

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

January 25, 2011

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on January 25, 2010 at 10:00 a.m. at the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esquire; Mr. Richard Garcia; (teleconference); Ms. Wilma Harris (teleconference); Dr. Harvey Kesselman; Ms. Rossy M. Matos (teleconference); Ms. Jean McDonald Rash (teleconference); Mr. Jonathan Nycz; Mr. Warren Smith (teleconference); Ms. Nancy Style, Treasurer's Designee; Maria I. Torres (teleconference); Ms. Kristy Van Horn, members.

ABSENT: Mr. Edward Graham; Mr. Julio Marenco and Mr. Wilmot Wilson.

CALL TO ORDER

Chair Garcia called the meeting to order at 10:03 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Garcia asked Michael Angulo to lead those present in the Pledge of Allegiance.

Mr. Garcia welcomed the Board members and advised that because some members are participating via teleconference, Roseann Sorrentino will conduct a roll call for the resolutions.

Mr. Garcia welcomed David Reiner, Esq., from the Governor's Authorities Unit; Cheryl Clarke, Deputy Attorney General; and Rev. Michael Braden, St. Peter's College, Dr. Robert Messina (teleconference).

He advised that no members of the public have registered to speak.

Mr. Garcia asked Roseann Sorrentino to call the roll.

CONSIDERATION OF THE MINUTES OF THE OCTOBER 20, 2010 MEETING:

A motion to approve the minutes of the October 20, 2010 meeting was made by Dr. Harvey Kesselman and seconded by Warren Smith. The minutes were approved unanimously.

CONSIDERATION OF THE MINUTES OF THE NOVEMBER 23, 2010 MEETING:

A motion to approve the November 23, 2010 minutes was made by Dr. Harvey Kesselman and seconded by Maria Torres. The minutes were approved unanimously.

RESOLUTION 01:11 – APPROVAL OF INTERIM FUNDING FOR NEW JERSEY COLLEGE LOANS TO ASSIST STATE STUDENTS (NJCLASS) SUPPLEMENTAL LOAN PROGRAM; DECLARATION OF OFFICIAL INTENT TO REIMBURSE INTERIM FUNDING WITH PROCEEDS OF TAX-EXEMPT BONDS

Gene Hutchins presented this item to the Board.

As outlined in the memorandum, volume for the NJCLASS loan program has exceeded expectations. Rather than not providing Spring loans to a number of New Jersey families, staff has identified reserves that can be used on a temporary basis to meet this demand. The reserves that have been identified to fund the NJCLASS loans are the Guaranty Agency Operating fund and the NJCLASS Life of Loan Servicing funds. The Guaranty Agency Operating funds are permitted to be used under federal statute. Specifically, 20 USC 1072b(d)(1) authorizes HESAA to use the Operating Fund for student financial aid related activities, as selected by the guaranty agency. In this instance, staff is recommending that HESAA select to use these funds on a temporary basis to ensure that students and their families are able to secure NJCLASS loans prior to the availability of 2011 bond proceeds. Similarly, the NJCLASS Life of Loan Servicing Reserves are allowed to be used for program purposes under the bond indentures that govern the use of funds derived from the NJCLASS program.

At the closing of the next bond issue, anticipated for May or June of this year, the Guaranty Agency Operating Fund and the Life of Loan Servicing Reserves to the extent that they are utilized, will be reimbursed for the principal amount of all loans funded plus all associated accrued interest.

The resolution, which has been prepared by Bond Counsel, is necessary since under IRS guidelines, the Authority must declare its intent in advance of bonding for permanent funding of the loans being temporarily funded from existing reserves.

A motion to approve Resolution 01:11 was made by Wilma Harris and seconded by Dr. Kesselman.

Dr. Kesselman asked for an explanation in lay person terms, on how much money would be borrowed and the end result of this resolution.

Gene Hutchins responded explained that as much as \$10 million will be needed to fund the Spring loans. He further explained that IRS guidelines require notice of this use of future bond funds due to an instance in the late 1970's when New York City issued tax-exempt bonds for operating expenses to cover a deficit of \$500 million. The IRS took exception to that usage of tax-exempt bond funds and put in place regulations requiring public entities to declare its intent in advance that the expenses they are incurring either for a project, or for a loan program like this, are on a temporary basis to be replaced by permanent bond funding at a later date.

Michael Angulo added the underlying need is for this action is that the NJCLASS proceeds have been expended because of the unprecedented demands.

Nancy Style discussed how NJCLASS is currently an attractive program and questioned whether there are any issues with using the 2011 bond proceeds for this purpose and that the anticipated \$400 million 2011 issuance would be enough to meet the 2011 needs.

Mr. Hutchins responded that this temporary funding that needs to be repaid will be taken into account and that the second constraint in determining the issuance is the amount of bond cap allocated by the Treasurer balanced with the demand for the loan program.

Warren Smith asked whether a delay in offering the 2011 Bonds would affect repayment of these accounts.

Mr. Hutchins responded that the funds would be repaid from the next permanent financing. It does not have to be done by May or June to repay the funds and the loans will continue to accrue interest. At the time they are purchased the bond indenture typically provides for the origination for a purchase of loans at par value plus accrued interest.

Jonathan Nycz inquired as to whether there will be a substantial amount in reserves if this money is borrowed from the proposed funds.

Mr. Hutchins responded that the amount being borrowed is about one third of the reserve amount in the guaranty agency operating fund, leaving adequate reserves on hand.

The motion was passed unanimously.

RESOLUTION 02:11 APPOINTMENT OF A FINANCIAL ADVISOR AND SENIOR MANAGER FOR AUTHORITY BOND ISSUES AS REVISED

Robert Clark presented this item to the Board.

In addition to the Chief Financial Officer who, under the Authority's procedures, chairs the RFP Evaluation Committee, the Executive Director designated the Acting Director of Legal & Governmental Affairs, and the Controller, to participate in this review process. The Controller coordinated this process. The recommendation is made under the established Authority procedures for the selection of Financial Advisors and Senior Managers. These procedures are fully described in Section A of the memo accompanying Resolution 02:11.

First, concerning selection of the Financial Advisor, five proposals were submitted, and the evaluation committee interviewed all five firms. Of these, the proposal of First Southwest most closely matched the Authority's needs. An item of particular interest in this firm's proposal was its demonstrated wealth of student loan expertise as well as experience in refundings of student loan transactions, a service that HESAA may continue to utilize during the term of this appointment. First Southwest's proposal also emphasized its focus on assistance in coordination of the various phases of the bond issuance process, including obtaining favorable ratings and credit enhancement if needed, as well as thorough review and analysis of the cash flow projections prepared by the senior manager. In addition, the firm emphasized maintenance of continual client relations during the term of the contract, not only during the bond issuance process.

The maximum fee proposed by First Southwest for financial advisory services is \$100,000. This fee also includes review of cash flow models prepared by the senior manager at no additional fee. Concerning additional services that the Authority may require, First Southwest proposed a fee of 1 basis point, based on the future swap cash flows, for swap termination services, capped at a maximum of \$125,000 if all remaining swaps were terminated in a single year. First Southwest also proposes a fee of 2 basis points on the initial invested balances, with a maximum of \$34,000, for their support in the bidding, evaluation and award of the Guaranteed Investment Contracts in which bond proceeds are invested when market conditions permit. This fee would be paid by the Guaranteed Investment Contract provider, not by HESAA.

Concerning selection of the Senior Manager, fourteen proposals were submitted by underwriting firms. Eleven were deemed to be responsive and each of these firms was interviewed by the evaluation committee. Of these firms, 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, also known as BAML, proposed to work closely with Authority staff in the continued development of financing structures tailored to match program delivery objectives. Additionally, of all the bidders, BAML's proposal and presentation are best illustrated the depth of experience of assigned staff and the firm's strong commitment to help the Authority obtain the best possible financing structure in the current volatile market conditions, as well as strong support of the Authority's after bond sale needs, including evaluation of alternatives in resolving issues involving the Authority's remaining \$218 million in failed auction rate bonds and related interest rate swaps, those issued between 2001 and 2007.

In addition to its presentation, BAML demonstrated its effectiveness as an underwriter during its first appointment as the Authority's underwriter in 2009 & 2010, when the firm structured transactions which refunded \$1.3 billion in failed auction rate securities, terminated the related interest rate swaps and provided funding for nearly \$630 million in new NJCLASS loans.

The proposed fee to BAML, inclusive of management fees, expenses, and 'takedown' (which is the commission rate paid to the bond salespeople) is \$6.90 per thousand dollars of bonds issued for fixed rate bonds, which is a decrease of 97 cents per thousand from the Authority's most recent bond issue, the 2010-2 Bonds. These fees are based on an estimated \$400.0 to \$450.0 million Authority bond sale.

It was recommended that the Board approve the attached resolution, which approves the appointment of First Southwest as the Authority's Financial Advisor, and Bank of America Merrill Lynch as the Authority's Senior Manager. Following the Board's vote on this resolution, an update will be provided on the selection process for Bond Counsel.

A motion to approve Resolution 02:11 was made by Warren Smith and seconded by Christy Van Horn.

Nancy Style asked who are the current Financial Advisor and Senior Manager.

Robert Clark responded currently the Financial Advisor is Scott Balice and our Senior Manager is Bank of America/Merrill Lynch.

Nancy Style pointed out that Scott Balice did rank second.

The motion was passed unanimously.

Robert Clark reported that on October 27, 2010 the Attorney General's Office issued a Request for Qualifications for bond counsel. Seven firms submitted proposals, five of which were deemed responsive. An evaluation committee made up of the Assistant Attorney General in charge of Financial Affairs and a Deputy Attorney General in that practice group, as well as HESAA's Chief Financial Officer and Acting Director of Legal and Governmental Affairs, met and reviewed each of the proposals. The Division of law is now finalizing the selection of bond counsel. Once the selection is finalized, HESAA staff will inform the Board members, and the final selection will also be announced at the next public Board meeting.

EXECUTIVE DIRECTOR'S REPORT

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

He began by providing an update on processing for the 2011-12 academic year. Access has been the cornerstone of student assistance in New Jersey for over 40 years. Through public outreach programs and collaboration with the financial aid and guidance counselor communities, the volume for New Jersey's student aid programs has grown to an all time high of over 502,000 applications. However, State aid programs also reflect economic circumstances, so it is reasonable to expect a decline in the volume of applications when the economy recovers. For the 2011-12 academic year, volume is anticipated to be comparable, if not increased, over the prior year. To address the State's as well as the community's processing needs; HESAA is pleased to announce that the U.S. Department of Education's link from the 2011-12 FAFSA on the Web application to HESAA's website went live on January 1. This link enables New Jersey residents to respond to the additional state questions in one seamless process. New Jersey is one of two states that implemented the link at the startup of the Federal Aid application cycle. Additional state links are scheduled for implementation January 30th and March 27th.

In terms of what applicants will see, once a student completes the FAFSA on the Web, the confirmation page (designed by the USDE) will display the link to HESAA's website. HESAA has asked that institutions advise their students of the importance of clicking the link to the HESAA website to respond to the additional questions. The system is designed to identify only the questions that apply to the particular student, based on dependency status, and family income. Families must complete up to four questions, the same data request as last year, drivers license information if they did not provide it on the FAFSA, untaxed social security, earned income credit and veterans benefits. The applicants, who are required to provide this information, but do not click this link, can go to HESAA's site to fill in the information and will receive an Application Information Request form from HESAA. Leveraging the USDE's link will improve the data collection process, while controlling the costs of the TAG program. HESAA's data collection this past year achieved a savings of over \$14.6 million in FY 11.

Turning to the FY 2012 State budget, the State is facing another multi-billion shortfall. In his State of the State message on January 11, Governor Christie indicated that he will continue to focus on reshaping State government with a major focus in FY 2012 on the costs of public pensions and benefits. The Governor has also indicated that FY 2012 budget will be determined

by a 'hands on the wheel' approach to resource allocations and that all programs remain on the table for review. As the lead State entity in determining state aid policy, HESAA will work closely with the Governor's Office, Treasury, and OMB to promote the principles of access and affordability through need-based student financial aid. The Governor's FY 2012 Budget message is currently scheduled for February 22nd. Thereafter, the Legislature will deliberate funding proposals so that, by no later than June 30th, the State budget can be presented to the Governor for action.

HESAA continues to assist families with completing the FAFSA so that grant and scholarship aid is maximized. Unfortunately, many students still face a gap between the aid they receive and the cost of attendance. In those instances, HESAA's NJCLASS program offers a convenient and low cost option to meet this gap.

As of today, HESAA has originated over \$320 million in NJCLASS loans for students and families. HESAA began the processing cycle with \$333 million in funding, but quickly exhausted the funds available for loans offering full deferment while in school, and loans where the borrower would begin immediate repayment of principal and interest over a shorter 10-year repayment term. Quite simply, the demand for NJCLASS surpassed expectations. It is believed that there are sufficient proceeds available for new spring applications.

On the federal side, HESAA implemented changes in compliance with new federal Truth-in-Lending regulations that require additional steps for borrowers before receiving nonfederal education loans, including NJCLASS loans. Borrowers are now required to receive loan disclosures detailing the repayment terms of the loans at specific times in the loan process. Borrowers are also required to submit a federal self-certification form using cost figures that they must obtain from their campus financial aid office. Finally, the borrower must take additional action on their loan application by accepting the new federal TILA Loan Offer Disclosure. If the borrower does not accept the Offer, then no loan funds can be released. These additional steps have been confusing for borrowers and HESAA staff has been working with borrowers and families to ensure timely disbursements of their funds.

As previously reported, HESAA was designated by the Governor to administer the U.S. Department of Justice's new John R. Justice Grant Program which is intended to attract and retain highly qualified attorneys to serve as prosecutors or public defenders by redeeming a portion of a successful applicant's qualified student loan debt. Despite an aggressive timeline and detailed program directives, in coordination with the Office of the Attorney General and the Public Defender's Office, has identified the 30 individual award recipients for the year out of 186 applications.

Specifically, 9 Prosecutors will receive individual awards of \$11,635 and 21 Public Defenders will receive individual awards of \$4,986. Based upon the program requirements as established by the Grant, the aggregate funds awarded to both the Prosecutors and the Public Defenders was \$104,716 per side and the overall total funds awarded was \$209,433. The successful recipients were selected based primarily upon the factor of least able to pay, with significant consideration given towards achieving wide geographical distribution of award recipients throughout the State. All award recipients have been notified.

HESAA continues discussions with the USDE regarding federal student loans. The USDE is gradually moving ahead with the Direct Loan Servicing opportunities for Not for Profit organizations, like HESAA. There are several components of these contracts that must be determined including a common pricing level as well as the number of accounts that will ultimately be allocated to each recipient organization.

Staff is also monitoring the potential opportunity of entering into Voluntary Flexible Agreements with the USDE to provide services to assist borrowers and students. These services are anticipated to be similar to the services the Guaranty Agencies provided under the FFELP program. The Board will be kept informed as additional information becomes available.

Last month, the Governor's Task Force on Higher Education issued its report. Chaired by Former Governor Thomas H. Kean, the Task Force detailed the challenges faced by New Jersey's Higher Education institutions, and offered recommendations to further the quality and success of these institutions and the overall system of higher education in this State. The Task Force reviewed numerous issues such as the appropriate governance structure of higher education institutions, the interrelationship between institutions and the state, the effective use of the "Public Private Partnership", the accessibility and affordability of the State's institutions to higher education, including the availability of tuition assistance as well as the need for capital investment in institutions and resources available. In the area of student assistance the report called for the state to:

- maintain current policies regarding the Tuition Aid Grant funding for students at all eligible institutions;
- provide a sufficient investment in the EOF program;
- consider modifications to merit based programs, such as those including a financial need component in the eligibility criteria; and
- improve the application process for student assistance.

Notably, the Report applauded HESAA for its hard work in collecting certain data from applicants and coordinating the FAFSA link with the USDE so that students could easily provide the additional information. The Report recognized that "New Jersey's budget crisis is affecting its ability to help students afford their college education. The financial crisis limits the funding available in the near term, but the State's commitment to helping students afford a college education must be addressed."

At the request of the Chair, the scholarship sub-committee had an initial meeting on January 12 to address issues raised during an earlier Board discussion of merit based programs, prompted by a report presented by the Board budget committee. The sub-committee has requested additional data and will meet again to ensure thorough consideration of program recommendations.

The ongoing economic downturn will, no doubt, keep demand for financial aid at unprecedented levels. Along with working to maintain sufficient levels of grant/scholarship/loan funds for the upcoming year, the Authority is increasing outreach efforts throughout New Jersey. Among

these initiatives is College Goal Sunday, scheduled for January 30th, at 8 locations across the State (Camden, Jersey City, Newark, New Brunswick, Ocean, Paterson, Trenton, and Union). College Goal Sunday is an annual collaboration with NJASFAA and the higher education sector intended to assist families and students, through bilingual volunteers, complete the FAFSA. HESAA hopes to eclipse the 2,000 individuals that received assistance during last year's event received much needed assistance.

HESAA will also utilize funding from the federal College Access Challenge Grant to increase its outreach. The College Access Challenge Grant has been awarded in partnership with the Commission on Higher Education and will provide \$400,000 to conduct outreach, financial literacy and financial aid services for underserved families. Through the Grant, HESAA will:

- create new materials in English and Spanish for distribution;
- create podcasts and webinars; and
- add "FAFSA filing days" and community outreach and counselor workshops at targeted locations in Cumberland, Salem, Sussex and Warren.

The Authority should be proud of its comprehensive work helping students afford and access higher education, but must remain mindful of the ongoing challenges facing HESAA in 2011. HESAA continues to work with the Governor's office to address critical vacancies as staff count declines due to additional retirements and attrition while confronting program growth and increasing responsibilities. HESAA is also pursuing necessary action to expand revenue generating business lines. This will be essential as the Authority prepares to go forward 100% self-funded, and without any new FFEL program revenue. Authority resources and personnel are being refocused to meet growing needs and future business opportunities. Staff is taking steps to improve technology infrastructure to increase electronic capabilities and reduce administrative duplication.

Dr. Kesselman congratulated HESAA on a job well done and questioned who at the colleges received information with regards to clicking on the FAFSA link.

Fran Andrea responded the communication went to the Financial Aid Officers and the EOF Directors of each of the institutions.

Dr. Kesselman and Christy Van Horn suggested a press release on this information, to which Mr. Angulo responded that he would prepare one.

Christy Van Horn asked for details regarding handling the staff shortages with increasing work load and whether the fact that the positions do not require state budget money has been part of the discussions.

Mr. Angulo explained that HESAA has submitted a list of approximately 13 critical vacancies to the Governor's Office and that HESAA is in the process of filling one critical vacancy which is the Director of Audits. He further responded that the funding mechanism to support these positions is part of the discussion.

Chair Garcia on behalf of the Board wanted to thank staff on a phenomenal job on all their hard work.

Dr. Kesselman asked what percentage of dollars are State dollars vs. self funding.

Mr. Angulo responded that for FY 11 HESAA was 98% self funded and the balance was State appropriated dollars. In the upcoming budget, given the deficit, HESAA is anticipating going 100% self funding.

Dr. Kesselman and Ms. Van Horn felt it is incongruous to be self funded but have to have State constraints. Ms. Van Horn stated that the Governor's hands on approach to doing things may be very helpful and suggested HESAA's approach to the issue should be that we work with the State but we are a business.

Michael Angulo stated in order to support the financial aid infrastructure here in New Jersey, and continue with the high level of administrative service that students and families receive, HESAA's help and effectiveness will be reliant on its ability to generate revenue and support these services and operations.

ADJOURNMENT

Mr. Garcia announced the next regularly scheduled Board meeting is April 26, 2011. A motion to adjourn was made by Wilma Harris and seconded by Dr. Kesselman.

The motion to adjourn passed unanimously.

The meeting adjourned at 10:46 am.