

MEETING SUMMARY

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION (MHESAC) BOARD OF DIRECTORS MEETING

June 21, 2007

The Board of Directors of the Montana Higher Education Student Assistance Corporation convened at the Student Assistance Foundation Building in Helena.

CALL TO ORDER: The meeting was called to order at 8:45 a.m. by Chair Fred Flanders.

ROLL CALL: Upon roll call, Members Stephen Barrett, Fred Flanders, Heather O'Loughlin, Royal Johnson, Mark Semmens, Lila Taylor and Bill Thomas were present.

Officers Present:

Sheila Stearns, President
Mick Robinson, Vice President
Judy Chapman, Secretary (arrived at 9:20 a.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
Dennis Doherty, SAF EVP of Human Resources
Simon Poole, SAF EVP/Chief Operating Officer
Scott Todorovich, EVP/Chief Information Officer
Kelly Chapman, EVP/Foundation Activities

AUDIT COMMITTEE REPORT – Nothing to report at this time.

APPROVAL OF MINUTES - The minutes of the following Board meetings/conference calls were presented for approval.

1. April 4, 2007 Board Meeting

Motion: Member Taylor moved and Member Thomas seconded to approve the minutes as submitted. Motion carried.

2. May 2, 2007 Conference Call Minutes

Motion: Member Johnson moved and Member O'Loughlin seconded to approve the minutes as submitted. Motion carried.

INDUSTRY ITEMS – BOARD DISCUSSION

Jim Stipcich provided an update on the most recent developments on the federal level.

- a. Investigations by State Attorney Generals into Student Loans - New York Attorney General Cuomo commenced investigations into the relationships

between lenders in the FFELP program and private education loan lenders and schools and the impact of such on New York students. Jim Stipcich reported that some of Montana's schools have received a request for information from the Montana Attorney General's office. Jim believes that a resolution at the state and federal level should be accomplished by October 1, 2007.

- b. New 9.5% Floor Definitions - In December 2006, the U.S. Department of Education ceased payment of 9.5% floor billings for all FFELP players. Staff continues to look at the impact.
- c. NSLDS Access - In April 2007, the U.S. Department of Education (DofE) shut down access to the National Student Loan Database for all FFELP guarantors, lenders and servicers and eligible lender trustees (ELT's). In May the DofE provided guidance on permissible uses for guarantors and lenders and servicers as well as requiring renewed application for individuals to use NLSDS. ELT's are still awaiting guidance.
- d. On-going Emergence of New "Investors" in the Student Loan Space - The sale of Sallie Mae was announced in April. The majority investor is JC Flowers and Co.
- e. Shifting Business Perspectives of SAF Business Clients - Jim updated the group on shifting business patterns of some of its clients to begin servicing and originating some of their own volume.
- f. Relationship with Executive Branch –Jim has continued to attempt to correspond with both David Ewer and Jan Lombardi so they are aware of actions MHESAC has taken.

Motion: Member Semmens moved and Member Taylor seconded to address a letter to the administration asking for a meeting to visit about concerns. Motion carried.

- g. Increased Interest from National Lenders in Montana Market - During the time of increased consolidation opportunity and competition, numerous new national entrants have entered the student loan space. The level of consolidation competition led some of them to have interest in the Montana student market. Now that consolidation opportunity has slightly decreased these players are expanding their efforts to include Stafford and PLUS volume.
- h. Federal Legislative Activity – Both the Senate and the House are working on reauthorization bills. Summaries of the proposed legislation for both the House and Senate were provided for review and discussion by the Board. More exploration will be done as the federal changes unfold.

MHESAC STRATEGIC ISSUES

- a. **Proposed June 07 MHESAC Strategy Map** - Jim gave an overview of the strategy map outlining the planning process recently completed by the management staff. This map will be the foundation for activities for the next year.
- b. **Presentation of Proposed FY 08 MHESAC OMTI** – Jim also provided an overview of the business plan, expected performance and Objectives, Measures, Targets and Initiatives (OMTI) document. A quarterly scorecard similar to that

currently provided for OGSM status will be provided so the Board can see the progress toward these measures as the year progresses.

Presentation of Proposed FY 08 MHESAC Budget – Jolene Selby provided an overview of the FY 08 budget process and proposed budget. Jolene indicated that it was very difficult to predict what the climate may be given the federal legislative activity. However, this proposed budget assumes that our business will look like it does now. As issues resolve, if changes need to be made we will make adjustments at that time.

BOARD ACTION:

- a. Board Action on June 07 MHESAC Strategy Map

MOTION: Member Semmens moved and Member Thomas seconded approval of the June 2007 MHESAC Strategy Map. Motion carried.

- b. Board Action on FY 08 MHESAC OMTI

MOTION: Member Thomas moved and Member O’Loughlin seconded to approve as presented. Motion carried.

- c. Board Action on FY 08 MHESAC Budget

Action: Approval of the FY 08 budget was deferred. The Board asked Management to review the level of budgeted contracted operating expense with an eye to reducing it to a level more commensurate with the level of increase in average portfolio and bring it back to the Board for their consideration. The Board by consensus authorized that expending at the same level as the current budget level until the revised FY 08 budget is approved. FY 08 Budget revisions will be distributed and approval of the revised budget will be done by conference call at later date.

OPERATIONAL ITEMS

- a. Report on IRS Examination of MHESAC 2000 Tax-Exempt Bonds – Jim updated the Board on the status of the IRS examination. Field work was completed in early may. We are awaiting final report but no problems are anticipated.
- b. Report on FY 06 Incentives Rebates – Completion of the 2006 Incentives Rebate awards is underway. The rebate calls for borrowers whose total indebtedness is \$500 or less to have their loan balance forgiven. Borrowers were required to be current on their payments in order to qualify for this rebate. This impacts approximately 750 borrowers for a total amount of \$225,000. A letter to impacted borrowers announcing the rebate has been drafted and will be sent.
- c. Report on Board of Investments Line of Credit – This line of credit has become very expensive to retain (now that the Board of Investments is charging a commitment fee) so a decision to not continue with the line was made. A notice of intent to not renew the line of credit has been sent to the Board of Investments.
- d. Potential 2007 Tax-Exempt Financing – Jim Stipcich anticipates proceeding with a tax-exempt financing in the October-November timeframe.

BOARD GOVERNANCE ITEMS

a. Potential Changes to MHESAC Board Governance and Structure

The MHESAC Board of Directors has asked Management to provide information on potential changes to MHESAC board governance and structure as the Board may be interested in a different Board member selection process. To that end Management has held discussions with Mike Reeslund and Tom Vander Molen at Dorsey, MHESAC's tax counsel (who joined the meeting by conference call).

MOTION: Member Thomas moved that a committee consisting of Jim Stipcich, the Board Chair, and Board Vice Chair be formed. This group will develop a process for letting the Executive Branch know of MHESAC's intent to change its status. A timeline should be developed for when this change will take place. An outline of the steps necessary to make this change should be developed and a request for such change submitted to the IRS for authorization. Member Taylor seconded. Motion carried.

Board Member/Board Officer Structure

At this time, it was recommended against making any immediate changes to MHESAC's board members and/or officers selection process, at least until numerous program issues are resolved in Congress and the Department of Education Proposed Rules (such as lender yield cuts, inducement prohibitions and the status of FFELP vs. Direct Loans).

b. Proposed Code of Conduct – A draft copy of the proposed Code of Conduct was presented to the Board for discussion. Management indicated this is reflective of current business practices and policy and really is a codification of such.

Motion: Member Barrett moved and Member O'Loughlin seconded to approve the code of conduct with the following revisions: 1. Define the term nominal; 2. Remove "in exchange" on last page under Student Loan Advisory Boards. Motion carried.

GENERAL COMMENTS FROM THE PUBLIC

No public comment received.

REPORTS ON GENERAL PERFORMANCE

An opportunity for questions from the Board was provided on the following MHESAC FY 07 YTD Performance Reports

- a. FYTD Loan Acquisition Activity
- b. FYTD Financial Statements and Narrative
- c. FYTD Management Reports
- d. FYTD 2007 MHESAC OGSM Scorecard
- e. FYTD 07 Strategy Checkup

INFORMATION SHARING ON SAF ACTIVITIES

- a. SAF's Loan Servicing Transaction Activity Report – Simon Poole provided the update in Lowell's absence.
- b. Update on SAF's Facility Strategy – The building project is still on hold. Jim will be recommending to the SAF board tomorrow to continue to leave the building on hold at this time.
- c. Report on MSLF Loan Treatment for FYE 06-30-07 – SAF management has determined not to complete a MHESAC takeout financing of the non-Montana loans held by MSLF before fiscal year end. FASB recently issued statement number 157 that deals with the fair value measurement of certain assets. The change will allow SAF to mark the loans to a contractual sale value (given the purchase agreement with MHESAC) and allow SAF to record any unrealized gain.

ELECTION OF FY 08 Board Officers, Chair, Vice Chair

Motion: Member Thomas moved and Member Taylor seconded to continue with same Chair, Vice Chair and Board Officers for the upcoming year. It was noted that Chair Flanders Board term will expire in December and he will not seek reappointment. Chair Flanders indicated that he would be willing to serve as chair for the remainder of his term if the Board was amenable. Motion carried.

OTHER ITEMS FROM BOARD MEMBERS – None

UPCOMING MEETING SCHEDULE

- a. August 9, 2007 Joint Work Session Conference Call with SAF to review FY 07 results. The call will convene at 10:30 a.m.
- b. October 23, 2007 MHESAC Business Board Meeting in Helena.

FINAL MEETING FOR HEATHER O'LOUGHLIN - Heather's term as the Student Regent expires at the end of June so this was her last meeting. Chair Flanders thanked Heather for her service on the Board of MHESAC and acknowledged the contribution she made. Good luck in future endeavors, Heather!

ADJOURNMENT – Being no further business, the meeting was adjourned at 2:35 p.m.