

## **MINUTES**

### **HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY**

May 15, 2008

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on May 15, 2008 at 10:00 a.m. at the HESAA offices in Hamilton.

**PRESENT:** Mr. Michael Angulo, Esquire; Mr. James Avery; Sister Paula Marie Buley; Mr. Raymond Castor; Mr. Kevin Collins (teleconference); Mr. Richard Garcia; Ms. Wilma Harris (teleconference); Ms. Tabatha Ialacci; Dr. Joann LaPerla-Morales; Mr. Warren Smith, Esquire (teleconference); Ms. Nancy Style, Treasurer's Designee; and Ms. Maria I. Torres (teleconference), members.

**ABSENT:** Dr. Harvey Kesselman; Ms. Jean McDonald Rash; Ms. Rossy M. Matos;

#### **CALL TO ORDER**

Chairwoman Torres called the meeting to order at 10:05 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Ms. Torres welcomed the Board members.

She advised that no members of the public had registered to speak.

Deputy Attorney General Melissa Hager swore-in new Board member Richard Garcia.

Ms. Torres asked Ms. Merci Powell to call the roll.

#### **CONSIDERATION OF THE MINUTES OF THE FEBRUARY 7, 2008 MEETING:**

A motion to approve the minutes of the February 7, 2008 meeting was made by Sr. Paula Marie Buley and seconded by James Avery. The minutes were approved unanimously with two recusals, Kevin Collins and Richard Garcia because they did not participate in the February meeting.

#### **RESOLUTION 01:08 ADOPTING A SCHEDULE OF MEETINGS FOR FISCAL YEAR 2009**

Robin Bridges Johnson presented Resolution 01:08 to the Board.

At the last Board meeting of the fiscal year HESAA sets the meeting schedule for the next fiscal year in order to provide notice to the public. After polling the board members regarding their availability it is recommended that for fiscal year 2009 the meetings should be held at 10:00 am on Wednesday July 16, 2008, Tuesday, October 21, 2008, Wednesday, January 21, 2009 and Tuesday, April 21, 2009. In addition, HESAA may call additional meetings, including telephone

conference meetings, and specific notice of each meeting will be provided prior to each meeting pursuant to the Open Public Meetings Act.

A motion to approve Resolution 01:08 was made by Wilma Harris and seconded by Nancy Style. The FY 2008 meeting schedule was approved unanimously. Kevin Collins left the meeting prior to this vote.

**RESOLUTION 02:08: READOPTION OF REGULATIONS GOVERNING THE PRIMARY CARE PHYSICIAN AND DENTIST LOAN REDEMPTION PROGRAM, N.J.A.C. 9A:16**

Marnie B. Grodman, Esquire presented Resolution 02:08 to the Board.

N.J.A.C. 9A:16 – Primary Care Physician and Dentist Loan Redemption Program was set to expire November 20, 2007. At the October 24, 2007 Board meeting, the Board voted to propose these regulations for readoption without amendment which extended the expiration date to May 18, 2008. The proposed rules were published as PRN-2007-367 in the December 17, 2007 New Jersey Register at 38NJR 5174(a). The legislative review and public comment period expired with no comments so it is recommended that these regulations be readopted with no amendments.

Richard Garcia asked how a medically underserved area is defined. Eugene Hutchins indicated that the State Department of Health designates certain areas across the State as medically underserved and explained that medically underserved areas are usually urban however there are some rural areas as well as areas where there are health professional shortages. Mr. Garcia asked how long recipients of this program are required to work in a medically underserved area. Mr. Hutchins replied that while they are only required to work for 4 years, many remain employed in the medically underserved areas after they have met their obligations, which meets one of the major goals of the program.

A motion to approve Resolution 02:08 was made by Raymond Castor and seconded by Sr. Paula Marie Buley. The Readoption of Regulations Governing the Primary Care Physician and Dentist Loan Redemption Program was approved unanimously.

**RESOLUTION -3:08: APPOINTMENT OF A SENIOR MANAGER FOR AUTHORITY BOND ISSUES**

Eugene Hutchins presented Resolution 03:08 to the Board.

As outlined in the memorandum, the subprime mortgage crisis of last summer spilled over into the general credit markets beginning in February 2008. The auction bond market remains dysfunctional and there is inadequate liquidity currently available in the credit markets to enable student loan agencies to issue variable rate demand obligations that would contain a liquidity backstop as part of the structure. Whereas previously insurance coverage from either MBIA or Ambac would have improved the marketability of HESAA bonds, the current market environment precludes attempting to bring bonds to market insured by either of these companies. The combined effect of these factors has been that most other governmental or non-profit providers of student loans have indicated that they will not be offering student loans for next

academic year, based on the fact that they have been unable to successfully bring variable rate student loan bonds to market.

Morgan Stanley was recently successful in presenting our NJCLASS program to Assured Guaranty, a bond insurer that has remained highly rated due to their limited exposure to subprime losses. Since the NJCLASS loans have a fixed interest rate, they match up well with issuance of fixed rate bonds that Assured Guaranty is willing to insure.

EO 26 that governs the appointment of senior managers provides for the appointment of a senior manager where an innovative idea has been brought to the issuer and where the issue would not benefit from a competitive selection process without communicating the new idea to other potential proposers. Although no one could have imagined current market conditions, the Executive Order clearly provides for appointment of a senior manager under these circumstances.

The revised resolution before you adds a whereas that the appointment of Morgan Stanley is being made under the provisions of the EO 26.

Nancy Style asked whether Congressional action in allowing the government to buy loans will help in New Jersey. Gene Hutchins responded that while Congressional actions will be helpful in the FFEL Program by increasing loan limits, streamlining the Lender of Last Resort Program, and providing for greater liquidity with loan advanced funding purchases, this help does not extend to alternate loan programs such as NJCLASS.

A motion to approve Resolution 03:08 was made by Tabatha Ialacci and seconded by James Avery. The Appointment of a Senior Manager for Authority Bond Issues was approved unanimously.

## **CHAIR TO ANNOUNCE NOMINATING COMMITTEE APPOINTMENTS**

Ms. Torres announced that Harvey Kesselman has agreed to chair the Nominating Committee and that Warren Smith and James Avery have agreed to be on the Nominating Committee. Ms. Torres thanked them for agreeing to be on this committee. The Nominating Committee will meet in June to select the Chair, Co-Chair and Executive Committee for the HESAA Board, which will be announced at the July meeting.

## **EXECUTIVE DIRECTOR'S REPORT**

Executive Director Michael Angulo made the following report to the Board:

Though the difficulties from last year are mostly behind us, HESAA has been busy addressing new challenges, among them, the impact of the State's budget deficit on HESAA's programs, the crisis in the credit marketplace, federal activity impacting student lending, and enhancing our competitiveness in the marketplace.

Facing another multibillion dollar deficit, and attempting to control spending, Governor Corzine had to make a number of difficult decisions in his proposed budget. Of particular interest to HESAA, the institutions and the students and families that we serve are the funding levels for the

TAG program and the NJ STARS programs recommended for next year in the Governor's budget. As I outlined for you at our last meeting, TAG awards for new freshman attending independent institutions would be limited to the levels provided to students at Rutgers and NJSTARS award eligibility would be limited to students from families earning less than \$100,000. These two proposals are being debated across the State. HESAA participated in robust Senate and Assembly Budget Hearings last month, and more recently, the Assembly Higher Education Committee held a meeting that focused on NJ STARS. We are working with the Governor's office, the Legislature, and the various education sector representatives towards addressing desired funding levels for the 2008-09 academic year.

The credit market crisis that began last year in the mortgage subprime lending market has had a profound impact on the student loan industry. Even though student loan securities are far less risky than those linked to subprime mortgages, consumer and investor confidence has waned, resulting in the failure of auction bonds supporting the student lending industry. The loss of confidence in short-term auction rate securities has forced student loan issuers to seek alternative and unfortunately more costly means to fund student loan issues.

The bond failures combined with fees reductions to lenders in the FFELP program have caused a number of FFELP lenders to alter their lending practices, or elect to suspend loan issuance altogether. This has every potential to become an educational financing "crisis".

Fortunately, the impact on New Jersey has not been as bad as in other parts of the country. The reality for HESAA and New Jersey students and families is that there remain a large number of FFELP lenders serving our students.

Congress has also taken recent steps to ensure that student loans are available for the 2008-09 academic year. One such step was to allow the Federal Reserve to accept student-loan-backed securities as collateral for borrowings under its Term Securities Lending Facility, thereby providing some liquidity for new FFELP loans.

The most sweeping piece of legislation, however, was signed into law by President Bush last week. H.R. 5715, Ensuring continued Access to Student Loans Act of 2008 has:

- provided increased FFELP loan eligibility limits for students
- waived certain credit restrictions for parents borrowing from the PLUS loan program
- authorized the Secretary of Education to provide additional liquidity for lenders and guaranty agencies to allow them to continue to make FFELP loans or to finance the Lender of Last Resort program where no lender is available by buying loans from private lenders.
- implement and streamline the Lender of Last Resort provision contained in the law.

The importance of higher education was evident as this bill was fast tracked and approved in less than a month. A number of other pieces of legislation are pending that are designed to inject the student loan industry with additional liquidity. Legislation has been introduced in Congress to

further ensure the availability of loan capital for the upcoming year. We continue to work with our delegation, our national trade organizations (EFC and NCHELP, where Gene Hutchins was recently elected to serve as Treasurer) and our colleagues across the country to ensure that our students are able to meet the costs of their higher education. It is important to reemphasize the importance of FFELP to New Jersey. The FFELP revenue HESAA generates is used toward supporting the administration of State grants, scholarships and loan programs, and also used to pay down the NJCLASS loan interest rates as well as the 1% default rate on federal loans (\$33 million covered to date).

The credit market crisis has not only impacted FFELP, but also the private loan sector. Bonds supporting our nationally recognized supplemental loan program, NJ CLASS, have been failing this year just like every other supplemental loan provider in the nation. However, we have been working diligently to arrange for funds to support 2008 – 09 loans. NJCLASS is among the very few supplemental loans to receive interest from a sufficiently capitalized bond insurer. This is a result of our not-for-profit model, our program efficiency and ongoing low default and high recovery rates. Consequently, I am very optimistic that NJ CLASS will once again not only be highly competitive, but will offer one of the lowest rates available. We would be one of only three states across the country in a position to do so. Notably, a recent article in Business Week in New York reported on the NJ CLASS loan to, “offer bargain-rate loans”. We are hopeful to continue that tradition by offering the best interest rates and repayment terms possible.

As a further safety net, guaranty agencies across the country have been working with the US Department of Education, and lenders, to develop procedures for the implementation of the Lender of Last Resort program. This program allows state Guaranty Agencies the ability to make loans for students or for all students attending a certified institution in those situations where traditional lenders are not available. Ideally, a private lender will act as a Lender of Last resort through HESAA. However, the option does exist for funds to be advanced by the Secretary of Education to make these loans. Again, this program is contemplated only when there is no private funding for FFELP loans. Of course we’ll keep you apprised if it becomes necessary to implement the lender of last resort program at any of the institutions that we serve.

HESAA’s efforts to enhance our competitive position have been fruitful. At our last meeting, you saw a demonstration of our Loan Portal, named REAL Choice. REAL Choice is a web based application allowing students and parents the ultimate flexibility and choice in selecting lenders and loan products. It allows institutions to host their lender list and links all parties in the loan cycle together. We have now processed over 400 loans and are receiving positive feedback on the completeness of the services and compliance of the application to the numerous regulations governing institutions, lenders, and guaranty agencies relationships. In just a little over four months, we have delivered what no one else in the nation has been able to deliver. We have not only retained some schools that were considering other options, we have added to our client institutions.

The next step in the evolution of HESAA’s offerings is the E-signature product. Electronic signatures will provide the ability for students and parents to electronically complete their loans, saving time, paper, and trips to a lender or the institutions financial aid office. We expect to be able to fully offer that to our students and parents by mid-summer just in time for the fall semester.

Thank you for your continued support of, and commitment to, the Authority.

James Avery stated that the Board ought to be proud of staff's handling of affairs at HESAA and he wants to recognize Gene Hutchins work on specifically NJCLASS and NJBEST, and commends Mr. Hutchins on being named as one of the top men with the Loan Trade Organization. Mr. Avery stated that he hopes no one steals Mr. Hutchins away from HESAA.

Wilma Harris reiterated Mr. Avery's praise for the work done by HESAA staff. Maria Torres added her commendations and stated that the Board members are happy and proud of the hardworking staff and the work they do for students in New Jersey.

### **NEW BUSINESS**

Fran Andrea read the Resolution acknowledging and thanking the Student Advisory Committee member, Raymond Castor, for his service and dedication to the Higher Education Student Assistance Authority Board. A copy of the resolution will be noted in all the official records of the Authority.

Mr. Castor stated that it has been a pleasure serving on this Board in the company of such exemplary hardworking people.

### **ADJOURNMENT**

Ms. Torres said there will be a Special Board Teleconference Meeting on Wednesday, May 28, 2008 at 3:00 p.m.

A motion to adjourn was made by Nancy Style and seconded by Richard Garcia. The motion passed unanimously.

The meeting adjourned at 10:46 a.m.