AGENDA ITEM 2.

MINUTES OF THE JANUARY 25, 2008 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

January 25, 2008

Loyola University
Chicago, Illinois

COMMISSIONERS PRESENT:	Donald J. McNeil, Chair Sharon Alpi Warren Daniels, Jr. Dr. Mary Ann Louderback Hugh Van Voorst David Vaught Kelvin Wing
COMMISSIONERS ABSENT:	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, Director, IDAPP Steve Dorfman, First Deputy General Counsel Randy Erford, *College Illinois!* Katharine Gricevich, Special Assistant Sue Kleemann, RPPA Kim Lee, General Counsel Shoba Nandhan, Director, Budget & Finance Sam Nelson, Managing Director, Marketing & Communications Chris Peterson, Director, Program Services John Sinsheimer, CFO/Managing Director, Financial Products & Services Nancy Stephens, *College Illinois!* Joanne Tolbert, Managing Director, HRD & Business Support Claude Walker, State Relations Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Fred Ash, JPMorgan Chase Meegan Bassett, Women Employed Deb Brodzinski, Robert Morris College John Brophy, Illinois Student Association Ashley Dearborn, IBHE Amanda Fijal, Loyola University Paul Frank, FIICU Tom Kiley, Great Lakes Advisors Pat Krolak, Marquette Associates Jessie Magee, EARNEST Partners Patmon Malcom, EARNEST Partners James Owens, LSV Asset Management Nichole Pfohl, Edamerica Jennifer Pedigo, Harris Investment Management

Nicole Rogers, IBHE
Sandy Street, University of Illinois
Thomas Starshak, Starshak, Winzenburg & Company
Leigh Taylor, Robert Morris College
Eric Weems, Loyola University

Item 1. Announcements

Chairman McNeil called the January 25, 2008 meeting of the Commission to order at 9:21 a.m. and asked that a roll call be taken, which established that a quorum was present.

Chairman McNeil then thanked Mr. Phil Hale, Vice President of Public Affairs at Loyola University for hosting the meeting. On behalf of Father Garanzini, President of Loyola University and the 8,000 undergraduates, Mr. Hale thanked the Commission for the work they do on behalf of students. He also thanked the Commission for the new *College Illinois!* Capstone^{SM} loan program and stated that Loyola University is proud to be a pilot school for the new program with 30 students participating to date.

Chairman McNeil welcomed the new student Commissioner, Kelvin Wing, noting he has been appointed by the Governor's office and confirmed by the Senate. He then announced the next meeting of the Commission would be held on April 4, 2008 at the University of Illinois at Springfield.

Item 2. Minutes of the November 16, 2007 and November 26, 2007 Meetings

Ms. Louderback **MOVED THAT** the minutes of the November 16 and November 26, 2007 meetings be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Opening his report, Mr. Davis observed that it has been approximately one year since he became Executive Director and noted what a difference a year makes. A year ago, he recalled, he was greeted with some initial skepticism regarding the future of ISAC, and today he was delighted to report that the agency is alive, vital and strong, and in an excellent position to respond to events in the economy and elsewhere. In fact, he stated, based on observing recent events in the industry as it responds to the credit crisis, the agency appears to have positioned itself far better than many of its counterparts in the private sector. He thanked the Commissioners for the sound decisions they have made and the policies they have adopted, as well as the staff for their hard work and tireless efforts toward achieving the agency's mission. The changes that have been made in the agency's balance sheet, and the structural changes that have taken place, have put the agency in a position to do what many others in the industry are unable to do, and this bodes well for the students of Illinois.

Reflecting over his first year as Executive Director, Mr. Davis stated that visiting many college and university campuses and meeting the administrators and students has been one of the most enjoyable aspects of his job. When he meets the students and hears their stories he understands what it means to have a state agency that is devoted to allowing these students to reach their potential and transforming their lives through higher education.

Mr. Davis noted that the staff and Commissioners have received new ID badges that proudly display some of the agency's many accomplishments achieved in 2007, including having administered $448 million in scholarships and grants; guaranteed $1.2 billion in loans to students; having 27,000 families participating in the *College Illinois!*^{SM} Prepaid Tuition Program; and receiving 29 million hits on the College Zone web site, which he said is the most expansive collection of on-line information available on college and how to make it happen. He stated he is proud of the agency and what it has accomplished over the past year.

Chairman McNeil stated there is not enough time nor the words to describe the extraordinary job Mr. Davis, his senior staff and all the employees at ISAC have done this past year. In a time of financial crisis, staff dealt with complex transactions well above the level normally dealt with by state agencies and

they did so professionally. He stated that ultimately they saved the Illinois taxpayers tens of millions of dollars and the Commission owes them a debt of gratitude for their hard work.

Mr. Vaught voiced his agreement with the comments about the agency's accomplishments, noting that the agency not only had a win on defense in terms of saving tens of millions of dollars, but also had several wins on offense in the form of its many positive accomplishments, citing the new *College Illinois!* Capstone^{SM} loan program as just one example. These wins on offense, he observed, were a necessary element in strengthening the agency's position in being able to negotiate for additional funding, particularly for additional grant money.

Continuing, Mr. Vaught asked several questions regarding the policy benchmark for the *College Illinois!*^{SM} program as shown in a footnote to the investment performance report on page 3-10 of the Executive Director's Report. Specifically, he asked why there were two references to the Russell 2000 index, one showing an allocation of 10% and one showing an allocation of 5%. In addition, he indicated that he was distressed to see that given the revised investment policy adopted by the Commission that the policy benchmark indicates that the international equity target is still 5%, when that was to have been doubled to 10%.

Responding to Mr. Vaught, Mr. Krolak of Marquette Associates, the *College Illinois!*^{SM} program's investment consultant, explained that with regard to the Russell 2000, the allocation was 10% to the Russell 2000 index and an additional 5% to the Russell 2000 Value index, and unfortunately some of the text had been cut off in the printing of the book. With regard to the international equity allocation, Mr. Krolak confirmed that the 5% policy target on international equities has been increased to 10%. However, the effective date for the change in the benchmark was January 1, 2008, so the change was not yet shown in the footnote to the report in the book, which was a presentation as of December 31, 2007. In anticipation of this change, however, additional funds have already been allocated to the international equity manager and as of December 31, the actual allocation to international equities was already at 9.3%.

Mr. Vaught expressed his concern to Chairman McNeil and Executive Director Davis that policy changes are being implemented too slowly, and said that he feels it is time to have another committee on the investment policy for the *College Illinois!*^{SM} program. He stated that it is his expectation that when the Commission establishes a change in asset allocation, the policy benchmark should immediately reflect that change. Mr. Davis acknowledged Mr. Vaught's concern.

Mr. Daniels commented that what Mr. Davis and staff have achieved is quite extraordinary, particularly when compared to private sector entities. He stated that for a public entity to have the ability to redefine its business and successfully make critical financial decisions during such a crisis in the credit markets is to be commended.

Item 4. Selection of *College Illinois!*^{SM} Prepaid Tuition Program Investment Managers

Mr. Erford opened the agenda item by noting that an RFP was recently issued for investment managers for the large cap value mandate as a result of the upcoming expiration of the contracts for the current managers. He indicated that 23 firms bid on the RFP. He stated that staff is recommending four firms for the Commission's approval including EARNEST Partners, a large minority-owned firm based in Atlanta; and also LSV Asset Management, Great Lakes Advisors, and Harris Investment Management, all three of which are based in Chicago. He indicated that should the Commission approve the recommendations, the portfolio will have nearly 40% of its assets with minority- or women-owned investment managers or Illinois-based investment managers.

Chairman McNeil then introduced Patmon Malcom and Jessie Magee from EARNEST Partners, Jennifer Pedigo from Harris Investment Management, James Owens from LSV Asset Management and Thomas Kiley from Great Lakes Advisors.

Responding to Mr. Daniels, Mr. Erford stated that each firm would have an approximate allocation of about $30 million, for a total of $120 million for this mandate.

Mr. Daniels indicated that he was pleased to have three Illinois-based firms, but would like to see more MBE firms that have an Illinois presence. He understands the constraints involved in the hiring process and commended staff for a job well done.

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

> **"BE IT RESOLVED** that the Commission authorizes the Executive Director to negotiate and enter into contractual agreements for the *College Illinois!*SM Prepaid Tuition Program with Great Lakes Advisors, Harris Investments, EARNEST Partners, and LSV Asset Management to serve as investment managers for the large cap value equity portfolio."

Ms. Alpi seconded the motion, which was approved 5-0, with Mr. Vaught and Mr. Daniels voting present, in order to avoid any appearance of a conflict of interest or the potential for a conflict of interest.

Item 5. *College Illinois!*SM Fiscal Year 2007 Annual Report

Mr. Erford introduced the agenda item by indicating that State statute requires that the Commission prepare the annual report for release by March 1, which is why this is being brought to the Commission at this time. He noted that as of June 30, 2007, the date of the report, the program had reduced its actuarial deficit by roughly 40%, or $62 million, over the previous year and had improved its funded ratio to 93% from 87% the prior year. He also noted that due to a strong cash flow, the program has enough funding to cover all expected benefits through the year 2023 without having to sell any additional contracts beyond June 30, 2007.

Item 6. Supplemental Sale of Student Loan Portfolio

Opening the agenda item, Mr. Sinsheimer explained that since concluding the earlier portfolio sale of loans to Sallie Mae, ISAC has made an additional $25.6 million of subsequent loans to borrowers whose loans were sold in the Sallie Mae transaction. He stated that ISAC and Sallie Mae do not want these students to be faced with loan servicing by multiple lenders so ISAC agreed to sell these $25.6 million in what are known as serial loans to Sallie Mae for a 1% premium. He noted that this sale concluded on December 27, 2007. He indicated that staff is seeking approval from the Commission for this sale, with the proceeds to be reinvested in loans to Illinois students.

Dr. Louderback questioned the fact that Mr. Sinsheimer indicated the sale was concluded in December but is now being brought to the Commission for approval. Mr. Davis clarified that staff is actually seeking ratification from the Commission rather than approval. Ms. Lee, the agency's General Counsel, stated that at the January 2007 meeting the Commission approved the initial sale to Sallie Mae under a resolution which included language allowing for ancillary transactions and execution of additional documents, and that that is the basis under which staff entered into the $25.6 million sale to Sallie Mae in December 2007.

Dr. Louderback suggested that it would be more appropriate that the resolution be amended to ask for ratification rather than authorization. Ms. Lee concurred.

Mr. Daniels congratulated staff for being able to receive a premium on this sale considering the current difficult state of the market for loan sales, with severely depressed demand. Responding to an inquiry from Mr. Vaught, Mr. Sinsheimer indicated that the 1% premium equals $250,000 on this sale to Sallie Mae.

Chairman McNeil asked for a motion to approve the following amended resolution:

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission ratify the execution and delivery by the Executive Director of the Supplemental Loan Sale Agreement dated as of December 27, 2007 with SLM Education Loan Corp., a corporation organized under the laws of the State of Delaware and SLM Education Credit Finance Corporation, a corporation organized under the laws of the State of Delaware, providing for the sale of certain serial student loans from the IDAPP portfolio as contemplated by the January 2007 Sale and the January 2007 Resolution."

Mr. Daniels **MOVED THAT** the Commission approve the amended resolution. Mr. Van Voorst seconded the motion, which was approved unanimously.

Item 7. Notice of Execution and Delivery of Contracts Exceeding $1 Million

Ms. Lee stated that as a result of a resolution adopted by the Commission at its June 2007 meeting changing the signature authority for executing contracts, staff is required to bring notice to the Commission of any contracts up to $5 million that are executed by staff or the Chairman of the Commission. Ms. Lee indicated that today notice is being brought to the Commission of two contracts that were executed which meet the criteria; specifically, a contract with InTuition Systems, Inc. for records administration and consulting services for *College Illinois!*SM in the amount of $1.15 million was obtained through bidding, and also a contract with Pioneer Credit Recovery for collection services for ISAC's Business and Financial Services division, in the amount of $1.9 million, also was procured through bidding.

Responding to an inquiry from Mr. Vaught, Mr. Erford indicated that the $1.15 million contract with Intuition Systems, Inc. is for record keeping and customer service assistance to the *College Illinois!*SM Prepaid Tuition Program. Mr. Erford stated that Intuition Systems, Inc. has been with the program since inception as a result of the bidding process.

Ms. Lee clarified that the contract for which the notice is provided in the agenda book is the result of a renewal of a prior contract that was executed under a previous procurement. Since this is the last permissible renewal, there is currently a new RFP in process for these services in the future, about which additional information will be supplied to the Commission at a later date.

Mr. Vaught expressed his concern that more information be provided about the procurement process when giving the Commission notice of these contracts. He also wanted to make sure that the Commission communicates clearly when bidding out contracts that it is open to new bidders and new alternatives. Mr. Davis agreed, and indicated that he felt the responses received as a result of several recent RFPs was indicative that the word was out as to ISAC's receptivity to new bidders.

Item 8. Amendment of Signature Authority Resolution

Ms. Lee opened the agenda item noting that this item contains a proposed amendment to the Signature Authority Resolution adopted by the Commission last June, seeking clarification from the

Commission as to how the signature authority applies with respect to the sale and purchase of loans in the ordinary course of business.

Mr. Sinsheimer stated that in order to continue to be more Illinois-centric, staff has been reviewing past contracts in an attempt to shut down out-of-state loan origination channels. An example of this would be the termination of the Washington University in St. Louis school as lender agreement in Item 15 of this morning's agenda. In connection with these efforts, he explained, it was anticipated that there would be at least three mini-sales of loans over the next few months. Our goal is to liquidate these portfolios created under school as lender programs as we fulfill the remaining obligations under these agreements with out-of-state entities prior to their termination, and to reinvest the proceeds from these sales into loans to Illinois students.

Mr. Sinsheimer also indicated that there is a possibility in the future that the Commission may be approached to buy portfolios of loans to Illinois students and to the extent that funds are available and the financial market will allow, the Commission is interested in buying Illinois paper. He stated that staff is seeking approval to act within specified limits to take advantage of these opportunities as they become available without requiring the Commission to hold a special meeting to seek approval.

Responding to Mr. Vaught's concern about Illinois boundaries and the number of Illinois residents that attend school nearby in neighboring states, Mr. Sinsheimer stated that staff defines "Illinois nexus" to mean Illinois students going to college, regardless of where they go, and also to include any student attending an Illinois college or university. He stated that inevitably there will be some Illinois paper that will be sold within a portfolio, but that will be avoided to the extent possible.

Responding to Dr. Louderback, Ms. Lee clarified that under the proposed amendment, the Chairman or the Executive Director remain the only individuals authorized to execute the contracts for this size of transaction. She stated that the primary distinction is the category of agreements; staff is asking for delegation of authority to the Chairman and Executive Director to execute agreements without the necessity of seeking prior approval for the specific loan purchase and/or sale contract, within certain preset limits: an amount not to exceed 10% of the loan portfolio in one single transaction, and not more than 15% in a full year.

Dr. Louderback inquired if prior approval is needed for the three sales mentioned by Mr. Sinsheimer. Mr. Sinsheimer stated that the total of the three sales is estimated to be approximately $125 million, which is below the threshold of 15% of the portfolio, so no approval will be needed. Mr. Davis stated that in proposing this amendment, staff is trying to seek a balance between convenience and an appropriate level of oversight. If the Commission feels comfortable with limits different than those proposed, Mr. Davis continued, staff is certainly comfortable with that.

Mr. Vaught stated that he does not feel the Commission is abrogating their responsibility by approving such a delegation. He feels with the pace at which the market moves it is important for staff to be able to act immediately and the past sales have proven the Commission can have confidence in the ability of the Executive Director and staff to make these decisions.

Mr. Wing expressed his faith in the Executive Director to act in a manner that will protect Illinois students. Mr. Davis stated that there is a possibility in the future where Illinois students or out-of-state students going to Illinois schools might encounter difficulties with their existing lenders as has happened very recently. Mr. Davis reminded the Commission that we not only make loan purchases that make financial sense, but also to protect students and support our policy of making college affordable for Illinois students.

Responding to Ms. Alpi, Mr. Davis stated that the limits proposed in the amended policy were chosen after taking into account events that staff anticipates will be within the normal course of business.

Mr. Sinsheimer reminded the Commission of the requirement that in accordance with the 2002 resolution, any proceeds received from the selling of loans must be kept within the 2002 trust and reinvested in other loans, and that there are other controls on the use of the money received from loan sales.

Dr. Louderback expressed her concern on this policy being changed to 10% at the time staff is also in the process of three portfolio sales, which will fall within the 10% threshold. Mr. Sinsheimer reminded her that this new policy would allow staff to go up to 15% of the loan portfolio in a 12-month period, which includes the purchase of loans as well as selling of loans.

Mr. Davis reiterated that the three sales currently contemplated were chosen due to the geography of the loans and also due to the fact that they were originated under expensive contracts for the agency. These contracts have the agency paying large premiums to institutions for several years, which due to the recent changes in federal laws are no longer economically wise for the agency.

Responding to Dr. Louderback's question if the Commission is again just confirming what has already been done, Mr. Davis stated no, the anticipated transactions have been negotiated or are in the process of being negotiated, but none of the transactions has been completed. If the Commission votes against approval, the sales will not take place. However, he reiterated, staff is pursuing these transactions because they believe the transaction and its terms are financially beneficial to the agency and at the same time provide adequate protections to Illinois students.

Chairman McNeil reminded the Commissioners that they will be voting on the change in policy on the signature authority in this item and will address the Washington University in St. Louis loan sale separately in item 15.

Mr. Daniels indicated that while this was a healthy conversation for the Commission to be having, he felt that a delegation of authority such as this was not uncommon, particularly for agencies dealing with rapidly moving markets.

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

"BE IT RESOLVED that, in accordance with ISAC's internal rules, 2 Ill. Admin. Code 5375.220(e), the Commissioners hereby amend the Signature Authority Resolution adopted in June 2007 by adding the provisions below:

Agreements Relating to the Sale and Purchase of Loans

The Commission hereby delegates authority to the Chairman or the Executive Director to execute and deliver any and all agreements, instruments, certificates and other documents and do all things necessary to effectuate loan purchases and sales without prior approval by the Commission ***only if*** the principal amount of the loans sold or purchased in any single transaction does not exceed 10% of the value of the outstanding principal amount of the Commission's entire loan portfolio on the transaction date, not to exceed 15% of the value of the outstanding principal amount of the Commission's entire loan portfolio in any given twelve-month period.

The Commission shall receive notice of the execution and delivery of any agreements providing for the purchase or sale of loans exceeding $25,000,000 in principal amount (exclusive of premium and fees) at the Commission meeting immediately succeeding any such transaction."

Mr. Van Voorst seconded the motion. Chairman McNeil then asked for a roll call vote by the Secretary, with the motion passing by a 6-0 vote, with Dr. Louderback voting present. Chairman McNeil stated the motion was approved.

Item 9. Debt Restructuring

Mr. Sinsheimer began this information item, indicating that his comments would deal with two related topics: first, an update on the credit markets, and second, the steps that have been taken by staff in the two months since the last Commission meeting to appropriately deal with the ongoing credit crisis in world markets. The disruptions in the world credit market, he observed, had not only continued, but in fact had worsened to unprecedented levels he had not seen previously in his 30 years in finance. While the agency has continued to be able to place its outstanding debt so far, at times the only purchaser has been the broker-dealer, and the interest rates were at a level where our cost of funds equaled the yield on our student loan portfolio, without generating any additional revenue to cover our operating costs. As a result of recent cuts in interest rates by the Federal Reserve, rates have dropped significantly and are now back down to where the agency has a positive yield spread to the portfolio. Having said that, Mr. Sinsheimer noted, rates are still almost 150 basis points, or 1.5 percent, higher than what we were paying a year ago.

In response to this situation, Mr. Sinsheimer continued, in December staff had engaged two Chicago-based financial advisory firms, William Blair & Company and Scott Balice Strategies, to review and advise the agency on the recommended types of financial instruments that could best be used to refinance the outstanding auction rate notes currently encountering credit market difficulties. After studying the market, the firms recommended two different types of instruments, variable rate demand notes (VRDNs) or floating rate notes (FRNs), which differ in the manner in which they set interest rates, but both of which enjoy far more liquid markets, and would have yielded significant interest rate savings to the agency over the past few months.

Continuing, Mr. Sinsheimer added that William Blair & Company and Scott Balice Strategies had also been asked to assist the agency in running a Request for Proposals (RFP) to select a lead underwriter to execute a financing using one of the recommended financing instruments. As a result of this process, Citigroup had been selected to serve as lead underwriter for a prospective debt refinancing of $900 million to $1 billion expected to take place in late February or March.

At its November 2007 meeting, Mr. Sinsheimer reminded the Commission, they had approved a temporary waiver of the net loan rate restriction on the auction rate notes issued under the 2002 Resolution, and had delegated to the Chairman and Executive Director the authority to extend the waiver further. Earlier in the week, he noted, extensions of the waiver to be effective until March 31, 2008, had been successfully negotiated with both Fitch and Moody's rating agencies.

Mr. Vaught asked if the agency was going to be refinancing into a single type of debt instrument, and whether that might leave it equally vulnerable in the future to a similar type of disruption in a different sector of the market. Mr. Sinsheimer explained that while that might be the case for the short-term, as market conditions presented themselves, it was his intention to diversify into multiple funding sources that accessed different parts of the available capital pool so that the agency did not find itself in such a position again. Mr. Daniels expressed his agreement with Mr. Vaught's concern, and said that

while issuers were in somewhat uncharted waters right now, he felt that staff and advisors were moving the agency in an appropriate manner, and complimented the financing team on their efforts.

Item 10. Partial Payment of Federal Default Fee For 2008-2009 Academic Year

Mr. Nelson stated that an item addressing the federal default fee typically comes before the Commission at this time each year, but as a result of changes in federal legislation, this was addressed on two separate occasions last year. He noted that a brief history had been provided in the agenda book of actions taken by the Commission in recent years to help reduce the cost of borrowing for Illinois students and parents. He stated that the staff has determined that the Commission is in an appropriate financial position to continue to pay 50% of the federal default fee on behalf of the student. He noted that when IDAPP acts as lender and pays the remaining 50%, the student is paying no default fee.

Responding to Mr. Wing, Mr. Nelson stated that a number of lenders, including several larger lenders, have agreed to pay the remaining 50% on behalf of the student should ISAC act as guarantor.

Dr. Louderback **MOVED THAT** the Commission approve the following resolution:

> **"BE IT RESOLVED** that for any new loans guaranteed by the Illinois Student Assistance Commission (ISAC) for the 2008-2009 academic year, the Commission approves the payment of 50% of the Federal Default Fee from the Student Loan Operating Fund (SLOF)".

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

Item 11. Revised Mission Statement

Mr. Davis stated that the past mission statement was too broad in describing the role of the Commission. It is staff's intent to have a statement that clearly defines in one brief statement the goal of the Commission and more clearly reflects our renewed focus here in Illinois. Quite simply, "Making College Affordable For Illinois Students" is the new mission statement.

Item 12. FY 2009 Monetary Award Program (MAP) Start-Up

Ms. Kleemann introduced the agenda item, noting that the recommendation for the MAP start-up formula, as it is each year, is being brought to the Commission without yet knowing what the appropriation for the program will be. Setting the MAP start-up formula enables financial aid administrators to announce awards well before the school year begins, and helps students and families make enrollment decisions. She noted that the formula being recommended is the existing formula being used for the current academic year. This conservative approach, she explained, is based on modest expectations for funding levels, and is anticipated to cover approximately the same number of students as last year. She reminded the Commission that once the appropriation has been finalized, the Commission will be asked to approve a recompute formula, and then awards will be recalculated.

Ms. Kleemann explained that schools will occasionally package their initial announcements with a small reduction factor in MAP in order to avoid any negative surprises. Mr. Davis agreed with Chairman McNeil that he does not expect the Commission will receive a cut in appropriations this year, which will be a significant victory considering the current state of the economy.

Chairman McNeil then recognized Ms. Meegan Dugan Bassett, Senior Policy Associate with Woman Employed, a non-profit advocacy organization that works to improve the economic status of women and remove barriers to economic equity.

Ms. Bassett expressed Women Employed's view on the proposed start-up formula and suggested that the Commission integrate a 2% reduction factor into the formula, which will help to extend the award period. It is Women Employed's view that students who file late and are therefore negatively impacted when award announcements are cut off tend to be extremely low-income students. Integrating a reduction factor into each award will extend the funds and awards will be processed longer into the year, and this will reach more of the most needy students.

Chairman McNeil then recognized Mr. Paul Frank of the Federation of Independent Illinois Colleges and Universities (FIICU). Mr. Frank stated that FIICU supports the recommended start-up formula for MAP. He mentioned that FIICU is seeking support to have the legislation changed to increase the maximum award for MAP by $500 per year for each of the next three fiscal years. He stated that increasing the maximum award is not just making college affordable, but also making college choice affordable for Illinois students. Responding to Mr. Vaught, Mr. Frank stated that to fully fund the $500 maximum award increase would cost about $40 million for each of the three yearly increases.

Chairman McNeil recognized Mr. John Brophy, representing the Illinois Student Association. Mr. Brophy stated that his organization continues to advocate full funding of the MAP grant for all eligible students. He stated that roughly 30,000 students who are eligible for the MAP grant each year for the last five or six years have not received a MAP grant due to lack of funding.

Ms. Alpi **MOVED THAT** the Commission approve the formula summarized in Table 2 as the FY 2009 MAP start-up formula.

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

Item 13. Adopted Rules

Mr. Breyer gave a brief overview of the status of the rules for the Veterans' Home Nurse Loan Repayment Program, which have now been through the entire rulemaking process and are being brought before the Commission for final approval and adoption. Once approved, these permanent rules will take the place of the emergency rules previously adopted for a maximum of 150 days.

Dr. Louderback **MOVED THAT** the Commission approve the following resolution:

> **"BE IT RESOLVED** that the Commission approves and adopts the rules for the Veterans' Home Nurse Loan Repayment Program so they can be effective prior to expiration of the emergency rules."

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

Item 14. Proposed Rules Amendments

Mr. Breyer gave a brief overview of the changes that are being made in the proposed rules amendments being brought before the Commission. These amendments are being proposed, he explained, as part of the annual omnibus rules review process, in which the staff, in consultation with the financial aid community, examines existing rules for all of the agency's programs. This year, he noted, amendments were being proposed to nine different parts, with many of the changes being more technical than substantive in nature.

Mr. Vaught referred to the *College Illinois!*SM section of the proposed rules, noting that for the last two years there has been discussion about including in the rules the option of offering contracts smaller than one semester. He stated that there is a problem with *College Illinois!*SM in that the lower three income quintiles may not be able to afford a full semester. He said that if the program is to sell more than 4,500 contracts he does not understand why this issue is not being addressed in the rules now.

Mr. Davis replied to Mr. Vaught that this issue will be examined and addressed by the next meeting of the Commission.

Mr. Vaught stated that his input was not requested on this issue for this meeting until he received his agenda book. He also has given his input for the past two years to have the *College Illinois!*SM rules changed without seeing the change happen.

Item 15. Termination of Washington University School Lender Agreement

Opening the agenda item, Mr. Sinsheimer stated that of the 13 school-as-lender contracts the agency has entered into over the past decade, the contract with Washington University in St. Louis is one of the most expensive for the agency, which is the reason we are seeking to terminate the contract.

Mr. Sinsheimer gave the Commission an overview of the contract's obligations, and a brief explanation of why this arrangement was very expensive for ISAC. As a result, he noted, the agency entered into negotiations with the school to terminate the contract. Under the terms of the proposed agreement, MOHELA, ISAC's Missouri counterpart, would purchase a portfolio of student loans from ISAC as well as assume ISAC's future obligations to fund, purchase and service the loans made to students at Washington University in St. Louis.

Continuing, Mr. Sinsheimer stated that the sale is consistent on an overall basis with ISAC's renewed focus on Illinois students and schools, but since Washington University in St. Louis is a major institution in a metropolitan area bordering Illinois, unfortunately, approximately 40% of the portfolio is comprised of loans to Illinois students. While we would like to retain the Illinois loans, if the Illinois loans were removed from the portfolio being sold, it would cost the agency around $250,000 in fees. In pursuing these negotiations, the agency is having to balance policy considerations with financial realities, and staff feels the proposed agreement is the best deal that can be negotiated financially and ends an unprofitable contract while minimizing the costs of terminating the contract early.

Responding to Chairman McNeil's inquiry as to the impact on students, Mr. Sinsheimer stated that students will be protected under the terms of our contract, and that all borrower benefits they currently are receiving will be continued by MOHELA.

Mr. Davis explained that as other school-as-lender contracts mature, if the school is out-of-state, ISAC will seek to terminate the agreement, and if the school is in Illinois, ISAC will seek to continue the agreement, but will attempt to renegotiate the agreement under more favorable terms appropriate to current market conditions.

Mr. Vaught expressed his concern about the number of loans in the portfolio that have Illinois students as borrower. Mr. Davis acknowledged Mr. Vaught's concern and reassured him that students will receive the same benefits from MOHELA as they experience now and what this contract is costing the agency could go directly to Illinois institutions rather than an out-of-state institution.

Responding to Mr. Daniels, Mr. Sinsheimer stated that the funds to terminate the contract with Washington University in St. Louis would be coming directly from the sale of the underlying notes to MOHELA.

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

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission authorizes the Executive Director or the Chairman to execute and deliver any and all agreements, instruments and certificates and such other documents necessary to terminate the School Lender Agreement with Washington University in St. Louis and to consummate the Transaction."

Mr. Van Voorst seconded the motion, which was approved unanimously.

Dr. Louderback **MOVED THAT** the January 25, 2008 meeting of the Commission be adjourned. Mr. Vaught seconded the motion, which was approved unanimously and the meeting was adjourned at 11:40 a.m.

Respectfully submitted,

Debora A. Calcara
Secretary to the Commission