

AGENDA ITEM 2.

MINUTES OF THE MARCH 31, 2006 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

March 31, 2006

James R. Thompson Center
Room 2-025
100 W. Randolph St.
Chicago, Illinois

COMMISSIONERS PRESENT: Donald J. McNeil, Chair
Sharon Alpi
Dr. Lynda Andre
Warren Daniels, Jr.
Andrew Davis
Ashley Dearborn
Hugh Van Voorst
David Vaught

COMMISSIONERS PRESENT VIA TELEPHONE: Robert Casey
Dr. Mary Ann Louderback

PRESENT BY INVITATION: Elmer Washington, Designated Liaison, IBHE

STAFF PRESENT: Larry E. Matejka, Executive Director
Tom Breyer, Director, IDAPP
Marcia Thompson, Chief Operating & Administrative Officer
Wendy Funk, IDAPP
Sam Nelson, Public Service
Chris Peterson, Chief Program Officer
Karen Salas, General Counsel
John Schwarm, IDAPP
Joanne Tolbert, Human Resources & Development
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE: Fred Ash, JPMorgan Chase
Kevin Barney, Kutak Rock
Meegan Bassett, Women Employed
Barry Bennett, US Department of Education
Jodi Cohen, Chicago Tribune
Kathy Cokic, JPMorgan Chase
Thomas Coverick, Lehman Brothers
Itay Feldman, Governor's Office of Management & Budget
Paul Frank, FIICU
Jennie Huang, Morgan Stanley
Bob Irvin, Kutak Rock
Deniece Jordan-Walker, Gardner, Underwood & Bacon
Ray Kljajic, Citigroup

Karilyn Kober, Kutak Rock
Karen LeVeque, Robert Morris College
Amy Monblatt, UBS Financial Services
Steve Nemerovski
Dave Newbart, Chicago Sun Times
Roberta Russo, US Department of Education
Donald Sevener, IBHE
Stratford Shields, Morgan Stanley
Christopher Simmons, Morgan Stanley
Andrew Sperry, House Republican Staff
Joseph Starshak, Starshak, Welnhof & Company
Brent Stratton, Office of the Attorney General
Sandy Street, University of Illinois
Tom Suffredin
Barbara Thomas, Morgan Stanley
Kevin Thompson, Conlon Public Strategies
Jon Valadez, Illinois House of Representatives Staff
Jerry Wallack, Kutak Rock
Larry White, Chapman and Cutler
Mick Wiedrick, UBS Financial Services

Item 1. Announcements

Chairman McNeil brought the March 31, 2006 meeting to order at 10:15 a.m. requesting that a roll call be taken, which established that a quorum was present. Chairman McNeil noted that the next regular meeting of the Commission is scheduled for Friday, April 28, 2006 at Parkland College in Champaign.

Chairman McNeil welcomed Mr. Elmer Washington. Mr. Washington is a member of the Illinois Board of Higher Education (IBHE) and will be participating in the meetings of the Commission as a non-voting ex-officio member.

Item 2. Minutes of the January 27, 2006 Meeting

Mr. Vaught **MOVED THAT** the minutes be approved as submitted. Mr. Daniels seconded the motion, which was approved unanimously.

Item 3. Election of Vice Chairman of the Commission

Mr. Davis **MOVED THAT** the Commission appoint Commissioner Warren Daniels, Jr. as Vice Chairman of the Commission. The motion was seconded by Mr. Vaught and was approved unanimously.

Item 4. Working Draft: Organizational Overview and Preliminary Financial/Business Analysis

Chairman McNeil announced that this is a special meeting of the Commission during which Commissioners and the public will be provided with a progress report on the analysis of agency operations being prepared by ISAC's consultant Morgan Stanley. The Commission has hired Morgan Stanley to evaluate all of the agency's activities, including ISAC's participation in the student loan business, in response to the interest of the Governor's Office in what a possible sale of student loan assets could generate for the State budget in FY2007. This issue initially surfaced, but no legislation was approved, during the waning hours of the spring 2005 legislative session. Since that time, there have been numerous discussions between ISAC staff and the Governor's Office regarding positive and negative implications of an ISAC loan sale.

Chairman McNeil indicated that his concern and that of other Commissioners is that there be a thorough understanding of the programs and services that ISAC provides to the public, as well as the method by which those activities are funded. Furthermore, the first concern of Commissioners is preservation of the services that the agency performs for students, families and the higher education community in Illinois, including maintenance and improvements to the agency's Web site (collegezone.com), student outreach efforts and administration of the agency's scholarship and grant programs.

The Chairman stated that no decisions affecting the agency's student loan portfolio would be made today, noting that the Commission is not that far along in the process. The purpose of today's meeting is to review the progress made by staff and Morgan Stanley in evaluating ISAC's business and operations. The Commission needs to be fully informed before making any decisions. Today's discussion should also serve to clear some misconceptions that the public may have regarding the role of the agency's loan portfolio in financing other student financial aid services for Illinois families.

He further indicated that ISAC receives no state general revenue funds for administration of its programs and services. The agency finances itself from dollars it generates in its role as a student loan guarantor, as well as from revenue generated from the Illinois Designated Account Purchase Program (IDAPP), its secondary market for student loans. All administrative dollars for the agency are generated from ISAC's student loan business – except for administration of the self-funded *College Illinois!* prepaid tuition program.

McNeil went on to say that the majority of administrative funding is derived from the agency's student loan guarantor function, with the rest generated by the IDAPP student loan portfolio. He has stated repeatedly over the past several months that the Commission wants to examine how to do things more efficiently and how to generate more revenue. Clearly, it would be beneficial for ISAC if more Illinois schools would use the agency's guaranty function and, by doing so, generate more income for the agency. This income, in turn, is used by ISAC to provide administrative services to programs and activities that benefit those same schools. McNeil added that there is also the potential that ISAC can sell assets to generate income for the benefit of the State, but the agency's goal and preference would be for the state to retain those revenues for student financial aid.

McNeil finished his remarks by saying that ISAC does not want to approach the student loan sale concept as other states have, where they decide what they want to do and then back into a rationale for why they did it. This Commission wants to fully understand the operations and finances of the agency and then make an informed decision on how best to move forward.

Having concluded his introductory remarks, Chairman McNeil asked Barbara Thomas of Morgan Stanley to come forward and be the principal presenter for the meeting. He indicated that those present at the meeting would have the opportunity to write out questions they may have on paper that will be circulated at the end of Ms. Thomas' presentation. McNeil explained that the reason for his request that questions be submitted in writing is that some questions may arise that are not appropriate to answer, either because the study is not yet complete and there is not an answer or because they should not be answered in a public forum at this time. He gave several examples of questions that would be inappropriate to ask. McNeil said that he wants the meeting and this process to be as open as possible, but he also hopes that everyone will understand that the Morgan Stanley study is a work-in-progress.

Mr. Daniels took the opportunity to express his appreciation to the Chairman, the Executive Director and staff for their openness and willingness to work with the financial advisors to determine what is best for not only the agency but for the residents of Illinois.

Ms. Barbara Thomas then presented the Commission with a presentation of the student loan industry, and the business and organizational functions of the Commission as a whole. In concluding her presentation, Ms. Thomas indicated that there is much more work to be done in the next several weeks. It is Morgan Stanley's plan to continue to perform a more in-depth analysis of the business and financial aspects of ISAC and IDAPP in order to define alternatives and recommendations to management and the Commission.

Chairman McNeil stated that it was the intent of Morgan Stanley to take a very broad approach to the analysis of the Commission. As outlined in the presentation, there are a number of alternatives available to the Commission; one of which may be the sale of all or part of the loan portfolio. There is the possibility of restructuring the loan portfolio, and also to consider out-sourcing the services we now provide. He indicated that there is also the possibility of a strategic partnership with an outside entity. In order to determine what is best for not only the Commission, but also for the students of the State of Illinois, a more in-depth analysis needs to be continued with Morgan Stanley.

Chairman McNeil recommended that the Commission develop a very broad Request for Information (RFI), which would allow entities to come to the Commission with their proposals on what they recommend for the Commission.

Mr. Daniels pointed out that the business of the Commission is complex and competitive. Ms. Thomas agreed that this is a seller's market and the competition is fierce. Gaining access to FFELP loans is very difficult which is why it makes them so valuable. Chairman McNeil agreed that it is a very competitive market and if assets are going to be sold, they should be sold while the market is most favorable.

Chairman McNeil then addressed questions from the public:

Question: "The \$6.4 million that the State took back in 2005, did this come out of the Operating Fund?" Chairman McNeil replied that the only fund that money was taken out of was the Student Loan Operating Fund (SLOF).

Question: "How can Illinois students be sure that funding for services will continue to be available in the future?" Chairman McNeil replied that the goal of the agency is that services have to be maintained.

Question: "Do inefficiencies in ISAC operations actually represent value-added benefits for Illinois students?" Chairman McNeil replied that when an analysis of an agency is done there are certain to be areas which can be improved.

Mr. Davis stated that he believes the name of the Commission speaks for itself: it is about assisting the students of Illinois and he has no doubt that the mission is to achieve the objectives of providing services, education or otherwise, for Illinois students.

Question: "Other than purchases from school lenders that IDAPP has contracts with, from whom does IDAPP purchase loans at the price of par plus premium?" Ms. Thomas replied that IDAPP purchases from lenders around the country who put their portfolio up for sale for IDAPP to bid on, such as banks. She then referred back to her presentation showing IDAPP's lending volume.

After further discussion on the types of loans purchased by IDAPP, guaranteed versus non-guaranteed, Chairman McNeil stated that to put a price on the value of the IDAPP portfolio is a very difficult thing to do. From the standpoint of the purchaser of the private loans they are going to put a different value on a FFELP or consolidated type of loan versus a private loan, which is a credit-based loan with no Federal guaranty.

Responding to Mr. Washington's inquiry regarding the urgency to provide the Legislature with answers regarding the sale of assets, Chairman McNeil indicated that there is a House Higher Education Hearing next week where they will answer questions regarding the sale of assets. He stated that in the event the Commission is asked how much income can be generated to support programs in the Governor's budget, the analysis of the Commission is at a point where he could provide them with an estimate, but to speak of those estimates in public would have an adverse effect on any potential sale.

After inquiring about further questions, Chairman McNeil asked for a motion to adjourn. Ms. Alpi **MOVED THAT** the meeting of the Commission adjourn. Mr. Davis seconded the motion, which was approved unanimously.

Respectfully submitted,

A handwritten signature in cursive script, reading "Debora A. Calcara".

Debora A. Calcara
Secretary to the Commission