

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

October 22, 2015

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on October 22, 2015 at 10:00 am at the HESAA offices in Hamilton.

PRESENT: Mr. James Allen; Fr. Michael Braden; Ms. Audrey Bennerson, Secretary of Higher Education Designee; Ms. Gabrielle Charette, Esq.; Mr. Anthony Falcone; Dr. Jon Larson; Mr. Corey Amon, Treasurer's Designee; Ms. Jean McDonald Rash; Mr. Luis Padilla; Mr. Bader Qarmout (teleconference); Mr. Shyam Sharma; Ms. Maria Torres (teleconference) and Ms. Christy Van Horn, Members.

ABSENT: Mr. George Garcia, Esq.

CALL TO ORDER

Anthony Falcone called the meeting to order at 10:00 am. Mr. Falcone stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Falcone led those present in the Pledge of Allegiance.

Mr. Falcone welcomed the Board members and advised that because some members were participating via teleconference, Roseann Sorrentino would conduct a roll call for the resolutions.

Mr. Falcone welcomed Geoffrey Stark, Esq., Deputy Attorney General, and Chris Howard, Esq., Governor's Authorities Unit.

Mr. Falcone advised that no members of the public registered to speak.

Mr. Falcone asked Roseann Sorrentino to call the roll.

CONSIDERATION OF THE MINUTES OF THE JULY 23, 2015 MEETING

A motion to approve the minutes of the July 23, 2015 meeting was made by Mr. James Allen and seconded by Ms. Audrey Bennerson. The minutes were approved unanimously.

REPORT OF THE AUDIT COMMITTEE AND RESOLUTION 17:15 ACCEPTING AND ADOPTING THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS FOR FISCAL YEAR 2015

Christy Van Horn reported the audit committee met with the independent auditors on October 15, 2015 for a review of the audit report. She introduced Nancy Gunza, Engagement Principal, and Andrew Lee, Engagement Manager, of CliftonLarsonAllen, to report on the audit.

Nancy Gunza advised that the Audit Committee engaged her firm to express an opinion on three sets of different financial statements: one for the NJCLASS/FFELP Programs; another for the other HESAA fiduciary funds and programs; and the last for the New Jersey World Trade Center Scholarship Fund. She advised that CliftonLarsonAllen completed the audits and issued unmodified opinions on all three statements, which is the best type of auditor's opinion that can be received. The financial statements that management prepared were in accordance with general accepted accounting principles. As a byproduct of the audit report on internal controls, CliftonLarsonAllen did not find any material weaknesses in the internal controls related to the financial statements that were audited as well.

Ms. Gunza further advised that they met with the Audit Committee on other items regarding the auditor's responsibility and that there were no new accounting standards adopted during the year related to these reports. While there are certain items in the financial statements that represent estimates, the auditors and the Audit Committee concluded that management's basis for reporting those estimates was appropriate and reasonable. The auditors did not have any disagreements with management or difficulties encountered in performing the audits, and had no corrected or uncorrected mistakes during the process.

A motion to approve Resolution 17:15 was made by Ms. Christy Van Horn and seconded by Mr. James Allen. The motion passed unanimously.

OFFICE OF LEGISLATIVE SERVICES – OFFICE OF THE STATE AUDITOR REPORT

Gabrielle Charette provided a summary of the Office of the State Auditor's Report to the Board. A copy of the report and the Authority's written response to same was distributed to the members prior to the meeting and is posted on the State Auditor's website.

Mr. Shyam Sharma arrived at this point.

REPORT OF THE BUDGET COMMITTEE AND RESOLUTION 18:15 ADOPTING A BOARD BUDGET POLICY STATEMENT FOR FISCAL YEAR 2017

Dr. Jon Larson made the following presentation to the Board.

I am pleased to report that the budget committee of the HESAA Board met on October 1, 2015 to review FY 2017 Full-Time Tuition Aid Grant models reflecting various award parameters, as well as anticipated funding requirements for all other State-supported programs administered by HESAA.

I would like to begin by expressing the Board's gratitude to Governor Christie and the Legislature for their continued support of New Jersey's state grant and scholarship programs during these difficult economic times. Moreover, the Board, on behalf of the students and families served, would also like to express appreciation for this on-going commitment. During the 2015-16 academic year, the State's financial aid programs will provide more than 87,000 awards to State residents to pursue a postsecondary education, ultimately benefitting New Jersey's economy.

The FY 2017 Board Budget Policy Statement reflects the Board's fundamental principles of promoting access and affordability to postsecondary education for New Jersey's residents through need-based student financial aid, merit-based scholarships and loan redemption programs. In developing this budget policy statement and its funding recommendations, the committee was mindful of the on-going fiscal challenges facing the State of New Jersey. While the committee affirmed its commitment to advocate on behalf of students to achieve full funding of the full-time TAG Program in future years, its recommended funding levels reflect the State's ongoing fiscal constraints.

The budget committee's funding recommendations are as follows.

Full-Time TAG Program

When the Board met in July 2015, the Full-Time TAG Award Table that was adopted set awards using a base-year percentage increase structure for the second year. This structure ensures all awards, in all eligibility indexes at all institutions are increased by a percentage that is fixed annually.

At its October 1 meeting, the budget committee reviewed the following FY 2017 Full-Time TAG models. In light of continuing strong demand for TAG, all of the models included funding for an additional 2,000 awards, for a total 68,048 full-year equivalent awards using the base-year percentage structure.

Model 1

- To provide funds to all eligible students with no TAG award increases would require an increased appropriation of nearly \$9.89 million over FY 2016 for a total cost of \$396.278 million.

Model 2

- To increase awards by 2% as well as fund all eligible students would require an estimated increased appropriation of \$17.817 million over FY 2016 for a total cost of \$404.205 million.

Model 3

- To increase awards by 2.5% as well as fund all eligible students would require an increase of nearly \$19.798 million over FY 2016 for a total cost of \$406.186 million.

Model 4

- To increase awards by 3.0% as well as fund all eligible students would require an increase of more than \$21.744 million over FY 2016 for a total cost of \$408.132 million.

In recognition of the continuing fiscal challenges facing the State, the committee is recommending that the Board support a request to increase funding for all students in all sectors by 2% over 2015-16 TAG awards.

Accordingly, the committee recommends that HESAA's Executive Director, Gabrielle Charette, request the funding required for the Full-Time TAG Program to achieve the following:

- Maintain the current base-plus percentage increase structure of the TAG table;
- Increase awards by 2% over current 2015-16 TAG awards; and
- Recognize a likely increase in the number of eligible recipients to include 2,000 additional new awards.

The projected cost to fund these award increases and provide for 2,000 additional new awards at these levels is \$404.205 million, an increase of \$17.817 million over FY 2016 resources.

Part-Time TAG Program for County College Students

The committee recommends \$8.898 million in funding for the Part-Time Tuition Aid Grant Program for County College Students. At this funding level, awards would be set following the same parameters as the full-time TAG table. There is no anticipated program growth in the number of awards. However, an increase of \$160,915 over the FY 2016 appropriation is requested to increase the value of awards.

Governor’s Urban Scholarship Program

FY 2017 represents the fifth year of funding this program. The committee is recommending funding of \$700,000 to fund all eligible students as well as 130 graduating students who will receive a persistency award of \$500.

NJ STARS Program/NJ STAR II Program

Based on the current parameters of the programs, HESAA staff projected the cost of the NJ STARS and NJ STARS II Programs will be \$7.006 million in FY 2017. An increase of \$99,540 over the FY 2016 appropriation to recognize anticipated county college tuition increases.

The merit-based NJ STARS Program covers the cost of tuition for up to 18 college-level credits each term, less other State and federal grants and scholarships.

NJ STARS II annual award values are \$2,500. To qualify for a NJ STARS II scholarship, total family income must be less than \$250,000.

All Other HESAA Programs Funded through State Appropriations

The Board recommends funding the following programs accordingly:

- **Survivor Tuition Benefits Program**
Projected programs balances will be sufficient to funds FY 2017 awards.
- **World Trade Center Scholarship Program**
Increase funding by \$113,000 for a total appropriation of \$315,000 for FY 2017 to maintain scholarships at current award value of \$5,000 per year.
- **Primary Care Practitioner/Nursing Faculty Loan Redemption Program**
Continue level funding of \$1.5 million for this program.

A motion to approve Resolution 18:15 was made by Mr. Bader Qarmout and seconded by Ms. Maria Torres.

Christy Van Horn requested that staff provide the Board with a breakdown on the total cost of attendance for colleges and university prior to the next board meeting. Ms. Charette assured it her that HESAA would be able to provide that information.

The motion passed unanimously.

RESOLUTION 19:15 APPROVING A SENIOR MANAGER FOR AUTHORITY BOND ISSUES

Gene Hutchins presented Resolution 19:15 to the Board.

The Authority engages a Senior Manager for its bond transactions. In negotiated sales, such as those currently utilized by the Authority, the Senior Manager is responsible for developing structuring proposals, working with the rating agencies in the detailed cashflow modeling of the bond transactions, and the marketing and management of the initial sale of the bonds.

On August 31, 2015 the RFPs were sent to 64 underwriting firms who perform the role of Senior Manager in bond transactions, posted on HESAA's website and advertised in the Trenton Times, Star Ledger, Courier News and Home News. An evaluation team consisting of the Executive Director, the Chief Financial Officer, Controller and Director of Legal & Governmental Affairs reviewed the proposals based on the following criteria:

- The experience of the firm in advising on tax-exempt student loan revenue bond offerings;
- The relevant experience of the staff assigned to the Authority;
- The quality of the response to the RFP;
- The ability to meet the needs of the Authority in its transactions; and
- The fee proposed.

HESAA received two proposals from underwriting firms. Of the two proposals, Bank of America Merrill Lynch's proposal outlined a set of services that most closely matches the Authority's needs. Bank of America Merrill Lynch has proposed to work with the Authority staff in the continued development of financing structures tailored to meet program delivery objectives and the firm has a proven track record in bringing bond issues to market in an effective and efficient manner. Additionally, the Bank of America Merrill Lynch proposal outlined the depth of experience of assigned staff and the firm's strong support of the Authority's after bond sale needs, including consultation to the Authority regarding proposed changes to its loan programs.

The other proposal also reflected student loan experience but not to the same extent as Bank of America Merrill Lynch.

Bank of America Merrill Lynch has proposed a cost of \$7.54 per thousand for fixed rate bonds.

A motion to approve Resolution 19:15 was made by Ms. Jean McDonald Rash and seconded by Dr. Jon Larson.

Bader Qarmout asked questions regarding the second proposal received, specifically whether they were a major institution like Bank of America Merrill Lynch and what fees the second firm proposed.

Gene Hutchins explained that while Ramirez proposed a lower fee of \$5.37 per bond, that fee seemed underpriced based on the range of services required as part of an asset backed transaction. He explained that underwriting firms are now required to do extensive work with the underwriting agencies to duplicate their cashflow models. That takes several months to complete and those costs did not appear to be covered in the Ramirez's proposal. Ramirez is a relatively small company and most of their experiences is in MUNI general obligation bond issues where the cashflows play a much smaller role.

Mr. Hutchins further explained that the cost included in the Bank of America Merrill Lynch proposal allows HESAA to execute bond deals in a timely matter, unlike four other state agencies with programs similar to HESAA's which were delayed between 1 and 2 months in bringing their deals to market.

Corey Amon questioned how the \$7.54 rate compares to the current rate HESAA is paying and why Mr. Hutchins thought no other qualified banks or institutions responded to the RFP.

Mr. Hutchins explained that the rate is a little less than a \$1 more per bond and that the increase was expected to support the rating agency modeling process. He explained that due to staff turnover at the rating agencies, the rating agency modeling process starts over again and must tie-out to the senior manager's models before their credit committees will sign off on the deal and approve assignment of investment-grade ratings. He explained that this process took at least 6 weeks of work last year which is behind the increase of costs of this proposal. Ms. Charette added that the fee is not to exceed \$7.54 and depending on how the deal proceeds the amount could actually decrease. Mr. Hutchins confirmed Mr. Amon's supposition the rating agencies are now able to pass through higher costs because of regulatory issues.

Regarding to the qualified institution question, Mr. Hutchins explained that as the FFELP industry has wound down; other investment banks are decreasing or eliminating staff allocated to student loan revenue bonds. As such, the industry is smaller but staff does not know why the few others in the market did not submit proposals. Ms. Charette added that it is not for want of outreach as HESAA sent the RFP to 64 firms.

James Allen advised that while his son who lives in Charlotte, South Carolina is an Executive Vice President of Bank of America, we researched the issue and he has no conflict with voting on this Resolution.

The motion passed unanimously.

RESOLUTION 20:15 APPOINTMENT OF DESIGNATED PURCHASER OF FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFELP) REHABILITATION & BANKRUPTCY LOANS

Robert Clark presented Resolution 20:15 to the Board.

As the State of New Jersey's designated guaranty agency by the U.S. Department of Education, HESAA is responsible for the administration of the Federal Family Education Loan Program, (FFELP), which includes Federal Stafford, PLUS and Consolidation Loans.

Loan Rehabilitation is provided for under the Federal Higher Education Act and allows borrowers with defaulted FFELP loans to remove the default status on their loans and repair their credit history if nine (9) consecutive, on-time, voluntary monthly payments are made within a ten (10) month period. When borrowers have completed their bankruptcy actions they are also eligible to exit default status.

The Higher Education Act also provides for payments of 16.0% of the principal and interest as collection costs to the guaranty agency when loans held in its pool of defaulted loans are rehabilitated. As a result, the rehabilitation program has been a significant source of program revenue to the Authority's Guaranty Agency Operating Fund.

In 2010, HESAA issued an RFP for Rehabilitation Loan purchases, which resulted in the appointment of Nelnet, Inc., as the designated purchaser of FFELP rehabilitation and bankruptcy loans. The final extension of this contract with Nelnet expires on December 31, 2015.

In order to continue sales of Rehabilitation and Bankruptcy loans, HESAA issued another RFP for this service on August 31, 2015. HESAA mailed the RFP to twelve possible purchasers, posted the RFP on HESAA's website and advertised the RFP in the Trenton Times, Star Ledger, Courier News, and Home News. In response to the RFP, one proposal was received from a Rehabilitation Loan purchaser, Nelnet, Inc. The Rehabilitation Loan RFP Evaluation Committee, comprised of HESAA's Controller, Assistant Controller, Associate Director of Servicing and Collections and Servicing and Collections Program Officer, met on October 2, 2015 to discuss the proposal and determine if the terms of the Nelnet Proposal, as well as the discount percentage stated in the new RFP were acceptable.

Under the current market conditions, potential purchasers of these loans are expected to make purchase offers at a discount, meaning that they would likely be below the outstanding amount of the loans. The discount proposed by Nelnet on all loan types is 6%. As a result of its evaluation, the Committee determined that the terms of the Nelnet proposal and the discount percentage were acceptable under the current market conditions for FFELP Rehabilitation and Bankruptcy Loan sales. It should be noted that even at the Nelnet proposed discount rate, HESAA will still realize a positive cash flow on these purchases.

It is recommended that the Board approve the attached Resolution 20:15 Appointing Nelnet, Inc., as the Authority's designated purchaser of FFELP rehabilitation and bankruptcy loans for the two year period ending December 31, 2017, with three 1-year extensions at the option of the Authority.

A motion to approve Resolution 20:15 was made by Mr. James Allen and seconded by Ms. Jean McDonald Rash.

The motion passed unanimously.

RESOLUTION 21:15 APPOINTING SPECIAL COUNSEL TO ASSIST IN THE REVIEW OF MATERIALS RELATED TO 529 PLAN AND PROVIDE GENERAL TAX ADVICE UPON REQUEST

Marnie Grodman presented this item to the Board.

HESAA engages outside tax counsel to provide opinions and advice to staff with regards to the NJBEST college savings program, the Franklin Templeton 529 College Savings Plan and other tax issues that may arise.

HESAA's current agreement with Obermayer Rebmann Maxwell & Hippel expires this December. As such, HESAA issued a Request for Qualifications (RFQ) for future tax advice. In addition to publishing in local newspapers and posting on HESAA's website, HESAA distributed the RFQ to sixteen law firms found on the Attorney General's Approved Special Counsel lists for similar types of services. In response HESAA received two proposals.

The evaluation team reviewed both proposals and found that Obermayer's proposal displayed extensive experience with mutual funds generally and 529 plans specifically. The qualifications of the attorneys working on these are high caliber and the proposed fees are below current market rates. While the second firm that submitted a proposal is well respected and the attorneys that would work on HESAA's matters demonstrate a depth of tax experience, their proposal did not exhibit any experience related to 529 plans.

As such, it is recommended that the Board approve the appointment of Obermayer Rebmann Maxwell & Hippel LLP as HESAA's tax counsel for a term of two years with three optional one-year extensions at the rate of \$325 per hour for attorneys and \$100 per hour for paralegals.

A motion to approve Resolution 21:15 was made by Mr. Bader Qarmout and seconded by Ms. Maria Torres.

Luis Padilla asked whether the rate was negotiated with the firm. Ms. Grodman explained that the rate was included in the proposal. She advised that the rate has not increased from the prior retainer and that it is much lower than the other proposal which proposed a rate of \$425 for partners, \$325 for associates and \$150 for paralegals.

Maria Torres asked if this is the same firm HESAA currently uses and Anthony Falcone asked how long HESAA has engaged this firm. Ms. Grodman advised that this is the same firm HESAA is currently using and that the current contract was entered into five years ago.

Mr. Falcone questioned why HESAA only received two responses to the RFQ. Ms. Grodman responded that staff believes that at less than \$10,000 worth of work per year the contract might not have been lucrative enough for other firms to want to make the effort to propose.

The motion passed unanimously.

RESOLUTION 23:15 APPROVING THE POLICY AND PROCEDURES FOR NJCLASS FORGIVENESS/COMPROMISE DUE TO STUDENT DEATH OR TOTAL DISABILITY WHEN THERE IS A SURVIVING PARTY ON LOAN

Tera Gervasio, Director of Loans, presented this item to the Board.

Before you today is Resolution 23:15, Approving the Policy and Procedures for NJCLASS Forgiveness/Compromise Due to Student Death or Total and Permanent Disability when there is a surviving party on the loan(s).

The NJCLASS bond indentures as well as the NJCLASS Promissory note terms and conditions provide for loan forgiveness only in cases where the borrower dies or becomes totally and permanently disabled when they are the sole party to the loan. HESAA recognizes that the death or total and permanent disability of a student borrower exacts a toll on a family. As such, since the NJCLASS program's inception in 1991, there have been situations in which HESAA has forgiven/compromised NJCLASS loan balances that do not qualify for forgiveness under the terms of the bond indentures. In these cases, HESAA has used its own operating revenues to pay the loan balance and reimburse the bond trust estates.

In accordance with best practices, the State Auditor recommended that the HESAA Board review and approve the Loan Forgiveness/Compromise policy and procedure attached thereto. The Policy and Procedure document outlines the steps and guidelines staff follow to complete an analysis of each family's individual situation and to render an objective and non-arbitrary decision.

Additionally, the State Auditor recommended that on an annual basis, HESAA report to the Board on the families who have requested loan forgiveness/compromise, and of those families, the cases that were approved and those that were denied. Due to the personal information of these cases, this report will be shared with the Board during today's closed session.

It is recommended that the Board approve Resolution 23:15.

A motion to approve Resolution 23:15 was made by Fr. Michael Braden and seconded by Mr. James Allen.

The motion passed with twelve votes approving the Resolution and one vote in opposition to the Resolution.

PRIMARY CARE PRACTITIONER LOAN REDEMPTION PROGRAM PRESENTATION

Sharon Bryant, Director of the Primary Care Practitioner Loan Redemption Program, provided a summary of the attached power point to the Board.

RESOLUTION 24:15 PROPOSED AMENDMENTS TO THE REGULATIONS GOVERNING THE PRIMARY CARE PRACTITIONER LOAN REDEMPTION PROGRAM, N.J.A.C. 9A:16-2.1

Marnie Grodman, Esq., presented this item to the Board.

At the July meeting the Board approved the readoption with amendments of the regulations governing the Primary Care Practitioner Loan Program which was subsequently published in the September 8, 2015 New Jersey Register.

In response to the initial proposal to readopt N.J.A.C. 9A:16 HESAA received comments recommending amendments to expand the applicant pool for potential participants in the Primary Care Practitioner Loan Redemption Program. HESAA agreed that these amendments would be beneficial to the program. However, as the amendments were substantive they could not be made upon adoption and therefore need to be noticed as a new proposal.

As such, staff recommends approving the attached resolution proposing an amendment to N.J.A.C. 9A:16-2.1(a)1 which permits potential participants to apply to the Program before they move to New Jersey and an amendment to N.J.A.C. 9A:16-2.1(a)2 which permits potential participants to apply for the Program in anticipation of receiving their license. Both amendments will better serve New Jersey's underserved areas by encouraging potential participants to apply for the program and provide these much needed services.

A motion to approve Resolution 24:15 was made by Dr. Jon Larson and seconded by Fr. Michael Braden.

The motion passed unanimously.

EXECUTIVE DIRECTOR'S REPORT

Executive Director Gabrielle Charette gave the following report:

At the last Board meeting, you will recall approving our entering into a new lease with the landlord for this complex. I am pleased to report that in August we executed that lease. We are now in the process of securing permits, commencing renovations and relocating staff. This is going to be a multi month endeavor, but I am confident under the direction of Chief of Staff Myer it will be accomplished with as little disruption to our students, institutions and employees as possible. For those of you who are interested in seeing the new space we will be occupying in Building 1, which is currently under construction, we have arranged for a brief hard hat tour following this meeting.

Also at the last Board meeting, I informed you that I had appeared before the College Affordability Study Commission and presented an overview of our NJCLASS and NJBEST programs. Since that time, we have been working collaboratively with the Commission providing data as requested, and I have been invited to appear again in November.

Last month, we went live with our TAG Graduation Data Collection application. You will recall that last year this Board approved regulations requiring all TAG participating institutions to

annually report the graduation rates of TAG recipients. This year, institutions have until November 16th to report their graduation rates to HESAA using our online form. Several institutions have already submitted their reports and while the data is still preliminary the reports I have seen so far seem to indicate positive trends for TAG students. While there are a number of people here at HESAA who were instrumental in taking this project from concept to implementation, I would like to thank Magda Torres for being the point of contact with the institutions as technical questions arise.

This month we commenced our annual School Counselor Training Institute, we have 8 sessions scheduled across the state for high school guidance counselors to learn about the latest developments in both state and federal student aid programs. Counselors earn four professional development credits for their participation in what has become a "must do" course for New Jersey's high school guidance community.

One of the topics that I am sure will come up at the Institute sessions is the recent announcement by the US Department of Education to move to what is called prior, prior year for FAFSA filers in academic year 2017-2018. Prior, prior year allows students to file their FAFSAs with income data from two years prior as opposed to one year prior.

Since HESAA uses the FAFSA to determine eligibility for state funded aid this announcement was carefully studied by our Grants and Scholarship staff. While we think it may increase the number of requests for reevaluation of eligibility because of more recent changes in an individual's financial circumstances, on balance we believe it will allow students to file earlier, receive eligibility determinations sooner in the process, and therefore be better equipped to make school selection decisions armed with the knowledge of how much assistance they will receive.

We have also done some legal research with respect to this initiative and have determined that no statutory or regulatory changes are required to state law in order for HESAA to be able to utilize prior, prior year data.

Although there never seems to be a slow time at HESAA, certainly the summer is our busiest season. This summer was exceptionally busy due in part to the hacking in May of the Internal Revenue Service's computer system. Following the hacking, the IRS - for security reasons - prohibited tax filers from downloading their tax return transcripts requiring them to wait for paper copies to be sent via postal mail. This in turn caused a number of delays for state grant recipients as HESAA requires tax return transcripts for those students selected for verification.

Despite the busy time of year and the attendant challenges, I want to commend Heather Hillman who runs our Customer Care line and her staff. I received a number of complimentary letters and emails from students and parents this summer. I can't share them all with you but I would like to read part of one, "Hi Heather, I can't thank you enough for all the help you gave me. You even called me back on a Saturday! You had answers to all my questions, and if you didn't have them readily available, you found them and called me with them. "

Although the Customer Care line is always front and center in responding to inquiries they are not the only individuals at HESAA who provide quality customer service. Two weeks ago, I received an email from an administrator at Middletown High School South who wrote "I am sending this email to praise to two employees who work for your organization, Ms. Magda

Torres and Ms. Josette Greene. In the course of submitting information to the HESAA organization I encountered some difficulty. Both Ms. Greene and Ms. Torres went above and beyond to give assistance. They were professional and well trained. I deal with all types of customer service situations on a regular basis and these ladies deserve acknowledgement for their fine work."

NEW BUSINESS

Student Advisory Committee

Luis Padilla, chair of the SAC, requested input from the Board as to how the SAC could better serve the Board and the community.

Anthony Falcone and Christy Van Horn discussed ideas for the SAC members to provide education to the high schools. The Board agreed that as SAC members are closer in age to high school students, the students may respond to the college students better than school or HESAA officials. Shyam Sharma and Luis Padilla told the Board about an event they have scheduled at Lodi High School in November.

Anthony Falcone advised that it would be helpful for students to testify at the next College Affordability Study Commission hearing regarding the importance of programs such as TAG.

Dr. Larson advised that the SAC members may want to work with their sectors with regards to reaching out to legislators and testifying at budget meetings.

There was additional discussion regarding how the SAC members could encourage on time FAFSA filing and assist with College Goal Sunday.

ADJOURNMENT

Mr. Falcone announced that after adjourning this meeting the Board would enter a closed session, pursuant to the Open Public Meetings Act, to discuss pending litigation. Ms. Grodman explained this would be a closed session pursuant to N.J.S.A. 10:4-12b(3) and (7) discussing private records and matters that fall under the attorney-client privilege. Details of the discussion pertaining to pending litigation can be disclosed to the public upon the conclusion of the litigation. A motion to adjourn and go to closed session was made by Mr. Bader Qarmout and seconded by Mr. James Allen.

Mr. Falcone announced that the next regularly scheduled Board meeting is Thursday January 28, 2016 2015 at 2:00 PM. There will be ethics training conducted for all Board members immediately following the current meeting.

The meeting adjourned at 11:30 am.



State of New Jersey

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

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CHRIS CHRISTIE
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KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

M E M O R A N D U M

TO: Members, Higher Education Student Assistance Authority

FROM: HESAA Board Audit Committee

SUBJECT: Report of the Audit Committee and Resolution 17:15 Accepting and Adopting the Financial Statements and Independent Auditors' Reports for Fiscal Year 2015

DATE: October 22, 2015

Summary

Attached for your review, comment and adoption is Resolution 17:15 Accepting and Adopting the Financial Statements and Independent Auditors' Reports for Fiscal Year 2015.

Background

The Audit Committee of the Authority is comprised of the Chair, Vice-Chair and one public member of the Board, as well as a member of the Board having accounting or related financial experience, which includes Anthony Falcone, Christy Van Horn, James Allen and Chris McDonough.

The Committee met with representatives of CliftonLarsonAllen on October 15, 2015 to review and discuss the 2015 Financial Statements and CliftonLarsonAllen's unmodified reports.

Recommendations

The Audit Committee recommends that the HESAA Board accept and adopt the Financial Statements and Independent Auditors' Reports for Fiscal Year 2015.

Attachment

RESOLUTION 17:15

ACCEPTING AND ADOPTING THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS FOR FISCAL YEAR 2014

Moved by: Ms. Christy Van Horn

Seconded by: Mr. James Allen

WHEREAS: The Higher Education Student Assistance Authority (HESAA) prepared three separate financial statements for Fiscal Year 2015 ("2015 Financial Statements") which were audited by the independent auditor CliftonLarsonAllen LLP.; and

WHEREAS: The members of the Board Audit Committee met with CliftonLarsonAllen LLP on July 23, 2015, prior to the commencement of the audit; and

WHEREAS: The members of the Board Audit Committee have received and reviewed the Financial Statements and the unmodified reports of CliftonLarsonAllen LLP dated for the year ending June 30, 2015; and

WHEREAS: The members of the Board Audit Committee met with representatives of CliftonLarsonAllen LLP on October 15, 2015 to discuss the 2015 Financial Statements and CliftonLarsonAllen's unmodified reports; and

WHEREAS: The members of the Board Audit Committee recommend that the HESAA Board accept and adopt the Financial Statements and Independent Auditors' Reports for Fiscal Year 2015.

NOW THEREFORE, BE IT:

RESOLVED: That the HESAA Board accepts and adopts the Fiscal Year 2015 Financial Statements and Independent Auditor's Reports as attached hereto; and be it further

RESOLVED: That the attached Fiscal Year 2015 Financial Statements and Independent Auditor's Reports shall be posted on HESAA's website at www.HESAA.org, and submitted to the State Treasurer and Governor's Authorities Unit.

October 22, 2015



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

EXECUTIVE SUMMARY

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

We found the financial transactions included in our testing were in compliance with enabling legislation, were reasonable, and were recorded properly in the accounting systems. We also found the HESAA was meeting its administrative responsibilities for the grant, scholarship, and loan programs. In making these determinations, we noted certain internal control and compliance weaknesses meriting management's attention concerning the re-employment of retirees, the NJCLASS Program, the Law Enforcement Officer Memorial Scholarships Program, and the NJBEST.

We further determined select general controls over the HESAA's information systems were adequate, however, we noted weaknesses in the areas of system access controls and risk assessment/security plan that merit management's attention.

We also made an observation concerning contracted temporary employees.

AUDIT HIGHLIGHTS

- Select contracts with employment agencies contained "pass-through" agreements, through which the HESAA recommends individuals to be hired by the employment agencies and assigned to the HESAA. Nine former employees have returned to the HESAA through these agreements, including six former employees currently collecting a state pension. Although on the employment agencies' payrolls and charged under the contracts, the HESAA maintains complete control over the rate of pay, locations, assignments, and supervision of these employees. In addition, these individuals are performing job duties similar to their previous HESAA employment. The circumstances surrounding the current retirees working under these contracts appear to be a circumvention of post-retirement rules and there is sufficient evidence to refer the matter to the Division of Pensions and Benefits for further review.
- The NJCLASS program makes loans available for the benefit of students who have additional financial need beyond a federally insured student loan and who meet the established eligibility criteria. Our audit of this loan program disclosed internal control and/or compliance deficiencies in the areas of maximum loan amounts, reporting and tracking of loan fraud, loan forgiveness, and Internal Revenue Service reporting.
- We reviewed the general controls for three systems (NJGRANTS, NJCLASS, and NJLOANS) that contain student application and institutional data for grants, scholarships, and loans. Our review found that HESAA does not have formal policies and procedures for granting and removing user access to the three systems. Our review of individuals with access to at least one of the HESAA systems noted a number of Logon IDs that should be reviewed for removal and passwords that were not updated.

AUDITEE RESPONSE

The department generally concurs with our findings and recommendations.

For the complete audit report or to print this Executive Summary, click on the attached files.



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

Higher Education Student Assistance Authority

July 1, 2013 to April 30, 2015

**Stephen M. Eells
State Auditor**

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New Jersey State Legislature

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The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Vincent Prieto
Speaker of the General Assembly

Mr. David J. Rosen
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Higher Education Student Assistance Authority for the period of July 1, 2013 to April 30, 2015. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "S. Eells", with a large, sweeping flourish at the end.

Stephen M. Eells
State Auditor
October 6, 2015

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Scope

We have completed an audit of the Higher Education Student Assistance Authority (HESAA) for the period July 1, 2013 to April 30, 2015. Our audit included financial activities accounted for in the state's General Fund and the authority's off-line accounts. The HESAA is a component unit of the state and is organizationally considered in, but not of, the Department of State. The HESAA functions independent of any supervision and control by the department as a non-profit, state-designated authority. The HESAA administers New Jersey's student grant and scholarship programs including the Tuition Aid Grant (TAG) and the New Jersey Student Tuition Assistance Reward Scholarship (NJSTARS) Programs. In addition, it administers the New Jersey College Loans to Assist State Students (NJCLASS) Program and the New Jersey Better Educational Savings Trust (NJBEST). HESAA expenditures for the audit period totaled \$822 million.

We also reviewed certain general controls over the HESAA's information systems including security management, physical security, contingency planning, change management, and logical access.

Objectives

The objectives of our audit were to determine whether financial transactions were in compliance with enabling legislation, were reasonable, and were recorded properly in the accounting systems. An additional objective was to determine whether the HESAA was meeting its administrative responsibilities for the grant, scholarship, and loan programs. We also determined the adequacy of select general controls over the HESAA's information systems including security management, physical security, contingency planning, change management, and logical access.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of Treasury, and the policies of the HESAA. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions and student records at the HESAA and at selected institutions. We also read budget messages, reviewed financial

trends, and interviewed HESAA and institution personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were judgmentally selected and were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Our samples of grant, scholarship, and loan recipients were judgmentally selected and designed to determine eligibility and program compliance.

Conclusions

We found the financial transactions included in our testing were in compliance with enabling legislation, were reasonable, and were recorded properly in the accounting systems. We also found the HESAA was meeting its administrative responsibilities for the grant, scholarship, and loan programs. In making these determinations, we noted certain internal control and compliance weaknesses meriting management's attention concerning the re-employment of retirees, the NJCLASS Program, the Law Enforcement Officer Memorial Scholarships Program, and the NJBEST.

We further determined select general controls over the HESAA's information systems were adequate, however, we noted weaknesses in the areas of system access controls and risk assessment/security plan that merit management's attention.

We also made an observation concerning contracted temporary employees.

Former HESAA Employees Placed on Employment Agency Payroll

Practice appears to circumvent the Division of Pensions and Benefits post-retirement rules.

The HESAA augments its workforce through contracts with a number of employment agencies. Within certain contracts the HESAA established pass-through agreements, through which the HESAA recommends individuals to be hired by an employment agency and assigned to the HESAA. Nine former employees have returned to the HESAA through these agreements, including six former employees currently collecting a state pension. Although on the employment agencies' payrolls and charged under the contracts, the HESAA maintains complete control over the rate of pay, locations, assignments, and supervision of these employees. In addition, these individuals are performing job duties similar to their previous HESAA employment. For their general and administrative role, the employment agencies receive fees ranging from 22 percent to 30 percent above the employees' hourly rates, totaling over \$100,000 during the audit period.

New Jersey Statutes provide for post-retirement work restrictions that limit the amount of annual earnings and New Jersey Administrative Code requires "Bona fide severance from employment" before the re-employment of retired members from any of New Jersey's state-administered retirement systems. This is necessary to comply with Internal Revenue Code requirements. In addition, there is a form for all state agencies titled, "Notification of Employment after Retirement", which should be submitted within 15 calendar days of the date of hire for review by the Division of Pensions and Benefits. The circumstances surrounding the current retirees working under these contracts appear to be a circumvention of these post-retirement rules and there is sufficient evidence to refer the matter to the Division of Pensions and Benefits for further review.

HESAA also operates a summer internship program in a similar vein in which they select the individuals and establish the hourly rate of pay but use the employment agency as the conduit.

Recommendation

We recommend the HESAA refer this matter to the Division of Pension and Benefits. In addition, they should discontinue their practice of placing former employees or retirees on employment agencies' payrolls. If there is a continued, justifiable need for the services provided by these individuals, they should be brought back as employees on the authority's payroll, subject to the limitations and requirements set by the Division of Pensions and Benefits.

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New Jersey College Loans to Assist State Students (NJCLASS) Program

Program controls need to be strengthened.

The NJCLASS program established within the HESAA, “shall make loans available in such amounts necessary to ensure that student loans remain generally available to, or for the benefit of, eligible students who are not eligible for, or have additional financial need beyond, a federally insured student loan and who meet the established eligibility criteria”. Our audit of the loan program disclosed internal control and/or compliance deficiencies in the areas of maximum loan amounts, reporting and tracking of loan fraud, loan forgiveness, and Internal Revenue Service reporting.

Maximum Loan Amount

New Jersey Statutes state a maximum loan amount should be established based on such factors as the cost of attending a particular institution, family income, value of family assets, or other factors the HESAA may consider relevant. We found the HESAA has not established a maximum loan amount or any formulaic process to determine one on a case-by-case basis. This has resulted in 1,242 individuals that have had total loans disbursed over \$200,000; whether student, co-borrower, and/or cosigner. In one instance, a family of six with a combined parental yearly income of \$181,000, residing in a house valued at approximately \$163,000, received loans totaling \$832,395.

Reporting and Tracking of Fraud

New Jersey Statutes state that any person who having obtained an NJCLASS loan, solicits, applies for, or accepts such loan or any person who knowingly or willfully furnishes any false or misleading information for the purpose of obtaining a loan, or enabling another to obtain a loan, shall be guilty of a crime of the fourth degree. We found the HESAA determined 16 individuals in 2013 and 7 individuals in 2014 had allegedly obtained 39 individual loans totaling \$456,727 fraudulently and did not refer them to the New Jersey Office of the Attorney General for prosecution. We further found a HESAA policy that states when an individual declares they were put on a loan fraudulently, their information is completely removed from the NJCLASS system. This prevents the HESAA from performing edit checks on future applications to identify similarities with past fraudulent activity.

Forgiveness

The New Jersey Administrative Code establishes rules governing the discharge of NJCLASS loan balances for death or total and permanent disability of a borrower. These rules also state that other borrowers or co-signers of the loan would remain obligated to repay the loan. The HESAA executive staff created an internal policy, without seeking the HESAA Board’s approval, which allows the two individuals which currently comprise the executive staff to forgive loan obligations of other borrowers and co-signers. The NJCLASS trust is refunded

through the HESAA general revenue sources without board involvement. HESAA management has stated that the approval of the HESAA Board was not required for this policy. We found from July 2013 to August 2014, HESAA executive staff approved seven other borrowers or co-signers for loan forgiveness totaling \$211,595.

Internal Revenue Service Reporting

The Internal Revenue Service requires a Form 1099-C Cancellation of Debt for any student loan principal canceled of \$600 or more to be sent to the taxpayer and to the Internal Revenue Service. We found seven individuals that should have received a Form 1099-C for calendar year 2013 totaling \$211,554 but did not. Principal amounts canceled ranged from \$818 to \$76,487. In addition, we found one individual that received a Form 1099-C for \$39,166 representing four loans when the actual amount canceled totaled \$52,835 for five loans, a difference of \$13,669.

Recommendation

We recommend the HESAA improve their internal control and/or compliance deficiencies in the areas of maximum loan amounts, reporting and tracking of fraud, forgiveness, and Internal Revenue Service reporting. Specifically HESAA should:

- Comply with New Jersey Statutes by establishing a maximum loan amount.
- Refer all suspected fraud cases to the Attorney General's Office and maintain the names on the NJCLASS system.
- Obtain approval from the HESAA Board for the loan forgiveness policy. In addition, the Board should be included in the loan forgiveness process to ensure transparency.
- Comply with Internal Revenue Service requirements and issue Form 1099-C when applicable.

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Law Enforcement Officer Memorial Scholarships Program

Improvements should be made to the payment process.

The Law Enforcement Officer Memorial Scholarships Program provides scholarships for undergraduate study at eligible New Jersey institutions of higher education for the dependent children of New Jersey law enforcement officers killed in the line of duty. The amount of the recipient's scholarship is determined annually and is renewable for up to four years. Certifications are sent to the institutions to verify the dependent is currently registered for the semester and making satisfactory academic progress. In addition, the HESAA requests certification of the student's enrollment status (full or part-time) and the cost of attendance

depending upon whether the student commutes or boards at the institution. Eight individuals received at least one scholarship for the period Fall 2013 through Fall 2014 totaling \$194,438. Our review of those scholarships found four instances of improper payments and noncompliance with the New Jersey Administrative Code (NJAC) including the following.

- \$15,274 was sent to an institution even though the certification stated the student was not enrolled. The institution noted the error and subsequently returned the funds.
- \$21,465 was sent to an institution even though the certification stated the cost of attendance would be \$9,625 resulting in an overpayment of \$11,840.
- \$5,248 was sent to an institution even though the certification stated the student was part-time. The NJAC requires the student to be currently enrolled, or plan to be enrolled, as a full-time undergraduate student.
- \$12,648 was sent to an institution even though the certification stated the cost of attendance would be \$6,336. The amount paid was based on the cost of attendance shown on the institution's internet site.

In addition, the NJAC requires that students should receive notification specifying the amount of the scholarship based on their annual cost of undergraduate study and other available state financial assistance. No notifications were made to the students.

Recommendation

We recommend the HESAA strengthen the overall review process of the certifications received from the institutions. In addition, the HESAA should provide student notifications as required by the New Jersey Administrative Code.

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New Jersey's 529 College Savings Plan (NJBEST)

Accurate and complete data should be maintained and utilized for scholarship awards.

A database used by the HESAA to administer the scholarship portion of the New Jersey Better Educational Savings Trust (NJBEST) was found to contain inaccurate and incomplete data for the issuance and tracking of scholarships. NJBEST is a qualified tuition savings program administered by the HESAA. An investment management firm is under contract to manage the college cost savings portion of the program and provide the HESAA with account information which they use to administer an associated scholarship program. On average, 548 one-time scholarships totaling \$592,000 are awarded annually to individuals within the NJBEST program. Scholarships are awarded to students who attend a New Jersey institution of higher education and meet eligibility requirements which include having a NJBEST account for at

least four years; making account contributions of \$1,200 or greater; and having made a qualified withdrawal from the account. We found the database of 15,000 records contained 25 individuals with two social security numbers, 143 individuals on the database twice, and 1,133 individuals who received scholarships totaling \$1.1 million with a blank disbursement date field, which would document the required withdrawal was made.

Six months after the initial review of the database, HESAA provided an updated database which also included inaccurate and incomplete data. Although improvements had been made, the database included 14 individuals that had two social security numbers, 4 individuals were on the database twice, and 1,104 individuals received scholarships totaling \$1.1 million with blank disbursement date field. In addition, we noted one individual, who appeared twice on the database, received two scholarships: one for \$1,250 in January 2014 and another for \$1,500 in November 2014.

Recommendation

We recommend the HESAA establish an accurate and complete database to include all of the eligibility requirement information to ensure the scholarships are only given when requirements are met by the student.

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System Access Controls

Access control policies and procedures should be formally developed and properly implemented.

The HESAA utilizes three application systems to help meet its goals and objectives. We reviewed the general controls for the three systems (NJGRANTS, NJCLASS, and NJLOANS) that contain student application and institutional data for grants, scholarships, and loans. Our review found that HESAA does not have formal policies and procedures for granting and removing user access to the three systems. Attached to user access request forms there is a Summary of Security Awareness for HESAA Systems (summary). The summary outlines that inactive logon ID's will be suspended after 6 months and deleted after one year. In addition, logon passwords are required to be changed every 90 days. Access to the systems is granted to staff and contracted employees at the HESAA, in-state and out-of-state institutions, lenders, and attorneys. Our review of the 942 individuals with access to at least one of the HESAA systems disclosed the following.

- There were 80 logon IDs that had not accessed a system in greater than six months.
- There were 21 logon IDs that had not accessed a system in greater than one year.
- There were 305 logon IDs that had not updated passwords in greater than 90 days.

An additional review of system access found the following.

- Seven users had multiple logon IDs associated with their name, one of which had three separate logon IDs.
- Separated employees are not removed timely. Three of forty full-time employees separated between July 1, 2012 and December 31, 2014 did not have their access removed timely from the system, one of which had access removed 124 days after the date of separation. Six of forty-two separated temporary employees during that same time period did not have their access removed timely, one of which had access removed 60 days after the date of separation.

Federal Information System Controls Audit Manual (FISCAM) standards require application access control policies be formally developed, documented, and properly implemented. Effective application access controls provide reasonable assurance that only authorized personnel have access to the application and only for authorized purposes.

Recommendation

We recommend the HESAA formally develop and implement access control policies and procedures including the guidelines within the Summary of Security Awareness for HESAA Systems. In addition, separated individuals should be removed from the systems in a timely manner.

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Risk Assessment/Security Plan

A security plan should be formally developed to identify threats to each system.

Federal Information System Controls Audit Manual (FISCAM) standards require the development, documentation, and implementation of a security plan based on a risk assessment of each system or application. The lack of a comprehensive security plan increases the risk that existing controls may be ineffective or inadequate to protect the application and its data against unauthorized use, disclosure, modification, or loss. Our review found no evidence that risk assessments are performed or documented. In addition, no formal security plan has been developed, documented, and implemented for the NJGRANTS and NJCLASS systems. A formal security plan has been developed for the NJLOANS system, but it is outdated and does not include certain key information that should be included pursuant to the FISCAM standards.

Recommendation

We recommend HESAA formally perform risk assessments and develop, document, and implement security plans for each application or system pursuant to the FISCAM standards.

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Observation

Contracted Temporary Employees

The Fiscal Year 2015 HESAA's workforce as presented in the 2016 State Budget indicates that the authority operates with a workforce of 134 employees. However, the HESAA has an additional 110 individuals on staff through the use of temporary employment agencies. This distorts the actual workforce needed to operate the authority and it would appear to be a questionable business practice to have such a high percentage of employees with little or no "ownership" for the mission of the HESAA and having access to customer data. In addition, we noted a temporary employee holding an Assistant Director position and fifteen temporary employees that have been assigned to the HESAA for over four years.

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State of New Jersey

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

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September 29, 2015

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

Mr. John J. Termyna, Assistant State Auditor
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Termyna:

Thank you for the opportunity to review and respond to the draft audit report regarding the Higher Education Student Assistance Authority (HESAA) for the period July 1, 2013 to April 30, 2015.

I am pleased that the audit concluded that HESAA's financial transactions were in compliance with enabling legislation, were reasonable, were recorded properly in the accounting systems and that HESAA was meeting its administrative responsibility for the grant, scholarship and loan programs.

Notwithstanding the above, the audit noted some matters which merit management's attention. Below, HESAA offers information on the current status of these matters, as well as our corrective actions to address these matters and their corresponding recommendations.

Former HESAA Employees Placed on Employment Agency Payroll

Recommendation:

We recommend the HESAA refer this matter to the Division of Pension and Benefits. In addition, they should discontinue their practice of placing former employees or retirees on employment agencies' payrolls. If there is a continued, justifiable need for the services provided by these individuals, they should be brought back as employees on the authority's payroll, subject to the limitations and requirements set by the Division of Pensions and Benefits.

Response:

HESAA has contacted the New Jersey Division of Pensions and Benefits (Division) to confirm that its hiring practices comply with applicable rules governing the employment of retirees. HESAA will fully comply with the Division's guidance on this matter.

New Jersey College Loans to Assist State Students (NJCLASS) Program**Recommendation:**

We recommend the HESAA improve their internal control and/or compliance deficiencies in the areas of maximum loan amounts, reporting and tracking of fraud, forgiveness, and Internal Revenue Service reporting. Specifically HESAA should:

- * Comply with New Jersey Statutes by establishing a maximum loan amount.*
- * Refer all suspected fraud cases to the Attorney General's Office and maintain the names on the NJCLASS system.*
- * Obtain approval from the HESAA Board for the loan forgiveness policy. In addition, the Board should be included in the loan forgiveness process to ensure transparency.*
- * Comply with Internal Revenue Service requirements and issue Form 1099-C when applicable.*

Response:

With respect to the first bullet, HESAA believes its regulation at N.J.A.C. 9A:10-6.6 which states in pertinent part "the amount borrowed for an NJCLASS Loan Program loan shall not exceed a student's estimated cost of attendance at the eligible institution minus all other financial assistance for which the student is eligible for the academic period for which the loan is intended" does establish maximum loan amounts in compliance with the statute. It should be noted that before HESAA makes any NJCLASS loan, we require school certification to ensure that the amount of the loan is the cost of attendance less all other financial assistance. In cases where the loan is not certified, HESAA cancels the loan. If the loan is certified for an amount less than requested by the borrower, HESAA only approves the loan for the certified amount.

Notwithstanding the above, we understand that the State Auditor believes that a maximum loan amount should be a specific aggregate dollar amount, rather than the cost of attendance less other financial aid. Given the negative consequences of over-borrowing for both the borrowers and the Authority, HESAA has formed an internal Task Force to look at this issue and determine an appropriate aggregate dollar amount.

With respect to the second bullet, upon this issue being brought to our attention, we immediately began referring all fraud cases to the Attorney General's Office.

As to maintaining the names on the NJCLASS system, it is important to note that when a fraud or forgery is reported to HESAA, the alleged victim must submit documentation including a police report to HESAA to support his/her claim. HESAA then thoroughly investigates the claim and renders a determination in the matter. After the investigation is complete, and only when it is determined that a fraud or forgery actually occurred, will HESAA remove the victim's name from the loan record to prevent any further credit reporting of the victim in accordance with the federal Fair Credit Reporting Act. HESAA believes that not removing an individual who has successfully demonstrated that he/she is a victim of fraud or forgery could unfairly prejudice that individual in future loan applications. However, should a victim of fraud be released from a loan, co-sign a subsequent loan and then claim they were victimized a second time, HESAA in the second investigation will have the individual's history and will give the subsequent claim of fraud or forgery the additional scrutiny it merits. Finally, it should be noted that when one individual successfully demonstrates fraud or forgery, all other parties to the loan remain on the system so that in the event the perpetrator of the fraud or forgery attempts to apply for additional loans his/her application will be flagged and handled appropriately.

With respect to the third bullet, the agenda for the upcoming October 22, 2015 Board meeting will include approval of the loan forgiveness policy. In addition, the Board will be fully briefed on all loan forgiveness requests received, granted or denied during Fiscal Year 2015. Due to the Personally Identifiable Information (PII) in the loan forgiveness applications, this briefing will take place in closed session and will occur on an annual basis each October for the fiscal year just ended.

With respect to the fourth bullet, HESAA concurs with the State Auditor's finding and has implemented a reconciliation process between the Finance Department and the Servicing and Collections Unit to ensure that all cases of loan discharge and/or loan forgiveness are reported appropriately to the IRS on a Form 1099-C and in the timeframes mandated by the IRS.

Law Enforcement Officer Memorial Scholarships Program

Recommendation:

We recommend that the HESAA strengthen the overall review process of the certifications received from the institutions. In addition, the HESAA should provide student notifications as required by the New Jersey Administrative Code.

Response:

HESAA concurs that a strengthening of the overall review process was necessary and has taken steps to achieve same. For example, HESAA has reformatted the school and HESAA certification form to clearly indicate to the schools and HESAA staff the certification steps that must be followed and the eligibility criteria that must be met. In addition, HESAA has implemented a final review process that requires all approved applications be re-checked one last time prior to payment. HESAA concurs that students should be notified directly by the Authority and will do so on a going forward basis.

Finally, it should be noted that in the cases cited in the report where errors were made, all erroneous payments were refunded to the Authority.

New Jersey's 529 College Savings Plan

Recommendation:

We recommend the HESAA establish an accurate and complete database to include all of the eligibility requirement information to ensure the scholarships are only given when requirements are met by the student.

Response:

HESAA concurs with this recommendation; and since this matter was initially brought to our attention, we have been working with Franklin Templeton to refine the data file they provide to us. The file Franklin Templeton now sends HESAA contains the necessary eligibility criteria including disbursement dates.

With respect to duplicate individuals appearing on the report, each instance must be investigated on a case by case basis, to make sure that they are indeed duplicates and not individuals who have more than one NJBEST account. Both HESAA and Franklin Templeton have established procedures and processes to ensure that true duplicates are culled from the file.

Systems Access Controls

Recommendation:

We recommend the HESAA formally, develop and implement access control policies and procedures including the guidelines within the Summary of Security Awareness for HESAA Systems. In addition, separated individuals should be removed from the systems in a timely manner.

Response:

HESAA concurs with this recommendation and we are in the process of developing and implementing access control policies and procedures which will address, among other things, removing system access for separated individuals in a timely manner.

Risk Assessment/Security Plan

Recommendation:

We recommend HESAA formally perform risk assessments and develop, document, and implement security plans for each application or system.

Response:

HESAA concurs with this recommendation and will develop, document, and implement security plans for each application or system which will include key information pursuant to FISCAM standards. Development of the plans will include a risk assessment phase.

Contracted Temporary Employees

While pleased with the services rendered by our temporary employees, HESAA recognizes the benefits of hiring full-time employees and has made significant strides in this direction. To date, numerous job postings have been issued, search committees formed, interviews conducted and most importantly qualified candidates hired. Specifically, with respect to the Assistant Director position noted in the audit, HESAA has identified a qualified candidate, received the requisite approval to hire, and made an offer that was accepted with an anticipated start date of Monday, October 5, 2015.

In closing, I would like to thank your audit staff for their diligent work and the professionalism they exhibited throughout their time at HESAA. If you have any questions, please do not hesitate to contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gabrielle Charette', with a long horizontal flourish extending to the right.

Gabrielle Charette, Esq.
Executive Director



State of New Jersey

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Governor

KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

FROM: Gabrielle Charette, Esq. 
Executive Director

SUBJECT: Report of the Budget Committee and Resolution 18:15 Adopting a Board Budget Policy Statement for Fiscal Year 2017

DATE: October 22, 2015

Summary

Attached for your review, comment and adoption is Resolution 18:15 Adopting a Board Budget Policy Statement for Fiscal Year 2017. Dr. Jon Larson will report the results of the Budget Committee's meeting.

In general, the Committee's recommendation for FY 2017 continues support for those policies advanced in Fiscal Year 2016.

Background

The Budget Committee of the Authority is comprised of the Executive Committee of the Board, which includes Gabrielle Charette, Anthony Falcone, Christy Van Horn, James Allen and Jon Larson.

The Committee met on October 1, 2015 with HESAA staff to develop a Board Budget Policy Statement for Fiscal Year 2017.

Recommendations

The Budget Committee recommends adoption of the attached policy statement and Resolution 18:15.

Attachments (2)

RESOLUTION 18:15
ADOPTING A BOARD BUDGET POLICY STATEMENT FOR
STATE FISCAL YEAR 2017

Moved by: Mr. Bader Qarmout
Seconded by: Ms. Maria Torres

WHEREAS: The Higher Education Student Assistance Authority (HESAA) Board is responsible for recommending budget policies in support of New Jersey's student financial aid programs; and

WHEREAS: On October 1, 2015 the Board's budget committee met with staff to review background information and to draft a FY 2017 budget policy statement for consideration by the full Board.

NOW THEREFORE, LET IT BE:

RESOLVED: That the HESAA Board strongly affirms the importance of preserving education access and affordability for all residents of the State of New Jersey and recognizing academic achievement; and be it further

RESOLVED: That the Board hereby adopts the budget policy statement for FY 2017 as advanced by the budget committee and described in the attachment to this resolution; and be it further

RESOLVED: That HESAA shall endeavor to maximize FY 2017 resources available for State-funded student assistance programs in keeping with the attached budget policy statement, subject to refinement of underlying projections.

October 22, 2015

FY 2017 BUDGET POLICY STATEMENT FOR THE HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY BOARD

Pursuant to N.J.S.A. 18A:71A-9f., the Higher Education Student Assistance Authority (HESAA) is the lead State agency in determining policy on student assistance issues. Consequently, the HESAA Board is charged with developing budget recommendations for all programs administered by the Authority. These recommendations are submitted to the Executive Director for review and submission to the Division of Budget and Accounting.

The Board would like to take this opportunity to thank Governor Christie and the Legislature for their sustained support of New Jersey's State grant and scholarship programs during these challenging fiscal times. Moreover, the Board, on behalf of the students and families served, would also like to express its appreciation for this on-going commitment. During the 2015-2016 academic year, the State's financial aid programs will provide approximately 87,000 awards to State residents to pursue a postsecondary education, ultimately benefitting New Jersey's economy.

The Fiscal Year 2017 Budget Policy Statement reflects the Board's fundamental principles of promoting access and affordability to postsecondary education for New Jersey residents through need-based student financial aid and merit-based scholarship programs. In formulating this budget policy recommendation, the Board remained mindful of its role as student advocate to achieve full funding of the full-time TAG Program, while recognizing the on-going fiscal challenges facing the State of New Jersey.

Funding requirements based on various TAG table parameters were reviewed. The Board feels that the funding recommendation outlined below is the most reasonable in light of the State's fiscal challenges and the needs of New Jersey students and families. However, it wishes to reaffirm its long-standing commitment to achieve full funding of the full-time TAG Program and affordability, access and choice for all students. The full-time TAG Program is one of the most important sources of aid available to low- and middle-income New Jersey students, who must cover ever-increasing postsecondary education expenses. Full funding of the TAG Program would help these students meet expenses and achieve their educational goals, ultimately benefitting New Jersey's economy.

The funding recommendations and priorities staff will advance over the course of the budget process will reflect the Board's position as expressed in this policy statement.

General Policy Recommendations

- The role of the HESAA Board in the budget process is to advocate policies that advance higher education access, choice, affordability, and academic achievement for New Jersey residents.
- The Board supports, as its funding priority, ensuring protection of the State's historical commitment to all eligible full-time students under the need-based TAG Program.
- The Board supports continued funding of the Part-Time TAG Program for County College Students.
- Future award values, funding and expenditures for the Part-Time TAG Program for County College Students, from year to year or within a year, must always be considered separately from

award values, funding and expenditures for the full-time TAG Program because TAG and Part-Time TAG are separate line items in the State budget.

- FY2017 is the fifth year of the Governor's Urban Scholarship providing \$1,000 renewable scholarship awards to students who rank in the top 5% of their class with a GPA of 3.0 or higher and demonstrate financial need, no matter whether they attend a public or non-public high school. Students must reside in but not necessarily attend high school in one of 14 high-need communities identified by the NJ Department of Education and the NJ Department of Community Affairs.

Key to maintaining higher education access and affordability for New Jersey families is the ability of State grant programs to provide predictability and stability to financially needy students and their families and the institutions they seek to attend. With this goal in mind, we present the following funding recommendations:

Funding Policy Recommendations

Tuition Aid Grants for Full-Time Students

The HESAA Board recommends the following funding policies for full-time TAG:

- Awards to all eligible students who apply by the application deadlines.
- Continue to provide full-time TAG awards using the base-year percentage increase structure. Beginning in FY 2015, full-time TAG awards were structured on a base-year percentage increase. The **base-plus percentage structure** ensures all awards, in all eligibility indexes at all institutions are increased by a percentage that is fixed annually.
- Recognize an increase in the number of eligible recipients to include 2,000 additional new awards.
- Provide for a contingency mechanism that ensures sufficient reserves to cover increases in program costs not anticipated in the budget.

Part-Time Tuition Aid Grants for EOF Students

The Board recommends funding for the Part-Time TAG for EOF Students Program at a level sufficient to maintain the current program and reflect any increases in TAG.

Part-Time Tuition Aid Grant Program for County College Students

In accordance with the Board's long-standing tenets for this program, provide awards to all eligible students who apply by the application deadlines at one-half or three-quarters of the dollar value of full-time awards, within available funding levels.

NJ Student Tuition Assistance Reward Scholarship/NJ Student Tuition Assistance Reward Scholarship II Programs

The Board recommends continued funding to support all students who meet the eligibility requirements of the NJ STARS and NJ STARS II Programs.

Governor's Urban Scholarship Program

The Governor's Urban Scholarship Program, created in 2012, provides New Jersey high school students who reside in 14 high-need communities identified by the Department of Education (DOE) and the Department of Community Affairs (DCA) the opportunity and resources they need to pursue higher education opportunities. For FY 2017 the fifth class of \$1,000 renewable scholarship awards will be made available to New Jersey high school graduates who rank in the top 5% of their class with a GPA of 3.0 or higher and demonstrate financial need, no matter whether they attend a public or non-public high school. In addition, a persistency award of \$500 is provided to students in their final term of the scholarship upon completion of their associate or baccalaureate degree. The Board recommends continued funding to support the Governor's Urban Scholarship recipients.

All Other HESAA Programs Funded through State Appropriations

The Board recommends funding the following programs as indicated below:

Survivor Tuition Benefits Program

To fund anticipated program participants, projected program balances will be sufficient to fund FY 2017 awards.

World Trade Center Scholarship Program

Recognizing that the program is committed to funding the majority of the students through 2024, the Board requests increasing funding by \$113,000 for a total of \$315,000 for FY 2017 to maintain scholarships at current award value of \$5,000 per year.

Primary Care Practitioner/Nursing Faculty Loan Redemption Program

The Board recommends continuation of level funding for this program which provides funding for both redemption of student loans for practitioners in medically underserved areas across the State as well as funding for the Nursing Faculty Loan Redemption Program which is one mechanism for addressing the State's current critical shortage of both nurses and nursing faculty.

HESAA Revenue and Fee-Supported Programs

Federal Family Education Loan Program (FFELP)
Federal Direct Loan Servicing
New Jersey College Loans to Assist State Students (NJCLASS)
New Jersey Better Educational Savings Trust (NJBEST)
Program NJBEST Scholarships
Law Enforcement Officer Memorial Scholarship Program
World Trade Center Scholarship Program (Public and Private Donations)

FOR INFORMATION ONLY - THIS PAGE IS NOT PART OF THE RESOLUTION

Estimated **Additional*** State Appropriations Necessary to Implement the HESAA Board's FY 2017
Budget Policy Statement

Full-Time Tuition Aid Grants

Provides awards for students based on their current award levels plus a percentage increase not to exceed 2.0%.

Table assumes 68,048 awards –

An increase of 2,000 additional new awards \$17,817,000

Part-Time TAG for County Colleges

Provides pro-rated full-time TAG awards to students enrolled part-time (6-11 credits)

Table assumes 12,619 half-time and full-time awards

No increase in the number of awards \$160,915

NJ STARS/NJ STARS II

NJ STARS provides scholarships to cover up to the cost of tuition for students who graduate in the top 15% of their class and attend their county college full-time. NJ STARS II is a continuation of NJ STARS. The scholarship of up to \$2500 is available for graduating NJ STARS who transfer to New Jersey four-year public and private colleges and universities.

No increase in the number of awards

Recognizes anticipated tuition increases at the county colleges \$99,500

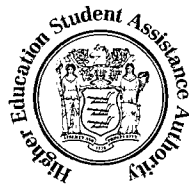
World Trade Center Scholarship Program

The World Trade Center Scholarship program provides \$5,000 annual scholarships to the surviving children of individuals killed or missing as a result of the attacks on September 11, 2001, or the children of individuals who have died as a result of exposure to the sites. This program has been supported in part by private donations which will be fully expended during FY 2017.

State funds required to maintain scholarship awards at \$5,000 annually \$113,000

**Total Estimated Additional State Appropriations Potentially Needed
to Implement the HESAA Board's FY 2016 Budget Policy Statement**

\$18,190,415



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Governor

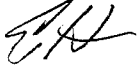
KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

THROUGH: Gabrielle Charette, Esq. 
Executive Director

FROM: Eugene Hutchins 
Chief Financial Officer

SUBJECT: Resolution 19:15 Appointing a Senior Manager for Authority Bond Issues

DATE: October 22, 2015

Introduction

The Higher Education Student Assistance Authority (“HESAA” or the “Authority”) engages a senior manager for its bond transactions. In negotiated sales, such as those currently utilized by the Authority, the Senior Manager is responsible for developing structuring proposals, working with the rating agencies in the detailed cashflow modeling of the bond transactions, and the marketing and management of the initial sale of the bonds. The Senior Manager works with HESAA’s Financial Advisor to answer any issues raised by bond counsel, the bond trustee, rating agencies, and potential investors.

Background

A. Selection Process

The Authority procedures call for Request for Proposal (RFP) documents to be developed and circulated to prospective underwriting firms by Authority staff. On August 31, 2015 the RFPs were sent to 64 underwriting firms who perform the role of Senior Manager in bond transactions, posted on HESAA’s website and advertised in the Trenton Times, Star Ledger, Courier News and Home News. An evaluation team consisting of the Executive Director, the Chief Financial Officer, Controller and Director of Legal & Governmental Affairs reviewed the proposals based on the following criteria:

1. The experience of the firm in advising on tax-exempt student loan revenue bond offerings;
2. the relevant experience of the staff assigned to the Authority;
3. the quality of the response to the RFP;
4. the ability to meet the needs of the Authority; and
5. the fee proposed.

HESAA received two proposals from underwriting firms. Of the two proposals, Bank of America Merrill Lynch's proposal outlined a set of services that most closely matches the Authority's needs. Bank of America Merrill Lynch has proposed to work closely with Authority staff in the continued development of financing structures tailored to match program delivery objectives and the firm has a proven track record in bringing bond issues to market in an effective and efficient manner. Additionally, the Bank of America Merrill Lynch proposal outlined the depth of experience of assigned staff and the firm's strong support of the Authority's after bond sale needs, including consultation to the Authority regarding proposed changes to its loan programs.

The other proposal also reflected student loan industry experience but not to the same extent as Bank of America Merrill Lynch. The Bank of America Merrill Lynch proposal reflected an in-depth understanding of the issues involved in the structuring of the Authority's bond issues, the scope of work currently required in working with the rating agency modeling teams, and the financing and student benefit issues facing the Authority's loan programs. Bank of America Merrill Lynch has demonstrated its effectiveness as an underwriter during previous HESAA bond issues. In 2009 - 2015, Bank of America Merrill Lynch structured transactions which eliminated nearly \$1.1 billion of failed ARS and terminated two thirds of a billion dollars of swap notional amounts, while creating over \$100 million in equity. Bank of America Merrill Lynch also completed the first placement of municipal subordinated bonds for student loans since before the financial crisis. In the last year and a half, the firm structured transactions that provided another \$450 million in capital for the origination of NJCLASS loans at favorable rates, which enabled HESAA to offer its borrowers lower loan rates. Bank of America Merrill Lynch has also provided valuable portfolio analysis and advice to the Authority on restructuring of its student loan underwriting criteria, which has contributed to lower NJCLASS loan default rates over the last several years.

The proposed fee caps to Bank of America from a negotiated bond sale are based upon rates per thousand dollars of bonds sold and the types of bonds sold. The proposed rates are inclusive of management fees, expenses, and 'takedown' (or the commission rate paid to the bond salespeople). Takedown is set relative to market conditions at the time of sale in consultation with the Financial Advisor. Bank of America has proposed a cost of \$7.54 per thousand for fixed rate bonds. The proposed fees are based on an estimated \$250 Million Authority bond sale.

Although its fee structure is higher than the other proposing firm, the anticipated savings in resulting lower costs of capital as a result of the firm's superior level of student loan financing experience, along with its demonstrated strength in developing innovative structures and

excellent execution are expected to benefit HESAA and its borrowers many multiples above the differential in proposed fees.

Bank of America Merrill Lynch has also proposed to continue its assistance to HESAA through post-sale management of trust estate finances, including advising the Authority's finance staff on the early retirement of bonds when possible, which will result in substantial additional cost savings to the Authority.

It is the opinion of the RFP Evaluation Committee that Bank of America Merrill Lynch's approach to developing the Authority's bond financings and the scope of services proposed were superior to the other respondent, and closely meet the needs of the Authority.

Recommendation

It is recommended that the Board approve the attached Resolution 19:15, Approving the Appointment of Bank of America Merrill Lynch as the Authority's Senior Manager for 2016 and 2017.

Attachments

RESOLUTION 19:15

APPOINTING A SENIOR MANAGER FOR AUTHORITY BOND ISSUES

Moved by: Ms. Jean McDonald Rash

Seconded by: Dr. Jon Larson

WHEREAS: There is a need for the Higher Education Student Assistance Authority (the "Authority") to appoint a Senior Manager in connection with its Student Loan Revenue Bonds; and

WHEREAS: The Authority has established procedures for the methods of procurement of advisory services related to the issuance of bonds; and

WHEREAS: Pursuant to these procedures on August 31, 2015 the RFPs were sent to 64 underwriting firms who perform the role of Senior Manager in bond transactions, posted on HESAA's website and advertised in the Trenton Times, Star Ledger, Courier News and Home News; and

WHEREAS: An Evaluation Committee comprised of the Authority's Executive Director, Chief Financial Officer, Controller and Director of Legal Affairs reviewed all of the proposals; and

WHEREAS: Bank of America Merrill Lynch received the highest score as a result of such evaluation.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Board approves a 2- year appointment of Bank of America Merrill Lynch as the Senior Manager at a cost of \$7.54 per thousand for fixed rate bonds based on a \$250 Million bond issue.

October 22, 2015

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Senior Manager Proposal Evaluation)				
BIDDER	DATE					
Bank of America Merrill Lynch	10/2/2015					
SUMMARY OF EVALUATION TEAM'S COMMENTS: Strong capitalization to support underwriting of portions of HESAA's bond issues, extensive retail and institutional distribution network, as well as demonstrated ability to market asset-secured bonds and ability to fully support the rating agency process including side-by-side in-depth modeling of transactions as part of Master Trust.						
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response						
CRITERIA	Score 1	Score 2	Score 3	Score 4	WEIGHT	TOTAL
The experience of the firm in advising on tax-exempt student loan revenue bond offerings	9	8	9	8	20	680
The relevant experience of the staff assigned to the Authority	10	8	9	10	20	740
The quality of the response to the RFP	9	9	8	8	15	510
The ability to meet the needs of the Authority	9	9	9	9	15	540
The fee proposed	6	6	6	7	15	375
The technical qualifications, experience and time commitment of personnel assigned to the project, as demonstrated by descriptions of experience contained in the RFP response	9	9	9	9	15	540
Total						3385

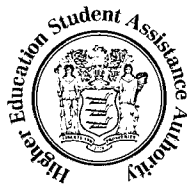
EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Senior Manager Proposal Evaluation)				
BIDDER Ramirez & Co. Inc.		DATE 10/2/2015				
SUMMARY OF EVALUATION TEAM'S COMMENTS: Concern over firm's capitalization and ability to support underwriting of HESAA's bonds, strength and depth of market distribution of asset-secured bonds, and ability to support rating agencies in the in-depth cashflow modeling they are required to do as part of their ratings approval processes.						
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response						
CRITERIA	Score 1	Score 2	Score 3	Score 4	WEIGHT	TOTAL
The experience of the firm in advising on tax-exempt student loan revenue bond offerings	6	7	5	5	20	460
The relevant experience of the staff assigned to the Authority	7	7	7	6	20	540
The quality of the response to the RFP	6	6	6	7	15	375
The ability to meet the needs of the Authority	4	5	7	5	15	315
The fee proposed	8	8	7	7	15	450
The technical qualifications, experience and time commitment of personnel assigned to the project, as demonstrated by descriptions of experience contained in the RFP response	7	8	6	5	15	390
Total						2530

Higher Education Student Assistance

Firm	Total Score
Bank of America Merrill Lynch	3385
Ramirez & Co. Inc.	2530

Senior Manager Fees

Firm	Management Fee	Takedown	Expenses	Total
Bank of America Merrill Lynch	\$1.95	\$5.29	\$0.30	\$7.54
Ramirez & Co. Inc.	\$0.50	\$4.60	\$0.27	\$5.37



State of New Jersey

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CHRIS CHRISTIE
Governor


KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

THROUGH: Gabrielle Charette, Esq. 
Executive Director

FROM: Robert J. Clark, CPA 
Rehabilitation Loan RFP Evaluation Committee

SUBJECT: Resolution 20:15 Appointment of Designated Purchaser of Federal Family Education Loan Program (FFELP) Rehabilitation & Bankruptcy Loans

DATE: October 22, 2015

Background

As the State of New Jersey's designated guaranty agency by the U.S. Department of Education, the Higher Education Student Assistance Authority (HESAA) is responsible for the administration of the Federal Family Education Loan Program (FFELP), which includes Federal Stafford (subsidized and unsubsidized) Loans, Federal PLUS (parent and graduate/professional) Loans, and Federal Consolidation Loans.

Loan Rehabilitation is provided for under the Federal Higher Education Act of 1965, as amended and allows borrowers with defaulted FFELP loans to remove the default status on their loans and repair their credit history if nine (9) consecutive, on-time, voluntary monthly payments are made within a ten (10) month period. When borrowers have completed their bankruptcy actions they are similarly eligible to exit default status.

The Higher Education Act provides for payments of 16.0% of the principal and interest as collection costs to the guaranty agency when loans held in its pool of defaulted loans are rehabilitated. As a result, in addition to the benefits that the rehabilitation program provides to FFELP borrowers, it has been a significant source of program revenue to the Authority's Guaranty Agency Operating Fund.

From February 2002 through May 2010, the NJCLASS/FFELP Loan Program 1998 Trust Estate purchased monthly pools of rehabilitated defaulted FFELP loans after they met the requirements for rehabilitation as described above. However, in 2010, the refinancing plan for the debt supporting existing FFELP loans owned by HESAA from failed Auction Rate Bonds to Libor-Indexed Floating Rate Notes, including rehabilitation loans, resulted in a bond issue that did not allow for origination or purchase of additional FFELP loans by the NJCLASS/FFELP Program.

As a result of these circumstances, in order to be able to continue to offer the rehabilitation option to its defaulted FFELP borrowers, on September 27, 2010, HESAA issued an RFP for Rehabilitation Loan purchases, which resulted in the appointment of Nelnet, Inc., as the designated purchaser of FFELP rehabilitations and bankruptcy loans. The final extension of this contract with Nelnet expires on December 31, 2015.

In order to continue sales of Rehabilitation and Bankruptcy loans, HESAA issued another RFP for Rehabilitation Loan purchases on August 31, 2015. HESAA mailed the RFP to twelve possible purchasers, posted the RFP on HESAA's website and advertised the RFP in the Trenton Times, Star Ledger, Courier News, and Home News.

In response to the RFP, one proposal was received from a Rehabilitation Loan purchaser, Nelnet, Inc. The Rehabilitation Loan RFP Evaluation Committee, comprised of HESAA's Controller, Assistant Controller, Associate Director of Servicing and Collections and Servicing and Collections Program Officer, met on October 2, 2015 to discuss the proposal and determine if the terms of the Nelnet Proposal, as well as the discount percentage stated in the new RFP were acceptable.

Under the current market conditions, potential purchasers of these loans are expected to make purchase offers at a discount, meaning that they would likely be below the outstanding amount of the loans. The discount proposed by Nelnet on all loan types is 6%.

As a result of its evaluation, the Committee determined that the terms of the Nelnet proposal and the discount percentage were acceptable under the current market conditions for FFELP Rehabilitation and Bankruptcy Loan sales. It should be noted that even at the Nelnet proposed discount rate, HESAA will still realize a positive cash flow from these purchases.

Recommendation

It is recommended that the Board approve the attached Resolution 20:15 Appointing Nelnet, Inc., as the Authority's designated purchaser of FFELP rehabilitation and bankruptcy loans for the two year period ending December 31, 2017, with three 1-year extensions at the option of the Authority.

Attachment

RESOLUTION 20:15

**APPOINTMENT OF DESIGNATED PURCHASER OF FEDERAL FAMILY
EDUCATION LOAN PROGRAM (FFELP) REHABILITATION & BANKRUPTCY
LOANS**

Moved By: Mr. James Allen
Seconded By: Ms. Jean McDonald Rash

WHEREAS: On August 31, 2015 the Higher Education Student Assistance Authority (HESAA) issued a Request for Proposals for a designated purchaser of Federal Family Education Loan Program (FFELP) rehabilitation and bankruptcy loans; and

WHEREAS: HESAA mailed the RFP to twelve possible purchasers, posted the RFP on HESAA's website and advertised the RFP in the Trenton Times, Star Ledger, Courier News, and Home News; and

WHEREAS: One proposal was received from HESAA's current designated purchaser, Nelnet, Inc.; and

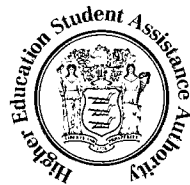
WHEREAS: An evaluation committee, comprised of HESAA's Controller, Assistant Controller, Associate Director of Servicing and Collections and Servicing and Collections Program Officer, met on October 2, 2015, reviewed Nelnet, Inc.'s proposal and determined the terms of the proposal were acceptable; and

WHEREAS: The discount proposed by Nelnet, Inc. for the purchase of all loan types is 6%, which the evaluation committee deemed reasonable under current market conditions.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Higher Education Student Assistance Authority appoints Nelnet, Inc., as the designated purchaser of FFELP rehabilitation and bankruptcy loans for a period of two years, with an initial expiration date of December 31, 2017, and subject to three additional one-year extensions at the option of the Higher Education Student Assistance Authority.

October 22, 2015



State of New Jersey

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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

THROUGH: Gabrielle Charette, Esq. *GC*
Executive Director

FROM: Marnie B. Grodman, Esq. *MBG*
Director, Legal & Governmental Affairs

SUBJECT: Resolution 21:15 Appointing Special Counsel to Assist in the Review of
Materials Related to 529 Plans and Provide General Tax Advice Upon Request

DATE: October 22, 2015

Background

The Higher Education Student Assistance Authority (HESAA) administers the New Jersey Better Educational Savings Trust (NJBEST) program, New Jersey's State qualified tuition program under Section 529 of the Federal Internal Revenue Code of 1986, as well as the Franklin Templeton 529 College Savings Plan ("529 Plans"). On August 31, 2015, HESAA issued a Request for Qualifications (RFQ) seeking proposals from qualified law firms for the appointment of Special Counsel to assist in the review of materials related to the 529 Plans as well as to provide general tax advice as questions arise. The selected firm will serve for a term of 2 years with three optional one-year extensions.

The appointed firm will provide opinions and advice to HESAA on all documents prepared by HESAA's investment manager, Franklin Templeton, related to the 529 Plans. These documents include but are not limited to: investor handbook supplements, disclosure updates, contract amendments and supplements, and dealer program distribution agreements.

Additionally, HESAA requires responses to specific tax questions that may arise from time to time in relation to its business and program, including but not limited to issues related to student loans, student loan forgiveness, scholarships and employee benefits.

HESAA mailed the RFQ to the law firm currently providing these services for HESAA as well as sixteen other firms found on the Attorney General's Approved Special Counsel lists, posted

the RFQ on HESAA's website and advertised the RFQ in the Trenton Times, Star Ledger, Courier News, and Home News.

HESAA received proposals from two law firms.

Selection Process

An evaluation committee made up of HESAA's Chief Financial Officer, Director of Legal and Governmental Affairs, and Chief Compliance Officer met and reviewed each of the proposals.

The selection criteria for reviewing Collection Counsel proposals are as follows:

- Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically;
- Resources of the firm;
- Approach to communication with HESAA;
- Past experience of HESAA with the firm and/or named attorneys; and
- Fees.

Attached to this memo is a summary of the scores each firm received from each member of the evaluation committee.

Based on a thorough review of the proposals the evaluation committee recommends appointing Obermayer Rebmann Maxwell & Hippel LLP as special counsel to assist in the review of materials related to 529 Plans and to provide general tax advice upon request. Obermayer's proposal displayed extensive experience with mutual funds generally and 529 plans specifically. The qualifications of the attorneys working on these are high caliber and the proposed fees are below current market rates. While the second firm that submitted a proposal is well respected and the attorneys that would work on HESAA's matters demonstrate a depth of tax experience, their proposal did not exhibit any experience related to 529 plans.

Recommendation

It is recommended that the Board approve Resolution 21:15 Appointing Obermayer Rebmann Maxwell & Hippel LLP as Special Counsel to Assist in the Review of Materials Related to 529 Plans and to provide general tax advice upon request at a rate of \$325 per hour for attorneys and \$100 per hour for paralegals for a term of two year with three optional one-year extensions.

Attachments

RESOLUTION 21:15

**APPOINTING SPECIAL COUNSEL TO ASSIST IN THE REVIEW OF MATERIALS
RELATED TO 529 PLANS and PROVIDE GENERAL TAX ADVICE UPON REQUEST**

Moved by: Mr. Bader Qarmout

Seconded by: Ms. Maria Torres

WHEREAS: On August 31, 2015, the Higher Education Student Assistance Authority (HESAA) issued a Request for Qualifications (RFQ) seeking proposals from qualified law firms for the appointment of Special Counsel to assist in the review of materials related to the 529 Plans and to provide general tax advice upon request; and

WHEREAS: HESAA mailed the RFQ to the law firm currently providing these services for HESAA as well as sixteen other firms found on the Attorney General's Approved Special Counsel lists, posted the RFQ on HESAA's website and advertised the RFQ in the Trenton Times, Star Ledger, Courier News, and Home News; and

WHEREAS: Two firms submitted proposals; and

WHEREAS: An evaluation committee made up of HESAA's Chief Financial Officer, Director of Legal and Governmental Affairs, and Chief Compliance Officer met and reviewed each of the proposals; and

WHEREAS: Obermayer Rebmann Maxwell & Hippel LLP received the highest score as a result of such evaluation.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Board appoints Obermayer Rebmann Maxwell & Hippel LLP as Special Counsel to Assist in the Review of Materials Related to 529 Plans and to provide general tax advice upon request at a rate of \$325 per hour for attorneys and \$100 per hour for paralegals for a term of two years with three possible one-year extensions.

October 22, 2015

EVALUATION SCORE SHEET	HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Tax Counsel Proposal Evaluation)	
BIDDER Gibbons	DATE	10/2/2015
SUMMARY OF EVALUATION TEAM'S COMMENTS: This firm seemed more suited to act as bond counsel then as general tax counsel. The firm did not provide any responses with regards to their experience with 529 plans.		

Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response						
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL	
Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically	3	3	3	20	27	
Resources of the firm	9	7	8	20	192	
Approach to communications with HESAA	8	7	7	20	154	
Past experience of HESAA with the firm and/or named attorneys, if applicable	4	5	4	20	52	
The fee proposed	5	6	6	20	102	
Total					527	

EVALUATION SCORE SHEET		HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY (Tax Counsel Proposal Evaluation)			
BIDDER Obermayer Rebmann Maxwell & Hipfel		DATE 10/2/2015			
SUMMARY OF EVALUATION TEAM'S COMMENTS: Counsel's resume was very impressive. Response focused on experience with 529 plans and advising HESAA.					
Scoring 9-10 = Excellent 7-8 = Very Good 5-6 = Good 3-4 = Fair 1-2 = Poor 0 = No Response					
CRITERIA	Score 1	Score 2	Score 3	WEIGHT	TOTAL
Knowledge and experience of the firm and the named attorneys with regards to federal tax law generally, and Section 529 plans specifically	8	9	9	20	234
Resources of the firm	8	7	8	20	184
Approach to communications with HESAA	8	8	8	20	192
Past experience of HESAA with the firm and/or named attorneys, if applicable	10	9	9	20	252
The fee proposed	8	10	9	20	243
Total					1105

Bidder	Score
Gibbons	527
Obermayer Rebmann Maxwell & Hippell LLP	1105



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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority

FROM: Gabrielle Charette, Esq. 
Executive Director

SUBJECT: Resolution 23:15 Approving the Policy and Procedures for NJCLASS Forgiveness/Compromise Due to Student Death or Total and Permanent Disability When There is a Surviving Party on the Loan(s)

DATE: October 22, 2015

Background

The NJCLASS bond indentures only provide for forgiveness of a loan when the borrower dies or becomes totally and permanently disabled and there are no co-signers or co-borrowers remaining on the loan. The Higher Education Student Assistance Authority (HESAA) recognizes that the death or total and permanent disability of a student exacts a tremendous toll on his or her family members. As such, since the program's inception in 1991 there have been situations in which HESAA has forgiven/compromised NJCLASS loans that do not qualify for forgiveness under the bond indentures. In these situations, HESAA has used its operating revenues to pay off the loan balance and reimburse the bond trust estates.

In accordance with best practices, the State Auditor recommended that the HESAA Board review and approve the policy and procedures that staff follows for the forgiveness/compromise of NJCLASS loans outside the bond trust estates due to student death or total and permanent disability when there is a surviving co-signer or co-borrower on the loan(s).

The attached Policy and Procedure for Forgiveness/Compromise of NJCLASS Loan(s) When a Student Borrower Dies or Becomes Totally and Permanently Disabled and there is a Surviving Party on the Loan(s) provides for a careful analysis of each family's individual situation and provides guidelines for making a non-arbitrary determination of each family's eligibility for forgiveness or compromise.

The Auditor also recommended that on an annual basis HESAA staff report to the Board on who requested loan forgiveness/compromise, and the amount and type of forgiveness/compromise requests granted as well as those that were denied. Since compliance with this recommendation requires the revelation of personally identifiable information, this report will be provided in closed session.

Recommendation

It is recommended that the Board Approve Resolution 23:15 Approving the attached Policy and Procedures for NJCLASS Forgiveness/Compromise Due to Student Death or Total and Permanent Disability When there is a Surviving Party on the Loan(s).

Attachments

RESOLUTION 23:15
APPROVING THE POLICY AND PROCEDURES FOR NJCLASS
FORGIVENESS/COMPROMISE DUE TO STUDENT DEATH OR TOTAL AND
PERMANENT DISABILITY WHEN THERE IS A SURVIVING PARTY ON THE
LOAN(S)

Moved by: Fr. Michael Braden
Seconded by: Mr. James Allen

WHEREAS: The Higher Education Student Assistance Authority (HESAA) recognizes that the death or total and permanent disability of a student exacts a tremendous toll on his or family members; and

WHEREAS: The NJCLASS bond indentures only provide for forgiveness of a loan when the borrower dies or becomes totally and permanently disabled and there are no co-signers or co-borrowers on the loan; and

WHEREAS: Since the program's inception in 1991 there have been situations in which HESAA has forgiven/compromised NJCLASS loans that do not qualify for forgiveness under the bond indentures using its operating revenues to pay off the loan balance and reimburse the bond trust estates; and

WHEREAS: A formal Policy and Procedures for NJCLASS Forgiveness/Compromise Due to Student Death or Total and Permanent Disability When there is a Surviving Party on the Loan(s) ensure that there is a careful analysis of each family's individual situation and guidelines for making a non-arbitrary determination of each family's eligibility for forgiveness or compromise.

NOW THEREFORE, LET IT BE:

RESOLVED: That the Board approves the attached Policy and Procedures for NJCLASS Forgiveness/Compromise due to Student Death or Total and Permanent Disability whether there is a surviving party on the loan.

October 22, 2015



**POLICY AND PROCEDURE FOR NJCLASS
FORGIVENESS/COMPROMISE DUE TO STUDENT
DEATH OR TOTAL AND PERMANENT DISABILITY
WHEN THERE IS A SURVIVING PARTY ON THE
LOAN(S)**

The Authority on Financial Aid

Date: November 3, 2015

Procedure Owner	Teresa Gervasio
Procedure	NJCLASS Forgiveness/Compromise due to student death or total disability
Related Policies	N/A
Related Procedures	N/A
Storage Location	Compliance drive (J:\Procedures – final version)
Effective Date	11/3/15
Next Review Date	11/1/16
Version Number	1.0

I. PURPOSE

The purpose of this voluntary policy and procedure document is for the Authority to:

1. establish the criteria and process for the forgiveness of NJCLASS loan(s) when a student dies or becomes totally and permanently disabled during the in-school period and there is a surviving co-signer or co-borrower on the loan(s);
2. establish the criteria and process for forgiveness of NJCLASS loan(s) when a student dies or becomes totally and permanently disabled after the in-school period and there is a surviving co-signer or co-borrower on the loan(s) who asserts a severe financial hardship; and
3. establish the criteria and process for compromise of NJCLASS loan(s) when a student borrower dies or becomes totally and permanently disabled after the in-school period and there is a surviving co-signer or co-borrower on the loan whose circumstances do not meet the definition of severe financial hardship.

II. DEFINITIONS

In-School Period - At least half-time enrollment in the school(s) for which the loan(s) were made as part of obtaining a baccalaureate or graduate or professional degree. The in-school period extends for the immediate six months following graduation, withdrawal or less than ½ time enrollment. Plans to enroll or enrollment at another institution for an additional degree do not meet the definition. Transferring to another institution prior to receiving the degree for which the loan(s) were taken does fall within the definition. Students pursuing associate degrees in ultimate pursuit of a baccalaureate degree are considered to be within the in-school period between earning the associate degree and prior to commencing the baccalaureate degree, provided evidence of acceptance to a BA program is provided.

Loan Forgiveness Committee - The Executive Director, the Chief Financial Officer, the Director of Legal and Government Affairs and the Director of Student Loans.

Severe Financial Hardship - Situations where the overall financial circumstances of the individual seeking relief are such that he/she is unable to maintain a basic standard of living and still make debt payments and these circumstances are likely to persist for the balance of the life of the loan.

Totally and Permanently Disabled - The condition of any individual who is unable to work and earn money or attend school because of an injury or illness that is expected to continue indefinitely or result in death. An

individual is not considered totally and permanently disabled if he or she continues to receive an equal or greater amount of income from the source of income that was used to meet the minimum income requirements at the time the loan was approved.

III. SCOPE

This voluntary policy applies to all NJCLASS loan forgiveness applications that are received from co-signers and co-borrowers of loans for student borrowers who died or became totally and permanently disabled while still enrolled in school, after the in-school period ended, and compromise offers that are received from surviving co-signers and co-borrowers.

This policy is voluntary in so far that it is subject to the availability of sufficient funds and the discretion of the Authority to engage in Forgiveness/Compromise of NJCLASS loans; however should the Authority decide to engage in Forgiveness/Compromise it must be done as specified in this Policy and Procedure.

IV. POLICY

N.J.A.C. 9A:10-6.17, the NJCLASS Promissory Note Terms and Conditions and the bond indentures provide for the discharge of NJCLASS loans when there is only one responsible party remaining on the loan. The regulations, promissory note and the bond indentures do not provide for discharge when the student borrower dies or becomes totally and permanently disabled and there is a surviving co-signer or co-borrower.

Notwithstanding the above, through its own resources, on its own volition and without prejudice to bondholders, HESAA would like to offer loan forgiveness or compromise to co-borrowers and co-signers on loans when a student borrower dies or becomes totally and permanently disabled.

The type of relief offered to a forgiveness applicant is dependent upon when the death or total and permanent disability occurred. In those cases where the death or total and permanent disability occurred after the in-school period, the relief is dependent on the financial circumstances of the applicant.

FORGIVENESS

In-School Period

HESAA recognizes that the death/disability of a young person who has not had the chance to reach his/her full potential or realize the benefit of degree attainment exacts a tremendous toll on surviving family members. When a student dies or becomes disabled during the in-school period, HESAA through its own available resources from outside the bond trust estates, will typically forgive all of the outstanding balances on any NJCLASS loans.

In the event that the deceased student borrower had life insurance and/or sizable assets in his/her estate, HESAA will adjust the amount of forgiveness based on the amount of life insurance and/or assets. In these situations and in making the adjustment, HESAA will consider the beneficiary of the life insurance, the heirs to the estate and the amount of any final resting expenses incurred by the applicant.

Post In-School Period

HESAA recognizes that paying a recurring debt for a deceased or disabled loved one can take its toll on family members even after the student has realized the benefit of the education. In these cases, HESAA offers two options to co-signers/co-borrowers depending on the financial circumstances of the applicant:

A. Severe Financial Hardship Forgiveness

HESAA recognizes that for some co-signers and co-borrowers repaying the debt, without the financial contribution of the deceased or disabled student borrower, imposes a severe financial hardship. If a severe financial hardship is determined, HESAA will forgive the remaining debt.

B. Compromise

HESAA recognizes that even where a severe financial hardship does not exist, the repayment of a recurring debt can cause emotional distress. In these cases, to allow a co-signer and/or co-borrower to achieve closure, HESAA is willing to accept a lump sum payment as settlement of the debt.

V. PROCEDURE

In-School Period

All co-signers/co-borrowers (married co-signers, co-borrowers can apply jointly) who seek forgiveness from their NJCLASS obligation due to death/disability of the student during the in-school period must:

1. complete HESAA's In-school Period Loan Forgiveness Application;
2. attest to the accuracy of the information supplied;
3. provide HESAA with a copy of the student's death certificate or medical documentation sufficient to prove total and permanent disability if the student has not already been discharged from the loan; and
4. provide HESAA with any other relevant information to the particular case as may be deemed necessary by the Loan Forgiveness Committee upon specific case review.

The Loan Forgiveness Committee will review all of the above-referenced documents in their entirety. Subject to the availability of funds, the Committee will forgive any outstanding balances on NJCLASS loans unless the student had life insurance and/or sizable assets. In those instances, if the applicant for forgiveness is the student's life insurance beneficiary or heir, HESAA will adjust the forgiveness amount by the amount of the insurance or assets less any final resting expenses incurred by the applicant.

Post In-School Period

A. Severe Financial Hardship Forgiveness

All co-signers/co-borrowers (married co-signers, co-borrowers can apply jointly) who seek forgiveness from their NJCLASS obligation due to death/disability of the student after the in-school period due to severe financial hardship must:

1. complete HESAA's Financial Hardship Loan Forgiveness Application and provide HESAA with any and all requested financial documentation including but not limited to tax returns, W-2s and financial statements;
2. attest to the accuracy of the information supplied;
3. provide HESAA with a copy of the decedent's death certificate or medical documentation sufficient to prove total and permanent disability if the student as not already been discharged from the loan;
4. provide HESAA with any other relevant information to the particular case as may be deemed necessary by the Loan Forgiveness Committee upon specific case review.

The Loan Forgiveness Committee will review all of the above-referenced documents in their entirety to determine if a severe financial hardship exists. To render this determination the Committee will consider whether:

1. the applicant can maintain, based on current income, assets and expenses, a basic standard of living for himself or herself and any dependents if required to repay the loans;
2. the applicant's current circumstances are likely to persist for a significant portion of the repayment period of the loan; and
3. the applicant made good faith efforts to satisfy the loan prior to the occurrence of the circumstances that now make repayment problematic.

In those cases where the applicant cannot maintain a basic standard of living and the applicant's circumstances are likely to persist, and -if applicable- the borrower and/or applicant made good faith efforts to satisfy the loan prior to the occurrence of the of the circumstances, the Loan Forgiveness Committee will forgive the remaining balance on the loan.

B. Compromise

Co-signers/co-borrowers who seek compromise of their NJCLASS obligation due to death/disability of the student after the in-school period must:

1. submit a written offer of compromise and agree if the offer is accepted by HESAA to submit the required funds to the Authority within 15 business days of acceptance; and
2. provide HESAA with a copy of the decedent's death certificate or medical documentation sufficient to prove total and permanent disability if the student has not already been discharged from the loan.

The Loan Forgiveness Committee will accept compromise offers that equal at least 85% of the original principal balances, less principal payments made to the date of the application or its disposition.

All forgiveness decisions are final agency decisions and are communicated in writing to the requesting party. In accordance with federal tax law, any principal amount equal to or greater than \$600 that is forgiven or compromised is reported to the Internal Revenue Service (IRS) and the recipient of the forgiveness/compromise is sent a Form 1099c, Cancellation of Debt.

HESAA employees who are not members of the Committee are not authorized to render determinations in these matters.

VI. EXCLUSIONS

This policy does not apply if the student died or became totally and permanently disabled while participating in, attempting to participate in, or fleeing from participation in an indictable offense or felony. This policy does not apply if the student died or became totally and permanently disabled after participating in, attempting to participate in, or fleeing from participation in or attempted participation in an indictable offense or felony if the cause of death or disability is related to injuries sustained during the commission, attempted commission, or flight from the commission or attempted commission of the indictable offense/felony. The application of this exclusion is not contingent upon any decision of any prosecuting authority.

VII. ENFORCEMENT

All HESAA staff is responsible for complying with the directives of this policy. Violations will be brought to the attention of the Executive Director and may result in disciplinary action.

VIII. VERSION HISTORY AND APPROVALS

Revision & Review History			
Version #	Effective Date	Description	Version Author
1.0	11/3/15	Original	Gabrielle Charette, Esq.

APPROVED BY POLICY OWNER:

Name Teresa Gervasio
Title Director of Student Loans

DATE

APPROVED BY POLICY APPROVER:

Name Gabrielle Charette, Esq.
Title Executive Director

DATE



HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

The Authority on Financial Aid

POLICY AND PROCEDURE FOR NJCLASS FORGIVENESS/COMPROMISE DUE TO STUDENT DEATH OR TOTAL AND PERMANENT DISABILITY WHEN THERE IS A SURVIVING PARTY ON THE LOAN(S)

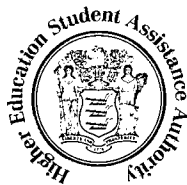
Employee Name: _____
(please print)

Employee Signature: _____

Unit: _____

Date: _____

I have received and read HESAA's POLICY AND PROCEDURE FOR NJCLASS FORGIVENESS/COMPROMISE DUE TO STUDENT DEATH OR TOTAL AND PERMANENT DISABILITY WHEN THERE IS A SURVIVING PARTY ON THE LOAN(S) and I understand that I am responsible for complying with this Procedure.



State of New Jersey

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

4 QUAKERBRIDGE PLAZA

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CHRIS CHRISTIE
Governor


KIM GUADAGNO
Lt. Governor

GABRIELLE CHARETTE, ESQ.
Executive Director

MEMORANDUM

TO: Members, Higher Education Student Assistance Authority Board

THROUGH: Gabrielle Charette, Esq. 
Executive Director

FROM: Marnie B. Grodman, Esq. 
Director, Legal and Governmental Affairs
Administrative Practice Officer

SUBJECT: Resolution 24:15 –Proposed Amendments to the Regulations Governing the Primary Care Practitioner Loan Redemption Program, N.J.A.C. 9A:16-2.1

DATE: October 22, 2015

Background

Pursuant to N.J.S.A. 18A:71C-48 the Higher Education Student Assistance Authority (HESAA) is statutorily responsible for the administration of the Primary Care Practitioner Loan Redemption Program (“Program”) and for the promulgation of all rules to that effect. HESAA received comments in response to its proposal to readopt N.J.A.C. 9A:16 recommending amendments to N.J.A.C. 9A:16-2.1(a)1 and (a)2 to expand the applicant pool for potential participants in the Primary Care Practitioner Loan Redemption Program. HESAA agreed that these amendments would be beneficial to the program. However, as the amendments were substantive they could not be made upon adoption and therefore need to be noticed as a new proposal.

The Program provides for the redemption of a portion of the eligible qualifying loan expenses of primary care practitioners for each year of service at an approved site. The proposed amendment to N.J.A.C. 9A:16-2.1(a)1 permits potential participants to apply to the Program before they move to New Jersey. This amendment encourages practitioners to move to New Jersey and practice in New Jersey’s underserved areas. Similarly, the proposed amendment to N.J.A.C. 9A:16-2.1(a)2 permits potential participants to apply for the Program in anticipation of receiving their license. This amendment encourages practitioners to practice in New Jersey’s underserved areas and to eliminate delays in accepting participants into the program.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

§ 9A:16-2.1 Eligibility

(a) To be eligible for participation in the program, an applicant must:

1. [Be a resident of the State of New Jersey at the time of application and maintain] **Maintain** residency in the State of New Jersey throughout participation in the program;
2. [Be licensed to practice as a primary care practitioner in the State of New Jersey at the time of application and maintain] **Maintain** a license to practice as a **primary care practitioner** in the State throughout participation in the program;
3. Agree to practice primary care at an approved site;
4. Not be in default on any eligible qualifying loan; and
5. Adhere to the following performance standards:
 - i. Enter into a mutually acceptable contract with an approved site;
 - ii. Report to the Authority, on the form provided by the Authority, on the program participant's performance of services rendered at an approved site prior to the repayment of the annual amount of eligible redemption; and
 - iii. If the approved site is a clinic which is part of the extramural network of dental clinics established by the Rutgers School of Dental Medicine of the Rutgers Biomedical and Health Sciences, the program participant shall also meet performance standards set by the Rutgers School of Dental Medicine.

Recommendation

It is recommended that the Board approve Resolution 24:15 Proposed Amendments to Regulations Governing the Primary Care Practitioner Loan Redemption Program, N.J.A.C. 9A:16-2.1.

Attachment

RESOLUTION 24:15
PROPOSED AMENDMENTS TO THE REGULATIONS GOVERNING THE
PRIMARY CARE PRACTITIONER LOAN REDEMPTION PROGRAM,
N.J.A.C. 9A:16-2.1

Moved by: Dr. Jon Larson
Seconded by: Fr. Michael Braden

WHEREAS: The Higher Education Student Assistance Authority (“HESAA”) is statutorily responsible for the administration of the Primary Care Practitioner Loan Redemption Program; and

WHEREAS: HESAA received comments in response to its proposal to readopt N.J.A.C. 9A:16 recommending amendments to N.J.A.C. 9A:16-2.1(a)1 and (a)2 to expand the applicant pool for potential participants in the Primary Care Practitioner Loan Redemption Program; and

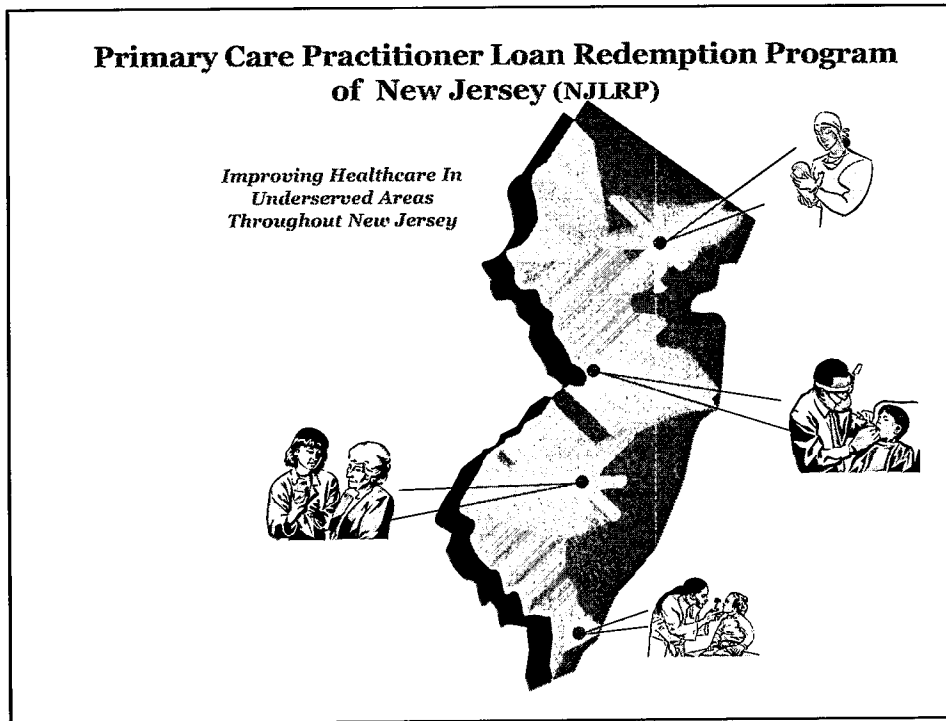
WHEREAS: HESAA agreed that these amendments would be beneficial to the program; and

WHEREAS: The amendments could not be made upon adoption as they were substantive and therefore need to be noticed as a new proposal.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Board approves and authorizes publishing the Proposed Amendments of Regulations Governing the Primary Care Practitioner Loan Redemption Program, N.J.A.C. 9A:16-2.1 in the New Jersey Register.

October 22, 2015



**Primary Care Practitioner Loan Redemption
Program of New Jersey (NJLRP)**

GOAL

To increase the provision of primary care services by encouraging providers to practice in Federal or State designated underserved areas throughout New Jersey

Primary Care Practitioner Loan Redemption Program of New Jersey (NJLRP)

HISTORY/ BACKGROUND

- The NJLRP is a State loan repayment program and has been in existence since 1992
- Legislatively responsible by New Jersey Higher Education of Student Assistance Authority (HESAA)
- The NJLRP is contracted to Rutgers Biomedical and Health Sciences (RBHS) formerly UMDNJ for administration and is based on the Newark campus
- The program was first established for primary care Physicians and Dentists and redeemed loans up to \$70,000. In 1999, legislation was passed to include Midlevel participants (Certified Physician Assistants, Certified Nurse Midwives, Certified Nurse Practitioners) and loan repayment amounts were increased up to \$120,000.
- In 2009, legislation was passed to change the name to Practitioner; eliminate 2 year limit for out of school/residency; and to include part time service obligation in the third and fourth year of enrollment.

STATE LOAN REPAYMENT PROGRAM [SLRP]

- Loan repayment programs exist in 32 states
- SLRP's are usually administered by the States Department of Health or the Department of Higher Education
- Participants cannot participate on federal and state programs simultaneously
- Most SLRP's participate in the Federal matching grant program; provides a 50/50 match to place providers in Federal Health Professional Shortage Areas (HPSAs)

FEDERAL LOAN REPAYMENT PROGRAM [FLRP]

- National Health Services Corps Loan Repayment Programs
- Applications accepted once a year
- NHSC offers two levels of funding based on the need of the community/ Health Professional Shortage Area (HPSA) scores. HPSA scores of 14+ pays up to \$60,000 for 2 years full time; 4 years part time. HPSA score of 0-13 pays up to \$40,000 for 2 years full time; 4 years part time
- Tax-free loan repayment
- Provider/Site eligibility requirements
- NHSC sites are exclusive to federally designated sites

Primary Care Practitioner Loan Redemption Program of New Jersey (NJLRP)

PURPOSE

The NJLRP assists primary care providers in the repayment of qualifying educational loans incurred during medical school, dental school or graduate education in exchange for providing primary care services at approved NJLRP sites in underserved areas in New Jersey.

NJLRP providers may redeem up to \$120,000 over a four-year period of service for eligible loans used to finance their medical education.

NJLRP Decision Making

There are two Committees responsible for the overall operation of the NJLRP. The Steering Committee provides oversight responsibility for program and policy decisions. The Committee meets at least annually and on call at the request of the chairperson. The Selection Committee is charged with the review of all placement site and provider applications and determines all approvals and non approvals. These decisions are based on NJLRP requirements as stipulated in the NJLRP legislation. The Selection Committee meets bi-monthly and on an as needed basis. Throughout the years, the Committees have been comprised of representatives from the following organizations:

- > NEW JERSEY DEPARTMENT OF HEALTH
- > NEW JERSEY DEPARTMENT OF HUMAN SERVICES
- > NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
- > HEALTHCARE QUALITY STRATEGIES, INC.
- > NEW JERSEY PRIMARY CARE ASSOCIATION
- > LEGAL SERVICES OF NEW JERSEY
- > RUTGERS BIOMEDICAL HEALTH SCIENCES (FORMERLY UMDNJ)
- > FORMER NJLRP PARTICIPANTS
- > EXECUTIVE DIRECTORS NJLRP PLACEMENT SITES
- > ENROLL AMERICA

Eligible Primary Care Disciplines

MEDICAL [M.D. or D.O.]

- Family Practice/Family Medicine
- Internal Medicine
- Pediatrics
- Obstetrics/Gynecology

DENTAL [D.M.D. or D.D.S.]

- General Dentists
- Pedodontists

Certified Physician Assistants

Certified Nurse Midwives

Certified Nurse Practitioners



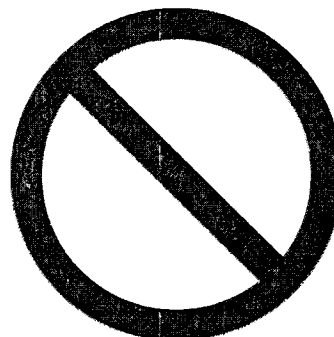
Non-Eligible Disciplines/Specialties

MEDICAL/ MID-LEVELS:

- General Surgery and Surgical Sub-Specialties
- Emergency Medicine
- Mental Health
 - Psychiatry
 - Psychology
- Specialty Medicine
 - Cardiothoracic Surgery
 - Orthopedics

DENTAL:

- General Surgery and Surgical Sub-Specialties (Oral Surgery)
- Orthodontics
- In-Patient Settings and Emergency Medicine



NJLRP Provider Requirements

- ✓ **Physicians:** must complete primary medical care residency in-Internal Medicine, Family Practice/Medicine, Pediatrics, Obstetrics/Gynecology
- Dentists:** graduation from an accredited dental school, not required to complete residency
- Physician Assistants:** satisfactory completion of a Committee on Allied Health Education and Accreditation (CAHEA) approved training program for primary care physician assistants
- Nurse Practitioners:** graduation from a post baccalaureate or Master's degree program accredited by the National League of Nursing as either a Family Nurse Practitioner, Primary Ambulatory Nurse Practitioner, Primary Healthcare Adult Nurse Practitioner, Pediatric Nurse Practitioner, OB/GYN or Women's Health Nurse Practitioner
- Nurse Midwives:** satisfactory completion of a program accredited by the American College of Nurse/Midwives or the American College of Nurse Midwives Certification Council
- ✓ Licensed to practice in the State of New Jersey
- ✓ Resident in State of New Jersey
- ✓ Free of default on educational loans
- ✓ Sign contract with approved NJLRP Site
- ✓ Required to sign a NJLRP contract for a minimum of 2 years; can renew for a 3rd and 4th year
- ✓ Must work full-time during your initial two years, part-time service option to work during 3rd and 4th year
- ✓ Must work a minimum of 40 hours per week to be considered full-time
(at least 32 hours must be spent providing direct patient care; remaining 8 hours for administrative time)

New Jersey Medically Underserved Index (NJMUI)

These municipalities have been designated as underserved by the Commissioner of Health based on the New Jersey Medically Underserved Index (NJMUI). The State designated underserved areas are used to place primary care participants in the New Jersey Primary Care Practitioner Loan Redemption Program.

The NJMUI ranks municipalities with populations of 5,000 or more according to indicators that are potentially indicative of a lack of access to comprehensive and timely primary health care. Populations of 30,000 or more were evaluated according to four economic indicators; the values for health status indicators were generally too small to provide valid statistics. Geographic areas not designated on the NJMUI can be considered on a case by case basis, if adequate documentation is provided to support the designation.

New Jersey Medically Underserved Index-1999

Municipalities with Populations of 5,000 to 29,999

Bridgeton city	Fairfield township
Paulsboro borough	Asbury Park city
Salem city	Buena Vista township
Pleasantville city	Lower township
City of Orange township	Phillipsburg township
Egg Harbor city	Keansburg borough
Woodbury city	Mullica township
Middle township	Gloucester city
Maurice River township	Millville city
Glassboro borough	Hammonton town
Fairview borough	Mount Holly township
Long Branch city	Burlington city
Clementon borough	Clayton borough
Harrison town	Egg Harbor township
Garfield city	North Hanover township
Upper Deerfield township	Ocean township
Lodi borough	Riverside township
Pine Hill borough	Union Beach borough
Franklin borough	

Municipalities with Populations of 30,000 or More

Newark city	Atlantic city
Camden city	East Orange city
Trenton city	Paterson city
Jersey city	Perth Amboy city
Passaic city	Irvington township
New Brunswick city	Elizabeth city
Union city	Lakewood township
Plainfield city	West New York town
Vineland city	

Health Professional Shortage Areas (HPSAs) as designated by the Federal Division of Shortage Designations of the HRSA Department of Health and Human Services are eligible placement site areas for participants in the NJLRP. To learn more about the Primary Care Loan Redemption Program of New Jersey, we invite you to visit our website at <http://fbhs.rutgers.edu/lrpweb>

NJLRP Placement Site Requirements

- Approved sites must be located in a New Jersey Medically Underserved Index/ Health Professional Shortage Area (NJMU/HPSA)
 - If a site is not located in a NJMU/HPSA, site must complete a Patient Origin Study and demonstrate at least 80% of its patients come from underserved areas as listed on the NJMU
- Ambulatory primary care settings:
 - ✓ Non-profit or private non-profit offices and private practices (solo or group) that serve medically underserved populations
 - ✓ Federally Qualified Health Centers (FQHCs); FQHC look-alikes/Community Health Centers (CHCs)
 - ✓ Health Centers providing services to migrant and seasonal farm workers
 - ✓ Rural Health Clinics (RHCs)
 - ✓ Hospital affiliated primary care outpatient clinics
 - ✓ School based clinics
 - ✓ County, State, and Federal Correctional facilities (Immigration and Customs Enforcement (ICE) sites)

NJLRP Placement Site Obligations

- To hire NJLRP providers to work at the site on a full-time basis (40 hours/week; a minimum of 32 hours must be spent providing primary care)
- Offer providers comparable salaries and benefits based on prevailing rates in the surrounding area
- Be located in a State designated underserved area as defined by the Commissioner of Health or in a Federally designated Health Professional Shortage Area (HPSA)
- Demonstrate that it provides services to an underserved population. Accept Medicaid/Medicaid Managed Care
- Use sliding fee scale for patients falling under 250% of the federal poverty levels
- Sign a Placement Site agreement and complete required NJLRP Reports
 - ✓ Six month evaluations for each enrolled NJLRP provider
 - ✓ Submit Quarterly Service Reports (QSRs) documents a providers productivity
 - ✓ Annual Evaluation

NJLRP Productivity Standards

Historical Overview: Performance Standards were established by the New Jersey Department of Health (NJDOH) in 1992 for use in the Primary Care Practitioner Loan Redemption Program to measure provider productivity by specialty. The NJLRP requires the submission of Quarterly Service Reports (QSRs) to monitor its provider's annual productivity.

Primary Care Practitioner Loan Redemption Program
of New Jersey (NJLRP)
NJLRP Productivity Standards

Specialty	Current LRP Productivity Standards
General Dentistry	2,500-3,000
Pediatric Dentistry	2,500-3,000
Family Practice	3,500-4,000
Internal Medicine	3,000-3,500
Obstetrics/Gynecology	3,000-3,500
Pediatrics	3,700-4,200
Physician Assistants	2,500-3,000
Nurse Midwifery	2,200-2,700
Nurse Practitioners	<i>See specialty</i>
Family Practice	1,600 minimum
Obstetrics/Gynecology	2,000 minimum
Pediatrics	1,600 minimum

NJLRP Loan Redemption Payments

- Eligible loans exclusive to:
 - Loans incurred during medical/dental/graduate school education
 - Federal or commercial loans used for school tuition and reasonable educational expenses
- Eligible for loan repayment after 12 months of full time service
- Payments are issued in the form of two party checks payable to the provider and lender
- Loan redemption payments are no longer taxable income for Federal; taxable income for State

Loan Redemption Payment Schedule

Based on a providers outstanding debt level:

- 1st year: 18% of outstanding loan balance up to \$21,600
- 2nd year: 26% of outstanding loan balance up to \$31,200
- 3rd year: 28% of outstanding loan balance up to \$33,600
- 4th year: 28% of outstanding loan balance up to \$33,600

Total Amount Redeemed= **\$120,000**

The maximum loan repayment amount over a four year period of service while enrolled in the NJLRP is \$120,000. All loan repayments must be used to repay the approved qualifying educational loans. NJLRP loan repayments are taxable income and reported to the State of New Jersey Division of Taxation. Federal taxes are no longer applicable.

LRP Current Operations

July 1, 2014 to June 30, 2015

The LRP enrolled a total of 20 new providers:

- 8 - Physicians
- 4 - General Dentists
- 5 - Physician Assistants
- 2 - Certified Nurse Practitioners
- 1 - Certified Nurse Midwife

17 providers were placed on the State program and 3 providers placed on the Federal/State program.

As of September 30, 2015

There are currently a total of 68 providers enrolled on the LRP.

26 Physicians

- 7 - Family Practitioners
- 4 - Internal Medicine
- 4 - Obstetrics/Gynecology
- 11 - Pediatrics

19 Dentists

- 18 - General Dentists
- 1 - Pediatric Dentists

8 Physician Assistants

14 Certified Nurse Practitioners

1 Certified Nurse Midwife

**Primary Care Practitioner Loan Redemption
Program of New Jersey (NJLRP)**

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