AGENDA ITEM 2.

MINUTES OF THE JUNE 27, 2008 AND AUGUST 6, 2008 MEETINGS

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

June 27, 2008
Carl Sandburg College
Galesburg, Illinois

COMMISSIONERS PRESENT:	Donald J. McNeil, Chair Sharon Alpi Warren Daniels, Jr. Sean Dauber Dr. Mary Ann Louderback Hugh Van Voorst Kelvin Wing
COMMISSIONERS ABSENT:	Dr. Lynda Andre
COMMISSIONERS PRESENT VIA TELEPHONE:	David Vaught
STAFF PRESENT:	Andrew Davis, Executive Director Frank Bello, *College Illinois!*SM Chief Investment Officer Frank Berauer, IDAPP Steve DiBenedetto, IDAPP Tom Breyer, Senior Policy Advisor Steve Dorfman, First Deputy General Counsel Katharine Gricevich, Special Assistant Sue Kleemann, Director, RPPA Kim Lee, General Counsel Shoba Nandhan, Comptroller Chris Peterson, Director, Program Services and Compliance Darla Puckel, *College Illinois!*SM Mary Roberts, *College Illinois!*SM John Sinsheimer, Chief Financial Officer Nancy Stephens, *College Illinois!*SM Joanne Tolbert, Managing Director, HRD & Business Support Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Meegan Bassett, Women Employed Jo Branson, Spoon River College Lisa Hanson, Carl Sandburg College Teresa Jackson, Knox College Pat Krolak, Marquette Associates Lynn Nichelson, Illinois Wesleyan University Janet Ozuna, Midstate College Dr. Thomas Schmidt, Carl Sandburg College Leigh Taylor, Robert Morris College James Van Horn, Intuition Systems

Item 1. Announcements

Chairman McNeil opened the June 27, 2008 meeting of the Commission, noting that Mr. Vaught had requested to participate in the meeting electronically because he was unable to be physically present at the meeting for reasons permitted by the Commission's policy on electronic attendance. A roll call vote was taken, which established that a quorum was physically present at the meeting site and the meeting came to order at 10:35 a.m.

Mr. Daniels **MOVED THAT** Mr. Vaught be permitted to participate in the meeting via electronic means. Ms. Alpi seconded the motion, which was approved unanimously via a roll call vote. It was then verified that Mr. Vaught was connected via telephone.

Chairman McNeil noted that this was the second visit that he and Mr. Davis have made to Carl Sandburg College and thanked Dr. Thomas Schmidt, President of Carl Sandburg College for hosting the meeting today.

Dr. Schmidt then took the opportunity to give the Commission a summary of the unique makeup of students enrolled at Carl Sandburg College. He indicated that the average student is about 30 years old; 90% of them have jobs; 85% of the students are first generation college students; and over 90% arrive at Sandburg inadequately prepared for college level coursework. Adding to the College's challenges, he continued, its community college district lost more assessed value of its tax base, 26%, during the 1980's than any other district, due to the downward reassessment of farmland. As a result, some of the funding burden had been shifted from the local taxpayers to the students, resulting in Sandburg having the highest tuition rate of any Illinois community college.

In order to allow the College to do more with less, Dr. Schmidt explained, Sandburg has worked hard at developing successful partnerships with communities and institutions within the district. As an example, he cited the College's new tuition rate guarantee program, and how its unique benefits were being extended to partnerships with district high schools, as well as Western Illinois University, allowing some families in the district to benefit from stabilized tuition rates for as long as 7 years. Among other initiatives cited, Dr. Schmidt noted that CSC is home to the State's only GED alumni program.

Dr. Schmidt further explained the College's "Phoenix sheet," which charted the plan to re-shape the institution, better allowing it to enable its constituents to get a toehold in life and preparing them for careers. Continuing, in an effort to reach out to rural students, Dr. Schmidt explained, Carl Sandburg College has created a wide area wireless network that covers its entire 3,000 square mile district. This wireless network enables 15 of the 21 public high schools in the Carl Sandburg College district to access high-speed broadband Internet. Ultimately, this allows students across the 10 county area to stay in their high school building, get their high school diploma, their two year college degree, and due to the partnership with Western Illinois University, they can get their bachelor's degree and their graduate degree, all in their home high school building via the Internet.

Dr. Schmidt then introduced Ms. Lisa Hanson, Director of Financial Aid who had asked two Carl Sandburg College students to share their experience as recipients of grants under the Commission's Monetary Award Program (MAP).

Ms. Candace Grant, a second-year associate of arts student who is hoping to transfer to a four-year college and complete her master's degree in social work, thanked the Commission for its support of MAP. She stated that her mother makes just over $30,000 per year with two children to support and without MAP and the federal Pell Grant, it would be impossible for her family to pay for her college education. Although she received a MAP grant, that will only cover 56% of her tuition and fees for the

2008-2009 academic year, and she will rely on the Pell to help pay for the remaining tuition and fees as well as her books, but that will leave nothing for housing and transportation costs. She encouraged the Commission to continue to work toward increasing aid to students such as her.

Mr. Ethan Tapscott, who just completed his freshman year at Carl Sandburg College and plans to transfer to Knox College to work toward a degree in environmental studies under the Gale Scholar Program, stated that without the financial assistance he received it would be impossible for him to be there today. He is supported by his mother whose income is only $23,000 per year and, unfortunately, the MAP he receives covers only 28% of his tuition. Without the Gale Scholarship and the Pell Grant, he observed, he would be unable to continue his studies.

Chairman McNeil thanked the students for taking their time to address the Commission and share their experience. He stated that it has been reconfirmed to him that Carl Sandburg College understands the role of the community college in making college affordable for students throughout the state of Illinois and how impressed he is with what the institution is doing to reach out to the community.

Chairman McNeil noted for the record that Mr. Van Voorst had joined the meeting. He then stated that the next meeting of the Commission is to be held on September 19, 2008 at a location yet to be determined. He introduced and welcomed Mr. Sean Dauber, Vice President of Marketing and New Business Development for The Horton Group in Orland Park, who has been appointed by the Governor to fill a vacant position on the Commission.

Item 2. Minutes of the April 4, 2008 and May 20, 2008 Meetings

Dr. Louderback **MOVED THAT** the minutes of the April 4, 2008 and May 20, 2008 meetings be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Davis opened his report by thanking the students for sharing with the Commission their educational experiences and Dr. Schmidt for sharing what Carl Sandburg College is doing for the community. He stressed that it is refreshing to hear about an organization that sees a problem and, rather than just talking about what needs to be done, is taking action to solve it. He knows every school is short on resources and needs additional support and applauded Carl Sandburg College, under the leadership of Dr. Schmidt, for addressing the issues now and working towards a solution.

Continuing, Mr. Davis briefed the Commission on the Department of Education's new liquidity programs to address the credit crisis, designed to provide resources for the upcoming academic year. He also indicated that the agency's major source of funding, Citigroup, has not yet made a commitment to reaffirm the line of credit that is needed to finance students for this next academic year. He stated that Mr. Sinsheimer will be addressing this issue with the Commission later in closed session.

Mr. Vaught suggested that he, Mr. Davis, and Chairman McNeil have a meeting with the Board of Higher Education to discuss a strategy for advancing Senate Bill 1981, which would provide incentives to employers to match employee contributions to *College Illinois!*. Mr. Davis indicated that he would be happy to have such a meeting, and to support this legislation if the Commission made a policy decision to do so. Chairman McNeil stated his belief that the bill is consistent with the agency's goal of making college affordable in Illinois.

<u>Item 4. *College Illinois!*SM Prepaid Tuition Program 2007-2008 Enrollment Period Marketing Report</u>

Introducing the agenda item, Ms. Nancy Stephens, Associate Director, said she was pleased to announce that for the first time in several years, contract sales for this past enrollment period increased, by 10% over the previous year. Ms. Stephens recognized Darla Puckel, Operations Manager, Mitsy Mellor, Customer Service Specialist, Tonya Polk, Sales and Marketing Manager, Mary Roberts, Director of Institutional Sales and Marketing and former Director Randy Erford, for their hard work, and the team efforts of the external marketing agent, Celtic, Inc. and the website designer and administrator, Ascedia. She stated that the new creative campaign designed by Romani Bros., working together with Celtic, Inc. had a new edgy advertising approach. She then provided the Commission with a video sample of the advertising campaign used during the past enrollment period. Ms. Stephens then highlighted some of the new sales initiatives, which were explained in more detail in the written report provided to the Commission. Ms. Stephens then introduced Ms. Mary Roberts, Director of Institutional Sales and Marketing. Ms. Roberts provided the Commission with personal stories of some contract purchasers she met while making presentations at the State of Illinois Benefit Fairs for the employees of the Department of Corrections, promoting the new state employee payroll deduction initiative. She reported that there had been almost 3,600 attendees at these fairs, yielding 156 contract sales. Ms. Roberts was encouraged by the response she received from the State of Illinois employees and with the increase in sales for the enrollment period.

Chairman McNeil thanked Ms. Stephens and Ms. Roberts for their presentations and also thanked the staff for their hard work.

Responding to an inquiry from Ms. Alpi, Ms. Stephens stated that with additional resources the program could do such things as being more active within the schools by having an increased presence at parent-teacher conferences and PTA meetings, as well as being able to work more with employers. Mr. Davis stated that it has been a year of transition and with the addition of a new Chief Marketing and Communications Officer to focus 100 percent of the time on marketing our products and services, we should be able to do a number of exciting things to build upon our recent success. Mr. Davis said that he would anticipate that we might very well focus on efforts at opposite ends of the spectrum, both putting additional resources into electronic web-based marketing, as well as providing additional opportunities for purchasers to have in-person one-on-one contact to close a transaction that is a major investment for most people.

Dr. Louderback stated that rather than focusing on trying to compete with Bright Start, which has far greater resources, we should be focusing on all that we have to offer as a prepaid tuition program.

Mr. Daniels stated that given the state of the economy, for the *College Illinois!* program to see a 10% increase in sales is astounding, and Mr. Davis and his staff should be commended for their efforts, and he feels the program is moving in the right direction. Mr. Davis gave credit to the staff for their hard work in changing the downward sales trend and expressed that he is pleased with the work staff has done, but there is a long way to go and a lot of territory to cover.

<u>Item 5. *College Illinois!*SM Prepaid Tuition Program Records Administrator Selection</u>

Ms. Kim Barker Lee, General Counsel, stated that a Request For Proposals (RFP) had been issued for a provider of records administration and call center services for the *College Illinois!* prepaid tuition program due to the expiration of the contract with the current vendor, Intuition Systems. She noted that the agency had reached out to a wide spectrum of potential bidders, and that three bids had been received. Intuition Systems, the incumbent, was the top bidder from both a technical and pricing perspective.

Chairman McNeil announced that Mr. James Van Horn, President of Intuition Systems, was present at the meeting.

Responding to an inquiry from Mr. Daniels regarding the outreach to WBE, MBE and Illinois firms, Ms. Lee stated that Intuition Systems is located in Florida, and that while the agency had been customarily aggressive in seeking the broadest possible array of bidders, due to the specific expertise required and the small number of entities in the industry, it had proven difficult to attract a larger number of responders.

Mr. Vaught expressed his displeasure with the selection and the attitude to continue with the status quo, stating that the program is going to have to make changes in order to achieve the objectives discussed earlier with regard to marketing. He stated that he feels the RFP should be re-bid, and noted that he planned to vote "no" on this contract.

Chairman McNeil then asked for a motion to approve the Resolution.

Ms. Alpi **MOVED THAT** the Commission approve the following resolution:

> **"BE IT RESOLVED** that the Commission approves the execution and delivery by the Executive Director of a contract by and between the Illinois Student Assistance Commission (ISAC) and Intuition Systems for records administration and call center services for the *College Illinois!* Prepaid Tuition Program (the "Contract"). The Executive Director has the authority to negotiate such terms and agreements with respect to said Contract that the Executive Director deems acceptable and in the best interests of ISAC and the *College Illinois!* Prepaid Tuition Program."

Chairman McNeil seconded the motion. With six members voting yes and Mr. Vaught voting no, the motion was approved.

Chairman McNeil then announced a ten-minute break.

Item 6. *College Illinois!*SM Prepaid Tuition Program Fiscal Year 2009 Budget Request

Opening the agenda item, Ms. Stephens noted that while an FY2009 budget request was being considered today, due to the recent addition of an agency Chief Marketing and Communications Officer, and possible changes that might transpire in the marketing of the program, there is the option to come back to the Commission in order to allocate additional resources to the marketing line item in the budget at a later date. She also noted changes from the previous budget in the personnel line item due to the new staff joining the program and the possibility of additional sales and marketing personnel.

Responding to Chairman McNeil's inquiry regarding the decrease in the marketing line item, Ms. Stephens noted that the previous year's budget reflected costs associated with the creation of the new commercials, which the Commission viewed today, and those were one-time expenses and those ads can be used again in the future. Chairman McNeil stated that even though the budget shows a reduction in spending on marketing, that does not mean a reduction in marketing activity, but rather, the use of resources in different, and more efficient, ways.

Mr. Davis stated that the budget allows for increased personnel and targeting more of a web-based presence and asked the Commission to allow the new Chief Marketing and Communications Officer to determine the next steps for the program in terms of marketing. He also noted that the new

Chief Investment Officer, Mr. Bello, has already negotiated significant reductions in the fees paid to investment managers.

Mr. Vaught stated that he supports the budget and feels it is a step in the right direction, but feels it does not reflect a strategy, and that such a strategy must be developed, and must contain rigorous specific targets, with objectives, measurable goals and appropriate benchmarks. He inquired as to why the application and other fees were not presented in the budget request. Secondly, he stated that on page 6-1, administrative costs were shown as being 43 basis points and investment costs as being 36 basis points, and that the numbers for investment costs were not consistent with those reported at a previous meeting by Mr. Krolak of Marquette Associates. He asked for a full written itemization of these costs as well as a reconciliation between the budget numbers and those presented by Mr. Krolak.

Responding to Mr. Vaught, Mr. Davis explained that the budget presented to the Commission is an expenditure budget and therefore does not show the application and administrative fees, which are revenues. Later in the meeting, he noted, the Commission would be receiving a traditional revenue and expenditure report for *College Illinois!*, as well as all other divisions within the agency. Ms. Stephens referred Mr. Vaught to page 3-9 of the Executive Director's report, which presented the fee revenue information that Mr. Vaught was requesting. Mr. Vaught again asked that all cost information be sent to him in writing, and that it be itemized and reconciled, and said that he feels he is getting inconsistent data at meetings, with inadequate follow-up when questions are being asked.

Mr. Davis explained that the numbers previously presented by Mr. Krolak were historical data for a specific time period, whereas the budget figures were projected figures for the coming fiscal year. He also noted that the actual expenditure numbers for the coming year would be affected by the recent fee reduction negotiations that Mr. Bello has had with the investment managers, as mentioned earlier in the meeting.

Chairman McNeil said that he knows that staff tries to be responsive, but if at any time a Commissioner feels that a staff response has not been adequate, the Commissioner should bring that concern directly to his attention. He noted the need for a well-run business to have a well-articulated strategy and detailed action plans, with goals, timetables and measurable objectives, and observed that ISAC operates like a well-run business. The Chairman expressed his optimism that the new Chief Marketing and Communications Officer would help the agency achieve this with *College Illinois!*.

Responding to an observation by Mr. Wing regarding the underrepresentation of Hispanics and African-Americans in the Illinois higher education system, Ms. Stephens referred to a table providing examples of targeted marketing of Hispanics and African-Americans and stated there have been direct mail pieces sent to these audiences and that there were plans to expand the marketing to these groups. Chairman McNeil stressed that it is also important to develop appropriate products to meet the needs of various target populations. He then asked for a motion to approve the budget request.

Mr. Vaught **MOVED THAT** the Commission approve the FY 2009 *College Illinois!* administrative budget set forth in Table I.

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

Item 7. *College Illinois!* Prepaid Tuition Program Investment Policy

Mr. Frank Bello, Chief Investment Officer of *College Illinois!*, stated that his first few weeks with the agency were spent reviewing the investment policy in preparation for a meeting that was held with the Investment Advisory Panel on June 18. He then reviewed the changes that have been made to the policy, which included defining the role of the Chief Investment Officer, the responsibilities of the Investment Committee, clarifying the roles and responsibilities of the Commission, the Investment Advisory Panel, the Investment Consultant as well as the Investment Managers. He stated that a system of internal controls to protect the assets of the fund from error, fraud or misrepresentation have been established in the policy, as well as a conflict of interest policy. He also stated that a change is being recommended to permit direct private equity investments, in an amount not to exceed 30 percent of the previously approved five percent private equity allocation within the Fund.

Mr. Bello then distributed the new asset allocation targets to be included in the policy, which was discussed with the Investment Advisory Panel at its June 18 meeting. He highlighted some of the significant changes in the asset allocation, including replacing the five percent allocation to senior secured loans with United States Treasury Inflation Protected Seurities (TIPS); increasing the five percent real estate allocation to 10 percent; adding an allocation to mid-cap growth, while reducing the allocation to large-cap core equity and large-cap value equity, resulting in a 40 percent total allocation to domestic equity; adding a small-cap international equity allocation of five percent, increasing the total international equity exposure to 15 percent; adding five percent allocations for hedge fund of funds and infrastructure, resulting in a total allocation to alternative investments of 15 percent; and the previously mentioned addition of direct private equity investments within the existing private equity allocation.

Responding to Dr. Louderback's inquiry regarding the inclusion of hedge funds, Mr. Bello gave some background on the changes in the industry and how additional regulatory oversight had improved the disclosure and transparency issues encountered in the past. He also noted how the inclusion of alternative investments reduced reliance on the volatile equity markets, resulting in the opportunity for achieving higher rates of return while lowering risk at the same time. Dr. Louderback noted that she still had some reservations about investing in hedge funds, as well as real estate, in the current market environment.

When asked by Dr. Louderback if the Investment Advisory Panel had approved the investment policy as distributed, Mr. Bello confirmed that it had. Ms. Lee clarified that staff had presented the Investment Advisory Panel with a draft of the policy in substantially final form and that the document being brought to the Commission is the final copy that incorporated suggested comments and changes from the Investment Advisory Panel. She stated that the Investment Advisory Panel is not required to approve the final document, but it does include their comments.

Dr. Louderback expressed her concern about the major changes to the policy and her feeling that the item should be changed to an information item to allow for additional review before the Commission takes action.

Mr. Vaught stated that he supports the policy and feels that it is incorporating changes that have already been discussed by the Commission at some length at previous meetings, and that the sooner the Commission took action to implement these changes, which he views as a tentative first step that is going to reduce risk and increase return, the better.

For clarification, Mr. Bello reviewed the asset allocation distribution line by line. Mr. Davis noted that two of the three significant changes are as a result of direct recommendations from the Commission.

Ms. Alpi emphasized the critical nature of due diligence, particularly with respect to private equity, and the importance of ensuring that the Commissioners fully understand the nature of the investments being considered. She noted the necessity of a certain degree of reliance on the Chief Investment Officer, and expressed her confidence in Mr. Bello. Mr. Vaught agreed with these statements, and also expressed his full trust and confidence in Mr. Bello and Mr. Davis on these matters. He added that even given the trust and confidence the Commission might have in a recommendation, the Commissioners are fiduciaries and as such reserve the ultimate right to approve any specific investment recommendation that comes before the Commission. For example, he noted, while the Commission had previously approved an investment policy that permitted senior secured loans, it never actually approved any investment in that sector. Ms. Alpi cited the importance of liquidity with respect to private equity investments, and agreed with the observation by Mr. Vaught that if the Commission is considering a private equity investment, there must be an exit strategy at the time the investment is made.

For clarification purposes, Dr. Louderback asked that the Commission be provided with a list of definitions for those indexes referenced in the Investment Objective section of the Investment Policy Guidelines for each of the asset classes.

Chairman McNeil stated that he feels that the proposed allocation scheme is actually less risky and yet hopefully will provide a greater return. Mr. Daniels inquired as to whether Mr. Bello feels the fund has too many asset classes. Mr. Bello stated that the dynamic of asset allocation for pension funds and public funds has changed and the variety of asset classes gives more diversification and also provides new opportunities for higher returns. Mr. Davis stated that over time he doesn't think we will be adding additional asset classes in the future, and may choose to compress different categories that are not sufficiently distinguishable from one another into fewer classes.

Dr. Louderback asked whether the revised investment policy exposes the Commissioners to a different degree of legal or financial risk. Ms. Lee stated that a Commissioner serves as a fiduciary and as a result, has an obligation to exercise prudence with respect to any investment. She indicated that the primary difference occurs with respect to the degree of diligence required for direct private equity, where Commissioners may be called upon to make decisions with respect to the selection of specific individual investments, versus the degree of diligence the Commission normally exercises in the hiring of a professional manager with the authority to make those decisions. Private equity creates the biggest change in a Commissioner's liability and that is why significant due diligence requirements for the staff, the Investment Committee and the Commissioners have been added to the policy. Ms. Lee stated that the Commissioners' responsibility as a fiduciary is to exercise prudence and discretion and to exercise the utmost due diligence in making investment decisions.

Ms. Alpi stated that if the transparency or due diligence do not so warrant, then an investment recommendation should not be brought to the Commission. Chairman McNeil stated that with 98.5 percent of the investments, the Commissioners' duty is to consider for approval that which has already been reviewed and approved by a professional investment manager. Ms. Lee confirmed that the maximum exposure to a different level of risk than that of picking an investment manager with diligence is limited to the 1.5 percent of the portfolio referenced by the Chairman, the maximum 30 percent of the five percent allocation to private equity.

Responding to a question from Dr. Louderback, Chairman McNeil and Mr. Davis clarified the distinction between the Investment Committee, a subcommittee consisting of two Commissioners, currently Ms. Alpi and Mr. Daniels, and the Investment Advisory Panel, a statutorily-created panel of outside advisors. Ms. Lee noted that while the Investment Committee allows for additional review of investments between meetings, investment decisions will still be brought to the full Commission for approval, and each of the Commissioners still has a responsibility for due diligence. Dr. Louderback then questioned who the Investment Consultant was, to which Mr. Bello replied that this was Pat Krolak of Marquette Associates.

Chairman McNeil clarified that the handout provided today by Mr. Bello replaces the section of the Investment Policy in the printed agenda book entitled Asset Allocation. Ms. Lee stated that what was provided in the book was a clean version of the red-lined document they received via e-mail and what the Commission will be acting on today is the version that was subsequently distributed, including the revised Asset Allocation section that was reviewed by Mr. Bello today.

Chairman McNeil then declared a brief recess to ensure that all Commissioners had before them for their review the proper documents prior to their being acted upon. Upon resuming, after verifying that it was clear which version of the Investment Policy was the final version being acted upon, Chairman McNeil asked for a motion to approve.

Ms. Alpi **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 that the Commission directs all investment decisions for the program be consistent with the provisions set forth in the policy."

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

Chairman McNeil then stated that Agenda Item 8 would be addressed in the Executive Session later in the meeting.

Item 9. FY 2009 Internal Audit Charter and Plan Approval

Before beginning this item, Mr. Sinsheimer introduced Mr. Frank Berauer, the new Director of Finance and Accounting for IDAPP.

Continuing, Mr. Sinsheimer stated that an internal audit program is not only mandated by state law, but also strongly endorsed by the agency's senior management and viewed as an essential element of controlling risk. He noted that the plan being brought before the Commission was developed in conjunction with the agency's outside internal auditor, Crowe Chizek and Company LLC and a risk analysis has been performed down to the manager level across the agency. He indicated that all internal audits required in the prior plan have been completed and any findings have been addressed and corrective action plans put in place.

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

"BE IT RESOLVED that the Commission approves the Internal Audit Charter and Plan for the FY2009 audit cycle."

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

Item 10. Update on Outsourcing of the Servicing of the FFELP Portfolio

After giving a brief update on the status of the RFP process for the outsourcing of the servicing for the FFELP portfolio, Mr. Sinsheimer stated that it is staff's hope to come to the Commission at its September meeting with a recommendation for consideration.

Item 11. Partial Payment of Federal Default Fee

Mr. Sinsheimer noted that at its January meeting, the Commission had approved paying 50 basis points of the mandated one percent federal default fee on behalf of students for loans for the 2008-2009 academic year. Due to the terms of the new federal liquidity program being implemented by the Department of Education, it is staff's belief that it will no longer be financially feasible to continue to pay the 50 basis points, but staff is recommending that the agency continue to pay 25 basis points on behalf of the student. If the loan is made through IDAPP, IDAPP will look to continue covering a portion of the fee as well. However, he noted, today's resolution pertains only to the guarantor. He stated that two major guarantors with which ISAC competes, USA Funds and Great Lakes Higher Education Guaranty Corporation, have both recently announced that they will no longer pay the fee on behalf of students.

Mr. Davis stated that many other guarantors in the industry have also said they will not pay the default fee, but due to the efficiencies gained through the agency's recent business reorganization, it was important for ISAC to demonstrate that we are there for the student by paying 25 basis points on their behalf.

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

> **"BE IT RESOLVED** that for any new Federal Stafford (subsidized and unsubsidized) and Federal Graduate PLUS loans guaranteed by the Illinois Student Assistance Commission (ISAC) on or after July 15, 2008, the Commission approves the payment of 25% of the mandatory one percent default fee required pursuant to the Higher Education Reconciliation Act of 2005 (the "Federal Default Fee") from the Student Loan Operating Fund (SLOF). The portion of the Federal Default Fee paid by ISAC will be reduced to 0% for new Federal Parent PLUS loans guaranteed on or after July 15, 2008."

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

Item 12. FY 2009 Monetary Award Program (MAP) Recompute Formula

Ms. Kleemann introduced this item, reminding the Commissioners that they had previously approved the start-up formula for MAP for the 2008-2009 school year at the January meeting. She stated that staff normally brings back to the Commission for approval a recompute formula once the annual appropriation has been finalized. Ms. Kleemann noted that the FY2009 budget approved by the General Assembly appropriated an additional $18 million for MAP in order to allow incorporating FY2005 tuition and fees in the formula, but it is expected that this additional amount may not withstand expected budget cuts needed to eliminate the projected State budget deficit. Because of the expectation of level funding, staff is recommending that the recompute formula be the same as the start-up formula. She stated that should the $18 million be available, staff is asking for authorization to include the funds in the formula, which would impact about 1,700 students.

Chairman McNeil recognized Ms. Meegan Dugan Bassett, Senior Policy Associate at Women Employed who asked to address the Commission.

Ms. Bassett provided the Commission with a written statement from Women Employed and conveyed that Women Employed supports the recompute formula being brought to the Commission and supports additional funds being used to recognize increases in tuition and fees. Responding to Chairman McNeil, Ms. Bassett stated that ISAC's research indicates that there are more independent students applying for aid, which is normal during a downturn in the economy.

Mr. Vaught referred to page 12-3 of the agenda book where it states that should the $18 million be approved and the tuition and fees be increased to the FY2005 rate, that most of the benefit would occur at the four universities where FY2004 tuition and fees were under the $4,968 maximum award, and asked who the four universities are. Ms. Kleemann stated that the four schools are Northeastern Illinois University, Chicago State University, Southern Illinois University at Edwardsville, and Governor's State University. Mr. Vaught was concerned that if the tuition and fees stayed at the FY2004 rate it would hurt those four schools the most. Ms. Kleemann stated that should the tuition and fees stay at the FY2004 rate currently used in the formula, the status quo would be maintained.

Mr. Vaught again expressed his concern that the agency might be hurting these four universities, which enroll some of the neediest students in the state, and asked what would happen if we recognized the FY2005 tuition rates even if we didn't receive the additional appropriation. Ms. Kleemann explained that should additional funds be used to cover tuition and fees at those four universities, the processing of awards would need to be suspended sooner and two of these universities have students who are among those who apply later and therefore would be more likely to be the students who are suspended.

Chairman McNeil agreed that it is a tradeoff between higher award amounts versus shorter processing periods and it is never an easy decision to make. Dr. Louderback inquired what the formula would be should a different amount other than the $18 million be approved by the Governor. Chairman McNeil indicated that he expected it would be all or nothing relative to the increase, and Mr. Davis suggested that if a different amount were approved, it would be brought back before the Commission. The Chairman then asked for a motion to approve the staff recommendation.

Mr. Daniels **MOVED THAT** the Commission retain the FY2009 start-up formula approved in January as the FY2009 recompute formula if MAP receives level funding. If MAP is appropriated an additional $18 million, staff is to incorporate FY2005 tuition and mandatory fees into the FY2009 MAP formula, as shown in Table 2 on page 12-4 of the agenda book.

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

Item 13. FY2009 Monetary Award Program (MAP) and Silas Purnell Illinois Incentive for Access (IIA) Application Volume Update and Request for Authority to Suspend

Ms. Kleemann reported that the number of announced applicants who are eligible for MAP has increased 7.3 percent over the previous year at this point in time, and the number of applicants eligible for the IIA program had increased by 17.9 percent. Among the factors contributing to these volume increases, she noted, were an increase in the number of Illinois high school graduates; an increase in the proportion of Illinois students coming from low-income families; a deterioration in economic conditions resulting in higher unemployment; and a push by the Chicago Public Schools to get more students to file the FAFSA.

Ms. Kleemann indicated that at this point it is possible that we might need to suspend award announcements for IIA sometime in the middle of July and for MAP at the end of July, which would be the earliest the program has ever suspended, resulting in a larger number of students being suspended than ever before, expected to be in excess of 50,000 eligible students.

Mr. Davis stated that the plus side to the increase in students completing the FAFSA is the fact that once the FAFSA is completed, the student becomes eligible for consideration for the federal Pell grant, which is an entitlement, and for which it is estimated that there might be nearly $200 million of federal Pell money left unclaimed in Illinois.

Dr. Louderback **<u>MOVED THAT</u>** the Commission authorize the suspension of FY2009 award announcements when necessary to avoid overcommitting MAP and IIA appropriations.

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

<u>Item 14. Adopted Rules Amendments</u>

Ms. Peterson opened the agenda item, noting that the rules presented for approval today had received no objection from the Joint Committee on Administrative Rules, and upon approval today will be ready for publication as adopted rules amendments for the 2008-2009 academic year. Responding to a question from Chairman McNeil, Ms. Peterson stated that the only changes made during the rulemaking process were technical in nature and not substantive.

Ms. Alpi **<u>MOVED THAT</u>** the Commission approve the following resolution:

> **"BE IT RESOLVED** that the Commission approves and adopts the omnibus rules amendments, as modified during the rulemaking process, so that they can be effective for the 2008-2009 academic year."

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

Chairman McNeil stated that while the Illinois Open Meetings Act generally requires that public bodies conduct their business in meetings that are open to the public, that law also provides various exceptions for matters to be discussed in closed session, such as the Executive Session for Agenda Items 3 and 8 this morning. For our Executive Session this morning, he stated, there are three applicable exceptions under subsection 2(c) of the Open Meetings Act:

1) Under exception number "1" of subsection 2(c) … the closed session is for discussing the appointment, employment, compensation, discipline, performance or dismissal of specific employees of ISAC, and

2) Under exception number "6" of subsection 2(c) …the closed session is for the setting of a price for the sale or lease of property owned by a public body, and

3) Under exception number "7" of subsection 2(c)…the closed session is for the sale or purchase of securities, investments or investment contracts.

Dr. Louderback **<u>MOVED THAT</u>** the Commission adjourn the regular meeting and go into Executive Session. Ms. Alpi seconded the motion, which was approved by a roll call vote of 7-0 in favor.

Prior to adjourning into Executive Session, Ms. Alpi expressed her thanks to the *College Illinois!* staff for their presentations today and the work they have done on behalf of the program, as well as Mr. Sinsheimer and Mr. Bello for their work for the agency. Chairman McNeil stated that staff operates the agency like a business, and the Commission is blessed to have the senior staff that they have at the agency.

The Commission then went into Executive Session to discuss agenda items 3 and 8 at 1:00 p.m.

After the Commission's Executive Session was concluded, Dr. Louderback **<u>MOVED THAT</u>** the Commission reconvene its regular open meeting. Ms. Alpi seconded the motion, which was passed unanimously. The Commission reconvened in open session at 2:00 p.m.

Seeing no further business to come to the Commission, Chairman McNeil asked for a motion to adjourn.

Dr. Louderback **MOVED THAT** the June 27, 2008 meeting of the Commission be adjourned. Ms. Alpi seconded the motion, which was approved unanimously. The meeting adjourned at 2:03 p.m.

Respectfully submitted,

Debora A. Calcara
Secretary to the Commission

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

August 6, 2008
Michael A. Bilandic Building
Chicago, Illinois

COMMISSIONERS PRESENT:	Donald J. McNeil, Chair Warren Daniels, Jr. Sean Dauber Dr. Mary Ann Louderback David Vaught Hugh Van Voorst Kelvin Wing
COMMISSIONERS PRESENT VIA TELEPHONE:	Dr. Lynda Andre
COMMISSIONERS ABSENT:	Sharon Alpi
STAFF PRESENT:	Andrew Davis, Executive Director Frank Bello, *College Illinois!*SM Chief Investment Officer Esther J. Cepeda, Chief Marketing & Communications Officer Steve Dorfman, First Deputy General Counsel Kim Lee, General Counsel Raquel Martinez, Deputy General Counsel John Sinsheimer, Chief Financial Officer Claude Walker, Media Relations Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Fred Ash, JPMorgan Chase Meegan Bassett, Women Employed Alvin Boutte, Jr., Grigsby & Associates, Inc. Paul Frank, FIICU Raymond McGaugh, Dykema Gossett Nicole Rogers, IBHE Kevin Slaughter, Dykema Gossett Larry White, Chapman and Cutler

Item 1. Announcements

Chairman McNeil opened the August 6, 2008 meeting of the Commission, indicating that Dr. Andre had requested to participate in the meeting electronically because she was unable to be physically present for reasons permitted by the Commission's policy on electronic attendance. A roll call vote was taken, which established that a quorum was physically present at the meeting site and the meeting came to order at 10:50 a.m.

Mr. Vaught **MOVED THAT** Dr. Andre be permitted to participate in the meeting via electronic means. Dr. Louderback seconded the motion, which was approved unanimously via a roll call vote. It was then verified that Dr. Andre was connected via telephone.

Chairman McNeil noted that the next regular meeting of the Commission will be held on September 19, 2008 at Liberty Middle School in Edwardsville, Illinois.

Item 2. Executive Director's Report

Mr. Davis provided the Commission with an update on current credit market conditions and how it is affecting the student lending industry, highlighting the withdrawal of several major lenders from the student loan market, as well as the continuing turmoil in the auction-rate securities market.

Item 3. FFELP Servicing Update

Responding to an earlier inquiry, Mr. Sinsheimer reported that the Commission continues to do business with UBS, which acts as its broker-dealer under the agency's 2002 Resolution, which still has outstanding bonds in the amount of $884 million.

Mr. Sinsheimer then stated that the agency had received nine bids from the RFP for FFELP servicing, and the evaluation committee has completed both the technical and pricing evaluations of the proposals. Staff is currently in contract negotiations, he indicated, and expects that a contract for FFELP servicing should be brought to the Commission for consideration at its September meeting. Responding to Mr. Vaught, Mr. Sinsheimer stated that there were four bidders who met or exceeded the base minimum technical requirements of the bid.

Item 4. U.S. Department of Education Master Loan Purchase and Participation Programs

Opening the item, Mr. Sinsheimer stated that in May, Congress passed a law, H.R. 5715, which authorized the Department of Education (ED) to enter into two programs with the FFELP community. Those programs include a loan participation program and a loan sale program. Under the loan participation program, he explained, ISAC, as a lender through our Illinois Designated Account Purchase Program (IDAPP) division, would make a FFELP loan to a borrower, then transfer legal ownership of that loan to a custodian who holds the loan in trust for both ISAC and ED. ISAC would then apply to ED on a weekly basis for funding against that loan and ED has indicated, although they are not legally bound, that they will fund, within 10 business days of receipt of that application, an amount equal to the principal balance of the loans. The cost of funding is the commercial paper rate plus 50 basis points. Only fully disbursed loans can go into the loan sale program.

Continuing, he explained the loan participation program requires that ISAC enter into a contract with a custodian who has the obligation as acting as ED's representative. They are charged with protecting the collateral. They will require possession of any notes, loan applications, and other documents. Additionally, in order to participate in the program, you either need to have enough working capital on hand or have access to working capital in order to fund the time frame between the disbursement of the loan and funding by ED. It is estimated that there may be a need to have up to three weeks worth of working capital in order to participate in the program.

Mr. Sinsheimer estimated that the peak need for funding would be approximately $30 million.

Continuing, he explained that it is not necessary to participate in the loan participation program to in turn participate in the loan sale program; they are separate and distinct programs. The only link between the two is that on September 30, 2009 if you did participate in the loan participation program, you must either repurchase the participation interest from ED at par plus accrued interest or sell the loans to ED; you have no other choice, absent the extension of the program by the new administration.

The loan sale program, he explained, would allow IDAPP to sell any loan to ED with 45-day notice at a rate of 101% of its par value plus $75 per loan. When a new loan is made, there is a one percent origination fee paid to ED, and they are reimbursing us for the one percent. The $75 is meant to cover the cost of booking the loan and converting the loan from our servicing platform to the ED servicing platform. Basically, he stated, both programs are designed with one goal in mind, to provide liquidity for making loans to borrowers for the 2008-09 academic year.

Mr. Sinsheimer stated that approval is being sought for five related actions: to participate in the ED loan participation program; to participate in, and sell loans under, the loan purchase program; to hire a custodian to serve under the participation program; to seek approval to enter into a working capital line that will allow us to utilize the participation program; and, to seek an alternative source of liquidity that would fund our needs without using the participation program.

Mr. Sinsheimer noted that due to the complexity of the ED documents, staff sought the services of Mr. Larry White of Chapman and Cutler to assist in reviewing the documents.

Responding to Mr. Vaught, Mr. Sinsheimer stated that he and Mr. Davis have been diligently seeking other alternative sources of liquidity for the upcoming lending season. He stated that they have approached and been rejected by banks such as Chase, Bank of America, National City, Fifth Third Bank, Charter One, Private Bank, Harris Bank, MB Financial and Northern Trust to name a few. He indicated that student lending is a specialized business and banks are hesitant to get into this type of lending.

Dr. Louderback inquired as to why the requested action being taken has five components to the resolution and why are they not being acted on separately. Ms. Lee explained that four parts of the resolution are connected, and relate to our utilizing the federal liquidity programs, while the fifth is separate, seeking a source of liquidity as an alternative to utilizing the federal programs.

For clarification, Mr. Davis explained that the federal government is offering two separate programs; interim financing through the participation program and an offer to purchase the loans back from us, but in order to participate in the interim financing, we must have the initial money to make the loans, which the government will reimburse us for, plus the federal government requires a custodian to administer the federal program. He also explained that as an alternative to the federal program, staff will continue to seek alternative liquidity in the private market.

Chairman McNeil noted that all five pieces of the resolution are authorizing pieces which do not compel the agency to do anything but rather, permit the Chair, and in some cases the Executive Director or the Chief Financial Officer, to proceed if it is thought appropriate, to prevent the need for coming back to the Commission for further approval.

Mr. Daniels stated that he does not feel the Commission has a choice and must participate in the federal program as well as seek alternative sources of liquidity.

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

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission (ISAC) authorizes the execution and delivery by the Executive Director of (1) the Master Participation Agreement by and among ISAC, the United States Department of Education (ED) and a custodian (the "Participation Agreement") and any amendments thereto, (2) the Master Loan Sale Agreement, by and between ISAC and the United States Department of Education and any amendments thereto (the "Sale Agreement") and (3) such other documents, certificates and instruments as are necessary to consummate the transactions contemplated in (1) and (2) above; and
>
> **"BE IT FURTHER RESOLVED** that the Executive Director has the authority to sell any and all qualifying loans or interest in and to such loans, to ED under the terms of the Participation Agreement or the Sale Agreement in accordance with the terms thereof; and
>
> **"BE IT FURTHER RESOLVED** that the Chairman and Executive Director are hereby delegated authority to select a suitable national or state chartered bank to serve as a custodian under the Participation Agreement under terms and conditions the Chairman and the Executive Director deem in the best interests of ISAC and to execute and deliver on behalf of ISAC a custodian agreement and such other documents, certificates and instruments as are necessary to consummate the transactions contemplated by this Resolution; and
>
> **"BE IT FURTHER RESOLVED** that the Chairman, Executive Director and Chief Financial Officer are hereby authorized to obtain financing from a suitable national or state chartered bank, credit union or other financial institution in order to facilitate ISAC's participation in the Programs and to issue bonds, notes or other obligations to evidence the obligations incurred thereunder; and
>
> **"BE IT FURTHER** RESOLVED that the Chairman and Executive Director are authorized to execute and deliver one or more credit or similar agreements with a suitable national or state chartered bank, credit union or other financial institution and such other documents, certificates and instruments as are necessary to obtain Program Financing and to consummate the transactions contemplated by this Resolution under terms and conditions the Executive Director deems in the best interests of ISAC; provided, however, such Program Financing shall be in an aggregate principal amount of not to exceed $50,000,000 and shall bear interest at a rate not to exceed LIBOR plus 250 b.p plus upfront costs and fees not to exceed 25 b.p. plus legal fees."

Mr. Daniels **MOVED THAT** the resolution be approved. Mr. Wing seconded the motion, which was approved unanimously.

Chairman McNeil then stated that while the Illinois Open Meetings Act generally requires that public bodies conduct their business at meetings that are open to the public, that law also provides various exceptions for matters to be discussed in closed session such as the Executive Session for portions of Agenda Items 5 and 6 this morning. He noted that for the Executive Session this morning, there are three applicable exceptions under subsection 2(c) of the Open Meetings Act:

1) Under exception number "1"of subsection 2(c) … the closed session is for discussing the appointment, employment, compensation, discipline, performance or dismissal of specific employees of ISAC, and

4) Under exception number "6" of subsection 2(c) …the closed session is for the setting of a price for the sale or lease of property owned by a public body, and

5) Under exception number "7" of subsection 2(c)…the closed session is for the sale or purchase of securities, investments or investment contracts

Dr. Louderback **MOVED THAT** the Commission adjourn into Executive Session. Mr. Van Voorst seconded the motion, which was approved via roll call vote. The Commission adjourned into Executive Session at 1:00 p.m.

At the conclusion of the Executive Session, Mr. Daniels **MOVED THAT** the Commission return to open session. Chairman McNeil seconded the motion, which was approved unanimously. The Commission then took a five-minute break.

Chairman McNeil called the meeting back into order noting that members of the Commission have had the opportunity to have their questions answered and have examined details of the private equity investment.

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

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission (ISAC) authorizes an investment in Shorebank Corporation on terms and conditions set forth in the attached Term Sheet (the "Shorebank Term Sheet"). The Commission further authorizes the Executive Director to execute and deliver on behalf of ISAC, the Subscription Agreement by and between Shorebank and ISAC, the Registration Rights Agreement also between Shorebank and ISAC, each in substantially the forms previously distributed to the Commissioners and such other agreements documents, certificates, necessary to consummate the transactions contemplated by the Term Sheet and this Resolution."

Chairman McNeil seconded the motion. He then asked that a roll call vote be taken which established five yes votes, with Dr. Louderback and Mr. Van Voorst voting no.

Mr. Vaught stated that this is a difficult, challenging and new transaction for the Commission, which may result in some skepticism, but he feels that the answers provided to the Commission by Mr. Davis and Mr. Bello were excellent and appropriate, and therefore he is voting yes.

Chairman McNeil, seeing five yes votes to approve the motion and two voting no, declared that the motion carried.

Dr. Louderback **MOVED THAT** the August 6, 2008 meeting of the Commission be adjourned. Mr. Daniels seconded the motion, which was approved unanimously. The meeting adjourned at 1:20 p.m.

Respectfully submitted,

Debora A. Calcara
Secretary to the Commission