

## **MINUTES**

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

October 21, 2008

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on October 21, 2008 at 10:00 a.m. at the HESAA offices in Hamilton.

**PRESENT:** Mr. Michael Angulo, Esquire; Mr. James Avery (teleconference); Sister Paula Marie Buley; Mr. Richard Garcia (teleconference); Ms. Wilma Harris (teleconference); Mr. Tony Hubbard; Dr. Harvey Kesselman; Dr. Joann LaPerla-Morales (teleconference); Ms. Rossy Matos (teleconference); Ms. Jean McDonald Rash; Ms. Nancy Style, Treasurer's Designee; Mr. Warren Smith, Esq.; and Ms. Maria I. Torres, members.

**ABSENT:** Ms. Tabatha Ialacci, Mr. Edward Graham.

#### **CALL TO ORDER**

Chairwoman Torres called the meeting to order at 10:04 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 and Deputy Attorney General Melissa Hager, Esquire.

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

Ms. Torres asked Ms. Nancy Reffner to call the roll.

Ms. Torres led those present in the Pledge of Allegiance.

#### **CONSIDERATION OF THE MINUTES OF THE JULY 16, 2008 MEETING:**

A motion to approve the minutes of the July 16, 2008 meeting was made by Nancy Style and seconded by Harvey Kesselman. The minutes were approved unanimously with one abstention, Warren Smith, because he did not participate in the July 16th meeting.

#### **REPORT OF THE BUDGET COMMITTEE AND RESOLUTION 09:08 ADOPTING A BOARD BUDGET POLICY STATEMENT FOR FISCAL YEAR 2010**

Harvey Kesselman made the following presentation:

I am pleased to report that the budget committee of the HESAA Board met on October 7, 2008 to review various FY 2010 Full-Time Tuition Aid Grant models reflecting different award parameters, as well as anticipated funding requirements for all other State supported programs administered by HESAA.

The FY 2010 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 scholarship and loan redemption programs. In developing this budget policy statement and its funding recommendations, the committee was mindful that the State of New Jersey is facing significant fiscal challenges. 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 economic circumstances.

Before I discuss the committee's FY 2010 funding recommendations, I would like to make you aware of an operational issue facing HESAA that impacts FY 2010 full-time TAG expenditures.

In the early 1990's, the U.S. Department of Education, states and institutions agreed that access to postsecondary education would be enhanced if all parties permitted students to file one financial aid application, known as the Free Application for Federal Student Aid, or FAFSA, to apply for federal and state aid. HESAA receives this information for New Jersey residents and uses it to calculate a New Jersey Eligibility Index, which determines the amount of a student's TAG award.

Beginning with the 2009-10 academic year, federal legislation mandated that certain sources of untaxed income, such as the untaxed portion of social security benefits, would no longer be considered in establishing eligibility for federal aid. As a result, the Department removed these data fields from the 2009-10 FAFSA.

HESAA and other State agencies have historically considered these sources of income in determining State grant eligibility. Without this critical information, projections indicate that FY 2010 full-time TAG expenditures would increase by approximately \$14 million **above** the amount requested to fund minimum program growth over last year.

In these difficult economic times, additional State funding would not be available to cover these increased costs. Accordingly, HESAA has considered two options to address this.

The first option is for HESAA to request this information directly from applicants. This approach requires that HESAA have a mechanism in place to handle the significant increase in workload.

The second option is to modify the NJEI calculation to reduce program costs by approximately \$14 million. This approach would redistribute awards across the TAG table and would result in some current TAG recipients losing eligibility **or** receiving a reduced award in 2009-10.

HESAA is cognizant of the importance of maintaining our timely notification of State grant and scholarship eligibility to applicants and institutions. After careful consideration, HESAA is developing a process to obtain untaxed income information from applicants. This will:

- ensure that the current need analysis methodology can remain in place;
- limit additional program costs to the amount required to support an increased number of awards; and

- maintain the one year and three year-lag compared to tuition levels.

The budget committee is fully supportive of the approach HESAA is taking to address this issue since it will continue to provide for access to the TAG Program for a wide range of students.

The budget committee's funding recommendations are as follows.

#### *Full-Time TAG Program*

For the past five years, full-time TAG funds have been distributed as specified in budgetary footnote language. During each of these academic years, students who demonstrated the highest need (New Jersey Eligibility Indexes ("NJEI") below 1500) received awards based on the prior year's tuition levels (a one-year lag between tuition and award values), while all other students received awards that reflected a three-year lag compared to tuition levels. This budgetary footnote language did not effectuate the Board's previous recommendation that students in the second NJEI cell be funded at a two-year lag compared to tuition.

The Board continues to be concerned that needy students in the second NJEI cell, with estimated average family incomes of \$23,400, are receiving significantly lower TAG awards than students in the first NJEI cell and strongly recommends that this gap be narrowed as soon as the State's fiscal situation permits. Setting awards for students in the second NJEI cell at a two-year lag compared to tuition would incrementally move toward the Board's ultimate goal of fully funding the TAG Program and increasing access for these needy students. While sensitive to the State's current fiscal constraints, the Board will continue advocating in future years to narrow the gap between award values and tuition for students in the second and subsequent NJEI cells.

In summary, the budget committee recommends that HESAA's Executive Director, Michael Angulo, request the funding required for the full-time TAG Program to achieve the following:

- Maintain the one-year lag in award values for students demonstrating the highest need (NJEIs below 1500) by increasing awards to reflect 2008-09 tuition levels.
- Maintain the current three-year lag compared to tuition by providing proportionate increases based on 2006-07 tuition levels for all other TAG recipients.
- Recognize a likely increase in the number of eligible recipients to include 1,200 additional new awards. It should be noted that three new degree-granting independent institutions will begin participating in the TAG Program during the 2009-10 academic year. Additionally, one independent institution currently participating in the TAG Program has been licensed to open a branch campus. It is estimated that 700 additional new TAG awards will be provided to students attending these institutions.

The projected cost to fund these award increases and provide for 1,200 additional new awards at these levels is \$278.935 million, an increase of \$26.084 million over the FY 2009 appropriation.

*Part-Time TAG for County College Students Program*

The committee recommends \$6.483 million in funding to continue the Part-Time Tuition Aid Grant Program for County College Students. This represents an increase of \$512,606 over the FY 2009 appropriation.

*NJ STARS Program/NJ STAR II Program*

The committee recommends \$21.427 million in funding to support all students who meet NJ STARS and NJ STARS II eligibility requirements. This is an increase of \$6.745 million over FY 2009. During the Executive Director's report to the Board, Michael Angulo will discuss the NJ STARS Task Force and the recommendations made to the Governor regarding this program. If these recommendations are approved, eligibility requirements and projected program expenditures would be modified.

*Coordinated Garden State Scholarship Program*

Funding for the Coordinated Garden State Scholarship Program was decreased during FY 2008 due to budgetary constraints. Consequently, Distinguished and Urban Scholar annual awards were reduced from \$1,000 to \$930 during the 2007-08 academic year and remain at that level during 2008-09.

The committee believes that the Urban Scholar Program is important to the State of New Jersey since it provides access to postsecondary education to students from disadvantaged areas of the State. Nearly 63% of the students who are offered Urban Scholar awards accept these awards and attend New Jersey colleges and universities. Without an Urban Scholar award, these students may not have been able to attend college.

In light of the importance of this award to students from disadvantaged areas, the committee is recommending \$7.671 million in funding for the Coordinated Garden State Scholarship Program. This represents an increase of \$536,000, which would permit HESAA to restore annual awards to \$1,000.

*All Other HESAA Programs Funded through State Appropriations*

The committee recommends level funding for all other programs administered by HESAA that require a State appropriation.

A motion to approve Resolution 09:08 was made by James Avery and seconded by Wilma Harris. There was discussion regarding how the changes to the FAFSA would affect New Jersey students and institutions. Sherry Fox, Director of Grants and Scholarships, explained that HESAA will be sending requests for additional information to families that may qualify for TAG awards within two days of receiving the Federal information. As long as families reply immediately there should not be delays in the awards. Francine Andrea and Gloria Green will be presenting additional information on this issue at the upcoming NJACSA meeting. The motion was passed unanimously.

**RESOLUTION 10:08: APPROVAL OF HESAA'S RED FLAG POLICY**

Mr. Joel Mayer presented this item to the Board.

The purpose of this resolution is to implement a written policy within HESAA for use in detecting, preventing and mitigating identity theft in connection with the opening of a covered account as defined by the applicable provisions of the Federal Trade Commission's Red Flag Policy Regulations codified at 16 C.F.R. Part 681 or with the maintenance of an existing covered account as similarly defined. This Policy is intended to comply with the applicable provisions of Section 114 of the Fair and Accurate Credit Transactions Act of 2003.

Ultimate responsibility for compliance resides with financial institutions and creditors; however, HESAA permits a service provider that provides services to multiple financial institutions and creditors to do so in accordance with its own program to prevent identity theft, so long as the program meets the requirements of the applicable regulations. HESAA maintains agreements with multiple financial institutions and creditors under which HESAA has agreed to provide services directly to and on behalf of the financial institutions and creditors. The objective of HESAA's Red Flag Policy is to establish one identity theft detection, prevention and mitigation standard for HESAA's operational units.

HESAA's Board of Directors is responsible for the approval of the policy and ongoing administration, application, review and daily monitoring shall be the responsibility of HESAA's Chief Compliance Officer. As Red Flag Policy Administrator, the Chief Compliance Officer shall have the authority and responsibility to:

- Assign, in consultation with appropriate managers, directors and officers, specific responsibility for various aspects of the implementation of the policy.
- Review, draft and provide compliance reports on an annual basis or as often as necessary as conditions, trends or changing identity theft risks require.
- Make periodic reviews of the policy for the purposes of revisions, adjustments or additions in light of observed activity and in response to updated regulations or other regulatory guidance as may be promulgated.

**POLICY**

HESAA's Red Flag Policy is intended to identify, detect and mitigate identity theft, including patterns and/or specific practices or activities that indicate the potential of identity theft. The following categories of Red Flags are appropriate given the size, complexity and nature of HESAA's operations: (a) alerts, notification or warnings from a consumer reporting agency; (b) presentation of suspicious documents; (c) presentation of suspicious personal identifying information; (d) unusual use of, or suspicious activity related to, a covered account; and (e) notice regarding possible identity theft in connection with a covered account.

Operational units within HESAA shall, in consultation with the Red Flag Policy Administrator, conduct reviews of observed activity with their units to determine the need, if any, to include additional Red Flags. Reviews shall be conducted on a semi-annual basis or as often as necessary as conditions may require.

Operational units shall have the responsibility to develop practices and procedures designed to detect the existence of Red Flags. HESAA's Division of Audit and Quality Assurance shall have the responsibility of reviewing the Red Flag detection practices, shall report findings of such reviews and present findings together with suggested revisions, if necessary, to the Red Flag Policy Administrator.

The specific method of responding to an identified Red Flag will, by necessity, vary according to the circumstances wherein the identified Red Flag has been observed. Operational units shall have the responsibility to design and develop response procedures based upon the nature of the operational unit's business. Quarterly reports detailing any identified Red Flags together with the response or responses taken shall be prepared and forwarded to the Red Flag Policy Administrator on a quarterly basis. The Red Flag Policy Administrator shall be available, whenever practicable, on an ongoing basis for consultation by any HESAA staff member upon the identification of a Red Flag and shall assist staff members in the development of an appropriate response.

The identification of a Red Flag will not necessarily warrant any response after the completion of an appropriate review of the attendant circumstances.

A motion to approve this resolution was made by Warren Smith and seconded by Sister Buley. The motion passed unanimously.

## **ETHICS BRIEFING**

Ms. Marnie Grodman, HESAA's Ethics Liaison Officer presented this item to the Board. Ms. Grodman reminded the Board members to complete the online ethics training by November 1, 2008 to allow Michael Angulo ample time to provide the certification of completion by November 14, 2008. Ms. Grodman thanked the Board members that attended the in-person training.

HESAA completed its Ethics Compliance audit and was found to be fully compliant with the State ethics laws and rules. Ms. Grodman thanked Roseann Sorrentino for her exemplary record keeping.

In conjunction with the State Ethics Commission, HESAA is conducting an anonymous survey of employees to determine the impression of HESAA's ethical atmosphere. To date, all responses have been positive.

## **EXECUTIVE DIRECTOR'S REPORT**

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

When I last updated this Board, I spoke about the turmoil in the credit markets and the potential impact on the student lending industry. At that time, only two other public issuers had secured financing for their state supplemental loan products. As the Authority prepared to go to market with the NJCLASS bond issue, we were concerned over securing the lowest fixed rate possible for student and families. Thanks to a dedicated team of people who worked for months putting this transaction together, NJCLASS' strong historical performance, prudent market timing, and

assistance from the State's Office of Public Finance, our bond issue achieved success on various levels. First, at that time, it was one of the largest deal of its type at \$350 million (a subsequent deal by Massachusetts was valued at \$400 million). Second, the interest rate we secured was and remains the lowest fixed rate in the country, 7.62%. We were also able to continue with the same credit criteria that the Authority has consistently utilized to support the largest number of borrowers. As a result, unlike other private loan lenders, we did not tighten our lending criteria. Not surprisingly, NJCLASS has been in extremely high demand. To date, we have approved over 17,000 loans for \$292.5 million. This number continues to increase daily. These numbers are staggering and I appreciate all of the hard work by those in the Loans department, as well as everyone in HESAA who has volunteered to assist with the overflow. At this time, we've processed nearly 20% more applications over last year's unprecedented volume, and we continue to work diligently to deliver funds to borrowers.

Our efforts to strengthen and streamline operations continue. We recently identified a vendor for the purpose of incorporating E-signatures into our student lending platform. Borrowers of NJCLASS loans will soon be able to electronically sign their applications providing a secure, compliant process that will increase cost savings for borrowers as well as the Authority. Once implemented, we plan to add E-signature to other HESAA products such as our REAL Choice, making the FFELP loan delivery system even more robust.

Another initiative we are developing is a comprehensive document imaging/storage/archiving plan. Document imaging offers us the opportunity to further streamline workflows, reduce workloads, and realize further cost savings through reduced storage requirements.

On the legislative front, the Ensuring Continued Access to Student Loan Act (ECASLA) was enacted earlier this year in response to the financial markets crisis that has largely frozen credit and capital financing for FFELP loans by commercial and non-profit lenders. The purpose of the legislation was to shore up the FFELP program in a number of ways. One way was to increase loan limits and reestablish the lender of last resort program. The other, and more sweeping part of this legislation, allows for the Secretary of Education to provide capital to FFELP lenders so they can continue to make student loans. This directly addresses the difficulties some of our schools encountered when lenders were not in a position to lend.

However, because few of us could have envisioned that the troubles in the credit markets would be this extensive, with no clear end in sight; key provisions of the Act were set to expire in July 2009. With the college application cycle beginning as early as January for next fall, there was concern that students and families would again endure anxiety over where they would get student loans for the upcoming year. To avoid this possibility, HESAA, along with our industry partners, engaged Congress to support a one year extension of ECASLA. By an overwhelming majority, both the House and the Senate passed the extension which has also now been signed by President Bush. As extended, ECASLA provides meaningful relief to credit market instability, and ensures an application cycle with uninterrupted funding for FFELP loans through at least academic year 2009-2010. It is our hope that, after July 2010, the financial markets will have recovered so that loan capital will again, be available.

As we all know, in response to the financial markets crisis spreading globally and worsening this Fall, Congress passed, and on October 3<sup>rd</sup>, the President signed, the Emergency Economic Stabilization Act. The Act authorized the Secretary of the Treasury to establish a Troubled Asset

Relief Program (TARP) which, in addition to promoting liquidity and market stability, is also required to address student loan securities issues. NCHERP, our national trade organization, is working closely with other Washington based organizations and the Treasury to develop mechanisms to allow student loan lenders to regain access to the capital markets.

Though most of my comments are related to prospective items, I'd like to touch upon one postscript from last year. Over the summer, the USDE's Financial Partner Eligibility and Oversight Division conducted a detailed review of HESAA's business practices to determine if there was any evidence of improper inducement activity. USDE reviewed HESAA's activities and the Authority's administration of programs authorized under Title IV of the Higher Education Act including the FFELP program. The period under review encompassed July 1, 2005 through September 30, 2007.

The USDE concluded that no findings of inappropriate inducement activity were identified and, as a result of that conclusion, the review was formally closed.

As you may recall, last year's investigation by the New Jersey Attorney General was resolved without any finding of a violation of the law. This USDE finding, by subject matter experts, reinforces, once again, our enduring commitment to integrity and compliance with regulatory guidelines.

Earlier, Dr. Kesselman detailed the Budget Committee's recommendations. I commend the members of the Budget Committee for focusing on the needs of New Jersey students. Recognizing the state's difficult budget circumstances, and balancing a request for funding to address student needs, are not simple tasks. Your recommendations will be forwarded to the Division of Budget and Accounting in the Department of the Treasury for consideration and, hopefully, implementation.

As you know, the NJSTARS and STARS II programs have been extremely successful and have experienced staggering growth since their inception. However, State funding and the ability of our 4-year public institutions to support STARS II students were simply unable to keep pace. This past June, the Governor commissioned a Task Force to evaluate the NJSTARS and STARS II programs, focusing on three objectives: (1) eligibility requirements, (2) the ability of the state to sustain the program at its current growth rate, and (3) the negative impact on the senior public colleges and universities in meeting the financial demands of STARS II. I served as HESAA's representative, and Harvey Kesselman served as a representative for the 4 year public schools. Three public meetings were held across the State and a final Task Force report, containing recommendations, was forwarded to the Governor earlier this month. I anticipate that legislation will be considered this week by the Legislature memorializing many of the Task Force's recommendations.

Given the widespread economic downturn, it is not surprising that the US Department of Education reported an increase of 800,000 aid applications nationally for the 2008-09 academic year. In New Jersey, we have also seen a significant increase in State aid applications. The Grants office reports an increase of 9%, almost 29,000, in overall applications. This includes an increase of more than 4,900 TAG eligible students. Moreover, 18,000 more students than last year listed a New Jersey college as their first choice college on their applications. Although we cannot definitely conclude that these students' initial choice means that they are staying in state,

this is indicative of a trend. Should this trend continue, the Budget Committee's recommendations become all the more critical as we address the influx of students who may be TAG eligible.

As New Jersey students and families deal with these challenging economic times, the demand for HESAA's financial aid programs, services, and outreach intensifies. I am extremely proud of HESAA staff's strong ability to administer our responsibilities despite limited personnel and resources. I am grateful to the Board for your continued work that allows the Authority to effectively serve over one million constituents each year.

Thank you.

## **ADJOURNMENT**

Ms. Torres announced that the next Board meeting is scheduled for January 21, 2009 at 10:00 am.

A motion to adjourn was made by Warren Smith and seconded by Tony Hubbard. The motion passed unanimously.

The meeting adjourned at 10:58 a.m.