

MEETING SUMMARY

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

November 8, 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 10:00 a.m. by Chair Fred Flanders.

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

Officers Present:

Mick Robinson, Vice President
Judy Chapman, Secretary
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
Lowell Wollitz, SAF EVP of Borrower Services
Simon Poole, SAF EVP/Chief Operating Officer
Scott Todorovich, EVP/Chief Information Officer
Kelly Chapman, EVP/Foundation Activities

Guests:

Alan Peura, Legislative Auditor's Office
Suzan Scott, Budget Director's Office

AUDIT COMMITTEE REPORT – Lila Taylor, Chair of the Audit Committee, gave a report on the activities of the committee and entertained questions from the Board members.

MOTION: Member Taylor moved and Member Johnson seconded to accept the Audit Committee report as presented. Motion carried.

Access Grant Presentation at University of Montana Football Game – Kelly Chapman and her staff presented the Access Grant to the University of Montana at their football game on Saturday in the amount of \$363,000. It was noted that over \$1 million has been given to University of Montana over the life of Access Grant program

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

1. July 30, 2007 Board Conference Call Meeting

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

2. August 9, 2007 Joint Work Session with SAF Summary

Motion: Member Johnson moved and Member Semmens seconded to approve the summary as submitted. Motion carried.

3. September 27, 2007 Board Conference Call

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

INDUSTRY ITEMS – BOARD DISCUSSION

Jim Stipcich provided an update on the most recent developments in the student loan industry. He spent considerable time reviewing the following specific items in relation to the industry.

- a. Overview of College Cost Reduction Act
- b. Industry and Business Conditions and Implications for MHESAC
 - a. Response of Lenders to College Cost Reduction Act and reduced yields
 - b. Liquidity crunch
 - c. D of E Proposed Rules
 - d. Sunshine Act and Reauthorization of the Higher Education Act
 - e. Relationship with the State of Montana and Regent's Task Force
- c. Volume Cap - Jim Stipcich had a meeting with David Ewer and Jan Lombardi to discuss volume cap needs for a tax exempt financing for about \$175 million. Jim A public hearing notice was published and the hearing will be held on November 21, 2007. The formal request to the Governor's office for approval of the volume cap request will be made following the public hearing. A letter to the Board of Regents was sent by Mr. Ewer expressing his continued concerns over MHESAC activity. A copy of that letter had not been received by either the MHESAC Board or Jim Stipcich.
- d. Montana AG Report – The Attorney General's report was provided to the Board. No problems were cited with Montana schools.

BOARD EDUCATION ITEMS

- a. Overview of Process for Developing a Loan Purchase Bid and Cash flows for Rating Agencies – Jolene Selby provided an update on how loan purchase bids are created and what information is provided and considered. She noted that certain caveats such as board approval, contingencies to obtaining appropriate financing and assuring that the portfolio does not change after the bid was prepared are included in each bid proposal.

MHESAC STRATEGIC ISSUES

- a. MHESAC FY 08 YTD Performance Reports
 - a. Loan Acquisition Activity – There is reduced activity in this area. In response to this reduction, staff members in those departments are being relocating throughout the organization.
 - b. FYTD 2008 MHESAC OMTI Scorecard – Simon Poole provided an update on the OMTI scorecard. It was noted that some of the measurements are still being developed and are being reported as pending at this time.
 - c. FYTD 08 Strategy Checkup – Simon Poole also provided an update on the strategy check-up document. This report shows the status of each of the affiliated organizations (MHESAC, SAF and MSLF) as of September 2007.
 - d. FYTD Financial Statement and Narrative – Jolene Selby provided an update on the financial statements for the month ending September 30, 2007. Jolene noted that we are now no longer eligible to bill \$45 million under the 9.5% floor. Management and servicing costs are at 103 basis points before markup and 118 basis points after markup. She also provided an updated forecast compared to the original budget.
 - e. FYTD Management Reports – The management reports were provided and opportunity for questions was provided.
- b. Revised FY 08 MHESAC Volume Projections – Jolene Selby provided an overview of the revised MHESAC volume projections for FY 08.
- c. Discussion of Potential Major Strategic Changes – Jim Stipcich provided an overview of the proposed post-October strategy. He noted that some items are on hold pending the financial condition improvement and political environment resolution. He also highlighted our proposed strategy for the servicing area going forward.
- d. Proposed Revised Montana and Non-Montana Borrower Benefits – An outline of the proposed Montana and Non-Montana Borrower Benefits were provided and discussed.

Motion: Member Melvin moved and Member Taylor seconded to accept the recommendation of staff on the proposed Montana borrower benefits. Motion carried.

Motion: Member Semmens moved and Member Taylor seconded to proceed with the temporary halt to the non-Montana borrower benefits but to continue to work with national partners to develop a strategy in this market for the near future. There was discussion regarding MHESAC's intent to purchase non-Montana loans currently held in the MSLF line and it was agreed that MHESAC still intends to do so. Motion carried.

- e. Potential 2007 Tax-Exempt Financing and Request for 2007 Montana Volume Cap – Jim Stipcich provided information regarding the upcoming request for 2007 Montana volume cap. Historically, this has been done late in the fall in order to meet the time frames of the next academic year. Jim outlined the activity that has taken place thus far. Plans are underway to complete a financing in the range of \$160 million to \$175 million. There is a need for about \$160 million of additional loan funds. MHESAC has \$75 million of carryforward volume from 2006 and expects to request an additional \$100 million of 2007 volume cap. Ideal timing to complete the financing is by December 15, 2007. Jim talked about some different structures to accomplish the upcoming financing.

Action: Member Johnson moved and Member Melvin seconded to approve the preliminary bond resolution with the overall financing amount changed to \$175 million. Motion carried.

- f. Additional Volume Cap Issue – Jim Stipcich reported that there may be up to \$79 million of non-allocated volume cap for Montana for this year. This number is the anticipated difference between what both Board of Housing and MHESAC has indicated they will need and the total available for Montana. Jim asked the group if MHESAC should pursue carryforward of this amount for this year.

Motion: Member Johnson moved and Member Taylor seconded to allow Jim Stipcich to pursue obtaining carryforward if he sees it is in the best interest of MHESAC including taking any necessary actions such as holding public hearings. Motion carried.

- g. Timing of Proposed Reviewed FY 08 MHESAC OMTI – Staff will continue to update these items to reflect the current conditions and will bring updated documents to the next meeting.
- h. Timing of Proposed Revised FY 08 MHESAC Budget - Staff will continue to update the budget items to reflect the current conditions and revised documents will be prepared for review at a future meeting.

OPERATIONAL ITEMS

- a. Final Report on IRS Examination of MHESAC 2000 Tax-exempt Bonds – MHESAC has been notified that the audit on 2000 tax-exempt bonds has been officially closed. No findings were noted.
- b. Report on 9.5% Floor Loan Audit – The audit was completed and was submitted to Department of Education before the deadline of October 31, 2007. MHESAC will continue to have approximately \$65 million of floor billings going forward in light of the Department of Education's re-interpretation of floor loan regulations.
- c. Post-October 1, 2007 Loans in Existing Financings – As a result of changes after October 1 at the Federal level, it is necessary to have the rating agencies approve the utilization of acquisition funds in existing financings for FFELP loans disbursed after October 1. In order to document the agreement with the rating agencies, Dorsey has prepared the Sixteenth Supplemental Indenture which was provided for review.

Motion: Member Johnson moved and Member Melvin seconded to

continue negotiations and approve the Sixteenth Supplemental Indenture as described. Motion carried.

- d. IRS Voluntary Compliance Request – A3 – The IRS has been conducting audits as well as voluntary compliance requests. MHESAC did receive a compliance survey. These apply only to the 501(c)(3) bonds which are the building bonds and the survey was completed based upon those parameters.

BOARD GOVERNANCE ITEMS

- a. Update on 509(a)(2) Reclassification Request –The request application for reclassification was submitted and no response has been received yet.
- b. Proposed Charge of the Risk Management Committee – Provided for review was the proposed Risk Management Committee Charter. The Board discussed the role of this committee and felt that the bulk of the work is already being done either at the Board level, through the work of the Audit Committee or with the utilization of consultants and financial advisors. The Board felt it may serve the same purpose to have a specific agenda item at each Board meeting to discuss risk.

Action: It was agreed that Fred Flanders, Mark Semmens and Royal Johnson will work with management to develop a risk management profile.

- c. Update on ongoing efforts to address Board concerns from Fall 2006 - A summary of the efforts taken to address the concerns from last fall were included for review.

GENERAL COMMENTS FROM THE PUBLIC - None

INFORMATION SHARING ON SAF ACTIVITIES – Reports on the following items were included in the background information. An opportunity for questions was provided.

- a. SAF's Loan Servicing Transaction Activity Report
- b. Update on SAF's Facility Strategy – The building project is still on hold.
- c. Loan Servicing Volume
- d. Marketing and Communication Report

OTHER ITEMS FROM BOARD MEMBERS

Kerra Melvin provided positive feedback regarding the entrance counseling done by the outreach office at Montana Tech.

Action: It was agreed that Kelly Chapman would provide information about the entrance counseling done by the Campus Outreach offices at the next meeting.

UPCOMING MEETING SCHEDULE

- a. A Conference Call will be needed in December to review/approve the financing documents. This will be scheduled once the timing has been determined.

- b. A Joint Work Session with SAF will be scheduled in early January 2008. Sharon Eslick will contact the Board about potential dates.

ADJOURNMENT – Being no further business, the meeting was adjourned at 3:25 p.m.