MINUTES
HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

April 23, 2007

The Higher Education Student Assistance Authority (HESAA) Board held a meeting by conference call on April 23, 2007 at 10:00 a.m. from the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esq.; Mr. James Avery; Mr. Raymond Castor; Mr. Kevin Collins; Ms. M. Wilma Harris; Ms. Rossy Matos-Miranda; Ms. La-Trenda Ross, Mr. Warren Smith; Ms. Nancy Style, Treasurer’s Designee; and Ms. Maria Torres; members.

Also participating via teleconference were Sonia Frontera, Esq., Assistant Counsel, Governor’s Authorities Unit; Melissa Hager, DAG; Paul Wosniak and Sara Catron, UBS Securities LLC; Beth Ferguson, Acacia Financial Group Inc.; Jerry Ostow, Bond Counsel of McManimon and Scotland; and Jeanne Stiefel, Parker McCay, Underwriters Counsel.

Participating in person were Clifford Rones, Deputy Attorney General.

Members of the Public: Marguerite Beardsley, CHE; Constance Willett, OMB; and Ana Aaya, Star Ledger.

ABSENT: Dr. Harvey Kesselman; Dr. Joann La Perla-Morales; Ms. Jean McDonald Rash.

CALL TO ORDER

Co-Chairman Torres called the meeting to order at 10:00 a.m. 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.

Ms. Torres asked the Board Secretary to call the roll.

Merci Powell called the roll.

RESOLUTION 03:07 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 $275.0 million in variable rate bonds with a final maturity not later than December 1, 2041. The entire bond issue will be used to finance NJCLASS loans, as well as other required reserves and bond issuance costs.
As has been the case for the 2001 through 2006 bond issues, the 2007 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 was extended from 15 to 20 years and will remain at 20 years in the new bond issue. The Authority has also reduced 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 first offered for this academic year is the NJCLASS Fixed Rate Loan for Graduate and Professional Students, which replaced 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 and this year’s PLUS fixed rate of 8.5%. Currently we offer this loan at 6.5% to graduate students and are looking forward to similar rate for next year so it’s a substantial savings.

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. 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. The total swap amount for 2007 is projected to be $350.0 million and includes amount recycled from previous bond issues.

As NJCLASS loans are repaid, funds can be recycled to make additional NJCLASS loans or to make or purchase additional FFELP loans. This results 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 ARC bonds that will finance the NJCLASS fixed-rate 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 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.

Bond Counsel will now review the Bond Resolution.

Kevin Collins, CHE representative, had a question with regard to the SWAP Advisor, aside from Nancy Styles’ operation in the Treasurer’s Office, is there any inclination to have one SWAP Advisor for all the Authorities in the State or is there a tradition or practice whereby they all seem to retain separate Advisors relative to SWAPs?

Jerry Ostow responded this is a question for the Treasurer’s office. His experience as Bond Counsel is that not only do they retain separate SWAP Advisors but he has seen them retain separate SWAP Advisors for different Bond issues and/or programs. As pointed out there is one SWAP Advisor retained to oversee all of the State’s SWAP operations. Nancy Style commented to her knowledge there is a SWAP Advisor that the Treasury uses and State agencies are certainly free to use the same one but they can also retain their own. There may be an issue of particular expertise or the level of comfort working closely with the Advisor. There is no move to standardize on one; the price is probably competitive depending on the hours of work they are going to be done. Ms. Style questioned Sonia Frontera of the Governor’s Authorities Unit whether they get involved in recommending which SWAP Advisors to use. Ms. Frontera responded that they do not.

The motion was adopted unanimously by roll call.

Executive Director Update

Michael Angulo, Executive Director, gave a Brief update on they Student Aid Sector as this is an evolving process. Over the last several months there have been and continues to be a comprehensive review of the student aid sector by various entities including the US Department of Education, members of Congress, Attorneys General from across the country. A number of
the investigations are ongoing and to date the New York Attorney General has received in excess of 6 million dollars in settlements from lenders and has secured settlements from a number of Higher Education Institutions where New York students are enrolled. Both the Federal Family Education Loan Program (FFELP) and the Direct Lending Program participating in those programs have been impacted by this ongoing investigation. We are also participating in what is known as the negotiated rulemaking sessions hosted by the US Department of Education where the current regulatory language governing the student lender sector is being reviewed and recommendations are being proposed for the Secretary to consider. We anticipate that the negotiated rulemaking sessions will be finalized some time this November, and as mentioned this is all an evolving process. Various other State’s Attorney Generals have also taken action with Ohio being the most recent to look at student lending in their state. The Authority will continue monitoring what is going on and as more information or more factual circumstances arise we will be happy to update the board members. Thank you for all the questions and I look forward to answering questions as we move forward.

ADJOURNMENT

A motion to adjourn was made by Kevin Collins and seconded by Raymond Castor.

The meeting adjourned at 10:25 am.