AGENDA ITEM 2.

MINUTES OF THE SEPTEMBER 19, 2008 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

September 19, 2008

Liberty Middle School
Edwardsville, Illinois

COMMISSIONERS PRESENT:	Donald J. McNeil, Chair Sharon Alpi Dr. Lynda Andre Warren Daniels, Jr. Sean Dauber Dr. Mary Ann Louderback Hugh Van Voorst Kelvin Wing
COMMISSIONERS ABSENT:	David Vaught
STAFF PRESENT:	Andrew Davis, Executive Director Frank Bello, *College Illinois!*SM Chief Investment Office Esther J. Cepeda, Chief Marketing & Communications Officer Steve Dorfman, Deputy General Counsel Katharine Gricevich, Director, State Relations Susan Kleemann, Director, RPPA Kim Lee, General Counsel Trena Sabo, State Relations John Sinsheimer, Chief Financial Officer Scott Taylor, Budget and Finance Division Joanne Tolbert, Chief of Staff and Administration Claude Walker, Media Relations Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Sandy Street, University of Illinois Dave Tretter, FIICU

Item 1. Announcements

Chairman McNeil opened the September 19, 2008 meeting of the Illinois Student Assistance Commission asking that a roll call be taken, which established that a quorum was present, and the meeting was called to order at 9:05 a.m.

Chairman McNeil thanked Dr. Andre for hosting the meeting at Liberty Middle School in Edwardsville. She then introduced Dr. Ed Hightower, Superintendent of Schools for Edwardsville School District #7.

Dr. Hightower welcomed the Commission on behalf of the District and took the opportunity to briefly describe both the community and the school district. He noted that the Edwardsville School District enjoys a strong partnership with Southern Illinois University at Edwardsville and Lewis and Clark Community College, encompassing both programs and facilities.

Chairman McNeil stated that the next meeting of the Commission will be held on Friday, November 21, 2008 at National Louis University in Chicago. He noted that Commissioners had been given a list of proposed meeting dates for 2009. He asked that should anyone have conflicts with the dates presented they contact Ms. Calcara. He then noted that the Commission would be taking a recess at 11:45 this morning in order to participate in a press conference, during which time lunch would be provided.

Item 2. Minutes of the June 27, 2008 and August 6, 2008 Meetings

Mr. Daniels **MOVED THAT** the minutes for the June 27, 2008 and August 6, 2008 meetings of the Commission be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Davis gave the Commission a brief overview of the current state of the financial markets and observed that with all of the attention being devoted to the global financial crisis, it is important not to overlook the many important educational policy and programmatic initiatives of the Commission, which are the agency's true purpose. He stated that ISAC has developed innovative plans to make programs that are more responsive to the needs of the students of our State. As one example, he cited the positive feedback staff had received from a federal official recently regarding the agency's plans to assist low-income families in accumulating assets to save for postsecondary education by investing in their own futures through an Individual Development Account (IDA).

Item 4. Year-End Financials

Mr. Sinsheimer noted that Commissioners received under separate cover a mailing that contained financial statements for the 12-month period ending June 30, 2008. He explained that while the agency shows an operating loss for FY2008, following a transitional year in FY2009 focused largely on the reduction of expenses, it is staff's hope to drive ISAC, on a consolidated basis, to a positive bottom line for FY2010.

Responding to an inquiry from Ms. Alpi, Mr. Sinsheimer briefly reviewed the primary revenue sources for the guarantor side of the agency, including loan processing and issuance fees, account maintenance fees, default aversion fees and retention on collections. On the expenditure side, he noted, in addition to administrative expenses, the primary item is the payment of the Federal Default Fee, which should drop as a result of lower guarantee volume, as well as a reduction in payment from 50% to 25% of

the fee. Mr. Davis provided some additional background on an additional revenue source, the loan rehabilitation program, which provides borrowers an opportunity to remove their loans from default, in a way that offers appropriate incentives for both the borrower and the agency.

Ms. Alpi thanked staff for the information provided in the financials, saying it allowed her to get a much better picture of the agency's condition, even though much of the information it contains is not positive. Mr. Davis agreed that it is extremely beneficial that staff is now able to provide much more clear and thorough information on a timely basis, not only for Commissioners, but also for senior management, as they use this information to help manage both revenues and expenses, to steer the organization where it needs to be.

Item 5. FY2009 MAP and IIA Status Report and Approval of Payment Claim Deadline Dates

Ms. Kleemann noted that this item is brought to the Commission each year at this time in order to avoid over-committing available funding. She indicated that at this point in the processing cycle, the number of eligible MAP applicants has increased by 6.1% over last year, with the largest increase among students going to community colleges. She indicated that the IIA application volume has increased by 12%, again with significant increases among applicants attending community colleges, as well as public universities.

Ms. Kleemann noted that changes at the federal level with regard to the expected family contribution (EFC) are expected to make next year even more challenging for MAP and IIA, with an anticipated impact on MAP of an additional $10 million, and a potential increase of 50 – 100% for IIA.

Dr. Louderback **MOVED THAT** the Commission approve the proposed FY 2009 priority payment claim deadline dates for MAP and IIA as shown below:

Term	Deadline
1st semester or quarter	January 10, 2009
2nd semester or quarter	April 1, 2009
2nd semester starting after 2/15/09	June 1, 2009
3rd quarter	June 1, 2009

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

Item 6. Notice of Execution and Delivery of Contracts Exceeding $1 Million

Ms. Lee indicated that in accordance with a resolution previously adopted by the Commission, staff is bringing to the Commission notice of execution of four contracts that were between $1 million and $5 million. Those contracts are: Celtic, Inc., marketing agent for the *College Illinois!* Prepaid Tuition Program, at $1.5 million per year and for General Revenue Corporation, OSI Education Services, Inc. and Pioneer Credit Recovery, Inc., each at an amount not to exceed $1.9 million per year.

Responding to a question from Ms. Alpi, Mr. Davis stated that the three collection agencies have success-based contracts in that the firms only get paid to the extent that they are successful in collecting on our behalf, and that ISAC has been pleased with their performance. With regard to Celtic, Inc., which performs the marketing for the *College Illinois!* Prepaid Tuition Program, the contract renewal is for one

year with a 90-day out clause. The new Chief Marketing and Communications Officer has only been with the agency for just over two months and plans are still being developed for marketing of this program.

Chairman McNeil then stated that the agenda would skip to item 8.

Item 8. Issuance of Taxable Student Loan Revenue Bonds, Series 2008

Before introducing the agenda item, in response to questions form Commissioners, Mr. Sinsheimer gave the Commission a brief status update on two other financing-related issues, the agency's auction-rate securities issued through UBS, and the $500 million line of credit with Citibank, which is the revenue source for the Capstone Loan Program.

Mr. Davis reassured the Commission that it is staff's intent to continue with the strategy of finding multiple funding sources so that we are not solely dependent on one source. He stated that it is his strong commitment to find continued funding for the Capstone Loan Program.

Mr. Sinsheimer then introduced the agenda item, reminding the Commission that at its August 6, 2008 meeting they were briefed on the preliminary discussions being held with a group of Illinois-based credit unions to provide liquidity for FFELP lending for the 2008-2009 academic year. He stated that as a result of successful discussions and negotiations on this topic, a bond issue is being brought forth today for the Commission's approval, and he presented a brief summary of the structure and terms of the bonds. He corrected the issue date of September 15 printed on the term sheet indicating that the closing will happen only if approved by the Commission today.

He explained that due to statutory limitations, the credit unions are unable to lend money directly to the Commission, but they can invest in securities, which is why this financing is being structured as a direct purchase of taxable bonds. He stated that the proposed financing would be done in three separate bond issues, with closing on approximately September 23, December 15 and March 15, to try to more closely match the agency's disbursement schedules.

Mr. Sinsheimer indicated that the credit unions have requested we provide them with a power of attorney such that if on July 2, 2009 the Commission has not executed the put option with the Department of Education (ED) to sell the loans to them in accordance with ED's Loan Purchase Commitment Program, the credit unions would have the right to do so. Mr. Sinsheimer indicated it would be the intent of the agency to seek financing for the loans rather than sell them to ED, in order to keep ISAC as the guarantor of these loans. He also stated that the credit unions have requested that the servicing of these loans be done by IDAPP and not outsourced.

Mr. Daniels commended staff for their innovation in finding financing in this current market. Mr. Sinsheimer expressed his hope that this deal will form the basis for other opportunities to develop the relationship with Illinois-based credit unions to support not only FFELP, but also possibly other ISAC programs, to help serve the credit unions' Illinois client base.

Mr. Wing **MOVED THAT** the Commission approve the following Resolution:

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission adopts the attached RESOLUTION authorizing the issuance of not to exceed $150,000,000 aggregate principal amount of Taxable Student Loan Revenue Bonds, Series 2008, in one or more series, of the Illinois Student Assistance Commission; authorizing the execution and delivery of an Indenture of Trust and Credit Agreement to secure such Bonds; reauthorizing the execution and delivery of a Master Loan Sale Agreement to further secure the bonds; authorizing the execution and delivery of a

Bond Purchase Agreement providing for the sale of such Bonds to the Credit Unions named therein; and authorizing and approving related matters."

Dr. Andre seconded the motion, which was approved unanimously.

Item 11. *College Illinois!*SM Prepaid Tuition Program Update on Direct Investment Consideration

Chairman McNeil then announced that the Commission would recess until 12:30 p.m., in order to allow the Commission to participate in a press conference. Upon reconvenening at 12:30 p.m., Chairman McNeil stated that 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, such as the Executive Session for Agenda Item 11. For the Executive Session, he stated that there is one applicable exception under Section 2(c) of the Open Meetings Act:

1) Pursuant to exception number "7" of Section 2(c) of the Open Meetings Act.the closed session is for the consideration of the sale or purchase of securities, investments or investment contracts.

Chairman McNeil then asked for a motion to adjourn the regular meeting and go into Executive Session for Agenda Item 11 as described.

Dr. Louderback **MOVED THAT** the Commission adjourn into Executive Session. Ms. Alpi seconded the motion, which was unanimously approved by roll call vote. The Commission then adjourned into Executive Session at 12:50 p.m.

At 1:25 p.m., Dr. Louderback **MOVED THAT** the Commission return to open session. Mr. Wing seconded the motion, which was approved unanimously. The Commission then reconvened in open session.

Chairman McNeil announced that during the Executive Session, the Commission had received reports from staff regarding pending matters that require no action.

Item 7. FFELP Loan Portfolio Servicing Contract

Introducing this item, Mr. Sinsheimer stated that as a result of a Request for Proposals (RFP) issued in May for outsourcing the servicing of the FFELP loan portfolio, nine bids were received and evaluated by an internal committee. After ranking each bid on both technical merit and pricing, the committee is recommending Nelnet, based in Lincoln, Nebraska for the servicing contract of the FFELP loan portfolio. In the terms of the proposed contract, ISAC has the right to cancel this contract with 30-days notice if unsatisfied. Once the negotiations of the contract are complete, Nelnet will deconvert the existing portfolio at no charge, to their current state-of-the-art new generation platform.

Mr. Sinsheimer stated that as a result of outsourcing the servicing of the portfolio, ISAC will save approximately $2 million per year versus our current servicing costs.

Dr. Louderback inquired as to how this will affect the headcount at the agency if this is being outsourced. Mr. Sinsheimer stated that it is unknown at this time due to the fact that other functions within the agency will be affected and not just IDAPP, such as administrative services, accounting and human resources. It is not anticipated that there will be any headcount reduction until after calendar year-end.

Responding to Ms. Alpi, Mr. Sinsheimer stated that as a result of outsourcing the servicing, the IDAPP line item on the financials for external loan servicing is currently just under $6 million in FY 2008, will be reduced to an estimated $3 million in FY 2009 for both alternative and FFELP portfolio servicing.

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

"BE IT RESOLVED that the Illinois Student Assistance Commission (ISAC) authorizes the execution and delivery by the Executive Director of a servicing contract with Nelnet, Inc. (the "Servicing Contract") and any amendments thereto in substantially the form attached hereto as **Exhibit A** with such changes and modifications as the Chairman and Executive Director deem acceptable and in the best interests of the ISAC and such other documents, certificates and instruments as are necessary to consummate the transactions contemplated by the Servicing Contract; provided, however, that the term of the Servicing Contract shall not exceed six (6) years including renewals and the aggregate amount of fees payable by ISAC to Nelnet under the Servicing Contract shall not exceed $25 million for the entire term of the Servicing Contract.

"BE IT FURTHER RESOLVED that, subject to the limitations set forth in the paragraph above, the Chairman and Executive Director are, and each of them is, hereby authorized to do or perform all such acts and to execute all such certificates, documents and other instruments as they or any of them deem necessary, convenient or desirable to consummate the transactions contemplated by this Resolution and all of the acts and doings of the Chairman and Executive Director which are in conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby approved, confirmed and ratified."

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

Item 9. *College Illinois!*SM Prepaid Tuition Program Contract Prices and Fees For 2008-2009 Enrollment Period

Mr. Davis opened by noting that new enrollment contract prices and fees for the *College Illinois!* Prepaid Tuition Program are brought to the Commission at this time each year. He further noted that the changes to the program for the 2008-2009 enrollment period are material and represent significant improvements. He stated that after reevaluating the legislation for the program, it was concluded that not enough has been done to make the program available to all families in the state of Illinois, consistent with the legislative intent. The changes being introduced to pricing this year will make this program accessible to many more Illinois families.

In explaining the new features of the program, Mr. Davis stated that in past enrollment periods, contract prices were determined using the tuition rates for all public universities together, even though tuition rates at the University of Illinois at Urbana-Champaign (UIUC) were significantly more expensive, and were growing faster than at the other universities. This resulted in a uniform price for the University contract that did not appropriately reflect the prices of any of the universities, as it was underpriced for UIUC and overpriced for the other public universities. In order to make the program more attainable for all families in the state of Illinois, there are two separate products being proposed for this enrollment period for the public universities; a product for all public universities excluding UIUC, and a product for UIUC, which can also be used at the other public universities.

In addition, Mr. Davis noted, the administrative fees this year have been loaded into the contract price rather than being assessed as a separate fee as in the past.

Ms. Alpi indicated that she is uncomfortable taking action on the item being brought before the Commission before being assured that this is an actuarially sound product and if there is research showing the need for a separate UIUC product. She also expressed her concern about the reaction from UIUC at being excluded from the public university product and if this will have an affect on our relationship with the University.

Mr. Davis explained that as in the past years, the prices have been structured based on assumptions about tuition inflation and investment returns modeled by the program's actuary, and that we have built into the pricing a premium to eliminate the actuarial deficit over 15 years.

Dr. Louderback expressed her concern that the Commission is receiving information about a proposed new program structure less than 30 days prior to opening the enrollment period, without having had the opportunity for a full analysis and discussion.

Chairman McNeil stated that the factors taken into consideration in determining the pricing are the same that have been used over the past 10 years of the program, but just adding an additional pricing level.

Responding to Ms. Alpi's inquiry if it is necessary to vote on the agenda item today, Mr. Davis stated that it is being presented today as an action item for the Commission's consideration, and they may vote as they see fit.

Mr. Davis clarified for Dr. Louderback that prices and payments for all past contracts continue as they were agreed upon at the time the contract was signed. The new program pricing is only for this 2008-2009 enrollment period.

Mr. Dauber and Mr. Daniels agreed that the new pricing structure is a good improvement to the program.

Mr. Davis reiterated that the prices and terms proposed impact only new contracts sold for the 2008-2009 enrollment period. All prices and benefits on previously purchased contracts remain intact and will be honored as originally agreed upon.

Mr. Daniels **MOVED THAT** the Commission approve the schedule of *College Illinois!* contract prices specified for the 2008-2009 enrollment period in Tables A-C, as well as the schedule of *College Illinois!* fees and charges for the program set forth in Table D.

Dr. Andre seconded the motion, which was approved unanimously.

Item 10. Revisions to *College Illinois!*^{SM} Prepaid Tuition Program Investment Policy

Introducing the agenda item, Mr. Bello stated that although the Commission had approved the Investment Policy at its June meeting, it is being brought back to the Commission with minor changes which will allow the Chief Investment Officer to purchase suitable short-term investment instruments, money markets and TIPS for cash management and investment purposes. He stated that these securities could be purchased by anyone, so allowing the Chief Investment Officer to make the purchases directly rather than through a money manager will result in a significant cost savings to the Program.

Ms. Alpi **MOVED THAT** the Commission adopt the revisions to the *College Illinois!* Statement of Investment Policy in the form attached hereto as Exhibit A in the agenda book.

Mr. Daniels seconded the motion, which was approved unanimously.

Dr. Louderback **MOVED THAT** the September 19, 2008 meeting of the Commission be adjourned. Mr. Daniels seconded the motion, which was approved unanimously. The meeting adjourned at 2:30 p.m.

Respectfully submitted,

Debora A. Calcara
Secretary to the Commission