

**AGENDA ITEM 2.**

**MINUTES OF THE NOVEMBER 18, 2005 AND DECEMBER 2, 2005 MEETINGS**

**MINUTES OF A MEETING**  
**OF THE**  
**ILLINOIS STUDENT ASSISTANCE COMMISSION**

**November 18, 2005**

**Illinois Student Assistance Commission**  
**1755 Lake Cook Road**  
**Deerfield, Illinois**

**COMMISSIONERS PRESENT:**

Donald J. McNeil  
Andrew Davis  
Warren Daniels, Jr.  
Ashley Dearborn  
Mary Ann Louderback  
David Vaught

**COMMISSIONERS PRESENT  
VIA TELEPHONE:**

Sharon Alpi  
Lynda Andre  
Robert Casey

**COMMISSIONERS ABSENT:**

Hugh Van Voorst

**STAFF PRESENT:**

Larry E. Matejka, Executive Director  
Kathy Rooney, Deputy Executive Director  
Tom Breyer, Director, IDAPP  
Randy Erford, *College Illinois!*  
Sue Kleemann, RPPA  
Lori Reimers, State Relations  
Chris Peterson, Chief Program Officer  
Sheila Bourque, Chief Information Officer  
Nancy Stephens, *College Illinois!*  
Sam Nelson, Client Relations  
Tony King, IDAPP  
Tom Hood, IDAPP  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:**

Fred Ash, JP Morgan Chase  
Meegan Bassett, Women Employed  
William Corbin, Perkins Coie  
Bob Demos, JP Morgan Chase  
Paul Frank, FIICU  
Rose Gallagher, Chapman and Cutler  
Dr. Al Hardersen, Joliet Junior College  
Toni Henle, Women Employed  
Mark Holysz, College of DuPage  
Alice Marie Jacobs, Danville Area Community College  
Pat Krolak, Marquette Associates  
Amy Monblatt, UBS PaineWebber  
Doug Oest, Marquette Associates  
Andrew Proctor, House Republican Staff  
Tom Ryder, ICCTA  
Joseph Starshak, Starshak, Welnhofer & Company  
Jerry Wallack, Kutak Rock  
Larry White, Chapman and Cutler  
Al Widholm, Kankakee Community College

## **Agenda Item 1. Announcements**

Chairman McNeil called the November 18, 2005 meeting of the Commission to order at 9:20 a.m. noting that a quorum was present. He stated that the Commission would be recessing in order for staff to conduct an introductory tour of the facilities for the new members of the Commission. He noted that the Commission would reconvene into regular session at 10:00 a.m.

The Commission reconvened into regular session at 10:00 a.m. Chairman McNeil asked that a roll call be taken, which established that a quorum was present. Acknowledging that there were several new members on the Commission, Chairman McNeil requested that each member of the Commission introduce themselves.

Donald McNeil, new Chairman of the Commission, is a partner with the law firm of Barnes and Thornburg LLP where he is head of the labor and employment group. Prior to joining the law firm he was in state government for 11 years as head of the Wage Garnishment Division of the Illinois Department of Labor. He resides in Chicago.

Sharon Alpi, faculty member at the Tabor School of Business at Millikin University. She is the Director for Tabor School Center for Entrepreneurship Program. She resides in Decatur.

Dr. Lynda Andre is assistant Superintendent for curriculum and instruction with the Edwardsville School District. She resides in Edwardsville.

Robert Casey is an attorney for Casey, Brannen and Romag where he has been practicing for 55 years. He resides in Batavia.

David Vaught is with the investment advisory firm of Mitchell, Vaught & Taylor. He resides in Naperville.

Dr. Mary Ann Louderback was previously on the Illinois Education and Labor Relations Board. She currently is President of the McKendree County Board of Trustees and a member of the Illinois State University Alumni Board. She resides in Cary.

Andrew Davis is with the investment firm of Pinnipedia LLC. He is involved in securities trading with the Chicago Stock Exchange. He has recently completed his second three-year term as Chairman of Beloit College in Wisconsin where he has been a member of the Board for the past 16 years. He resides in Chicago.

Ashley Dearborn is currently a student at Wilbur Wright College where she is the President of the Wright Student Government Association. She is on the Illinois Board of Higher Education Student Advisory Counsel where she is the vice chair of the Academic Affairs Committee. She resides in Chicago.

Warren Daniels, Jr. is the managing director and head of public finance for Loop Capital Markets. He resides in Chicago.

Chairman McNeil stated that the next meeting of the Commission will be held on Friday, January 27, 2006 at DePaul University in Chicago. He noted that it has come to his attention that there might be the need for a special meeting of the Commission sometime in December. Proper notice of the meeting agenda and location will be given to members as soon as that has been established.

Chairman McNeil noted that a revised list of meeting dates and locations for 2006 would be sent to Commissioners. He asked that they contact the Commission Secretary should there be any problems with the schedule.

Chairman McNeil stated that with the addition of several new members to the Commission, thanks should also be given to those past Commissioners who served voluntarily, willingly and ably over the years that they were on the Commission. He noted special thanks to J. Robert Barr who served as Chairman of the Commission for 20 years. He indicated special thanks would be given to those Commissioners at the next regularly scheduled meeting.

### **Agenda Item 2. Minutes of the September 19, 2005 Meeting**

Dr. Louderback **MOVED THAT** the minutes of the September 19, 2005 meeting be approved as amended:

On page 2-5 under agenda item six in reference to the selection of the *College Illinois!* investment managers, she requested the paragraph read as follows:

Mr. Erford noted that both Nicholas Applegate and LSV currently manage other funds for the program. This is why the selection team is recommending that Nicholas Applegate receive a slightly larger share of the small capitalization growth fund than Denver Investment Advisors. Additionally, the selection team felt that LSV Asset Managers should be the sole international equity manager for the program.

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

### **Agenda Item 3. Executive Director's Report**

Opening his report, Mr. Matejka welcomed the new Commissioners to the agency. He noted that staff would like to hold an orientation meeting in order to explain the agency's programs in detail to the new members.

Mr. Matejka echoed the thanks of Chairman McNeil to the past Commissioners who served on the Commission.

Continuing his report, Mr. Matejka stated that the fall veto session ended in November where the only action taken regarding the Commission was the confirmation of Chairman McNeil, Mr. Davis and Ms. Dearborn. He indicated that the remaining four new appointments should be confirmed in January.

Mr. Matejka then gave a brief update on action taken on the Federal level with regard to reauthorization and the budget reconciliation.

With regard to the State programs the agency administers, Mr. Matejka noted that the Monetary Award Program (MAP) and the Purnell Illinois Incentive For Access (IIA) are the flagship programs of the agency. He noted that projected claims for the MAP total \$347.7 million, of which \$147.2 million have been claimed on behalf of 105,000 students. He indicated that the IIA program continues to be under funded, making it necessary to cut off announcement of awards earlier than MAP this year. Although the IIA award is a one-year award of \$500, it is an award that is given to the neediest students where the family contribution is zero.

Referring to the financial tables in his report, Mr. Matejka stated that expenditures for FY2006 are tracking as anticipated for the first four months of the fiscal year. Regarding the appropriations report,

he stated that since the beginning of FY2006, no General Revenue Funds have been used for the administrative of ISAC programs. He stated that administration funding for all programs, including scholarships and grants as well as outreach and training, is received from the Student Loan Operating Fund and IDAPP in the form of shared expenses.

Responding to Mr. Vaught, Mr. Matejka stated that if a student receives a MAP award, they automatically receive an IIA award if eligible. He indicated that by the time funds have been exhausted in the MAP over 150,000 students would have received an award.

#### **Agenda Item 4. IDAPP Investment Policy**

Mr. Matejka opened the agenda item by noting that this Investment Policy is brought before the Commission each year for review and approval. He stated that two changes have been made to the Investment Policy as noted on page 4-1 of the agenda book.

Mr. Breyer took the opportunity to give a brief background on the Investment Policy, noting that the Policy is a requirement of the Illinois Public Funds Investment Act and the terms of the agency bond indentures, which requires annual review of the Policy. The investments made are savings accounts, money market funds, US Treasury or US Government Agency Securities. He stated that the investments made by IDAPP are very short term, very temporary and low risk and serve as temporary investments while IDAPP prepares to purchase or originate loans.

Responding to Mr. Vaught, Mr. Breyer stated that this Policy covers only the short-term interim investments made by IDAPP. Mr. Breyer indicated that a thorough review of the IDAPP investments will be reviewed at the upcoming retreat.

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

**“BE IT RESOLVED** that the Illinois Student Assistance Commission approves the Statement of Investment Policy for IDAPP as attached, and directs all investment decisions for the program be consistent with provisions set forth in the Statement of Investment Policy for IDAPP.”

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

#### **Agenda Item 5. FY2007 Monetary Award Program Discussion of College Affordability in Illinois: FY2007 Monetary Award Program Budget Implications**

Mr. Matejka noted that this item is brought before the Commission in preparation for the FY 2007 budget request that will be made to the Illinois Board of Higher Education. He stated that this is the largest grant program the agency administers and is historically the program which generates the greatest amount of political and institutional interest by the State of Illinois and the higher education community.

Mr. Matejka stated that in 1957 the Monetary Award Program (MAP), which was then called the State Scholar Program, was the first program given to the then Illinois State Scholarship Commission, to administer. That program evolved into the MAP, which is the third largest state funded need-based grant program of its kind in the country.

Continuing, Mr. Matejka gave a brief history of MAP and the basis for which this agenda item is being brought to the Commission.

Chairman McNeil then recognized Ms. Meegan Bassett, senior policy associate at Women Employed, who made the following remarks:

“Women Employed is a 32-year-old nonprofit organization that works for the economic advancement of women through promoting access to education and training, providing career information, and promoting fair workplaces. Since many of you are new to the Commission, I wanted to mention some of the ways we have worked to increase affordability of a college education in the past several years. These include our successful advocacy for extending the MAP to students attending less-than-half-time, for a later suspend date in years when funding wasn’t adequate to meet demand, and helping pass the as-yet unfunded expansion of the Silas Purnell Incentive For Access program for those students with zero resources for college.

“Our concern today is with the \$200 million shortfall in MAP pointed out in the Discussion of College Affordability (Item Five) and, related to this, the critical importance of continuing the outreach around financial aid eligibility, especially to low-income college students. That system would be threatened by privatizing the student loan portfolio because all the funding for outreach and assistance around our state grant programs comes from revenues generated by the student loan portfolio.

“The Congressionally appointed Advisory Committee on Student Financial Assistance released a report this year about the fundamental importance of early awareness and outreach when it comes to student aid. The report states that, “Millions of students and adult learners who aspire to college are overwhelmed by the complexity of student aid. Rather than promote access, student aid often creates a series of barriers – a gauntlet that the poorest students must run to get to college.” These are precisely the barriers addressed through ISAC’s public service access and outreach activities. These services include a toll-free hotline staffed by financial aid counselors (87,000 calls annually), 50 walk-in College Zone outreach centers throughout the state, e-mail lists that make students, parents, and counselors aware of application deadlines and opportunities (5,018 subscribers), community-based financial aid workshops (270 English and Spanish workshops for 120,000 individuals annually), and more. Under privatization, all costs for outreach and assistance would either be shifted to the state or to the services would have to be eliminated.

“Privatizing could result in direct costs of \$47-52 million annually. The cost of providing outreach and financial aid assistance currently being provided with no state funding is \$7 million. Cost of administering state aid programs, like MAP, to the state and Illinois taxpayers is \$15-20 million. Potential additional direct costs to Illinois student borrowers and their families in higher interest rates and loan fees if a for-profit company administers loans is \$25 million.

“Illinois has a premier need-based financial aid system that is strongly supported by legislators in both parties and understood by a key to Illinois’ continued economic health. The troubling report released yesterday on the state of working Illinois showing a dramatic drop in family income found that the only workers who scored sizeable wage gains since 1980 were those with college degrees.

“To preserve and expand college access in Illinois, low-income individuals need a system that keeps college awareness, outreach, and assistance as a central feature. Privatizing the loan portfolio would mean the sale of an existing state asset that is used to support our financial aid outreach – this system is working for students and for the state. Instead, we should be working together to find solutions to the \$200 million shortfall in MAP and ways to fund the legislated expansion of the Illinois Incentive For Access program. Thank you.”

Ms. Bassett indicated that the study she referred to regarding the \$25 million direct cost to Illinois student borrowers should a for-profit administer loans, was a study done by ISAC and information regarding the State of Working Illinois was a report provided in the Chicago Tribune.

Chairman McNeil then recognized Dr. Alice Jacobs, President of Danville Area Community College and President of the Illinois Council for Community College Presidents. Dr. Jacobs gave the following remarks:

“On behalf of the Illinois Community College Presidents’ Council, I express concern regarding the reported proposal to sell the student loan bonds for a for-profit entity. At the November 10 meeting of the Council, the members unanimously went on record as opposing the proposed sale. There are numerous reasons for this action. However, first and foremost is the concern for the potential harm to the low-income students that we serve. As Women Employed states, “Privatizing student loans endangers college access for low-income students.

“Many questions related to the proposal remain unanswered.

“What will happen to the MAP is the proposed sale occurs? Almost 60,000 community college students depend on this program.

“What will happen to the Incentive For Access program, which provides resources to our most vulnerable students – those with no support from their families? Over 13,000 community college students depend on this program.

“What will happen to the outreach services provided by ISAC, which benefit low-income students, especially those who are the first in their family to attend college?

“Illinois offers student loans at the most affordable rates in the country to our low-income students. How much will those loan rates increase?

“The Illinois Student Assistance Commission has demonstrated that it is the agency best positioned to have a positive effect on enabling our students to achieve their goals at the Illinois institution of higher education. It is Illinois students who will lose another higher education opportunity if the services of ISAC are sacrificed for a one-time revenue source.

“The Illinois Community College presidents are convinced that the one-time revenue source generated by the sale will provide long-term negative consequences for Illinois.

“At the recent Higher Education Summit, time and time again, and speaker after speaker, Ms. Dearborn you were eloquent at the Summit and thank you for speaking, spoke of one consistent theme: Illinois needs a trained and skilled workforce to be competitive in the world marketplace.

“ISAC, through its excellent programs, has been the agency that opens the door that allows the development of that skilled workforce. Please conduct a thorough study of the impact of any changes and please consider any changes very carefully. The future of Illinois truly depends on what you as Board members decide.”

Referring to Dr. Jacob’s remarks, Mr. Vaught requested data on other states that have privatized their secondary market and what the impact was on the low-income students.

Chairman McNeil agreed with Mr. Vaught’s request and indicated that there has been considerable public discussion about the issue of privatizing but the issue has not yet been well defined. He stated that this will be carefully discussed over the coming months and if the Commission has a proposal that is somewhat related to the sale of assets, he feels it would be best handled by the Commission rather than having it forced upon the Commission by an outside source. He then recognized

Mr. Paul Frank, Director of Governmental Relations with the Federation of Independent Illinois Colleges and Universities (FIICU) who gave the following remarks:

“For the newer Commissioners here today, allow me to share a little bit of information about our organization and our students and member institutions in case you are unaware of the depth of Illinois non-profit private colleges and universities. Illinois private colleges enroll the same number of students as do the public universities, approximately 200,000 annually. Illinois private colleges and universities enroll students from all family income brackets at approximately the same rate as do the public universities. That is to say we have approximately the same proportion of needy and wealthy students as do the public universities. Private colleges produce 46% of all newly certified teachers and 46% of all health related degrees in the state annually. Illinois independent colleges and universities also provide more than \$700 million in financial aid, direct tuition discounts and waivers to our students every year. This institutionally is one piece of the complicated puzzle that enables students from all kinds of economic backgrounds to achieve success at private colleges. The FIICU is the oldest private college association in the nation advocating for students for more than 100 years since it’s founding in Chicago in 190. I have not been with the association that whole time!

“Regarding agenda item five, the Federation supports some of the staff recommendations listed in item five, regarding ways to increase affordability for students in all sectors. The data presented in this item and also in Director Matejka’s report, supports the reports that we are hearing from financial aid administrators across the state, that the diminished award size of MAP is continuing to slowly and incrementally deter some students from applying for aid and from enrolling. As Director Matejka stated, the impact cannot be underestimated of the smaller award size. You might look at the maximum award that is still being issued as a significant amount of money but compared to where we were just four years ago, affordability is greatly diminished at all levels. MAP strength must once again be that it does make college attainable and affordable and that it provides real assistance to our state’s neediest students.

“The continued stretching of available funds through the reduction factor and other rationing devices may provide some aid to many, but simply does not provide enough aid to others. Awards have not kept pace and are now out of sync with tuition in all sectors.

“As you and the staff being to prepare for budget recommendations for FY07, we urge the Commission to seek a budget increase of no less than 5% or \$15 million to help further reduce the MAP formula’s imposed reduction factors and push real awards closer to the statutory maximum level set by the general assembly.

“It is your mission as a Commission, we believe, to advocate for college students of need in our state, students at community colleges, public institutions and private institutions as well. Those students who face growing economic obstacles in seeking a college education depend on our advocacy and your advocacy on their behalf and I urge you to take that obligation on and embrace it. Obviously, you all have because you are making the time commitment to be here and I commend you and thank you for that.

“On a related topic that just has been raised by other speakers, as a Commission, we feel your obligation to be to strengthen the state system, providing financial aid tools for college students, those tools include institutional aid as I have mentioned and MAP and also the loan programs. We hope that each Commissioner will continually be mindful of your obligation to Illinois students before you consider any measure that could harm the Commission of its true strength.

“We recognize that state agencies do not operate in a vacuum and the state’s fiscal condition must be considered by lawmakers and by the Governor when looking at all programs, however, each of you are ISAC Commissioners and we hope and wish you luck as you try to be true to the obligations of this new

position. We thank you for your time and consideration, we thank you for your service on this important Commission.”

Chairman McNeil recognized Mr. Tom Ryder, Legislative Counsel for the Illinois Community College Trustees Association (ICCTA) who gave the following remarks:

“The trustees of the ICCTA are the elected, in all but one case, members of community colleges that serve with governance and leadership, the single exception is the City Colleges of Chicago, the largest community colleges in the state and they are an appointed board. I am the last of the concerned and worried faces that you’ll see this morning concerning the situation that you find yourself. First, I wish to congratulate you on being appointed to one of the finest student assistance groups in the nation. Illinois has the reputation of being a premiere organization in that circumstance. In a few moments I would like to give a personal response about the MAP, but the reason for the worried and concerned faces are before you today, is that in the waning hours of the legislative session, the legislature considered, for a brief moment, the concept of privatizing the loan portfolio of the ISAC, was not successful, was not part of the budget, but we were unaware at that time. So now we are performing eternal vigilance concerning that issue to bring our thoughts to you.

“Community College Trustees, like the presidents a week ago, unanimously passed a resolution indicating their opposition to the privatization. I was delighted to hear a few moments ago your Chair indicate that the concern, should this issue arise, to give your due diligence to that issue. As fiduciaries of millions of dollars, that kind of due diligent study is certainly what we would ask in this process rather than what the legislature attempted just a few months ago.

“We are hopeful that the issues will be considered very carefully by you and this Commission. If I may, as a recovering State Representative who spent 18 years helping folks in my district, I can’t describe to you the sparkle in a student’s eyes, I’ll call her Mary, came to our office and said I need to go to college but I can’t afford it. She did not know about ISAC, in fact, she didn’t think that since her family couldn’t provide help that she could go at all. We were able to place Mary with the counselors and financial aid here at ISAC. They were able to evaluate the good work she had accomplished in high school and her family considerations. She originally came to me because legislators are able to give some forms of scholarships. It was determined that she received a MAP and as a result I had the pleasure of telling her that her life’s dream, her beginning in life, was going to be accomplished by being able to go to school with that MAP award. Perhaps with the reduced availability of funds the sparkle is not quite as bright, but for thousands of students the MAP is meant the difference in their life. The repayment of loans are students paying money so other students can go to school. On behalf of the ICCTA, we thank you for what you do and for the sparkle we found in Mary’s eye.”

Chairman McNeil thanked all those who addressed the Commission. The Chairman stated that there are core functions of the agency that must be properly funded and administered, including providing easy access to accurate information about financial aid, making sure individuals who should be receiving that aid are properly identified, and as best as possible, ensuring that the money is available for those individuals. Speaking on his own behalf, Chairman McNeil stated that he is not going to be for anything that endangers those core functions of the agency. He indicated this issue requires a better understanding of all the various functions of the agency, which is what the Commission will be doing over the next several weeks and months.

#### **Agenda Item 6. Elimination of Guarantee Fee Through December 31, 2006**

Opening the agenda item, Mr. Matejka indicated that this item is brought before the Commission each year at the November meeting. He stated that it is staff’s recommendation that the Commission continue to waive the student insurance premium through December 31, 2006. Giving a brief history, Mr.

Matejka noted that this is an insurance premium that is charged, up to one percent of every loan that is made, to a student to guarantee that adequate funds are in the Federal Reserve Fund to pay for defaulted student loans to lenders. He stated that the Commission has adequate funds in the Federal Reserve Fund, which makes it unnecessary to assess the student a fee. Additionally, if the Federal government mandates that this fee be charged, the agency would be obligated to implement that mandate.

Dr. Louderback **MOVED THAT** the Commission approve the elimination of the guarantee fee for ISAC-guaranteed FFELP loans disbursed on or after January 1, 2006 through December 31, 2006. Further, that the Commission authorizes staff to begin assessing the fee if it is mandated by federal regulation.

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

### **Agenda Item 7. Revisions to the *College Illinois!* Investment Policy**

Mr. Erford opened the agenda item by giving a brief preface of the *College Illinois!* Prepaid Tuition Program for the new Commissioners. He then indicated that this Investment Policy, as in the IDAPP Investment Policy, is brought before the Commission for review and approval annually. He stated that the suggested changes to the Policy reflect the recommendations of the program's investment consultant, Marquette Associates of Chicago, in consultation with the program's investment managers.

Responding to Mr. Vaught's inquiry, Pat Krolak with Marquette Associates stated that the program is reviewed on a variety of different levels based on cash flow and the actuarial rate of return assumption. He stated that based off of an analysis of downside risk, which is the risk associated with underperforming the program's 7.75% target rate of return, the portfolio is optimized to meet that target as frequently as possible, and to minimize the financial impact of a shortfall relative to the actuarial target.

Mr. Daniels inquired if the agency has a policy that permits Minority Business Enterprises (MBE), Women Business Enterprises (WBE) and emerging businesses to participate as investment managers. Mr. Krolak stated that there is not a specific guideline for the hiring or retention of individual managers based on being minority-owned, women-owned or emerging managers, but these categories of businesses are encouraged to participate during the search process. He noted that, to date, of the \$668 million portfolio, \$150 million is managed by Illinois-based firms, \$30 million by a minority-owned firm and \$30 million by a woman-owned firm.

Chairman McNeil agreed with Mr. Daniels that there is a need to address the issue of retaining investment advisors, underwriters, and counsel that include appropriate representation of MBE, WBE and Illinois-based entities.

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

**"BE IT RESOLVED** that the Commission adopts the Statement of Investment Policy for *College Illinois!* that was last revised in November 2004, and that the Commission directs all investment decisions for the program be consistent with the provisions set forth in the policy."

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

Prior to adjourning the meeting, Mr. Matejka asked that Commission members carefully read agenda item five in preparation for the budget request for FY 2007.

Dr. Louderback **MOVED THAT** the November 18, 2005 meeting be adjourned. Mr. Daniels seconded the motion, which was approved unanimously. The meeting adjourned at 11:40 a.m.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Debora Calcara".

Debora Calcara  
Secretary to the Commission

**MINUTES OF A MEETING**  
**OF THE**  
**ILLINOIS STUDENT ASSISTANCE COMMISSION**

**December 2, 2005**

**James R. Thompson Center**  
**100 W. Randolph**  
**Chicago, Illinois**

**Illinois Student Assistance Commission**  
**500 W. Monroe St.**  
**Springfield, Illinois**

**Edwardsville School District Office**  
**708 St. Louis St.**  
**Edwardsville, Illinois**

**Millikin University**  
**1184 W. Main St.**  
**Decatur, Illinois**

**COMMISSIONERS PRESENT:** Donald McNeil  
Robert Casey  
Andrew Davis  
Ashley Dearborn  
Mary Ann Louderback  
Hugh Van Voorst  
David Vaught

**COMMISSIONERS PRESENT  
VIA TELEPHONE:** Sharon Taylor Alpi  
Lynda Andre

**COMMISSIONERS ABSENT:** Warren Daniels, Jr.

**STAFF PRESENT:** Larry E. Matejka, Executive Director  
Tom Breyer, Director, IDAPP  
Lori Reimers, Government Relations  
Karen Salas, General Counsel  
Sam Nelson, Public Service  
Wendy Funk, IDAPP  
Tony King, IDAPP  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:** Meegan Bassett, Women Employed  
Rose Gallagher, Chapman and Cutler  
Amy Monblatt, UBS Financial Services  
Joseph Starshak, Starshak, Welnhofer & Company  
Bob Stephan, Perkins Coie  
Larry White, Chapman and Cutler

Chairman McNeil called the December 2, 2005 meeting of the Commission to order at 9:00 a.m. He then asked that the Commission Secretary call the roll, which established that a quorum was present.

Mr. Matejka referred to a schedule of proposed meeting dates and locations for 2006, which was distributed to the Commission at the November meeting. He stated that action would be taken on the proposed dates at the next meeting of the Commission, to be held on January 27, 2006. He indicated that based on meetings that have been conducted with the Governor's Office of Management and Budget there might be a need for a meeting in February to act on the Commission's budget request. He also stated that there might be the need to modify the proposed April meeting date.

### **Agenda Item 1. IDAPP Issuance of Taxable Student Loan Revenue Bonds**

Chairman McNeil introduced this agenda item by reading the summary as it appeared in the agenda book:

Staff has taken the preliminary steps necessary for the issuance of Student Loan Revenue Bonds to provide funds to accomplish 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 Bonds in an amount not to exceed \$360,000,000. The "2005 Second Supplemental Resolution Providing for the Sale and Issue of Taxable Student Loan Revenue Bonds, Senior Series VIII-4, Senior Series VIII-5, Senior Series VIII-6, Senior Series VIII-7 and Senior Series VIII-8, and Taxable Student Loan Revenue Bonds, Subordinate Series IX-2, of the Illinois Student Assistance Commission" (the "2005 Second Supplemental Resolution") and related documents were sent to Commissioners under separate cover.

Chairman McNeil verified that all members of the Commission received their documents under separate cover.

At the request of Mr. Matejka, Mr. Breyer provided background information regarding the agenda item. Mr. Breyer noted that this financing was originally approved at the June 24, 2005 meeting of the Commission. He explained that the agenda item in June authorized the sale of up to \$600 million of bonds. This was a fairly customary financing for the agency, selling bonds to obtain proceeds to acquire and originate eligible loans. This particular financing employed a delayed delivery process, which means that the Commission would sell the \$600 million in bonds on a periodic basis, rather than all at the same time. The Commission sold \$240 million of the authorized amount in July, and was now seeking to sell the remaining \$360 million. Mr. Breyer noted that in June the Commission delegated authority to the Chairman to approve the final terms of sale of any subsequent deliveries. However, due to the Commission having seven new members, including a new Chairman, Bond Counsel felt it advisable to bring this item before the new members to reaffirm that delegation of authority.

Responding to an inquiry from Mr. Vaught, Mr. Matejka stated that there is not an interest rate exchange agreement in this particular financing. Mr. Breyer indicated that there is one outstanding interest rate exchange agreement (swap), which is issued under a different General Resolution.

Responding to Chairman McNeil's reference to the letter from Bond Counsel regarding the source of the obligations for this particular financing, Mr. Breyer indicated that the obligations are agreements with various school and lender partners to originate loans on their behalf and/or to purchase loans from them periodically.

Chairman McNeil stated that there are many aspects of the Commission with which the new members need to become familiar, including the buying and selling of student loans.

Continuing, Mr. Breyer noted that the primary purpose of this capital is to purchase loans from other lenders and to originate loans. He stated that the Commission also makes institution loans where IDAPP provides the lending capital to school-as-lender partners who make loans and then subsequently sell the loans to IDAPP.

Mr. Davis inquired if there is a specific rule under which these agreements are made. His understanding is that the Commission is asking to approve a bond sale today to fund obligations that are already in place. Mr. Matejka indicated that the Commission has delegated the authority to staff to enter into these obligations, such as the school-as-lender program. Schools are approved to participate in the school-as-lender program after ISAC responds to an RFP for an originator to provide capital for the program. It is then that the Commission needs to raise the capital for this obligation through bond sales.

Responding to Chairman McNeil's inquiry regarding contracts with financial institutions, Mr. Matejka stated that lenders look to secondary markets such as IDAPP to off-load student loans to provide additional liquidity to the lender by replenishing their capital. Many also seek to relieve themselves of the highly complex loan servicing requirements, which other entities, such as IDAPP, because of volume and familiarity with the process, can perform more effectively and efficiently than the lender.

Mr. Vaught inquired if the Commission is obligated to buy any loan that is offered and if the proceeds from these variable rate bonds would be used to buy any fixed rate loans. Mr. Matejka indicated that the Commission has some discretion as to whether or not to buy a portfolio. The proceeds of this issue will be used to acquire loans that are overwhelmingly variable rate, and the Commission is protected from its limited exposure to fixed rate loans by the previously-referenced interest rate exchange agreement.

Mr. Breyer then introduced the members of the financing team that were in attendance, and provided a brief history of how this financing team was selected. Mr. Breyer noted that in June 2004, staff issued three different Requests For Proposals (RFP's) as prescribed by the State Department of Central Management Services. One request was for Investment Banking Services, such as underwriting and interest rate exchange agreements; a second was for Counsel and for Financial Advisor. The third request was for Bond Trustees. An evaluation committee was established which included four staff members and one member of the Commission. This committee then reviewed, scored and ranked all responses to the RFP's and made a recommendation to the full Commission, which then approved a pre-qualified list that included four investment banking firms, six law firms, one financial advisor and two trustees. The group of pre-selected firms was selected to handle financings for a four-year period, with two additional one-year renewals at the option of the Commission.

Mr. Breyer explained that historically, the Commission has delegated authority to the Chairman to select firms from this pre-qualified list to serve as members of the financing team for a particular financing, based on the type of financing contemplated and the firms' particular areas of expertise. He stressed that being selected as a pre-qualified firm does not guarantee that any firm on the list would receive any business from the Commission. Mr. Matejka requested that the agenda item in which the pre-qualified list was approved be provided to the members of the Commission.

Ms. Louderback stated that although she was not a member of the committee for the selection of the pre-qualified firms, she has been on various committees reviewing RFP's and was very comfortable with the process with which ISAC conducts its selections. Mr. Breyer stated the selection of the financing team is a very rigorous and public process.

For the record, Chairman McNeil acknowledged the presence of Ms. Dearborn and Mr. Van Voorst.

Responding to Mr. Davis, Mr. Breyer confirmed that student loan financing is a highly specialized field, and while there were a number of other bidders, the members of the pre-qualified team represent the leading firms in the industry in terms of their experience in the student loan field.

Ms. Dearborn inquired if we have encouraged minority and women owned businesses to partner with the selected firms. Mr. Starshak, IDAPP's financial advisor, confirmed that the agency had made special efforts to do so, and would continue to do so, but that these efforts had not been successful in the most recent selection process. He explained that the particular type of financings done recently required a very specialized type of expertise and the opportunities available had not proven attractive enough to draw the interest of minority and women owned business enterprises.

Chairman McNeil noted that there are schedules and tables to be finalized prior to closing at the approval of the Chairman or the Executive Director. He indicated that in approving the Second Supplemental Resolution the Commission is at the same time approving that there be non-material changes in accordance with events that transpire after the meeting.

Mr. Vaught **MOVED** that the Commission approve the 2005 Second Supplemental Resolution referenced in the summary as read by the Chairman. Mr. Van Voorst seconded the motion.

Chairman McNeil then asked the Secretary to conduct a roll call vote of the Commission members, after which the Chairman indicated the motion passed unanimously.

Mr. Matejka stated that staff would like to provide an orientation on ISAC programs for the members of the Commission in combination with the January 27 meeting. He indicated that any time members of the Commission are together it must be done in an open forum and open to the public.

Chairman McNeil indicated that members of the Commission should be receiving materials from the Governor's office regarding ethics rules and obligations. Mr. Matejka then introduced Ms. Karen Salas, the agency's General Counsel, who also serves as its Ethics Officer. Ms. Salas indicated that she provided members with training information at the last meeting and the training must be completed by the end of the year.

Chairman McNeil stated that within the materials provide to the Commission for the financing today, there is information in more understandable terms about the programs of the Commission. For a better understanding of the Commission, he suggested that members take the time to read the documents prior to the orientation.

Ms. Louderback **MOVED** that the December 2, 2005 meeting of the Illinois Student Assistance Commission be adjourned. Mr. Casey seconded the motion, which was approved unanimously. The meeting was adjourned at 9:45 a.m.

Respectfully submitted,



Debora Calcara  
Secretary to the Commission