

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

September 19, 2008

Liberty Middle School
Edwardsville, Illinois

COMMISSIONERS PRESENT:

Donald J. McNeil, Chair
Sharon Alpi
Dr. Lynda Andre
Warren Daniels, Jr.
Sean Dauber
Dr. Mary Ann Louderback
Hugh Van Voorst
Kelvin Wing

COMMISSIONERS ABSENT:

David Vaught

STAFF PRESENT:

Andrew Davis, Executive Director
Frank Bello, *College Illinois!*SM Chief Investment Office
Esther J. Cepeda, Chief Marketing & Communications Officer
Steve Dorfman, Deputy General Counsel
Kim Lee, General Counsel
John Sinsheimer, Chief Financial Officer
Joanne Tolbert, Chief of Staff and Administration
Debora Calcara, Commission Secretary

CLOSED SESSION

Mr. Davis stated that the closed session today is being held to bring the Commission up to date on the proposed College Illinois! 529 Prepaid Tuition Program direct investment in Shorebank that was brought to the Commission at its August meeting.

Ms. Lee has assured the Commission that staff is aware of the need for complete due diligence with respect to the Shorebank investment and she has prepared a confidential attorney/client work product memorandum summarizing the transaction to-date. Ms. Lee stated that due to the high-level of confidential proprietary information on the bank that is being reviewed, Mr. Davis and College Illinois! 529 Prepaid Tuition Program's legal advisors have signed a confidentiality agreement with the bank. Ms. Lee then requested that each of the Commission members also sign a confidential certification addressed to her as legal counsel.

Ms. Lee then asked each Commission member to sign a no-conflict of interest certification. She indicated that due to the nature of the investment she is requesting affirmation from each member that neither they nor any member of their family hold any ownership interest in Shorebank and that they will receive no direct or in-direct pecuniary benefit from this transaction.

Continuing, Ms. Lee also indicated she is providing the Commission members with the draft stock purchase agreement which is the operative agreement under which College Illinois! 529 Prepaid Tuition Program will purchase the shares of Shorebank. Also, Ms. Lee stated that she is providing the Commission with the due diligence request which was sent to Shorebank and the summary of the responses to the request to date. She stated that College Illinois! 529 Prepaid Tuition Program was represented by the legal counsel of Dykema Gossett LLP who are working with Shorebank to complete the due diligence report.

Ms. Lee informed the Commission that staff is still in negotiation with Shorebank and have not yet signed the stock purchase agreement but bring this to the Commission only as an update.

Responding to Dr. Louderback, Ms. Lee explained that they will be purchasing more voting shares but at no point can College Illinois! 529 Prepaid Tuition Program own more than 9.9 percent of the voting shares because then they will be deemed a bank holding company. Mr. Davis confirmed that the purchase of preferred stock remains unchanged as a proportion. Ms. Lee also clarified for Dr. Louderback that the investment is being made in the Shorebank Corporation, and that the bank itself is an asset of the Shorebank Corporation.

Ms. Alpi inquired if the “nones” listed on the due diligence report dated August 8, 2008 have been resolved to date. Ms. Lee referred the Commission to the memorandum addressed to staff from Dykema Gossett which includes the itemization of what was requested and what has been received to date and any additional information they are seeking. Ms. Alpi expressed her dissatisfaction on the number of “nones” on the due diligence report and asked if staff is satisfied. Dr. Louderback agreed that she too is not satisfied with the report. Ms. Lee indicated that the due diligence is still in process and due to the timing of the meeting today, staff was bringing this to the Commission only as an update and are not yet at a point where a stock purchase agreement can be signed and that a final due diligence report is still ongoing.

Mr. Davis assured the Commission that before the close of the proposed investment, every matter that is open that is of any level of materiality under a reasonable construction will be answered or staff will not sign the purchase agreement.

Responding to Ms. Alpi, Ms. Lee indicated that the “nones” listed on the report either mean that material was not available or the request was not applicable. Ms. Lee assured the Commission that the requests being made to the bank are very detailed and extensive and staff and counsel will continue to go back to the bank until they are comfortable with the answers that have been received. Ms. Alpi thanked her and appreciated receiving the document.

Mr. Davis stated that he is satisfied with the due diligence process to date and reminded the Commission that the process is ongoing and until they are satisfied, the due diligence process will continue.

Mr. Van Voorst inquired as to the price we will be paying per share. Mr. Davis stated that the price will be book value at \$7,500 per share and stated that the bank has had two profitable quarters since negotiations started.

Ms. Lee responded to Dr. Louderback stating that outside counsel was Mr. Kevin Slaughter and Mr. Raymond McGaugh from Chicago for a flat fee of \$20,000.

Ms. Alpi expressed that she feels there is a role for private equity investment for the portfolio and because of what private equity is and the risk inherent in it, she feels it absolutely demands the kind of

due diligence that is being done and commends staff on what they are doing. She feels that the market suggests there is no liquidity anywhere in the market, she stated that harvest and exit strategies for private equity companies are a major part of what needs to be considered when looking into the investment of private equity and asked staff if there has been discussions on these issues for the investment they are considering.

Mr. Bello stated that shareholder liquidity provisions have been discussed. One option includes a possible over-the-counter listing, another is where the bank will buy back shares from existing shareholders, and another option is that they can declare dividends. Mr. Davis shared Ms. Alpi's concern and stated that other shareholders have concerns about liquidity also. He stated that even if in three years the bank goes public, College Illinois! 529 Prepaid Tuition Program may want to remain a shareholder if the organization is run well and is growing. He stated that the actuarial projections are that the College Illinois! 529 Prepaid Tuition Program does not need cash until 2020 as there is more cash coming into the Program than it is paying out each year for tuition.

Ms. Alpi feels that while she believes there is a role for private equity in the portfolio, she would like staff to consider other types of private equity. Mr. Bello shared with the Commission an opportunity brought to them from Goldman Sachs.

Ms. Alpi again stressed to staff that they demand that all their concerns be addressed before moving forward in the transaction brought before them today.

Responding to Mr. Wing, Ms. Lee stated that she strongly encourages the Commission not to have a voting seat on the board of Shorebank but may have an observation seat in the room during meetings. She stated that due to liability issues it is not recommended that the Commission have a voting seat on any bank.

Seeing no further discussions needed in closed session, Chairman McNeil asked for a motion to return to open session. Dr. Louderback **SO MOVED**, Mr. Wing seconded the motion, which was approved unanimously. Open session resumed at 12:50 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Debora A. Calcara". The signature is written in black ink on a light-colored background.

Debora A. Calcara
Secretary to the Commission