

AGENDA ITEM 5.

REPLACEMENT OF REMARKETING AGENT

Submitted for: Action

Summary: Staff recommends that the attached Resolution be adopted to replace the remarketing agents on the Commission's issues of variable rate demand obligations. The current remarketing agent, Bear Stearns & Co., is no longer active in the student loan revenue bonds area and is not currently on the Commission's team of underwriters. Commission staff requested proposals from the approved team of underwriters. The request for proposals were sent to firms without significant commitment to ISAC auction rate programs to diversify the number of placement agents and the sources of funds. Commission staff believes that the replacement remarketing agents will produce annual savings of \$300,000 and provide greater technical support.

Action requested: That the Commission approve the following resolution:

"BE IT RESOLVED that the Illinois Student Assistance Commission approve the Resolution of the Illinois Student Assistance Commission approving the appointment of substitute remarketing agents for certain outstanding bonds of the Commission and authorizing the execution of certain documents in connection therewith. The Commission further delegates the ability to take certain actions and to make certain determinations as provided in such Resolution with respect to such documents, to the Chairman of the Commission or, if so designated in writing by said Chairman with respect to any or all of the actions or determinations described herein, the Executive Director of the Commission.

ILLINOIS STUDENT ASSISTANCE COMMISSION
REPLACEMENT OF REMARKETING AGENT

Background

Beginning in 1990, the Commission began to issue variable rate demand obligations. The terms of these obligations provided that the interest rate would be adjusted weekly to current market conditions and that the holders could tender their obligations on one week's notice. The Commission engaged Bear Stearns & Co., the underwriter, as remarketing agent to set the interest rate and make a market in case any bonds were tendered. In addition to the stated activities of remarketing agent, Bear Stearns & Co. provided certain other services to the Commission, including providing cash flow analyses of the bond issues when requested and recommending adjustments in the term of remarketing periods. In recent years, Bear Stearns & Co. reduced its activity in the student loan revenue bond market and, in fact, did not respond to the Commission's most recent request for proposal in 2001. Bear Stearns & Co. is no longer staffed to provide technical assistance to the Commission.

As a result of these developments, Commission staff has explored alternatives to Bear Stearns & Co. as remarketing agent. Of the currently approved list of underwriters, two, UBS PaineWebber Incorporated and Salomon Smith Barney are marketing most of the Commission's auction rate issues, another type of variable rate bond, which is sold to different classes of investors. Commission staff believes that additional diversification in remarketing agents will provide two advantages. First, two remarketing agents provide for broader coverage of buyers for the obligations. Second, there is a greater depth of staff in the event that technical support is required on two issues simultaneously.

Proposals were requested from the other underwriters who could act as remarketing agent and provide technical support for cash flow analysis. Firms were asked to provide a proposed fee and representative historical interest rates on other variable rate bond issues. In analyzing the responses, staff determined that an estimated \$300,000 of annual savings could be achieved by changing remarketing agents.

Proposed Action. Staff proposes that two replacement remarketing agents be hired, RBC Dain Rauscher and First Southwest Company, with approximately an equal amount of obligations. RBC Dain Rauscher has managed or co-managed \$ 6.3 billion of student loan revenue bonds during the last five years and serves as remarketing agent on \$3.6 billion of variable rate issues. First Southwest Company has managed or co-managed 1.3 billion of student loan revenue bonds during the last three years and serves as remarketing agent on \$1.1 billion of variable rate issues

Brief Description of the Document to be Approved

Resolution - The Resolution identifies the bond issues for which the remarketing agents will be changed, directs the bond trustee to make the changes, and approves the documents required to make the change of remarketing agent.

ILLINOIS STUDENT ASSISTANCE COMMISSION

**RESOLUTION OF THE ILLINOIS STUDENT ASSISTANCE COMMISSION APPROVING THE
APPOINTMENT OF SUBSTITUTE REMARKETING AGENTS FOR CERTAIN OUTSTANDING
BONDS OF THE COMMISSION AND AUTHORIZING THE EXECUTION OF CERTAIN
DOCUMENTS IN CONNECTION THEREWITH.**

WHEREAS, the Illinois Student Assistance Commission (the “*Commission*”) has previously issued pursuant to separate resolutions of the Commission the following series of bonds (such bonds to be collectively referred to herein as the “*Bonds*”):

- (a) \$60,000,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series B, dated June 12, 1990 (the “*Series B Bonds*”);
- (b) \$50,000,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series C, dated December 22, 1992 (the “*Series C Bonds*”);
- (c) \$50,000,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series D, dated September 22, 1993 (the “*Series D Bonds*”);
- (d) \$49,900,000 Variable Rate Demand Student Loan Revenue Bonds, Series 1996A, dated February 28, 1996, and \$15,100,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1996B, dated February 28, 1996 (the “*Series 1996 Bonds*”);
- (e) \$33,700,000 Variable Rate Demand Student Loan Revenue Bonds, Series 1997A, dated February 26, 1997, and \$30,000,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1997B, dated February 26, 1997 (the “*Series 1997 Bonds*”);
- (f) \$24,000,000 Variable Rate Demand Student Loan Revenue Bonds, Series 1998A, dated February 25, 1998, and \$36,000,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1998B, dated February 25, 1998 (the “*Series 1998 Bonds*”); and
- (g) \$35,000,000 Variable Rate Demand Student Loan Revenue Bonds, Series 1999A, and \$65,000,000 Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1999B (the “*Series 1999 Bonds*”); and

WHEREAS, Bear, Stearns & Co. Inc. (“*Bear, Stearns*”) has tendered its resignation as remarketing agent with respect to each series of the Bonds effective as of the later of (a) November 1, 2002 or (b) the date a successor remarketing agent has been appointed and has accepted such appointment; and

WHEREAS, the separate Trust Indentures pursuant to which each series of Bonds were issued each provide that the Commission shall direct the Trustee for such series of Bonds to appoint a successor remarketing agent;

NOW, THEREFORE, be it and it is hereby resolved by the Illinois Student Assistance Commission as follows:

Section 1. Incorporation of Preambles. The Commission finds that all of the recitals contained in the preambles hereof are full, true and correct and does hereby incorporate them into this Resolution by this reference.

Section 2. Direction to Trustee. The Commission hereby directs the Trustee to appoint RBC Dain Rauscher as successor remarketing agent with respect to the Series B Bonds, the Series C Bonds, the Series D Bonds, and the Series 1996 Bonds, and First Southwest Company as successor remarketing agent with respect to the Series 1997 Bonds, the Series 1998 Bonds, and the Series 1999 Bonds.

Section 3. RBC Dain Rauscher Remarketing Agreements. The Commission does hereby authorize and approve the terms and provisions of, and the execution and delivery by the Executive Director of, the Remarketing Agreements (the “*RBC Dain Rauscher Remarketing Agreements*”) between the Commission and RBC Dain Rauscher pursuant to which RBC Dain Rauscher will act as remarketing agent with respect to any Series B Bonds, Series C Bonds, Series D Bonds, and Series 1996 Bonds tendered for purchase from time to time. The RBC Dain Rauscher Remarketing Agreements shall be in substantially the forms attached hereto as *Exhibit A* which are hereby approved, with such changes, revisions and completions therein not inconsistent with this Resolution as shall be approved by the Executive Director of the Commission (the “*Executive Director*”), with the execution of each such agreement by the Executive Director to constitute conclusive evidence of such Executive Director’s approval and the Commission’s approval of any changes, revisions and completions therein from the forms of RBC Dain Rauscher Remarketing Agreements attached hereto.

Section 4. First Southwest Company Remarketing Agreements. The Commission does hereby authorize and approve the terms and provisions of, and the execution and delivery by the Executive Director of, the Remarketing Agreements (the “*First Southwest Company Remarketing Agreements*”) between the Commission and First Southwest Company pursuant to which First Southwest Company will act as remarketing agent with respect to any Series 1997 Bonds, Series 1998 Bonds, Series 1999 Bonds tendered for purchase from time to time. The First Southwest Company Remarketing Agreements shall be in substantially the forms attached hereto as *Exhibit A* which are hereby approved, with such changes, revisions and completions therein not inconsistent with this Resolution as shall be approved by the Executive Director, with the execution of each such agreement by the Executive Director to constitute conclusive evidence of such Executive Director’s approval and the Commission’s approval of any changes, revisions and completions therein from the forms of First Southwest Company Remarketing Agreements attached hereto.

Section 5. Supplemental Trust Indentures. The Commission does hereby authorize and approve the terms and provisions of, and the execution and delivery by the Executive Director of, the First Supplemental Trust Indenture between the Commission and Bank One, National Association (the “*Trustee*”) relating to the Series 1997 Bonds, the First Supplemental Trust Indenture between the Commission and the Trustee relating to the Series 1998 Bonds, and the First Supplemental Trust Indenture between the Commission and the Trustee relating to the Series 1999 Bonds (collectively, the “*Supplemental Indentures*”). The Supplemental Indentures shall be in substantially the forms attached hereto as *Exhibit B* which are hereby approved, with such changes, revisions and completions therein not inconsistent with this Resolution as shall be approved by the Executive Director, with the execution of each such agreement by the Executive Director

to constitute conclusive evidence of such Executive Director's approval and the Commission's approval of any changes, revisions and completions therein from the forms of Supplemental Indentures attached hereto.

Section 6. Authorization and Ratification of Subsequent Acts. The members, officers, agents, and employees of the Commission are hereby authorized and directed to do all such acts and things and to execute all such documents and agreements as may be necessary or desirable to carry out and comply with the provisions of this Resolution and the documents attached as Exhibits hereto, and all of the acts and doings of the members, officers, agents and employees of the Commission which are in conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby ratified, confirmed and approved.

Section 7. Repeal of Conflicting Resolutions; Effective Date. All resolutions and parts of resolutions in conflict herewith be and the same are hereby repealed, and this Resolution shall be in full force and effect forthwith upon its adoption.

ADOPTED and APPROVED this 20th day of September, 2002

By _____
Chairman, Illinois Student Assistance
Commission

Attest:

By _____
Executive Director, Illinois Student
Assistance Commission