CSLF CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

January 23, 2014

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Thursday, January 23, 2014 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:
Sarah K. Sanders (designee of the State Treasurer of Connecticut) Chairman of the Board
James R. Howarth (designee of the President of the Connecticut Board of Regents for Higher Education) Vice-Chairman of the Board

Member Present via Conference Call:
Craig S. Lappen (designee of the Chairman of the Connecticut Board of Regents for Higher Education) Secretary of the Board

Other Attendees:
Patricia McGowan – CohnReznick LLP
Erica Tirado – CohnReznick LLP
Erika H. Steiner – Connecticut Board of Regents for Higher Education
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:

Ms. Sanders called the meeting to order at 2:00 p.m. Ms. Sanders, Mr. Howarth, Mr. Lappen, Ms. McGowan, Ms. Tirado, Ms. Hancock, Ms. Dimitrijevs and Mr. Behm were in attendance.

II. Election of Officers:

A motion was made by Mr. Lappen and seconded by Mr. Howarth to elect the following individuals to the indicated Officer positions on the Board of Directors of the Connecticut Student Loan Foundation:

Chairman	Sarah K. Sanders
Vice-Chairman	James R. Howarth
Secretary	Craig S. Lappen
Assistant Secretary	Sarah K. Sanders

The motion passed unanimously.

III. **Approval of October 23, 2013 and December 10, 2013 Minutes:**
A motion was made by Mr. Howarth and seconded by Mr. Lappen that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the October 23, 2013 and December 10, 2013 meetings as presented.

The motion passed unanimously.

IV. **External Auditor Report:**
Ms. McGowan provided draft copies of the audited financials of the Connecticut Student Loan Foundation as of the fiscal year ended September 30, 2013. She reviewed the team from CohnReznick that had conducted the audit and discussed various duties required of the auditors. Ms. Tirado described the audit approach and areas of emphasis.

Ms. McGowan described the compliance audit requirement of the U.S. Department of Education that will be provided later in the year. She noted that the required audit is on a different time schedule than the CSLF fiscal year.

Ms. McGowan then reviewed the three areas of required communications. In regards to significant accounting estimates, the provision for loan losses was the only estimate noted in the report. There were no Significant Audit Findings. In Other Items Ms. McGowan noted the lack of a full board compliment and a lack of segregation of duties by Education Solution Partners. With respect to the segregation of duties, she noted this risk is mitigated by the quarterly financial reports provided to the Board of Directors, the division of duties between the two principals of Education Solution Partners wherever possible and the intentional elimination of wire transfer capability for Education Solution Partners for any funds except the Operating Fund (which account requires dual authorization). In response to a question from Ms. Sanders as to other measures that could be taken to mitigate this risk, Ms. McGowan responded that there were no additional steps that could be taken and that she believed the risks versus the additional costs had been “as reasonably balanced as possible”. In regards to the full board complement, Ms. Sanders noted that the current board members sent letters to the Governor and four legislatures in January asking them to make their appointments to the CSLF board as allowed under statute. Ms. McGowan acknowledged receipt of a copy of those letters.

Ms. McGowan next reviewed the Audited Financial Statements. She indicated that CohnReznick was providing an Unmodified Opinion of the financial statements (formerly called an Unqualified Opinion). She directed the members of the board to review the Management Discussion and Analysis, noting that this was prepared by Education Solution Partners as the Administrative Agent for CSLF.

Ms. McGowan provided an overview of a new accounting standard, GASB 65, which CSLF has adopted early. GASB 65 requires changes in certain terminology used in the reports, such as Unmodified Opinion rather than Unqualified Opinion, and Net Position rather than Net Assets. The largest impact of GASB 65 to CSLF is the requirement that bond issuance costs need to be expensed in the year incurred rather than deferred and amortized over the life of the bonds. Early adoption allows CSLF to directly adjust Net

Position for any deferred issuance costs. The adjustment to Net Position was a reduction of $776,495. GASB 65 did not affect the deferred Bond Discount or its amortization.

Ms. McGowan went through the footnotes to the financials, highlighting various items. She noted in footnote 1 that the Not-for-Profit Servicer program was added to the activities performed by CSLF. In footnote 2 she highlighted the information on GASB 65. Under footnote 9 she remarked on the potential future impact on CSLF of the Bi-Partisan Budget Act of 2013.

Ms. McGowan next reviewed the IRS Form 990 for CSLF.

Mr. Howarth made the following motion, which was seconded by Mr. Lappen:

> **WHEREAS,** the Board of Directors of the Connecticut Student Loan Foundation has reviewed the report of the external auditors as of September 30, 2013;
>
> **NOW THEREFORE, BE IT:**
>
> **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, 2013 and approves the release of the audited financials for the fiscal year ended September 30, 2013 as presented.

The motion passed unanimously

Mr. Lappen made the following motion, which was seconded by Mr. Howarth:

> **WHEREAS,** the Board of Directors of the Connecticut Student Loan Foundation has reviewed the IRS Form 990;
>
> **NOW THEREFORE, BE IT:**
>
> **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, 2013, as presented.

The motion passed unanimously.

Ms. McGowan and Ms. Tirado left the meeting at this point (2:47 p.m.)

V. <u>Financial Report:</u>

Ms. Dimitrijevs provided the financial report as of December 31, 2013. She presented the Balance Sheet, Net Change in Assets, Non-Trust Cash Flow, Bond Redemptions and Funds Management Ratios.

She indicated that the trust parity ratio now stands at 107.69% versus a planned level of 107.58%. Assets within the Trust exceed the Board required parity level by $16.1 million. Of this amount $14.7

million is in cash or cash equivalents with the remainder primarily made up of the loan balances exceeding that of the bonds outstanding.

At this point there was a discussion about the continued use of available funds in the trust to repurchase bonds. Mr. Behm provided copies of the Funds Management Policy that was adopted in October 2012. He noted that the funds management policy had expired at the end of October 2013 and needed to be renewed. There was also discussion about the level and type of bond repurchases that would require specific approval by the Chairman or Vice-Chairman of CSLF before execution by Education Solution Partners.

> Ms. Sanders made a motion, which was seconded by Mr. Howarth, to approve the resolutions revising and extending the Funds Management Policy and **[REDACTED]** program as presented in Attachment A.

The motion passed unanimously.

Ms. Dimitrijevs continued, noting that the Unrestricted Funds totaled $5.9 million, while the Restricted Funds received from the ECMC contract were $13.4 million as of December 30, 2013.

Ms. Dimitrijevs stated that the Net Change in Assets was $1.9 million for the quarter, compared to a budget of $1.4 million and a prior year amount of $1.3 million. The primary variance to plan was the accrual for ECMC revenue, which was over budget by $568,636. Compared to last year the primary variance was reduced loan servicing expenses, generated by the negotiations for Not-for-Profit Servicer contract. Loan servicing expenses were $395,051 lower than prior year. In addition, Bond Discount Amortization and Debt Issuance Cost were each more than $100,000 lower than the past year.

The Non-Trust Cash Flow of CSLF continued to be positive for the quarter at $119,715, with each month providing positive cash flow.

Ms. Dimitrijevs reviewed the bond redemption activity for the quarter. $16.5 million in bonds were redeemed in the quarter. This is the lowest quarterly total in the past year. Discussion ensued as to the cause for this slow down. Mr. Behm noted that the loan portfolio has now been in repayment for several years and the remaining loans are primarily those that are being paid in a timely manner. As a result, the claims paid rate is declining which reduces the cash received by CSLF from the guarantors. It was noted that while claims produce short-term cash, over their life additional cash flow is garnered by loans that are paid by the borrower. Mr. Behm also remarked that the mix of the portfolio is shifting toward Federal Consolidation loans (with up to 30-year terms) as the Stafford loans (with 10 year terms) are paid down. Currently, just over 50% of the loan portfolio is Consolidation loans. As of December 31, 2013, $399.15 million in bonds remain outstanding. The original issuance was $935.9 million.

Ms. Dimitrijevs reviewed the funds management levels within the trust estate and indicated that CSLF is in compliance with its internal policies, as well as the requirements of the trust indenture, for all three ratios.

VI. <u>Bipartisan Budget Act of 2013</u>

Mr. Behm reviewed the impact of the Bipartisan Budget Act of 2013 on CSLF. He indicated that there were two areas of potential impact. The first is in the future value of the contract with ECMC. Rehabilitated loans are the primary source of revenue from that contract. Under the legislation approved in December (and reaffirmed in the appropriations legislation in January) the retention revenue received by ECMC will be reduced from 36.5% to 16% of the amount of each rehabilitated loan as of July 1, 2014. From this amount ECMC will deduct its collection costs before the revenue sharing calculation is made. Mr. Behm indicated that CSLF should not expect any substantial revenue from the ECMC contract after July 1, 2014. This will impact the current fiscal year for one quarter (approximately $1 million in revenue) and the 2014-15 fiscal year by a similar amount as the ECMC contract will expired on December 31, 2014.

Ms. Steiner joined the meeting at this point (3:10 p.m.).

Mr. Behm also noted that the Bipartisan Budget Act of 2013 impacted the Not-for-Profit Servicer program by changing the funding from mandatory to discretionary. In the appropriations legislation there was a specific directive to the U.S. Department of Education to continue the contracts through the end of October 2014. He also noted that the U.S. DOE intends to review the NFP servicers in August 2014 and determine which ones would receive additional allocations and which ones would be terminated.

VII. <u>CSLF Organization and Board Makeup:</u>

Ms. Sanders noted that at the October CSLF Board meeting there was a general consensus to request appointments be made to the open board positions. Letters were sent earlier this month from the current board members to the Governor and four legislators requesting they make their appointments to the CSLF Board. No response has yet been received to any of the letters.

Ms. Sanders reported that the Connecticut Treasurer sent a letter to the Governor and the same four legislators indicating that it may useful to consider moving the administrative functions of CSLF to the Connecticut Higher Education Supplemental Loan Authority.

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

> Mr. Howarth made a motion, which was seconded by Ms. Sanders to enter Executive Session.

The motion passed unanimously.

The Board entered Executive Session at 3:18 with only Board members in attendance.

The Board exited Executive Session at 3:29.

IX. <u>Adjournment</u>

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

> Mr. Howarth made a motion, which was seconded by Ms. Sanders to adjourn the meeting.

The motion passed unanimously and the meeting was adjourned at 3:30 p.m.

Respectfully Submitted for the
Board of Directors by:

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Craig S. Lappen, Secretary

Attachment A

January 23, 2014

RESOLUTIONS AUTHORIZING REVISION AND EXTENSION OF THE FUNDS MANAGEMENT POLICY AND PAR REDEMPTION PROGRAM

WHEREAS, the Connecticut Student Loan Foundation (the “Corporation”) is a nonprofit corporation established and created under the provisions of Chapter 187a of the Connecticut General Statutes, as amended (the “State Authorizing Act”); and

WHEREAS, the statutory purposes of the Corporation include lending money and acquiring loans made to persons to assist them in meeting the expenses of education upon such terms and conditions as the members of the board of directors of the Corporation (the “Board”) may prescribe (“Loans”) and providing appropriate services incident to the administration of programs established to improve educational opportunities; and

WHEREAS, the State Authorizing Act provides that the Corporation is authorized to issue its bonds, notes or other obligations (“Obligations”) in such principal amounts as in the opinion of the Corporation shall be necessary to provide sufficient funds for carrying out such purposes with respect to Loans including the payment, funding or refunding of any Obligations issued by it, the establishment of reserves and all other expenditures of the Corporation incident to, and necessary or convenient to carry out, such purposes; and

WHEREAS, the State Authorizing Act provides that the Corporation shall have the power to purchase Obligations out of any funds available therefor and, subject to and in accordance with any applicable agreements with the holders thereof, to hold, cancel or resell such Obligations; and

WHEREAS, the Corporation has heretofore issued its Student Loan Revenue Bonds Senior Series 2004A-1, Senior Series 2004A-2, Senior Series 2004A-3, Senior Series 2004A-4, Senior Series 2004A-5, Senior Series 2004A-6, Senior Series 2004A-7, Subordinate Series 2004B, Senior Series 2006A-1, Senior Series 2006A-2, Subordinate Series 2006B, Senior Series 2007A-1 and Senior Series 2007A-3 (each a “Series of Bonds” and, collectively, the “Bonds”) pursuant to an Indenture of Trust dated as of October 1, 2004, as amended by a First Supplemental Indenture dated as of October 1, 2004, a Second Supplemental Indenture dated as of July 1, 2006, a Third Supplemental Indenture dated as of July 1, 2007, a Fourth Supplemental Indenture dated as of December 1, 2007, a Fifth Supplemental Indenture dated as of November 28, 2007 and a Sixth Supplemental Indenture dated as of January 23, 2008 (as so amended and supplemented, the “Indentures”; capitalized terms used but not defined herein are used, respectively, in connection with each Series of Bonds as defined for purposes of the Indentures applicable to such Series); and

WHEREAS, the Board of Directors has determined that it is in the best interest of the Corporation to establish a policy for the purchase of Bonds at par in order to effect a reduction in the principal amount of Bonds outstanding as auction rate certificates, utilizing funds that are or become available under the Indenture; and

WHEREAS, the Board of Directors has determined that it is also in the best interest of the Corporation to extend and revise this policy

NOW THEREFORE, BE IT

RESOLVED, that the Board hereby adopts the revised policy for the management of funds within the Indenture estate in the form attached as **Exhibit A** (the “Revised Policy”); and further

RESOLVED, that in order to effectuate the Revised Policy, the Corporation’s Administrative Agent, Education Solution Partners, LLC (“ESP”), acting through its two managers acting jointly (the “Authorized Officers”), be, and ESP hereby is, authorized, empowered and directed to initiate redemptions of the Bonds at par, on auction dates, acting through the Indenture trustee, in such amounts and in the order of priority set forth in the Revised Policy, for the period from November 1, 2013 through October 31, 2014; and further

RESOLVED, that the Board ratifies the Bond redemptions of $3 million in November 2013, $6.5 million in December 2013 and $5 million in January 2014 and any and all acts and things deemed necessary by the Authorized Officers to execute such Bond redemptions; and further

RESOLVED, that the Authorized Officers shall report not less frequently than monthly to the Board of Directors of the Corporation the results of such redemptions; and further

RESOLVED, that ESP, acting through the Authorized Officers, acting jointly, is hereby further authorized to do all acts and things and to execute, deliver, file and record all documents, instruments, contracts, deeds, assignments and other documents as he or she may, in his or her sole discretion, but acting jointly, deem necessary, required or convenient to carry out the actions authorized by the foregoing resolutions.

Exhibit A

Funds Management Policy
Bond Trust Estate
(effective through October 31, 2014)

The Connecticut Student Loan Foundation has adopted the following policy for the management of funds within the Trust Estate created by its Bond Issuances. While the Indenture for the Bonds is the governing legal document, this policy is provided to give guidance for the day-to-day management of funds. This document establishes guidance for the overall Trust Estate.

<u>Policy Area</u>

Cash & Cash Equiv. (net of accrued liabilities)
- Minimum (% of Bonds) **[REDACTED]**
- Maximum (% of Bonds) **[REDACTED]**

Bond Redemption

Cash & Cash Equivalents (net of accrued liabilities, as % of Bonds)

< = 2% Only redemptions required by the Indenture may be executed

> 2% Redemptions will occur in the following order using funds in excess of 2%

1. **[REDACTED]**
2. **[REDACTED]***
3. Senior Tranches with **[REDACTED]**
    a. Bonds redeemed at next auction date
    b. Redemption delayed until next auction date if **[REDACTED]**
    c. Partial tranche redemptions will be made, with bonds selected on either a random or pro-rated basis.
4. Subordinated Tranches with **[REDACTED]**
    a. Bonds redeemed at next auction date
    b. Partial tranche redemptions will be made, with bonds selected on either a random or pro-rated basis.

Senior Parity Ratio **[REDACTED]**

Parity Ratio before release to CSLF unrestricted use **[REDACTED]** **

* Chairman or Vice-Chairman specific approval required for individual transactions of $5 million or greater

** Board specific approval required

(Adopted January 23, 2014)