AGENDA ITEM 2.

MINUTES OF THE JULY 20, 2007 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

July 20, 2007

Kankakee Community College
Kankakee, Illinois

COMMISSIONERS PRESENT:	Donald J. McNeil, Chair Sharon Alpi Dr. Lynda Andre Dr. Mary Ann Louderback David Vaught
COMMISSIONERS ABSENT:	Warren Daniels, Jr. Hugh Van Voorst
PRESENT BY INVITATION:	Elmer Washington, Designated Liaison, IBHE
STAFF PRESENT:	Andrew Davis, Executive Director Tom Breyer, Senior Policy Advisor Steve Dorfman, Deputy General Counsel Randy Erford, Director, *College Illinois!* Katharine Gricevich, Special Assistant Sue Kleemann, Director, RPPA Sam Nelson, Director, Public Service John Sinsheimer, CFO/Managing Director, Financial Products and Services Nancy Stephens, Associate Director, *College Illinois!* Joanne Tolbert, Managing Director, HRD & Business Support Claude Walker, Director, Press and State Relations Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Fred Ash, JPMorgan Chase Meegan Bassett, Women Employed Tim Burdick, Marquette Associates Kevin Conlon, Conlon Public Strategies, LLC Paul Frank, FIICU Richard J. Frey, Kankakee Community College Trustee Judy Marwick, Kankakee Community College Brian Meehan, Celtic, Inc. Dave Narefsky, Mayer Brown Rowe & Maw Nicole Rogers, IBHE Stratford Shields, Morgan Stanley Joseph Starshak, Starshak, Welnhofer & Company Sandy Street, University of Illinois Tracy Thomas, LaSalle Bank Dave Tretter, FIICU

Item 1. Announcements

Chairman McNeil opened the meeting at 10:07 a.m. by introducing Dr. Jerry Weber, President of Kankakee Community College (KCC).

Dr. Weber welcomed the Commission on behalf of KCC's board, which is chaired by ISAC Commissioner Hugh Van Voorst, who unfortunately was not able to attend the Commission meeting. Dr. Weber then introduced Mr. Dick Frey, representing the KCC Board of Trustees, which was fitting, he said, in light of Mr. Frey's long-time work on issues related to student access and adult education. Dr. Weber continued with an update on recent events at KCC, including the celebration of its 40th anniversary, the opening of new facilities, and the beginning of a new fund-raising campaign. He stated that Kankakee Community College is a strong advocate of ISAC's initiatives and especially promotes and supports the Collegezone Web site. Kankakee Community College has introduced high school students to the Web site during their campus visits, and through work with an ISAC vertical access team, they have involved the community in discussions on career development, financial aid and scholarships, especially in the African-American and Hispanic communities.

Chairman McNeil then requested that a roll call be taken, which established that a quorum was present. He then announced that the next meeting of the Commission will be held on September 21, 2007 at the College of DuPage in Glen Ellyn.

Item 2. Minutes of the June 22, 2007 Meeting

Chairman McNeil inquired if there were any questions or comments on the minutes as printed in the agenda book.

Dr. Louderback expressed her concern regarding the vote taken on agenda item 11, the *College Illinois!* 529 Fixed Rate Tuition Plan Investment Manager Selection and requested that the Commission seek a legal opinion in writing on the vote. She indicated that in her opinion a vote of present is considered a vote and abstaining from voting is not a vote. She stated that five Commissioners were voting and the majority voted present, which means the item would have failed.

Mr. Davis indicated that during the June 22 meeting, ISAC's General Counsel had staff contact the Illinois Attorney General's office to affirm that the voting was in fact valid and that the Attorney General's office did so.

Chairman McNeil stated that he spoke with the General Counsel before the meeting was over and she confirmed the voting was valid, but he indicated that if there is a concern it will be addressed by the General Counsel in writing. He then asked for a motion to approve the minutes as presented.

Ms. Alpi **MOVED THAT** the minutes of the June 22, 2007 meeting be approved as submitted. Mr. Vaught seconded the motion. The minutes were approved as submitted by a 4-1 vote, with Dr. Louderback voting no.

Item 3. Executive Director's Report

Mr. Davis reported that six schools, representing the public, private and for-profit sectors, have now signed agreements to participate in the pilot for the new Capstone Loan Program, He indicated that the six schools participating in the pilot include Millikin University, St. Xavier University, North Central College, Midstate College, Western Illinois University and the University of Illinois at Chicago.

Mr. Davis reported that legislation currently under consideration by the U.S. Congress would make steep cuts in subsidies to lenders and guarantors in order to increase funding for student aid. While we agree with increasing student aid, he said, we were not supportive of treating not for profit lenders the same as for profit lenders. He stated that as originally proposed, the legislation could potentially take $36 million out of the agency's budget, which is over 80% of the budget. Currently, things are looking somewhat better regarding the reduction in subsidies, but the impact to the agency still will be significant. He stated that changes currently envisioned to make the agency more efficient are now not optional, but essential.

Mr. Vaught expressed his support for the new Capstone Loan Program. He feels it is an innovative program that applies ISAC's expertise in a way other lenders might not be able to do and enhances our credibility in the community and sends a message that the Commission believes lending is an important part of our mission.

Chairman McNeil agreed that programs like this, particularly when expanded on a statewide basis, will help contribute toward achieving our ultimate goal of ensuring that every Illinois high school student who works hard to get into college in the state of Illinois will be able to go to college and not be precluded by financial concerns.

Chairman McNeil then recognized Mr. Elmer Washington, attending as a representative of the Illinois Board of Higher Education.

Item 4. Electronic Attendance of Public Meeting

Chairman McNeil introduced the agenda item by explaining that the Illinois Open Meetings Act permits Commission members to attend meetings by means other than physical presence, such as by video or audio conference, telephone calls or other electronic means. This attendance is permissible, he explained, provided a quorum is physically present, and a majority of those present votes to approve the attendance and participation by electronic means of any member not physically in attendance. The Commission, he continued, desires to permit attendance of Commissioners by means other than physical presence, in compliance with the Open Meetings Act. He stated that this item is being brought before the Commission to formally put into place what is currently being practiced by the Commission, by adoption of the proposed policy.

Mr. Dorfman, Deputy General Counsel, stated that there are specific prerequisites for attendance by electronic means once a quorum has been established, and once those prerequisites have been met the member attending via electronic method can participate as though in person.

Chairman McNeil noted that the prerequisites that must be met for the member not attending in person would be personal illness or disability, employment purposes, or family or other emergencies. He confirmed that after a roll call has established a physical quorum is present, the chairperson or other presiding Commissioner shall call for a motion that a member may be able to participate electronically after specifying the reason entitling the absent member to participate electronically. All the members physically present are permitted to vote on whether electronic attendance will be permitted; the motion must be approved by a vote of the majority of those physically present. If it is approved the person attending via electronic method has the same rights as those attending physically, including voting.

Ms. Andre **MOVED THAT** the Commission adopt the following resolution:

"**BE IT RESOLVED** that the Commission hereby adopts the Electronic Attendance of Meetings Policy, attached hereto, that permits Commissioners to attend and participate in any meeting of the Commission via electronic means."

Ms. Alpi seconded the motion, which was approved unanimously.

Item 5. *College Illinois!* Prepaid Tuition Plan Marketing Agent Selection

Mr. Erford noted that the statute requires that the selection of a central marketing agent be approved by the Commission at least once every three years. He stated that in accordance with the state procurement process, a Request For Proposals (RFP) was issued for a central marketing agent and a selection team, which included Commissioner Alpi, is recommending that the Commission hire Celtic, Inc. In addition, in a separate RFP, the team selected the firm Romani Brothers to work collaboratively with Celtic, Inc. as a creative design consultant.

Ms. Alpi indicated that she was pleased with the selection process but wanted to make sure that the firm selected would have the capacity going forward to meet the demands of the program, both technologically and creatively. She indicated that she was impressed with Celtic's commitment to the program and with staff's working relationship with Celtic, and she was confident this would bode well for the future. Ms. Alpi noted that while she had expected a little more creativity in the presentations, she was pleased with the addition of Romani Brothers to assist Celtic Inc. in that regard. She observed that it is difficult to expect one firm to be excellent at everything required of the central marketing agent, and she felt that the end result of the process, teaming Celtic with Romani Brothers, will serve ISAC well.

Mr. Erford confirmed that Romani Brothers will have a separate contract with ISAC and they will work collaboratively with Celtic, Inc. and be involved in the strategic planning going forward. He indicated that in accordance with the statute, the Commission is only required to approve the central marketing agent contract.

Mr. Vaught raised his concern as to the wording of the Resolution and its intent. Specifically, he said that while the Resolution authorized entering into the contract, there was no mention made of the supervision of the performance under the contract. He indicated that his concern is related to the demographics of the target market, including geography and income levels. Although the program is substantial with over 50,000 participants and a lot has been accomplished in its ten years, he feels that the program needs to concentrate on whether the targets are appropriate and if so, whether we are achieving those targets.

Mr. Erford stated that he will provide the Commission with additional information about the strategic marketing plan once that has been completed. He also indicated that due to the uneven distribution of population and income throughout the state, the result has been to market more extensively in those areas where families have higher incomes and more capability to participate in the program.

Chairman McNeil asked for a motion to amend the Resolution being brought to the Commission for approval.

Mr. Vaught **MOVED THAT** the Commission amend the Resolution. Ms. Alpi seconded the motion, which was approved unanimously.

Chairman McNeil asked for a motion to approve the Resolution as amended:

"BE IT RESOLVED that the Commission authorizes the Executive Director to negotiate and enter into a contractual agreement with Celtic, Inc. to serve as the central marketing agent for the *College Illinois!* Prepaid Tuition Program and to monitor closely the performance of Celtic, Inc. pursuant to its contract with the Commission, particularly with regard to the geographic and demographic scope of the Commission's marketing efforts."

Ms. Alpi **MOVED THAT** the Commission approve the amended Resolution. Mr. Vaught seconded the motion, which was approved unanimously.

Item 6. *College Illinois!* Prepaid Tuition Plan Investment Consultant Selection

Mr. Erford stated that as a result of an RFP for an investment consultant, the selection team, which included Dr. Louderback, is recommending the Commission retain the firm of Marquette Associates. He noted that since Marquette Associates had been hired by *College Illinois!* in 2003, the program has outperformed both the actuarial target and the customized benchmark.

Mr. Vaught noted for the record that he was abstaining from voting on this agenda item due to the fact that he might have a possible conflict because his firm is in a similar business.

Chairman McNeil appreciated the responsiveness Marquette Associates has shown, particularly in the area of increasing the participation of minority and women owned businesses in the program, as well as in responding to issues relating to the *College Illinois!* investment policy.

Mr. Davis concurred with the Chairman, indicating that the program has one of the highest proportions of minority and women owned asset managers of any of the large pools of publicly managed funds in the state of Illinois. He noted that going forward it is the Commission's goal also to continue focusing on the inclusion of Illinois-based money managers.

Dr. Louderback **MOVED THAT** the Commission approve the following resolution:

"BE IT RESOLVED that the Commission authorizes the Executive Director to negotiate and enter into a contractual agreement with Marquette Associates to continue to serve as the investment consultant for the *College Illinois!* prepaid tuition program."

Dr. Andre seconded the motion. The motion was approved 4-0, with Mr. Vaught abstaining.

Item 7. Executive Session

Chairman McNeil indicated that it would be necessary for the Commission to meet in closed session. He noted that at the June 22 meeting of the Commission, they were presented with information in agenda item 5 entitled "Recapitalization of ISAC/Loan Sales". That item concerned a process of restructuring the Commission's debt capitalization with the first stage designed to leave the Commission with a greatly simplified "interim" capital structure and save in excess of $3 million in fees such as underwriting and placement fees until a more permanent capital structure is effectuated.

The Chairman indicated that it was now time for the Commission to consider certain transactions to implement that recapitalization, leaving ISAC with a smaller, more Illinois-centric student loan portfolio and a vastly simplified capital structure. Because the terms of these transactions are not yet final, they will need to be discussed in a closed session.

While the Illinois Open Meetings Act generally requires that public bodies conduct their business at meetings that are open to the public, that law also provides various exceptions for matters to be discussed in closed session.

The Chairman noted that for this Executive Session, there were two applicable exceptions under subsection 2(c) of the Open Meetings Act:

1) Under exception number "6" of subsection 2(c) …the closed session is for the setting of a price for the sale or lease of property owned by a public body, and

2) Under exception number "7" of subsection 2(c)…the closed session is for the sale or purchase of securities, investments or investment contracts

Chairman McNeil asked for a motion to adjourn the regular meeting and go into Executive Session. Mr. Vaught **MOVED THAT** the Commission adjourn into Executive Session for the reasons stated by the Chairman. Ms. Alpi seconded the motion. The Chairman asked that a roll call vote be taken to adjourn into Executive Session, which was approved unanimously.

Chairman McNeil then indicated that the Commission and selected staff members and advisors would adjourn into Executive Session, following which the Commission would return into open session to take any necessary action. The Commission adjourned into Executive Session at 10:55 a.m.

The Commission returned at 1:00 p.m., at which time Dr. Louderback **MOVED THAT** the Commission reconvene in open session. Mr. Vaught seconded the motion, which was approved unanimously. The Chairman indicated that he would read a summary of the resolutions being voted upon by the Commission for each of the three items that had been discussed in closed session.

Item 8. Medium Term Financing Facility

Chairman McNeil stated that the resolution before the Commission (the "Authorizing Resolution") for consideration in connection with this item authorizes the execution and delivery of a Medium Term Financing Facility with Citibank N.A. and related lenders in a maximum principal amount of $500 million, (the "Medium Term Financing Facility"), as well as a short-term Bridge Loan with a maximum principal amount of $400 million, if necessary to provide interim financing while the negotiation and documentation of the Medium Term Financing Facility is being completed ("the Bridge Loan").

The Medium Term Financing Facility, he explained, is being executed as part of the Commission's plan to simplify and restructure its debt capitalization. As part of that plan, the Commission is being asked to adopt a resolution providing for the sale of student loans presently securing all bonds issued under general resolutions of the Commission originally adopted in 1995 and 2001, a portion of the bonds issued under the general resolution adopted in 2002, and variable rate bonds issued under five individual indentures. Simultaneously with the sale of the student loans, he continued, the sale proceeds and other available funds will be put in escrow and will be used to provide for the payment of the bonds secured by the 1995 and 2001 general resolutions and five variable rate trust indentures and one series of bonds issued under the 2002 general resolution (collectively, "the Defeased Bonds").

A portion of the funds to be put in escrow to provide for the payment of the Defeased Bonds will be derived from the purchase by the Commission of certain Alternative Loans originated or purchased by the Commission to supplement existing federal and state student financial assistance programs ("the

Alternative Loans"), that are currently held under the general resolutions adopted in 1995, 2001, 2002 and provide security for the defeased bonds.

In order to provide funds for the purchase of the Alternative Loans as described above and the acquisition of additional Alternative Loans in the future, on June 18, 2007 the Commission published in the Illinois Procurement Bulletin a Request For Proposals (RFP) from financial institutions to provide a credit facility or other medium term financing to allow the Commission to purchase existing and future Alternative Loans. Commission staff has reviewed the responses received from the RFPs and has recommended that the Commission enter into the Medium Term Financing Facility with Citibank N.A. as more fully described below.

The Authorizing Resolution to be voted on specifically authorizes:

1. the establishment of the Medium Term Financing Facility in a maximum principal amount of $500,000,000, pursuant to which funds will be drawn down from time to time to fund the Commission's purchase of existing and future Alternative Loans, as described above, which shall be in the form of an Indenture among the Commission (as Borrower/Issuer and Master Servicer), Citibank N.A. and its affiliates CIESCO, LLC as Lenders, Citicorp North America, Inc. as Funding Agent and Administrative Agent and the Bank of New York Trust Company as Trustee (the "Indenture");

2. the execution and delivery of the Indenture by any two of the Chair, the Vice Chair, the Executive Director and the Chief Financial Officer of the Commission (each , an "Authorized Officer");

3. the issuance of obligations pursuant to the Indenture maturing not later than August 1, 2010, bearing interest at a variable rate not to exceed 18%;

4. any two of the Authorized Officers to negotiate financial covenants and other terms of the Medium Term Financing Facility; and

5. the pledge of such Alternative Loans and revenues derived therefrom as may be necessary to secure the Commission's obligations under the Medium Term Financing Facility.

The Medium Term Financing Facility is expected to close on July 27 or July 30 in order to timely provide a portion of the funds necessary for the payment of the Defeased Bonds. However, the Authorizing Resolution further authorizes the Commission to borrow funds from Citibank, N.A. pursuant to the Bridge Loan for a term not to exceed 45 days in order to provide the necessary funds, in the event the documentation of the Medium Term Financing Facility is not completed by July 30. The Bridge Loan would be repaid upon execution of the Medium Term Financing Facility.

Mr. Vaught **MOVED THAT** the Commission approve the Authorizing Resolution. Ms. Alpi seconded the motion, which was approved unanimously via roll call vote.

Item 9a. Partial Sale of Student Loan Portfolio

Chairman McNeil stated that the Authorizing Resolution which the Commission has before it for consideration for this item is intended to cover all matters relating to the sale of student loans on July 30, 2007 and the pay-down and defeasance of the Bonds secured by those student loans, and to approve the primary documents being used in connection with those transactions. It does not cover the transfer and pledge of private, or "alternative", loans in connection with the warehouse facility, which was covered by the previous separate resolution.

By way of summary, he explained, the transactions covered by the Authorizing Resolution involve the sale of student loans presently securing bonds issued under resolutions of ISAC, originally adopted in 1995, 2001 and to a limited extent 2002, and under five other trust indentures securing variable rate bonds that are backed by letters of credit and/or bond insurance. Simultaneously with the sale of the student loans, the sale proceeds and other available funds will be put in escrow and used to pay off the bonds secured by the 1995 and 2001 indentures, the five variable rate trust indentures and one series of bonds issued under the 2002 resolution. These resolutions and indentures are identified in Addendum I to the Authorizing Resolution, and the Bonds to be paid and redeemed are identified in Addendum II to the Authorizing Resolution.

In furtherance of this transaction, The Chairman continued, the Authorizing Resolution more specifically approves the following:

1. It approves the forms of, and authorizes the execution and delivery of, three Escrow Agreements in substantially the forms attached as Addendum III-A to the Authorizing Resolution, under which funds will be deposited to pay interest on all Bonds issued under the 1995 and 2001 variable rate indentures through September 4, 2007, and to redeem all of those bonds on that date or as otherwise provided in the Escrow Agreements.

2. It approves the forms of, and authorizes the execution and delivery of, Loan Sale Agreements for both Higher Education Act loans and certain private student loans in substantially the forms attached as Addendum III-B to the Authorizing Resolution. It also approves the sale of student loans under the Loan Sale Agreements in a principal amount not to exceed $1.6 billion.

3. It approves the forms of, and authorizes the execution and delivery of, Servicing Agreements between ISAC and the winning bidders in substantially the forms attached as Addendum III-C to the Authorizing Resolution, which if necessary will be used for a limited period of time to the extent that ISAC is otherwise servicing the loans sold under the Loan Sale Agreements or in connection with the sale of certain of the private loans under those agreements.

4. It approves the purchase of federal government obligations and other investments necessary to pay and discharge the Bonds being defeased or otherwise redeemed as identified in Addendum II.

5. It authorizes execution and delivery of amendments to certain agreements with banks securing the bonds, which are being redeemed, to the extent necessary to implement the transactions addressed by the Authorizing Resolution.

6. It authorizes the adoption of an amendment to the 2002 Resolution necessary to obtain ratings on the bonds issued under the 2002 Resolution. This is attached as Addendum III-D to the Authorizing Resolution.

7. Finally, it authorizes officers of ISAC to take all other actions as they deem necessary or desirable to implement the transactions otherwise approved by the Authorizing Resolution, including execution and delivery of other documents and certificates relating to the foregoing.

The Resolution amending the 2002 resolution attached as Addendum III-D to the Authorizing Resolution and approved by the Authorizing Resolution is being made in order to obtain a confirmation on the ratings of the Bonds outstanding under the 2002 Resolution. The amendment provides that no further private loans will be made under the 2002 Resolution after September 15, 2007 unless the rating agencies otherwise permit.

Ms. Alpi **MOVED THAT** the Commission approve the Authorizing Resolution. Dr. Andre seconded the motion.

Responding to Dr. Louderback, Chairman McNeil stated that this sale will provide funds that will help ISAC satisfy its obligations under the budget passed last year which required ISAC to fund MAP and MAP Plus, and up to $38 million would be transferred to GRF if available.

The motion passed 4-0 on a roll call vote, with Dr. Louderback responding present.

Items 10 and 9b. National Education Portfolio Sale III

Chairman McNeil stated that this agenda item, consisting of two companion resolutions, relates to a portion of the IDAPP student loan portfolio totaling about $1 billion of loans ("the Nat Ed Portfolio"), which was created through several years of marketing efforts by two related entities, National Education Financial Services Corporation, or NEFSC, and National Education Servicing LLC, or NES (collectively, the "Nat Ed Parties. "). NES also provides servicing for the Nat Ed Portfolio.

The Nat Ed Portfolio is a mix of student loan types with the majority of loans having a nexus with states other than Illinois. Two distinct agreements are outstanding with the Nat Ed Parties, a marketing contract first executed in 1996 with NEFSC and a servicing agreement initially executed in 2000 with NES. The staff has been in discussions with the Nat Ed Parties for several months to negotiate the termination of these contracts. Ultimately a Settlement Agreement with the Nat Ed parties was negotiated. The resolutions being brought to the Commission, the Chairman explained, will serve both to authorize the Executive Director to execute and carry out the Settlement Agreement and authorize the sale of the Nat Ed Portfolio as contemplated by the Settlement Agreement.

Mr. Vaught **MOVED THAT** the Commission approve the following resolution:

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission approves the execution of a Settlement Agreement with National Education Financial Services Corporation ("NEFSC") and National Education Servicing, LLC ("NES"), including the termination of the so-called Marketing Contract first executed in 1996 with NEFSC, and the so-called Servicing Agreement initially executed in 2000 with NES, and the Commission hereby authorizes the Executive Director to execute that Settlement Agreement and to negotiate, make such determinations, execute and deliver such agreements, and take such actions as may be necessary or desirable in order to effectuate the Settlement Agreement."
>
> **"BE IT FURTHER RESOLVED** that the Illinois Student Assistance Commission approves the sale of certain student loans within the IDAPP portfolio in accordance with the terms of the Settlement Agreement with National Education Financial Services Corporation and National Education Servicing, LLC."

Dr. Louderback seconded the motion, which was unanimously approved via roll call vote.

General Discussion

Ms. Alpi took the opportunity to state that it was very difficult for the Commission to do what had to be done at this meeting, and indicated that it was important to ensure that funding derived from these actions be used in ways that would further the mission of the agency. Dr. Louderback voiced her agreement with Ms. Alpi's comment.

Chairman McNeil noted that staff will be preparing a comprehensive business plan to bring before the Commission to clearly outline the future of ISAC. Dr. Louderback indicated that it was important that the Commission be given sufficient time and opportunity to review and provide input on such a plan. Chairman McNeil stated that the plan will be given due consideration by the Commission, following which it will be shared with the public.

Dr. Louderback **MOVED THAT** the July 20, 2007 meeting of the Commission be adjourned. Ms. Alpi seconded the motion, which was approved unanimously. The meeting adjourned at 1:25 p.m.

Respectfully submitted,

Debora A. Calcara
Secretary to the Commission