

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

June 18, 2010

Video Conference Locations

James R. Thompson Center
100 W. Randolph St.
Room 9-036
Chicago, Illinois

Central Management Services
Capital City Center, Room 104
130 W. Mason Street
Springfield, Illinois

COMMISSIONERS PRESENT: Donald J. McNeil, Chair
Dr. Linda Andre
Sharon Alpi
Sean Dauber
Dr. Mary Ann Louderback
Hugh Van Voorst
Johnathan Wilson

STAFF PRESENT: Andrew Davis, Executive Director
Frank Bello, Treasurer/Chief Investment Officer
George Egan, Director, Portfolio Management & Direct Investment
Kim Lee, General Counsel
Debora Calcara, Commission Secretary

CLOSED MINUTES

Item 18. College Illinois![®] 529 Prepaid Tuition Program Private Equity Funds Investment I

Mr. Bello reminded the Commission that the investment in Shorebank in August of 2008 was \$9 million in common stock and around \$3.2 million in preferred stock. He said that as a result of a proposed reorganization of the financial institution, Shorebank has approached College Illinois! requesting College Illinois! convert its preferred stock in to common stock as part of the recapitalization of the bank to raise roughly \$220 million. It is anticipated that \$75 million of this will come from the U.S. Treasury as part of the TARP and they will raise the other \$140 million from private investors such as Goldman Sachs, J. P. Morgan and Bank of America.

Mr. Bello stated that Shorebank, as part of the proposed recapitalization, is approaching their investors who own preferred stock in the bank to convert those shares into common stock and feels College Illinois! has no choice but to convert its stock. Dr. Louderback inquired as to the meaning that we have "no choice". Mr. Davis stated that it has been indicated that should we not convert the stock the other private investors will not invest in the bank, therefore causing it to close. Dr. Louderback asked about the value of the initial stock invested in the bank. Mr. Davis and Chairman McNeil agreed that the value of the stock has dropped to \$1,356,000 and that most other banks in this situation have closed. Dr. Louderback stated that parents have lost this money. Mr. Davis stated it is part of the investment in securities as sometimes securities go up and sometimes they go down. Dr. Louderback reiterated that this is investments from parents. Mr. Davis clarified that it is money in the fund and the fund has an obligation.

Chairman McNeil stated that prior to the financial crisis in the industry, Shorebank was doing fine. Mr. Van Voorst and Dr. Louderback disagreed and stated that there were problems before the crisis. Mr. Van Voorst stated that an investment such as this in a banking facility should not happen again and that it is out of the parameters of what they should be investing. Mr. Davis agreed that this was a learning experience and he does not have the appetite to do such an investment again.

Chairman McNeil inquired that should College Illinois! choose not to convert its preferred stock to common stock that the other private investors will not make their investment in the bank. Mr. Davis stated that is what the private investors said, and that maybe they would and maybe they won't, but other preferred shareholders have agreed to convert their stock.

Mr. Bello stated that the bank needs the money to recapitalize and they will receive the money from the federal government and he confirmed to Mr. Van Voorst that they will have to pay back the federal money. Mr. Davis agreed with Dr. Louderback and Mr. Van Voorst that the investment is likely worth nothing if it is not converted. Chairman McNeil stated that he has the same difficulty with the transaction that the others do, but feels they should look ahead and not back at the original investment and whether or not it should have been done.

Mr. Davis stated that absent new capital the bank definitely closes. Chairman McNeil and Mr. Davis stated that it might be in the best interest of ISAC to go along with those agreeing to invest in this particular bank.

Ms. Alpi stated that as distasteful as the proposed action is, she agreed that it is her recommendation to go along with the action requested. Mr. Van Voorst stated that the only upside to the transaction is if the bank does improve then the stock might be worth something.

Item 19. College Illinois! 529 Prepaid Tuition Program Private Equity Funds Investment II

Mr. Bello stated that the proposed real estate investment should continue to help to diversify the fund and bring a nice return on the investment. He indicated that outside counsel of Kutak Rock LLP and outside investment advisor Mesirow Financial have been retained to perform due diligence on the investment. Mr. Bello indicated that the investment fund of Kennedy Wilson Property Fund III purchases distressed properties, adds some value and exits, making it an attractive opportunity.

Prior to returning to open session, Mr. Davis asked the guidance from the Commission on a proposal from Illinois Lottery to purchase semesters of College Illinois! to use in a ticket raffle. After discussion it was Mr. Davis' impression that Commissioners were not enthusiastic about the proposal.

Seeing no further discussion needed in closed session. Chairman McNeil asked for a motion to return into open session. Dr. Louderback **MOVED THAT** the Commission return into open session. Mr. Van Voorst seconded the motion, which was approved unanimously. The Commission returned into open session at 11:56 a.m.

Respectfully submitted,

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

Debora A. Calcara
Secretary to the Commission