

MEETING SUMMARY

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION (MHESAC) BOARD OF DIRECTORS CONFERENCE CALL February 20, 2008

The Board of Directors of the Montana Higher Education Student Assistance Corporation convened via conference call on February 20, 2008 at 3:00 p.m.

CALL TO ORDER: The meeting was called to order at 3:05 p.m. by Vice Chair Royal Johnson. After his arrival on the call, Fred Flanders chaired the remainder of the meeting.

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

Officers Present:

Sheila Stearns, President (joined at 3:15 p.m.)
Bruce Marks, Treasurer

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
Kelly Chapman, SAF EVP Foundation Activities
Sharon Eslick, Administrative Affairs Manager (Recorder)

Guests:

Jim Bell, SAF Board Chair
Mick Hanson, SAF Board
Ernest Bergsagel, SAF Board
Seamus O'Neill, Liscarnan Solutions
Suzan Scott, Governor's Budget Office

UPDATE ON CURRENT BOND SITUATION

Jim Stipcich updated the group on the status of the auction market this week. The auction market continues to deteriorate. MHESAC had additional failed auctions this week. An auction of \$10.3 million failed yesterday and two more failed today in the amount of \$109.2 million. To date, a total of \$458.8 million tax-exempt and \$125.7 million in taxable have failed. Another \$74.7 million taxable and \$199.1 million tax-exempt auctions are scheduled for tomorrow. It is believed that those will fail as well.

As reported last week, the tax-exempt failures last week resulted in the maximum rate of 10% being applied to those loans for a 35 day period. Since that time, work was done to develop a strategy to utilize the formula based rate rather than the 10% rate. We approached the rating agencies early in the week, identified that we had failed auctions trading at 10% and asked them to reconfirm that the 10% rate would not affect the bond ratings. Both Moodys and S&P chose not to respond. Fitch responded that they could

not confirm the ratings would stay in play without further work from us. Based upon that information, we proceeded today to inform the market and auction agents, trustee and broker-dealers that the waiver was no longer valid. The result was that the maximum rate on today's auctions are 3.479% rather than the 10% that would have applied under the waiver.

This situation clearly has an impact to MHESAC. The 10% rate that was in place last week translates to an additional cost of \$2.2 million. The bonds that have the 10% rate applied will reset to the formula after 35 days.

Jim noted that this auction failure is very widespread.

Jim also reported that he has engaged the firm of Ballard Spahr (that does extensive bond and underwriter's counsel for the student loan arena) to play the role of transaction counsel. Bond counsel, underwriter's counsel, MHESAC's financial advisor and the transaction counsel all recommended to proceed as we have.

With the recent changes made, it was questioned whether a positive spread on the bonds remains. It was noted that after the borrower benefits are paid the profits are at break even. If borrower benefits were reduced, a more positive spread could be achieved. This will be an area that will be closely reviewed at in the coming weeks.

Staff continues to analyze restructuring financing strategies to see where we go after this. There is not enough liquidity to satisfy everyone's needs but the possibility of short-term fixed financings is also being explored.

NOMINATING COMMITTEE UPDATE

Fred Flanders reported that he would like to be considered to be reappointed to his position. Given the events MHESAC is facing, he feels it may not be the right time for him to leave the Board. It was agreed that his name would be passed along to the Nominating Committee for consideration. Lila Taylor, committee chair, will convene the group to develop a final slate to be submitted to Lynn Hamilton, Board of Regents Chair, who will make the final appointment.

ADJOURNMENT

The call was adjourned at 4:00 p.m.