MINUTES
HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
May 18, 2010

The Higher Education Student Assistance Authority (HESAA) Board held a meeting by conference call on May 18, 2010 at 2:00 pm from the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esq.; Mr. Richard Garcia; Dr. Harvey Kesselman; Mr. Julio Marenco; Ms. Jean McDonald Rash; Mr. Jonathan Nycz; Ms. Nancy Style, Treasurer’s Designee; Ron Subramaniam; Ms. Maria Torres; Ms. Kristy Van Horn; members.

Also participating via teleconference were Cheryl Clark DAG; and David Reiner, Esq., Governor’s Authorities Unit.

Participating in person were Leah Sandbank, Bond Counsel, McManimon and Scotland; Joseph Santoro, Senior Manager, Bank of America Merrill Lynch; Tim Carden, Financial Advisor, Scott Balice Strategies; and Clifford Rones, DAG.

ABSENT: Mr. Edward Graham; Ms. M. Wilma Harris; Ms. Rossy Matos-Miranda and Mr. Warren Smith.

CALL TO ORDER

Chair Torres called the meeting to order at 2:00 pm 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 welcomed Cheryl Clarke, Deputy Attorney General; Clifford Rones, Deputy Attorney General; and David Reiner, Governor’s Authorities Unit.

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

Roseann Sorrentino called the roll.

RESOLUTION 04:10 AUTHORIZING AMENDMENTS TO PRIOR SUPPLEMENTAL INDENTURES AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL INDENTURE TO THE 2009 INDENTURE AND A SECOND SUPPLEMENTAL INDENTURE TO THE 2010-1 INDENTURE AND AUTHORIZING THE ISSUANCE AND SALE OF STUDENT LOAN REVENUE BONDS AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF AN INDENTURE OF TRUST BY AND BETWEEN THE HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY AND WELLS FARGO BANK, FIRST SUPPLEMENTAL INDENTURE, PRELIMINARY AND FINAL OFFICIAL STATEMENT, CONTINUING DISCLOSURE AGREEMENT, BOND PURCHASE AGREEMENT, AND OTHER MATTERS IN CONNECTION THEREWITH.
Mr. Eugene Hutchins, Chief Financial Officer, presented the resolution.

Proposed Resolution 04:10 relating to the 2010-2 Bond Issue authorizes a total bond sale not to exceed $387.0 million in fixed rate bonds with a final maturity of not later than June 1, 2045. The proceeds of the bonds (net of funds required for bond reserves) will be used to finance fixed rate standard NJCLASS loans, including a new Ten Year Option 1 Loan program with additional capacity for graduate/professional NJCLASS Loans and NJCLASS Medical/Dental Student Pilot Loans. Bond proceeds still available from the 2009A and 2010-1 bond issues will be utilized to fund graduate/professional NJCLASS Loans, and loans made under the NJCLASS Medical/Dental Student Loan pilot program, Consolidation Loans as well as additional undergraduate NJCLASS Loans. Interest rates on all types of NJCLASS loans for academic year 2010-2011 will be slightly below the rates for this academic year.

In addition, the proceeds of the 2010-2 bonds will be used to purchase NJCLASS loans from the HESAA 1998 Bond Trust Estate which will enable the Authority to complete the third and final stage for this year of reducing its exposure to failed Auction Rate Bonds. The funds received by the 1998 Trust for the purchase of the NJCLASS loans will be utilized to retire additional auction rate bonds at a discounted purchase price and reduce the Authority’s remaining auction bond exposure to approximately $220 million and that’s down from 1.5 billion a year and a half ago. The loans purchased will be transferred to the 2010-2 Indenture to secure the 2010-2 Bonds as well as any future additional bonds financed out of the 2010-2 Indenture. The 2010-2 bond trust will benefit from the purchase of the NJCLASS Loans since it is acquiring seasoned performing loans that will strengthen the cashflows of the 2010-2 bonds.

Credit market conditions make it most advantageous for the Authority to continue the structure of last year’s bonds of issuing fixed rate serial and term bonds.

Market conditions have also made it possible for the Authority to initiate a 10-year Option 1 Loan that will allow families that can afford higher monthly repayment amounts to borrow under this option at a significantly lower interest rate than the both the 20-year NJCLASS loan and the federal Direct PLUS Loan rate of 7.9%.

The 2010-2 bonds will be uninsured since the downgrade of all municipal bond insurers and the high premiums that the bond insurers are charging make the use of bond insurance uneconomical, i.e., the insurance rates charged would exceed the reduction in interest rates on the bonds in the market and ultimately result in higher interest rates to students.

Under the provisions of the American Recovery and Reinvestment Act of 2009, the 2010-2 HESAA Student Loan Revenue bonds are not subject to Alternate Minimum Tax provisions of the IRS Code as they had been in years prior to 2009. This should greatly strengthen their appeal to individual investors.

Total NJCLASS loan volume for academic year 2010-11 is expected to be close to $350 million. This is a slight decrease from this academic year and results from families, in general, managing all of their debt much more carefully and from some families shifting their borrowing to the federal Direct Parental Loan for Undergraduate Students (PLUS) program. Beginning with academic year 2010-2011 loans, the origination fee for NJCLASS Option 3 Loans (those loans
with full deferment of interest and principal payments during the in-school period) will be increased from 2% to 3% with the additional 1% fee being deposited into the Loan Reserve Fund as additional reserves against loan defaults. These loans have been defaulting at significantly higher rates than Option 1 Loans, where repayment of interest and principal begin immediately following origination of the loan, and Option 2 Loans where interest payments begin immediately and principal payments are deferred during the in-school period. The higher default rate of Option 3 Loans results in part from the fact that interest accumulated during the in-school period capitalizes (that is it is added to the loan principal balance) and significantly increases the amount that must be repaid. Additionally, all Option 3 Loans that a borrower has taken out enter repayment at the same time, and can create difficulty for families in adjusting their monthly budgets, particularly where large amounts have been borrowed.

For academic year 2010-2011 the Authority will be paying the additional 1% fee on Option 3 borrowers’ behalf, while at the same time strongly encouraging families to consider one of the other payment options as a means of better measuring the impact of the loan on monthly family budgets and to prevent the accumulation of added debt through the capitalization of interest.

Gene Hutchins turned the presentation over to Leah Sandbank, Bond Counsel to review the Bond resolution. In addition, Mr. Hutchins advised that Tim Carden, Financial Advisor, Scott Balice Strategies; and Joe Santoro, Senior Manager, Bank of America Merrill Lynch were on hand to answer any questions the Board may have.

Ms. Sandbank stated the following:

Resolution 04:10 sets forth the authorizations for multiple transactions to finance the Authority’s loan origination needs for the upcoming academic year and to complete the next phase of the Authority’s reduction of its auction rate securities liability. First, the Resolution authorizes the Authority to enter into two Second Supplemental Indentures. The 2009A supplemental indenture amends and supplements the 2009 Bond transaction which was completed in June, 2009, by extending the origination period and slightly lowering the loan rate for funds remaining unexpended from the 2009 Bond transaction. The new loan rates would apply to the 2010/2011 academic year. The changes that are set forth in the 2009A supplemental indenture become effective June 1, 2010. The 2010-1 supplemental indenture would amend and supplement the 2010-1 transaction which was completed this past January to increase the rate calculation by 25 basis points for consolidation loans that are originated for the 2010/2011 academic year with unexpended proceeds from the 2010-1 Bond transaction. Those consolidation loan rate changes also goes into effect on June 1, 2010.

Additionally, the resolution sets forth the customary authorizations for a new issue of Student Loan Revenue Bonds, Series 2010-2. The 2010-2 Bonds are fixed rate bonds authorized in an amount not to exceed $387,000,000. The Underwriter appointed for the 2010-2 Bonds is Bank of America Merrill Lynch pursuant to a bond purchase contract, the form of which is authorized pursuant to the Resolution. As Gene Hutchins discussed the 2010-2 Bonds proceeds will be used to purchase approximately $125,000,000 of student loans from the 1998 Trust for deposit to a new Indenture which loans will secure the 2010-2 Bonds. Also, to provide approximately $160 million for new student loan origination capacity for 2010/2011 and to provide for the necessary reserves on a cost of issuance of issuing the 2010-2 Bonds. The bond proceeds deposited in the 1998 Trust as the purchase price for the loans will be applied to redeem auction rate bonds at a
Motion to approve the resolution was made by Jonathan Nycz and seconded by Nancy Style.

Michael Angulo advised the Board members that if anyone had any questions they should feel free to raise them, as everyone from the Bond Team was present and available to answer all questions.

Jonathan Nycz had questions regarding the option 3 repayment plan.

Gene Hutchins explained that while some families need to choose option 3, they also need to be aware that deferring all payments will increase the amount of debt at the time the student graduates. With higher amounts being borrowed, an additional caution was in order for families to fully realize the increased interest when loans are deferred. The disclosure information that will be on HESAA’s website will fully reflect this fact so families can think about their ability to pay an increased debt amount in the future.

Jonathan Nycz stated that when filling out his loan application recently, he did not come across this information and asked if it is in effect now. Mr. Hutchins explained that the additional caution is going to be part of disclosure information prior to the loan being offered. Filing an application now puts applicants in a queue until the money is approved. Once approved, applicants will then receive additional disclosure information.

Maria Torres questioned which repayment category has the highest amount of students and families going into default to which Gene Hutchins responded, Option 3. He also stated there are not mass numbers of people are defaulting. Even with option 3 only about 5% of the families actually default. But given that the default rates are significantly lower in the other two options, HESAA thought that this is the time, especially under these economic circumstances when many of these families are struggling, to make them aware and ask them to consider fully the decisions that they are making regards to the NJCLASS debts.

The motion was adopted unanimously by roll call.

NEW BUSINESS

Michael Angulo reported to the Board that HESAA received a report from the Office of the Inspector General (OIG). The OIG has been reviewing Authorities across the State. They have been reviewing HESAA operations dating back to 2006. Mr. Angulo informed the Board that
staff was in the process of reviewing the report and would be circulating comments to the Board, as soon as possible.

Dr. Kesselman asked for clarification regarding this report.

Michael Angulo responded the entity which generated the report is the Office of the Inspector General (OIG). It is not a routine annual report, but it is part of a larger initiative to review all authorities across the state pursuant to Executive Order 41 issued by Governor Codey.

Dr. Kesselman asked whether the report would be sent to the Board and or Executive Committee and whether it is a public report. Mr. Angulo responded that it is a public report that the OIG issued under a press release and that it can be found on the OIG’s website.

**ADJOURNMENT**

Chair Torres announced the next HESAA Board meeting will be held on Thursday, July 22, 2010 at 10:00 am. A motion to adjourn was made by Richard Garcia and seconded by Jean McDonald Rash.

The meeting adjourned at 2:35 pm.