

**STUDENT ASSISTANCE FOUNDATION
MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION (MHESAC)
BOARD OF DIRECTORS JOINT WORK SESSION CONFERENCE CALL
SUMMARY
August 9, 2007**

The Boards of Directors of the Student Assistance Foundation (SAF) and the Montana Higher Education Student Assistance Corporation (MHESAC) held a joint conference call at 10:30 a.m.

MHESAC Board Vice Chair Royal Johnson and SAF Board Chair Jim Bell co-led the worksession.

ROLL CALL: Upon roll call, members of the two boards were present as follows: Jim Bell, Lynn Hamilton, Ed Jasmin, Royal Johnson, Kerra Melvin, Russ Ritter, and Bill Thomas. MHESAC Members Fred Flanders, Stephen Barrett and Mark Semmens, SAF Members Ernest Bergsagel and Kim Cunningham, and MHESAC/SAF Member Lila Taylor were absent.

OFFICERS PRESENT: Sheila Stearns, MHESAC President & SAF Board Liaison; Jim Stipcich, SAF President; Mick Robinson, MHESAC Vice President & SAF Secretary, Bruce Marks, MHESAC Treasurer; Judy Chapman, MHESAC Secretary and Craig Roloff, SAF Treasurer

OTHERS PRESENT: Jolene Selby, SAF Executive Vice President and CFO; Don Oliver, SAF Executive Vice President of Borrower Services; Scott Todorovich, SAF Executive Vice President and CIO; Dennis Doherty, SAF Executive Vice President of Human Resources; Simon Poole, SAF Executive Vice President and COO; Kelly Chapman, SAF Executive Vice President of Foundation Activities; and Sharon Eslick, Recorder.

PUBLIC ATTENDEES: Suzan Scott, office of the State Budget Director

DISCLAIMER

Lynn Hamilton asked the record reflect that this meeting is to discuss business of the Student Assistance Foundation (SAF) Board and the MHESAC Board and not for the purpose of discussing the business of the Montana Board of Regents despite the presence of members of the Regents at this meeting. We who are Regents are here today solely in our capacity as Directors of either SAF or MHESAC on the Boards of which we sit by reason of our appointments in accordance with the bylaws of those two organizations.

BOARDS DISCUSSION OF INDUSTRY ITEMS

Industry and Business Conditions and Issues and Potential Implications

Jim Stipcich provided an update on these items. Both the House and the Senate have passed budget reconciliation bills which contain yield cuts. On a positive note, the senate bill yield cuts use the money saved to increase Pell grants and the house bill has significant reductions in student loan interest rates. The next step will be to convene a group called conferees consisting of both Senate and House members to come up with a common bill. The Senate has named the entire education committee as their conferees and will work out the differences with the House conferees in the bill to establish a common bill for final passage. The house has not yet named their conferees. The President has issued a veto threat on both versions of the bills.

- a. Congressional Legislative Items - Jim Stipcich provided an update on the impact of these items. There is preferential treatment for non-profits in both pieces of legislation. We expect to see a reduction in number of lenders in the industry because cuts to the yields will have significant impact to some players. These changes could significantly impact SAF's ability to generate loans in the national market.

With respect to future building plans, the uncertainty in the marketplace has cause SAF to take a step back and consider the timing for a new building. SAF will continue to put a hold on their building plans until the impact of these changes become more clear.

As these changes are implemented, it underscores the need for MHESAC to obtain volume cap. The process for requesting additional volume will begin shortly since the proposed timing for the financing is late October or early November. At this time, the size of the financing is estimated to be \$200 million. MHESAC currently has \$75 million in carryforward volume and will be looking to make the request for an additional \$125 million after September 1. Jim Stipcich continues to try to get meetings scheduled with the Budget Director and Education Liaison in the Governor's office. The Chair of MHESAC chair may also need to request a meeting with these parties.

- b. 9.5% Floor Issue – The Department of Education wrote new rules relative to loans that could bill for the 9.5% floor. MHESAC has approximately \$44 million in floor benefits that have been lost due to the changes. About \$85 million will remain in the floor status. MHESAC has an active request before the Department about the status of the small player legislation and whether those rules may still apply to MHESAC.
- c. Reauthorization of the Higher Education Act – The Senate has passed unanimously in the Senate. The House has yet to introduce legislation on reauthorization. The Higher Education Act has been extended until September 30, 2007.
- d. NSLDS Update – NSLDS access for SAF has been restored on a limited basis. The remainder of access requests have been approved by NSLDS management and are awaiting the approval of their audit committee before full access will be granted.
- e. Montana Attorney General Letter of Inquiry to Schools – All Montana schools have replied to the request by the AG's office. Responses are now being reviewed by that office. Preliminary conversations with the AG's office indicates the responses look good. There is some talk about conducting a joint press conference with the Office of the Commissioner and the Attorney General office.

OVERVIEW OF FY 07 ACCOMPLISHMENTS

- a. MHESAC Accomplishments - MHESAC had a banner year from both a financial and public benefit perspective.

With respect to borrower benefits, MHESAC delivered to the highest level of borrower benefits ever delivered to Montanans at \$5.63 million to 63,990 Montana borrowers. We have also tracked how much we help to reduce the cost of borrowing to students. The goal is to achieve 1%. This year we achieved .90% and will continue to work toward that goal.

MHESAC delivered \$2,660,790 dollars over the bridge to SAF for other borrower benefit programs.

- b. SAF Accomplishments – SAF also had a good year as well. SAF delivered over \$3.5 million in borrower benefits this year. Fundraising activity was stepped up this year and raised over \$700,000 in funds for the year. The first SAF charity golf event was held and the second event is scheduled for later this month. The Acce\$\$ Circle program which has been funded primarily by employee contributions raised \$45,000 to provide scholarships to Montana students.

In terms of servicing, SAF is servicing 132,053 borrowers totaling \$3,781,299,337. Also presented were the statistics of our servicing operation.

From a financial perspective, net income before programs was \$3,722,239.

At June 30, 2007, SAF employed 253 employees throughout Montana and paid \$12,462,596 in salaries and benefits.

SAF is thanking their staff on August 10 in their annual employee appreciation day at the Fox Ridge Golf Course. Part of this celebration is to pay the employees their bonus pay. Jolene Selby explained the basis for the bonus program.

OTHER ITEMS FROM MHESAC AND SAF BOARD MEMBERS

Bill Thomas wished to congratulate the staff on the work they did over the year. The Board can also be proud of what has been accomplished for Montana students.

MHESAC – Bill Thomas also shared that the overnight markets in France had a problem with sub-prime loans. He asked Jim Stipcich to get information from our advisors about how this situation may affect us in our next bond offering.

NEXT MEETINGS

The next meeting of the SAF Board will be Thursday, November 1. The MHESAC group discussed their next meeting date. No meeting date for MHESAC was set at this meeting.

Action: An email will be sent to the MHESAC Board members about a date for their upcoming meeting.

ADJOURNMENT – Being no further business, the worksession ended at 11:35 a.m.