

MEETING SUMMARY

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION (MHESAC) BOARD OF DIRECTORS MEETING February 13, 2008

The Board of Directors of the Montana Higher Education Student Assistance Corporation convened via conference call on February 13, 2008 at 3:00 p.m.

CALL TO ORDER: The meeting was called to order at 3:00 p.m. by Vice Chair Royal Johnson.

ROLL CALL: Upon roll call, Stephen Barrett, Royal Johnson, Kerra Melvin, Lila Taylor, Mark Semmens and Bill Thomas were present. Fred Flanders was absent.

Officers Present:

Sheila Stearns, President
Mick Robinson, Vice President
Judy Chapman, Secretary

Others Present:

Jim Stipcich, SAF President
Jolene Selby, SAF EVP/Chief Financial Officer
Don Oliver, SAF EVP of Sales and Marketing
Lowell Wollitz, SAF EVP of Borrower Services
Scott Todorovich, SAF EVP/Chief Information Officer
Simon Poole, SAF EVP/Chief Operating Officer
Sharon Eslick, Administrative Affairs Manager (Recorder)

Guests:

Jim Bell, SAF Board Chair
Russ Ritter, SAF Board
Mick Hanson, SAF Board
Suzan Scott, Governor's Budget Office

UPDATE ON FINANCIAL MARKETS

Jim Stipcich updated the Board on the recent activity in the financial markets. He reported that beginning on Monday, February 11, MHESAC had its first failed auction. Auction markets have been weakening since last fall and investment banks have been stepping in to buy the bonds at these auctions. However, last week this practice started to falter. Goldman Sachs and JP Morgan were the first to refuse to buy the bonds. It was hoped that the market would differentiate between FFELP and private activity. They did not and MHESAC's auctions failed on Monday since there were not adequate buyers. Auctions on Tuesday and Wednesday failed as well.

Failed auctions are also occurring in other asset backed markets, indicating that the auction market has collapsed. The terms of our indenture leave us in a situation that when an event like this occurs, a predetermined interest rate is paid when a bondholder who wanted to sell but couldn't. Waivers were recently put in place for the tax-exempt bonds that would increase the bond rate to 10%. These waivers stay in place for 35

days past the date of failed auction and have a final expiration of March 31, 2008. Staff is working to find a way to move beyond the waiver.

It is important to note that since waivers were not executed on the taxable bonds they are not subject to the 10% interest rate. They are currently at 4.62%.

NEXT STEPS

Jim continues to seek liquidity providers so refinancing of the auction bond deals can be accomplished. Because of the collapse of the auction market, MHESAC will need to refinance all of their tax-exempt bonds which will require \$1.3 billion in liquidity. Staff will continue to look at other ways to structure a deal since liquidity is at a premium and is very limited. Reductions in operating costs will also be considered.

NEXT MEETINGS

The Board agreed to hold weekly conference calls on Wednesday at 3:00 p.m. for the next four weeks. The dates will be February 20 and 27 and March 5 and 12.

A face to face Board meeting will be scheduled for late March.

ADJOURNMENT

The call was adjourned at 3:55 p.m.