appropriations Act, 2012 (HR 2055) recently signed into law by President Obama, there is a provision that would allow CSLF to elect to change the Special Allowance index from the 3-month Commercial Paper rate to the 1-month LIBOR rate. Mr. Behm noted that this selection must be made be eligible lenders, such as CSLF, by April 1, 2012 or the current Commercial Paper index will remain in effect.

He indicated that the index selection does not affect the underlying loans, but is chosen by the owner and, if elected, would impact all loans owned by that eligible lender. The lender cannot select the new index for some eligible loans but not others. As such, the choice made by CSLF does not affect the sale value of the loans in the future, as the index would change to that of the buyer upon the sale. Mr. Behm indicated that if CSLF were to conduct a refinancing of the loans in the name of CSLF then having a LIBOR index may provide a better pricing. However, if the market conditions allowed a successful refinancing by CSLF then it is likely that the market conditions would also allow an effective loan sale. He also noted that historically the 3-month Commercial Paper rate and the 1-month LIBOR rate are within 1 basis point on average.

Following further discussion, Mr. Kirshbaum made the following motion which was seconded by Mr. Meotti:

> **WHEREAS,** the Board of Directors of the Connecticut Student Loan Foundation has reviewed the option provided in the Consolidated Appropriations Act, 2012 (HR 2055) to elect a one-time change in the financial index used for determining Special Allowance payments from the U.S. Department of Education from 3-month Commercial Paper to 1-Month LIBOR for certain loans held in the trust portfolio of the Connecticut Student Loan Foundation; and
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> **WHEREAS.** the Board of Directors has evaluated the financial impacts, present and future, to the Connecticut Student Loan Foundaion of such a change in the Special Allowance index;
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> **NOW THEREFORE, BE IT:**
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> **RESOLVED,** that the Board of Directors of the Connecticut Student Loan Foundation has elected to continue using the 3-month Commercial Paper index for determining Special Allowance payments from the U.S. Department of Education.

The motion passed unanimously.

VIII. Public Purpose Programs:

Mr. Meotti indicated that due to the nature and extent of the proposed programs he would like to postpone any discussion and approval of Public Purpose items until additional members of the CSLF Board can be present. He requested that CSLF conduct a special meeting of the Board of Directors or use a portion of the next CSLF Board meeting to discuss potential public purpose uses for some of the funds available to CSLF.

IX. Other Topics:

Mr. Behm indicated that the application for CSLF to become a Not-For-Profit servicer for the U.S. Department of Education has been submitted. ESP has been in contact with the Department of Education to clarify a few items and is expecting to receive a Memorandum of Understanding in the next few weeks. The Bridge Agreement with Campus Partners is nearing completion and should also be executed in the near future.

He indicated that a settlement in the lawsuit with Granite State Management and Resources appears to have been reached. Under the terms of the settlement GSMR would pay CSLF $45,000 and all claims would be released. GSMR has asked for a general release, however we have requested that an exception be made for loans for which a default claim has been rejected due to servicing errors made by GSMR – as is industry practice. The settlement agreement is being finalized.

Mr. Behm indicated that there is no interest in the market to purchase the CSLF loans serviced by Sallie Mae and the conversion fee that would be contractually assessed by Sallie Mae to transfer them to EdFinancial makes a conversion economically infeasible. As a result, this small portfolio will remain at Sallie Mae at this time. ESP will continue to monitor the markets and inform the Board if there is an opportunity to make a change with these loans.

Mr. Behm noted that Connecticut Bank & Trust announced that it has agreed to be purchased by Berkshire Hills Bancorp. CSLF currently owns 20,000 shares of CBT. The sale is for 70% stock of Berkshire and 30% cash (at $8.25 per share of CBT). It appears that CBT shareholders will receive an option of choosing cash or stock, with the details not yet provided. Due to an increase in the value of Berkshire stock since the date of the announcement in October, as of the end of December the stock sale price would be the equivalent of $8.45. The transaction is expected to close in the 2nd quarter of 2012.

X. Executive Session:

Mr. Meotti asked if any Board members had a need for an Executive Session. No Board members indicated a need for an Executive Session.

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.

> Mr. Kirshbaum moved that the meeting be adjourned, Mr. Meotti seconded the motion and it was unanimously passed at 3:32 p.m.

Respectfully Submitted for the
Board of Directors by:

Michael P. Meotti, Chairman

ATTACHMENT A

Connecticut Student Loan Foundation
Whistleblower Policy

I. Operating Policy

Connecticut Student Loan Foundation. (the "Foundation") requires its officers, directors, employees and independent contractors to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. As a representative of the Foundation, each of you must practice honesty and integrity in fulfilling your responsibilities and complying with all applicable laws and regulations (the "Code of Conduct").

II. Reporting Responsibility

All officers, directors, employees and independent contractors must comply with the expectations of the Foundation with regard to observing the high standards of business and personal ethics and reporting violations or suspected violations in accordance with this Whistleblower Policy.

III. No Retaliation

No officer, director, employee or independent contractor who in good faith reports a violation of the Code of Conduct shall suffer harassment, retaliation, or adverse employment consequence. An employee or independent contractor who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment or engagement. This Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns within the Foundation before seeking resolution outside the Foundation.

IV. Reporting Violations

Employees and independent contractors should share their questions, concerns, suggestions, and complaints with someone who can address them properly. You are encouraged to speak with any member of the Board of Directors you are comfortable approaching to address your area of concern. Members of the Board of Directors have specific and exclusive responsibility to investigate all reported violations. For suspected fraud, or when you are not satisfied or uncomfortable with following the Foundation's open door policy, you should contact the Foundation's Compliance Officer or legal counsel directly.

V. Compliance Officer

The Foundation's Compliance Officer is responsible for investigating and resolving all reported complaints and allegations concerning violations of the Code of Conduct and, at his or her discretion, shall advise the Board of Directors. The Compliance Officer has direct access to the Board of Directors and is required to report at least annually on compliance activity. The Foundation's Compliance Officer is the Chairman of the Board of Directors.

VI. Accounting and Auditing Matters

The Board of Directors shall address all reported concerns or complaints regarding corporate accounting practices, internal controls, or auditing. The Compliance Officer shall immediately notify the Board of Directors of any such complaint and work with the Board of Directors until the matter is resolved.

VII. Acting in Good Faith

Anyone filing a complaint concerning a violation or suspected violation of the Code of Conduct must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation of the Code of Conduct. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

VIII. Confidentiality

Violations or suspected violations may be submitted on a confidential basis by the complainant or may be submitted anonymously. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

IX Handling Reported Violations

When feasible, the Compliance Officer will notify the sender and acknowledge receipt of the reported violation or suspected violation within 5 business days. All reports will be promptly investigated and appropriate corrective action will be taken if warranted by the investigation.

Adopted: January 25, 2012