AGENDA ITEM 2.

MINUTES OF THE JANUARY 26, 2007 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

January 26, 2007

Illinois Institute of Art
Chicago, Illinois

COMMISSIONERS PRESENT:	Donald J. McNeil, Chair Warren Daniels, Jr. Ashley Dearborn Dr. Mary Ann Louderback Hugh Van Voorst David Vaught
COMMISSIONERS PRESENT VIA TELEPHONE:	Sharon Alpi Dr. Lynda Andre
PRESENT BY INVITATION:	Elmer Washington, Designated Liaison, IBHE
STAFF PRESENT:	Andrew Davis, Executive Director Tom Breyer, Senior Policy Advisor Steve Di Benedetto, IDAPP Wendy Funk, IDAPP Tony King, IDAPP Sue Kleemann, RPPA Theresa Morgan, CFO Shoba Nandhan, Comptroller Sam Nelson, Public Service Chris Peterson, Chief Program Officer Karen Salas, General Counsel John Schwarm, IDAPP Nancy Stephens, *College Illinois!* Joanne Tolbert, HRD Claude Walker, State Relations Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Fred Ash, JPMorgan Chase Meegan Bassett, Women Employed Bob Bridgman, U.S. Dept. of Education Kevin Conlon, Conlon Public Strategies, LLC Bob Demos, Bank of New York Paul Frank, FIICU Rick Kaye, Richard M. Kaye & Associates Pat Krolak, Marquette Associates Lynn Murphy, IBHE Tim Opgenorth, University of Illinois-Chicago Patrick James, School of the Art Institute-Chicago Joseph Starshak, Starshak, Welnhofer & Company Sandy Street, University of Illinois Tom Suffredin, National Education Leigh Taylor, Robert Morris College Kelly Walsh, LaSalle Bank

Item 1. Announcements

Chairman McNeil called the January 26, 2007 meeting to order at 9:20 a.m., asking that a roll call be taken, which established that a quorum was present. He acknowledged Mr. Andrew Davis who is presiding over the meeting in his role as the new Executive Director. He then noted that the next regular meeting of the Commission will be held on March 30, 2007 at Millikin University in Decatur.

Item 2. Minutes of the November 17, 2006 and December 2, 2006 Meeting

Dr. Louderback **MOVED THAT** the minutes of the November 17, 2006 meeting be approved as submitted. Mr. Van Voorst seconded the motion, which was approved unanimously.

Dr. Louderback **MOVED THAT** the minutes of the December 2, 2006 meeting be approved as submitted. Ms. Dearborn seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Davis noted that a report of his first few weeks as Executive Director of the Commission has been provided in the agenda book. He then took the opportunity to update the Commission on the transaction the Commission is currently undertaking, which is described in detail in Agenda Item 4 in the agenda book. He noted that there is a resolution being brought before the Commission to formally approve the sale of a specific pool of assets, a project that the General Assembly and the Governor have asked the Commission to carry out. The sale transaction has been underway for the past nine months and has proven to be a very complex undertaking. The Commission has used the services of Kutak Rock as outside legal counsel for the sale and has also received counsel from Morgan Stanley and Gardner, Underwood & Bacon as financial advisors.

Mr. Davis also recognized staff members Wendy Funk, Tony King, Steve Di Benedetto, Tom Breyer and Tom Hood for their hard work in carrying out this assignment and noted that the Commission owes them an enormous debt of gratitude.

Item 4. Partial Sale of Student Loan Portfolio

Mr. Davis stated that the Commission has gone through a rigorous process to identify a specific portfolio of loans that were suitable for sale. Working with staff, the advisors identified a specific portfolio residing within a single trust estate as being the most appropriate group of loans to sell, by virtue of the size of the portfolio, the types of loans contained within the portfolio, and the limited number of entities used to service these loans. After the selection of the portfolio to be sold, the Commission sent invitations to bid to approximately two dozen financial institutions across the United States. The Commission received fifteen responses in the form of preliminary bids and then, based upon the prices offered in the preliminary bids, narrowed the field to four finalists. Final bids were solicited from this group, following which two firms were chosen to become the purchasers of various portions of the portfolio.

Mr. Davis noted that the Resolution being brought before the Commission requests approval for the sale of the specified loans based on the results of the bidding process. He then stated that he believes this carries out exactly the task that was given to him by the Commission and he heartily recommends the Commission approve the Resolution.

Chairman McNeil added that the question as to whether to sell the portfolio was essentially answered for the Commission by the legislature last spring when they directed the Commission to fund the MAP Plus program and a portion of MAP by selling assets or otherwise restructuring or refinancing. Since the question was answered for them, the "how to" was what needed to be addressed and that was provided through the services of our financial advisors.

Responding to Mr. Vaught, Mr. Davis noted that a binding term of the transaction requires the purchasers of the loans to in no way diminish the borrower benefits so the students will see no changes in their loan, such as interest rate or their eligibility for interest rate reductions based on timely payments. He noted that due to this stipulation in the sale process, the price received for the portfolio was lower than might have been received should this stipulation not have been a requirement.

Mr. Davis indicated that while many of the loans being sold were to out-of-state borrowers, there were also a number of Illinois loans. There were requests from individual states to purchase only loans from that state, but in looking at the loans there was no one state with a significant enough concentration that it made sense to split a portfolio of this size in that way, although this approach has not been ruled out for any subsequent transactions.

Chairman McNeil noted that while concerns have been raised as to how this sale will affect Illinois students, he feels Mr. Davis has addressed that concern, and that students should not be affected in a negative way. He said that there was an explicit condition of the sale that the borrower benefits would continue in effect. Secondly, he stated that the legislature and students were concerned that the Commission is giving up a future income stream for cash now. He stated that the bottom line is that when Morgan Stanley provided their analysis this past spring their findings were that the loan portfolio was operating at a loss so there essentially was not an income stream. Since the market is currently favorable, this is the time to maximize the return on the sale of assets. The analysis was that the fees received from our guarantee function could support the business of the agency. He reassured the Commission that every dollar generated by this sale and any premiums obtained would go toward the MAP and MAP Plus programs.

Dr. Louderback requested assurance that this Resolution being brought before the Commission was to seek approval for this sale transaction only and was not to extend to any future transactions. Chairman McNeil assured the Commission that it is not the intent to do that, and asked that the record reflect that this Resolution pertains only to the specific sale that Mr. Davis addressed earlier. Mr. Davis also assured the Commission that any further transactions such as the one being addressed today would be brought before the Commission for their specific and explicit approval.

Dr. Louderback also requested clarification of the language in the Resolution indicating that authority is delegated to the Chair, Vice-Chair and/or Executive Director to sign documents related to the sale and again was concerned that this authority not necessarily extend to future transactions. Chairman McNeil clarified that the signatory authority referenced is specifically limited to this particular transaction

In response to a question from Mr. Van Voorst as to why this loan portfolio would be attractive to purchasers if it currently operates at a loss, Mr. Davis explained that while the loan portfolio may be unprofitable to us, purchasers might have lower servicing costs due to economies of scale that would allow them to make a profit from the same portfolio.

Mr. Vaught raised a concern with the purchasing of loans in the future so that we avoid purchasing loans on which it would be difficult for us to make a profit. Mr. Davis stated that several aspects at the federal level have impacted how we do business. The consolidation or pre-payment of loans has clearly been one of the big changes in the last few years. Students are offered an opportunity to consolidate their loans and lock in a short-term rate. This practice is good for the student, but for our agency, if this were done before we have an opportunity to amortize the premium, we would take a loss.

As a plan of action, Mr. Davis noted that one approach would be to have our own consolidation plan so that if a student is going to consolidate at least our agency is the one lending the student money to consolidate. We are also evaluating how much we should be paying wholesale for a loan in the marketplace.

Chairman McNeil reminded the Commission that this is a state agency that now owns $4.2 billion dollars worth of student loans, 72% of which were loans made to students in other states. As stated in the past we do not feel we should be in the business of lending money to students in Arizona to go to school in Pennsylvania as an example. In the past this was done to obtain volume and if you are seeking volume you do not limit the purchases to only State of Illinois loans.

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

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission approve the attached 2007 Resolution providing for the sale of certain student loans within the IDAPP portfolio for the purpose of supporting student grant programs, administered by the Commission, for which appropriations have been authorized by the Illinois General Assembly and the Governor".

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

Item 5. Payment of Federal Default Fee for 2007-2008 Academic Year

Opening this agenda item, Theresa Morgan, Chief Financial Officer, reminded the Commission that at its meeting on April 28, 2006, the Commission had been informed of a change in federal regulations that mandated a one percent default fee be charged for loans guaranteed on or after July 1, 2006, either to be assessed to the borrower or paid by non-federal funds. She indicated that the balance in the Student Loan Operating Fund was sufficient to absorb the one percent default fee on behalf of borrowers for 2006-2007. She stated that it is staff's estimate that for 2006-2007 the cost of absorbing the one percent fee on behalf of the student was approximately $10 million and for 2007-2008 it is estimated that it will be approximately $14 million, based on a total guarantee volume of $1.4 billion. She noted that factors contributing to this increase in 2007-2008 include the fact that a full year's volume will be subject to the fee in 2007-2008, while a number of loans for 2006-2007 had already been guaranteed prior to July 1, as well as increased loan limits going into effect on July 1, 2007. Ms. Morgan indicated that an analysis of the fund balance for 2007-2008 projected that the agency would once again be able to pay the default fee on behalf of borrowers and still be able to maintain an appropriate minimum cash balance.

Responding to Chairman McNeil, Ms. Morgan stated that in the event the Commission does not pay the one percent fee on behalf of the borrower, it will be charged to the student, and would amount to approximately $60 per loan guaranteed, based on an average loan of $6,000.

Chairman McNeil stated that it is his belief that as long as the agency can afford to pay the fee, it should, as a matter of public policy to try and make college more affordable for students.

Ms. Morgan stated that of the 36 guarantee agencies in the country, about one third of them are actually assessing the fee, but most of our major competitors in our geographic location are paying the fee on behalf of the borrower, or in some cases it is being absorbed by related secondary markets or lenders.

Mr. Daniels raised his concern that although we want to make education more affordable for students, on the business side of the matter the agency will be absorbing a $14 million hit at a time when it is difficult to make money. He suggested that in order for the agency to be competitive in the marketplace the fee should be paid on behalf of the student, but a closer look should be taken at ways to share some of the costs with our lender partners.

Mr. Davis agreed that this is a very dynamic issue and as the federal government moves toward making loans more affordable to students one of their approaches is to make some of the benefit come out of the borrowing industry side of the equation.

Chairman McNeil noted that last year the analysis indicated that it would hurt the agency competitively if we did not pay the default fee on behalf of the student. By approving this resolution for 2007-2008 we can at any time bring this back to the Commission to take another look and decide if it is the best decision. At this point he stated he trusts staff's analysis of the competitive picture and would support the resolution.

Ms. Dearborn **MOVED THAT** the Commission approve the payment of the mandated default fee for ISAC-guaranteed loans from the Student Loan Operating Fund (SLOF) for the 2007-2008 academic year.

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

Item 6. *College Illinois!* Investment Policy

Mr. Erford started by noting that following the conclusion of this enrollment period, it is expected that the program will have nearly $1 billion invested on behalf of program participants, and he expressed his gratitude to the Commission and previous Commission members for all that has been done on behalf of the program to allow it to near this milestone.

He then observed that the *College Illinois!* investment policy being reviewed today is a dynamic document, and proceeded to note several amendments being proposed. One significant change proposed contains language requiring program staff and the investment consultant to develop and implement a plan establishing a specific process for selecting existing and new emerging, minority-owned and women-owned investment management firms. Other new language calls for the investment consultant, the Investment Advisory Panel and the Executive Director and staff to re-evaluate the program's current asset allocation and to recommend to the Commission by June 30 of this year any suggested changes to the plan.

Other noteworthy items that have been previously discussed include a prohibition on soft-dollar trading by *College Illinois!* investment managers, and a provision enabling the Commission to engage in a securities lending program.

Mr. Daniels stated that he feels the proposed amendments establish good public policy and he observed that Mr. Vaught, Mr. Davis and the *College Illinois!* team had done an outstanding job under the leadership of Chairman McNeil in reviewing the investment policy, resulting in these important changes.

At the request of Chairman McNeil, Pat Krolak of Marquette Associates, the program's investment consultant, explained the term soft-dollar trading as referred to in the Policy. He indicated only two managers had expressed any concerns about the elimination of soft-dollar trading.

Mr. Davis indicated he met with Mr. Krolak and feels that should there be any resistance to the elimination of soft-dollar trading with the managers, this might be fortuitous in eliminating underperforming managers. He also stated that he is proud of the Commission for eliminating this practice in their policy. Mr. Vaught echoed the comments by Mr. Davis and indicated he too was pleased that this is being eliminated from the policy.

Dr. Louderback expressed her concern in the wording of the policy on page 6-4 with the term "new emerging" managers. Mr. Davis indicated that the term "new" was not intended to imply that the firm was a "start-up" firm. Mr. Vaught agreed, and clarified that he believes the intent of the language in the policy is not that the firm is new in the industry, but that it is innovative in its approach. Mr. Daniels said that he felt the term "emerging" as commonly used in the industry was sufficiently descriptive, following which Dr. Louderback asked if the word "new" could be removed from the policy.

Chairman McNeil asked for a motion to amend the policy that is contained in the agenda book.

Dr. Louderback **MOVED THAT** the word "new" which appears on the underlined portion of page 6-4 of the agenda book be removed.

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

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!* as currently revised and as amended at the meeting today and that the Commission directs all investment decisions for the program be consistent with the provisions set forth in the policy."

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

Item 7. *College Illinois!* Fiscal Year 2006 Annual Report

No action was required on this item.

Item 8. FY2007 MAP Plus Program Status Report
Approval of MAP Plus Payment Claim Deadline Dates

Introducing the agenda item, Chris Peterson, Chief Program Officer, indicated that the agency has been accepting payment requests from institutions for the MAP Plus program since early October. As a normal course of business, ISAC imposes deadline dates by which schools are to submit payment requests for each term - such as has been done for MAP and IIA. She requested the Commission approve the deadline dates for this program as printed in the agenda book on page 8.

Mr. Van Voorst **MOVED THAT** the Commission approve the proposed FY 2007 priority payment claim deadline dates for MAP Plus as shown below:

Term	Deadline Date
1st semester or quarter	April 1, 2007
2nd semester or quarter	April 1, 2007
2nd semester starting after 2/15/07	June 1, 1007
3rd quarter	June 1, 2007

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

Item 9. FY 2008 Monetary Award Program (MAP) Start-Up

Ms. Sue Kleemann, Director of Research, Planning and Policy Analysis, introduced the agenda item by noting that this item is brought before the Commission at this time each year in order to allow institutions to give an approximate MAP award in their award packages to students for next fall. She indicated that this year's formula is based on the previous year's recompute award formula with a 10 percent reduction factor. She stated that the 10 percent reduction factor is being included since the funding for MAP is uncertain and since the budget has not yet been approved. Schools have specifically requested that the Commission be conservative in the formula so that there are fewer surprises when we approach recompute in July after the budget has been adopted. Other factors to take into consideration in preparing the start-up formula were the forecasted 1-1/2 to 2 percent volume increase and the needs analysis changes at the federal level that will increase eligibility levels.

Chairman McNeil indicated that this is a starting point to give students an idea of what they can expect to receive and any good news would come in July at recompute if we receive more money from the legislature or if the legislature decides to allocate funds to MAP from the sale of assets, refinancing or reorganization. He reiterated that this does not reflect a policy of reducing MAP grants but is simply making sure that the base amount that students are informed of is a safe conservative worst-case scenario.

Mr. Vaught stated that he did not like this formula last year and does not like it again this year. He stated that it is the Commission's role to advocate for additional financial aid for students and does not feel this is a realistic message, but more of a pessimistic message.

Chairman McNeil assured the Commission that it is the goal of the Commission to advocate during the legislative session to seek more money for the program and agreed that this could be misperceived, but would rather have this conservative formula than risk the danger of having to inform a student that they were going to receive less than they had anticipated. He indicated that the Commission will strongly advocate for more funding for the program and we want to make it clear on the record that we are not sending a message to the Governor's office or legislature that we expect a reduction in funds or even level funding for next year.

Ms. Dearborn agreed that it is best for students to be told they have less money now than at recompute and after spending time with staff in the financial aid office at an institution, it is better for staff on the front line to tell students they are getting more money at recompute rather then less.

Chairman McNeil then introduced Meegan Dugan Bassett of Women Employed, who presented the following testimony.

"One of the people we talked to this year as we have done our research for students is Adella Robinson. Adella has wrestled through 25 years of challenges – single parenthood as a young widow, addictions, domestic abuse, and poverty – and she's come through determined to achieve her lifelong dream of becoming a social worker. But, on $300 a month, even Olive Harvey's $1,200 tuition would be impossible without her MAP and IIA grants.

"Adella is not alone – over 38,000 independent MAP recipients live on less than $13,000 annually. As the commission moves forward with plans to refocus the agency, and as you consider basic practice questions like what this year's start-up formula will be, I ask you to keep students like Adella in mind. Recently, Women Employed sent each of you a memo outlining priorities – updating tuition and fee figures and removing the work penalty – for any additional monies ISAC receives as a result of additional state allocations or restructuring. We encourage you to continue following your principles and the leadership of Larry Matejka, Chairman McNeil, and now Andy Davis, in examining how ISAC's everyday policies and practices can help make college more affordable for those who need it most. We are asking that you really keep these priorities and principles foremost in your mind as you make everyday decisions that will affect students."

Chairman McNeil then introduced Paul Frank of the Federation of Independent Illinois Colleges and Universities (FIICU) to present testimony on behalf of that organization.

"Chairman McNeil, Commissioners, Director Davis and staff, the Federation of Independent Illinois Colleges and Universities as you may know is an advocacy organization that represents the public policy interests of our state non-profit colleges and universities. In 2006 enrollments in our state independent colleges and universities surpassed the enrollment at Illinois public universities despite some long held conceptions about who attends private colleges. Our students come from very diverse economic backgrounds. Thanks in large part to the MAP program, students of need in Illinois are able to choose to attend the college that best fits their own individual academic needs. In fact, in 2006 over 25% of all MAP grant recipients were students at independent colleges and universities. To aid needy students even further, independent colleges annually provide more than $800 million in grants, tuition discounts and institutional need-based aid to Illinois students.

"Given the importance of MAP to our students, we are always concerned when the start-up formula contains a reduction factor or other rationing mechanisms that might impact aid dollars and diminish affordability. We recognize that the Commission is making a prudent and conservative move in case additional funding is not available to sustain current funding levels for the program for next year. When uncertainty exists, as stewards of the program, however, it is this uncertainty that causes a great concern for member institutions of our organization. The financial aid community, colleges, students and advocates alike would like to see a greater degree of predictability and rationality in our state's largest and most important financial aid program. Students and institutions alike will benefit from being able to better rely upon and plan for specific grant amounts.

"Fluctuations in state funding for MAP and therefore and in grant sizes do have an impact on students' ability to plan and pay for college. Even though you are being conservative here, there is a concern that a student might see an estimated amount for what they can get for next year and might impact their decision about what they can do in terms of their enrollment for the future. The Federation in the near future will be presenting to each of you and to the legislature some suggestions about how we can together go about achieving some stability in the program and how we can go and work together to sustain funding increases at planned and measurable levels.

"I thank you for efforts and consideration of our ideas."

Dr. Louderback **MOVED THAT** the Commission approve the formula summarized in Table 3, which is the FY 2007 recompute formula with a 10 percent reduction factor added, as the FY 2008 MAP start-up formula.

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

Item 10. Proposed Rules and Rules Amendments

No action was required on this item.

Dr. Louderback **MOVED THAT** the January 26, 2007 meeting be adjourned. Ms. Dearborn seconded the motion, which was approved unanimously. The meeting adjourned at 10:47 a.m.

Respectfully submitted,

Debora A. Calcara
Secretary to the Commission