

AGENDA ITEM 5.

**ISSUANCE OF TAXABLE STUDENT LOAN REVENUE BONDS
SENIOR SERIES I AND SUBORDINATE SERIES II**

Submitted for: Action

Summary: Staff has taken the preliminary steps necessary for the issuance of Taxable Student Loan Revenue Bonds to provide funds to accomplish one or more of the following purposes: (i) acquire or originate eligible student loans; (ii) fund certain Funds and Accounts created under the Resolution authorizing such Bonds; and (iii) pay the costs of issuance of the Bonds. Having completed all of the necessary preliminary steps, staff is prepared to recommend the issuance of not to exceed \$250,000,000 of Bonds. The 2002 Resolutions and related documents were sent to Commissioners under separate cover.

Action requested: That the Commission approve the following resolution:

"BE IT RESOLVED that the Illinois Student Assistance Commission approve the 2002 General Resolution and the 2002 Supplemental Resolution providing for the sale and issuance of Student Loan Revenue Bonds of the Illinois Student Assistance Commission; and authorizing the execution and delivery of an Official Statement, Bond Purchase Agreement, and certain other agreements in connection therewith. The Commission further delegates the ability to take certain actions and to make certain determinations as provided in such 2002 Supplemental 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; and

"BE IT FURTHER RESOLVED that this Resolution authorizes the issuance of Bonds not to exceed \$250,000,000."

ILLINOIS STUDENT ASSISTANCE COMMISSION
ISSUANCE OF TAXABLE STUDENT LOAN REVENUE BONDS
SENIOR SERIES I AND SUBORDINATE SERIES II

Background

The following paragraphs set forth a brief description of the documents to be approved and the rationale for the proposed new bond issue. As of July 1, the total of all existing indebtedness authorized and outstanding by the Commission is \$2,601,124,000 including tax-exempt bonds, tax-exempt notes, taxable bonds and taxable notes, compared with a limit of \$3,500,000,000 of bond authority.

The proposed transaction assumes a taxable issuance of not to exceed \$250,000,000 for the purpose of acquiring or originating student loans, funding certain Funds and Accounts created under the Resolution authorizing such Bonds, and paying costs of issuance. The proposed transaction will finance FFELP loans that contain a low-cost borrower benefit component and may also finance non-FFELP alternative loans, as discussed with the Commission at previous meetings.

Brief Description of the Documents to be Approved

General Resolution - The General Resolution contains general terms relating to the proposed Bonds and any future bond issues with the same security as the proposed Bonds. The General Resolution serves as part of the contract between the Commission and bondholders.

Supplemental Resolution - The Supplemental Resolution is a supplement to the General Resolution providing for the issuance of a particular series of Bonds of the Commission and contains specific terms relating to the proposed Bonds. The Supplemental Resolution, together with the General Resolution, serves as the contract between the Commission and bondholders who purchase these series of Bonds.

Official Statement - The Official Statement is the disclosure statement prepared by staff and the financing team and used by the Underwriters to market the Bonds. It describes in depth all material provisions of the Bonds and discloses general information about the Commission and certain potential risks associated with the purchase of the Bonds.

Bond Purchase Agreement - The Bond Purchase Agreement is an agreement between the Commission and UBS PaineWebber Inc. pursuant to which the Underwriter purchases the Bonds. It is signed in advance of the bond closing at the time the Bonds are sold. The Agreement contains the pricing terms relating to the Bonds and certain conditions that must be met by the Commission to obligate the Underwriter to purchase the Bonds.

Continuing Disclosure Undertaking - The Continuing Disclosure Undertaking, which is an exhibit to the Official Statement, is an agreement signed by the Commission to provide annual updates and periodic "material event" updates to certain central information repositories pursuant to federal securities laws.

Actions to be Taken

For each financing, it is necessary for the staff to perform a sequence of seven actions, as follows:

- Select a financing team of counsel and underwriters;
- Explore financing alternatives and structures;
- Seek a Commission resolution delegating the responsibility to finalize the offering terms (requested as part of this agenda item);
- Seek ratings by major bond rating agencies (currently working with the rating agencies to secure the ratings);
- Seek necessary state approval of the financing (presently awaiting Governor's office approval);
- Produce an Official Statement for the proposed bond issue (requested as part of this agenda item); and
- Seek Commission approval of the sale of securities (requested as part of this agenda item).

Proceeding with the Financing

Based upon the advantages of going into the market at this time and the need to raise additional capital to meet existing contractual commitments, staff is seeking authority to conclude the proposed financing as expeditiously as possible. The existing interest rate environment makes this an opportune time to raise the needed funds.

The Underwriting Team

Consistent with prior actions of the Commission, the team for this particular financing consists of the following members:

Managing Underwriter:	UBS PaineWebber Inc.
Bond Counsel:	Chapman and Cutler
Underwriter's Counsel:	Bell, Boyd & Lloyd

Explore Financial Alternatives and Structures

Staff is confident that this financing can be concluded on a timely basis, and believes that it is sound business practice to proceed with the approval of the issuance and sale of the Bonds at the time of the July 29, 2002 meeting. Based upon the projected need for funds, staff anticipates that the Bonds will be issued in the amount of not to exceed \$250,000,000 during August 2002.

Seek Rating of the Bonds

The Commission's bond issue will need to be rated by agencies experienced in providing ratings for student loan revenue bonds to assure the lowest possible borrowing cost. Through their participation in regular meetings with student loan officials across the country, Fitch Inc., Moody's Investors Service, and Standard & Poor's Group have developed significant expertise with respect to student loan revenue bond issues. It is the recommendation of staff and the financing team that these bonds be rated by two of the firms listed above.