MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

April 3, 2006

The Higher Education Student Assistance Authority (HESAA) Board held a meeting by conference call on April 3, 2006 at 10:00 a.m. from the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esq.; Mr. James Avery; Ms. Dana Downer; Ms. M. Wilma Harris; Dr. Harvey Kesselman; Mr. Warren Smith; Ms. Nancy Style, Treasurer’s Designee; Ms. Maria Torres; members.

Also participating via teleconference were Keith Barrack, Esq., Assistant Counsel, Governor’s Authorities Unit; Melissa Hager, DAG; Dr. Joann La Perla-Morales, President Middlesex County College; and Dorothy Blakeslee, Municipal Advisory Partners.

Participating in person were James Byers, bond counsel of Carella, Byrne, Bain, Gilfillian, Cecchi, Stewart & Olsen; and Sarah Catron, UBS Securities LLC.

ABSENT: Ms. Rossy M. Matos; Mr. Frank Mertz; Mubarak Guy; Ms. Jean McDonald Rash; Dr. William Rogers; and Mr. Christian Edward Samay, Esq.

CALL TO ORDER

Chairman Smith called the meeting to order at 10:13 a.m. and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Smith welcomed the Board members.

Mr. Smith asked the Board Secretary to call the roll.

Merci Powell called the roll.


Marnie B. Grodman, Esquire presented this item to the Board.

On January 12, 2006 Governor Codey signed the “New Jersey Student Tuition Assistance Reward Scholarship II (NJ STARS II) Program Act”, P.L. 2005 c. 359 (“Act”). Pursuant to section 6 b. of the act, the Higher Education Student Assistance Authority (HESAA) is responsible for promulgating rules and regulations as may be necessary to implement the provisions of the Act.
NJ STARS II is a continuation of NJ STARS that enables successful NJ STARS students to earn a bachelor’s degree at a New Jersey four-year public institution of higher education. Under this program, a scholarship will be paid to the institutions for each eligible student in the amount of $2,000 per semester for up to four semesters. The amount of the scholarship will increase by one-half of the average percentage increase over the prior academic year in undergraduate tuition and fees for all four-year public institutions of higher education, not to exceed $2,500 per semester. Institutions are required to provide institutional scholarships or waive any tuition and approved fees for up to 18 credits per semester, that exceed the sum of the NJ STARS II scholarship plus any other State or Federal grants and scholarships to which the student is entitled.

The act takes effect on June 30, 2006.

The proposed new rules govern the policy, administration and procedures for NJ STARS II as follows:

N.J.A.C. 9A:9-11.1 sets forth the purpose and scope of the proposed new rules.

N.J.A.C. 9A:9-11.2 sets forth the definitions of terms utilized in this subchapter.

N.J.A.C. 9A:9-11.3 sets forth which general provisions for the Tuition Aid Grant and Garden State Scholarship Program apply to NJ STARS II. (residency, non-citizens, award adjustments, collections and refunds, check endorsements, appeals and audits and accounting)

N.J.A.C. 9A:9-11.4 sets forth that participating institutions are not required to admit a student who is eligible for NJ STARS II, but that the participating institution is required to accept all academic credits awarded to an NJ STARS II participant by a New Jersey county college.

N.J.A.C. 9A:9-11.5 sets forth the eligibility requirements for program participation.

N.J.A.C. 9A:9-11.6 sets forth how students will be notified of their eligibility for the NJ STARS II program.

N.J.A.C. 9A:9-11.7 sets forth the provisions for determining the amount of the scholarship.

N.J.A.C. 9A:9-11.8 sets forth the terms for renewing the NJ STARS II scholarship.

N.J.A.C. 9A:9-11.9 sets forth the terms for ineligibility due to academic or disciplinary dismissal.

It was recommended that the Board approve Resolution 05:06 - Consideration of Proposed New Jersey Student Tuition Assistance Reward Scholarship II (NJ STARS II) Program Regulations, N.J.A.C. 9A:9-11 for publication in the May 15, 2006 New Jersey Register.
After some discussion concerning the impact, if any, of the program on Bloustein scholars, and pertinent eligibility timelines, a motion to approve the resolution was made by M. Wilma Harris and seconded by James Avery.

The motion was adopted unanimously by roll call.

**RESOLUTION 06:06 AUTHORIZING THE ISSUANCE AND SALE OF STUDENT LOAN REVENUE BONDS AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF A SUPPLEMENTAL INDENTURE, FINAL OFFICIAL STATEMENT, CONTINUING DISCLOSURE AGREEMENT, BOND PURCHASE AGREEMENT, AND OTHER MATTERS IN CONNECTION THEREOF.**

Mr. Eugene Hutchins, Chief Financial Officer, presented the resolution.

The resolution authorizes a total bond sale not to exceed $225.0 million in variable rate bonds with a final maturity not later than December 1, 2040. Approximately $133.4 million of the bonds will be used to finance fixed rate NJCLASS loans, $30.0 million will be used to finance NJCLASS Consolidation Loans, $15.0 million will be used to finance fixed rate loans to graduate and professional students and up to $46.6 million will finance loans under the Federal Family Education Loan Program (FFELP), other required reserves and bond issuance costs.

As has been the case for the 2001 through 2005 bonds, the 2006 bonds are proposed to be issued in the form of variable rate Auction Rate Certificates (ARC’s) that carry a 35-year maturity Debt service on these bonds is paid entirely from the repayment of student loans financed from the bond trust estate and no State General Funds are required or pledged for debt service.

The bond proceeds will be used to finance three types of loans under the NJCLASS program for next academic year at terms and interest rates designed by HESAA to provide the most affordable loan products to New Jersey students possible.

The first loan type is the standard Fixed Rate NJCLASS Loan. Beginning with loans originated for the 2006-2007 academic year, the repayment term for these loans will be extended from 15 to 20 years. The Authority is also reducing the loan origination fee from 3.0% to 2.0%.

The second type of NJCLASS loan is the NJCLASS Consolidation Loan, where borrowers who have two or more NJCLASS loans with aggregate balances in excess of $30,000 can apply to consolidate them into a single loan with lower monthly payments and a longer term.

The third type of NJCLASS loan offered for this upcoming academic year is the NJCLASS Fixed Rate Loan for Graduate and Professional Students, which replaces the previous variable rate program for these students. With the current interest rate environment and the change of all federal FFELP loans to fixed interest rates, this new loan product is the best vehicle for borrower affordability when compared to next year’s PLUS fixed rate of 8.5%.

In order to finance the standard Fixed Rate NJCLASS loans and the NJCLASS loans for Graduate and Professional Students, the structure of the issue includes variable to fixed rate
interest rate swap agreements totaling $145.0 million. The swaps do not include amounts for Consolidation Loans since the underlying NJCLASS loans being consolidated are covered under swaps from previous bond issues. Under the swap agreements, the Authority agrees to pay third-party financial institutions interest at a fixed rate on pre-determined notional amounts that decline over time as the amount of principal outstanding on the NJCLASS loans financed from the bonds also declines. At the same time, the third party agrees to pay a variable interest rate to HESAA on the same outstanding dollar value (notional amount) of the swap.

As NJCLASS loans are repaid, funds can be recycled to make or purchase additional FFELP loans. This will result in a very efficient use of tax-exempt cap since funds can be utilized for new loans two to three times over the life of the bond issue. The structure also allows the Authority to make additional funds available to the NJCLASS program, if required, through the execution of additional swap transactions.

The ARC bonds that will finance the NJCLASS fixed-rate and FFELP loans will be re-auctioned every 35 days by UBS Securities LLC and several co-managers acting as Broker-Dealers, with interest paid to bond holders semi-annually on each June 1st and December 1st. Bonds are redeemable by the Authority at any time, without the need to pay any premiums or penalties at redemption. The ARC bonds are also proposed to be insured, as past issues have been, which will result in a AAA rating for the bonds from both Standard & Poor’s and Fitch Ratings rather than the A rating they would receive without insurance. This will allow NJCLASS loans to be made at a lower interest rate and improve the marketability of the bonds. The bond insurance has been placed with MBIA Insurance Corporation through a competitive bid process conducted by the financial advisor.

The NJLIFE Program, which finances FFELP loans for borrowers with family incomes of under $25,000 and is initially being funded through the 2005 Bond Issue, will also offer enhanced borrower benefits for next academic year. These benefits include:

- A waiver of the 2% FFELP origination fee and the 1% default fee mandated by the Higher Education Reconciliation Act recently signed by the President.

- In support of academic retention initiatives, reductions in the original principal balance of the loans of 1% at graduation, an additional 1% after 12 months of on-time payments and an additional 1% after 24 months of on-time payments, for a total of 3.5% in principal reductions under the NJLIFE program.

- A 0.50% interest rate reduction if NJLIFE borrowers elect to make loan repayments via the Automated Clearing House (ACH) process.

The Authority is pledging a portion of its federal operating revenues to ensure that all eligible low-income students can be provided with these benefits.

Bond proceeds allocated to the FFELP program will be utilized to originate loans to New Jersey students and to purchase loans made to New Jersey students now held by entities outside of the State. This will allow HESAA to exercise its authority as the State’s designated secondary
market for student loans and to provide services and benefits to students not otherwise available to our students.

The resolution delegates to the Chairperson, Vice Chairperson, Executive Director, Chief Financial Officer or other authorized representative or designee of the Authority the power to modify and approve the final interest costs of the bonds, and the principal maturities and interest rates of the variable to fixed interest rate swap agreement.

In conformance with Executive Order 26, the bonds are being issued through a negotiated sale. Because of the complexity and size of the issue, a negotiated sale should result in better pricing for the bonds than would be obtained from a competitive sale.

A motion to approve the resolution was made by M. Wilma Harris and seconded by Maria Torres.

The motion was adopted unanimously by roll call.

NEW BUSINESS

Warren Smith announced the resignation of Commission on Higher Education representative Frank Mertz. In consideration of Mr. Mertz’s resignation, in recognition of his exceptional service and dedication to New Jersey’s student financial assistance programs and as a member of the HESAA Board, Mr. Smith presented a framed Resolution, which he read.

Dr. Kesselman questioned whether the Outstanding Scholars Recruitment Program (OSRP) was included in the Governor’s Budget. Gene Hutchins responded that there is no funding for the incoming 2006 freshman, however, those students already in the program will be funded.

Michael Angulo thanked all of the board members for participating in the conference call.

ADJOURNMENT

A motion to adjourn was made by Dr. Harvey Kesselman and seconded by Maria Torres.

The meeting adjourned at 10:38 a.m.