

## **AGENDA ITEM 9.**

### **BOND REDEMPTION**

**Submitted for:** Action

**Summary:** All Federal Family Education Loan Program (FFELP) student loans, industry wide, were financed through the issuance of bonds by Trusts that were established for the benefit of the bondholders. Cash, student loans and other Trust operational functions were controlled by the Trust Indenture. ISAC's "UBS Trust" was initiated by the Commission with an initial offering of \$250,000,000 of Auction Rate Certificate bonds ("ARCs") issued under a 2002 General Resolution. Over the period of 2003 to 2005 an additional \$1,089,550,000 of ARCS bonds were issued under annual supplemental resolutions to bring the total amount of bonds issued to \$1,339,550,000. The purpose of the bonds was to finance student loans to eligible borrowers. The UBS Trust was one of four major ISAC Trusts outstanding in 2007. Please note that all ISAC student loan financings are, by law, non-recourse to ISAC and to the State of Illinois.

In fiscal year 2008, as part of a major restructuring of its financings, IDAPP sold the majority of its student loan portfolio and used the proceeds to redeem \$2.6 billion of bonds in UBS and other outstanding Trusts. This resulted in the UBS trust being reduced to \$884,400,000 of bonds outstanding as of June 30, 2008.

In February 2008 the auctions for the ARCS bonds started to fail because of the disruptions in the bond markets. ARCS were sold by UBS with an implied promise of liquidity due to the re-auction of the bonds on a weekly basis. The market disruptions starting in 2008 resulted in the failure of the auctions and the resulting "drying up" of the liquidity for the bond holders. Bondholders who thought they had purchased a one week investment found themselves actually holding a 30 year investment. Representing the bondholders, the Attorney General of the State of New York won a suit against UBS which required them to buy the bonds from their clients at par. As a result, UBS owned approximately \$770 million of the outstanding ARCs bonds.

Given these conditions, IDAPP started exploring the possibility of refinancing the Trust. In mid 2010 the decision was made to refinance the trust with a LIBOR floating rate note (LIBOR FRN). The key to the refinancing was to purchase as many of the existing bonds at a discount so that the Commission could finance its remaining student loans with fewer dollars while realizing a gain on the transaction. Bondholders, including UBS, were willing to accept a discount in order to liquidate bonds they had no interest in owning.

In conjunction with an official tender offer in October of 2010 for the existing UBS bonds, ISAC issued \$604,000,000 of LIBOR Floating Rate Notes. The proceeds from these new FRN bonds combined with cash in the Trust resulted in \$849,950,000 of the \$884,400,000 UBS bonds being retired leaving the trust with \$34,450,000 of bonds outstanding. The bonds were purchased at 91.375 generating a gain of approximately \$70 million; \$9,000,000 of this gain was

received by IDAPP in unrestricted cash to be used for general Commission needs. Post close of this transaction, the Trust had total assets of \$37,492,000 comprised of \$16,549,000 in student loans and \$20,943,000 in cash.

As a stipulation to the rating confirmation of the UBS trust post refinancing, Moody's required the trust to redeem an additional \$11,000,000 of bonds in November 2011. IDAPP would like to redeem an additional \$4,000,000 of bonds at the same time as the Moody's direction. This would reduce the amount of bonds outstanding in the UBS Trust to \$19,450,000 and would allow the trust to release \$2,000,000 from the Trust to IDAPP to be used for general Commission purposes. This redemption of bonds and release of cash would still allow the trust to meet the parity ratios required by the trust indenture. Its ratings would be maintained at "AAA".

**Action requested:**

That the Commission approve the following resolution:

**"BE IT RESOLVED** that the Commission directs The Bank of New York Mellon Trust Company, N.A., as trustee (the "*Trustee*") under the 2002 Resolution Authorizing the Issue of Student Loan Revenue Bonds and Other Obligations of the Illinois Student Assistance Commission, to (i) optionally redeem outstanding Senior Bonds of the Commission in an amount not to exceed \$4,000,000 as determined by the Interim Executive Director of the Commission, and (ii) release not to exceed \$2,000,000 held in the Trust Estate created by the 2002 Resolution to the Commission free and clear of the lien of such Trust Estate, to be used for lawful purposes of the Commission, and with such final amount to be determined by the Interim Executive Director of the Commission, such optional redemption to be in addition to the optional redemption of certain of the Senior Bonds in the amount of \$11,000,000, to occur on or about November 1, 2011, as previously directed by the Commission to the Trustee, all of which is hereby ratified and affirmed".