

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

December 20, 2011

The Higher Education Student Assistance Authority (HESAA) Board held a special meeting by conference call on December 20, 2011 at 2:30 pm from the HESAA offices in Hamilton.

PRESENT: Fr. Michael Braden; Ms. Gabrielle Charette, Esq.; Ms. Betsy Garlatti; Mr. Richard Garcia; Mr. Julio Marenco; Mr. Christopher McDonough, Treasurer's Designee; Ms. Rossy Matos-Miranda; Mr. Warren Smith, Esq.; Ms. Christy Van Horn; Mr. Wilmot Wilson, members.

Also participating via teleconference was Melissa Dutton.

ABSENT: Ms. Liscet Duran; Ms. M. Wilma Harris; Dr. Harvey Kesselman; Ms. Jean McDonald Rash; and Ms. Maria Torres.

CALL TO ORDER

Chair Garcia called the meeting to order at 2:31 pm and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Garcia welcomed the Board members.

Mr. Garcia introduced Melissa Dutton, the new DAG.

Mr. Garcia asked the Board Secretary to call the roll.

Roseann Sorrentino called the roll.

RESOLUTION 21:11 – APPROVING A TEAMING ARRANGEMENT CONTRACT WITH THE HIGHER EDUCATION LOAN AUTHORITY OF MISSOURI (MOHELA) AS HESAA'S REMOTE SITE, THIRD PARTY DIRECT LENDING SERVICING PARTNER

Mr. Joel Mayer, Chief Compliance Officer, presented the resolution.

Pursuant to the Health Care and Education Reconciliation Act of 2010, Public Law 111-152 (“HCERA”), the Federal Family Education Loan Program (“FFELP”) was effectively abolished and all new federal student loans are now originated through the Federal Direct Loans Program (“DL”). The Higher Education Student Assistance Authority’s (HESAA) designation as the New Jersey state designated guarantor of FFELP loans originated by private student loan lenders brought significant revenues to the Authority through fees paid to HESAA by the USDE for guarantor services. While HESAA continues to earn fees for guarantor services in conjunction with the existing FFELP loan portfolio, that portfolio is shrinking and the Authority is seeking to mitigate the loss of FFELP guarantor revenue.

Both the United States Congress and the USDE recognize that the USDE has insufficient resources by way of capacity and experience to service the much larger DL portfolio now that all federal student loans are being originated under the DL program. Section 2212 of the HCERA provides that the Secretary of the USDE shall contract with not-for-profit servicers (“NFP”) to service certain federally owned student loans originated through the DL program.

On April 29, 2010, the USDE’s Office of Federal Student Aid (“FSA”) issued a “Sources Sought Notice” in which it set forth certain requirements for determining whether an entity is an Eligible NFP Servicer. HESAA responded to the FSA “Sources Sought Notice” and FSA determined that the Authority is an Eligible NFP Servicer under HCERA. On September 29, 2010, the USDE issued a Solicitation seeking responses from Eligible NFP Servicers to act as federal subcontractors for the servicing of federally owned student loans originated through the DL program.

On March 31, 2011, the Authority issued a RFP for a DL servicing platform. Five vendors responded to the RFP. After considerable review of the Department’s Solicitation together with subsequent amendments and changes thereto, detailed research and comprehensive evaluations of the Authority’s existing physical and Information Systems infrastructure, and recognition of current staffing challenges, it was determined that it would not be in the Authority’s best interests to make the significant investments required, including the purchase of a DL servicing platform, in order to perform the functions of a standalone Not For Profit Servicer with an allocation of only 100,000 accounts as contemplated in the USDE’s Solicitation.

It was thereafter determined that it would be in the Authority’s best interests to enter into a “Teaming Arrangement” with an Eligible Not for profit Servicer that has already made the necessary investments, including but not limited to Federal Information Systems Management Act (“FISMA”) compliance. Based upon that determination, on November 1, 2011 HESAA reissued its RFP for a Direct Loan Servicing Platform, which solicited responses from Eligible Not for profit Servicers interested in providing comprehensive remote site, third party Direct lending servicing capability. The Authority received four (4) responsive proposals to the reissued RFP offering comprehensive remote site, third party DL servicing capability.

Commencing on November 28 of this year and for several days thereafter the DL Servicing Platform Evaluation Committee, made up of HESAA’s Chief Compliance Officer, Chief Financial Officer and Director of Legal and Governmental Affairs, met to discuss the merits and values presented with respect to each of the responses received.

It was initially determined that each of the responding entities demonstrated requisite technical and systems capability; however, only MOHELA (Higher Education Loan Authority of Missouri) has already received an Authorization to Operate (“ATO”) from the USDE. An ATO is a prerequisite to becoming a federal loan servicing contractor under HCERA and necessary before being allocated federal loans to service. Each of the remaining responding entities advised that they have applied for and are optimistic regarding the likelihood of their receiving ATOS; however, only MOHELA currently possesses that critical designation. Moreover, MOHELA utilizes the PHEAA, Pennsylvania Higher Education Assistance Authority, industry standard direct loan servicing platform which is highly regarded by the USDE.

In addition, MOHELA's proposal is the most financially beneficial to HESAA, both in terms of total revenue over the course of the contract and in terms of structure. Upon selection by the USDE to service federal direct loans, each selected Eligible NFP is awarded a one-time \$1 Million "Loan Conversion Fee." MOHELA proposes to pass the entire \$1 Million through to HESAA in a lump sum payment during the first month of actual direct loan servicing operations (though possibly split over the first two months depending upon whether or not HESAA's allotment of 100,000 loans is provided entirely in the first month of the contract). MOHELA is the only responding entity that proposes to pass the entire \$1 Million Loan Conversion Fee to HESAA. In addition, if HESAA executes a Teaming Arrangement contract with MOHELA before December 31, 2011, MOHELA will provide a "signing bonus" of \$513,000 payable in three (3) equal monthly installments or \$171,000 commencing on the first month of actual direct loan servicing operations. It is anticipated that if HESAA executes a Teaming Arrangement contract with MOHELA on or before December 31, 2011, it will receive its allotment of 100,000 loans during the First Quarter of 2012. No other responding entity is proposing a "signing bonus" or similar front-loaded revenue structure of any kind, or could assure us an allocation of loans during the first quarter.

Over the period of a five (5) year contract with MOHELA, the authority will earn \$2,860,840 which represents an increase of approximately \$650,000 over the next highest responding entity's proposal. There are no start-up or investment costs payable by HESAA in order to enter a Teaming Arrangement with MOHELA and this contract can be monitored by existing Authority staff without the necessity of any additional hires.

Based upon the factors cited above the Direct Loan Servicing Platform RFP Committee recommends that the Board approve Resolution 21:11, permitting HESAA to enter into a Teaming Arrangement contract with MOHELA as HESAA's remote site, third party Direct Loan Servicing Partner, as detailed in this memo, to which HESAA will place its share of DL loans for the initial contract period of five (5) years, with up to two (2) one year extensions at the option of the Authority. The initial contract expiration date will be December 31, 2016.

Motion to approve the resolution was made by Christy Van Horn and seconded by Julio Marenco.

Christy Van Horn asked about the fees HESAA prior to the enactment of HCERA. Joel Mayer explained that prior to the abolition of FFELP; the Authority was earning more in terms of guarantor funds and revenue. For example, last year HESAA earned \$14 million, which was down a million dollars from the year before. Gene Hutchins further explained that HESAA did not service federal loans and that with no new FFELP loan guaranty; revenue will be declining as borrowers pay down their loans. He explained that this agreement is the first step in a new federal student loan world and that HESAA is trying to get involved in the extent possible understanding HESAA's expertise is in Guaranty Agency functions not in servicing of federal loans.

Warren Smith asked whether this teaming arrangement has been discussed with the Governor's office. Gabrielle Charette explained that HESAA staff met with David Reiner of the Governor's Authorities Unit and David Weinstein of the Governor's Policy Unit and sent a memo, which was approved by the Governor's Office prior to scheduling this Board meeting.

Ms. Charette further explained to the Board that these 100,000 accounts are not New Jersey specific and that HESAA might not have outsourced the servicing if they were.

Christy Van Horn asked for clarification on how HESAA gets this share. Gabrielle Charette and Joel Mayer explained that the federal statutory language mandates that each NFP is allocated 100,000 loans.

Ms. Van Horn asked if any of the accounts would be from New Jersey. Mr. Mayer explained that it is unknown. Based on Mohela's experience composition of portfolio is random.

Fr. Braden asked whether HESA is paying any fees for this service, to which Ms. Charette answered no.

The motion was passed unanimously.

ADJOURNMENT

Chair Garcia announced the next HESAA Board meeting will be held on Tuesday, January 24, 2012 at 10:00 am. A motion to adjourn was made by Warren Smith and seconded by Rossy Matos Miranda.

The meeting adjourned at 2:51.

RESOLUTION 21:11

APPROVING A TEAMING ARRANGEMENT CONTRACT WITH THE HIGHER EDUCATION LOAN AUTHORITY OF MISSOURI (MOHELA) AS HESAA'S REMOTE SITE, THIRD PARTY DIRECT LENDING SERVICING PARTNER

Moved by: Christy Van Horn
Seconded by: Julio Marenco

WHEREAS: The Health Care and Higher Education Reconciliation Act of 2010 (HCERA) abolished the Federal Family Education Loan Program (FFELP) thereby significantly reducing revenues earned by the Higher Education Student Assistance Authority (HESAA) for guarantor services performed by HESAA in association with FFELP loans, and;

WHEREAS: The United States Department of Education (USDE) has solicited Eligible not-for-profit entities (NFP) to service certain Federal Direct Loans as contractors for a fee and pursuant to a schedule published by the USDE, and;

WHEREAS: HESAA has been designated by the USDE as an Eligible NFP Servicer, and;

WHEREAS: HESAA issued a Request for Proposals for a Direct Loan Servicing Platform to which it received four (4) responses from companies offering comprehensive remote site, third party DL servicing capability, and;

WHEREAS: An evaluation committee comprised of HESAA's Chief Compliance Officer, Chief Financial Officer and Director of Legal and Governmental Affairs reviewed the proposals and determined that the Higher Education Loan Authority of Missouri (MOHELA), a Federal Information Systems Management Act (FISMA) compliant Eligible NFP Servicer, is the only responding firm that currently holds an Authority to Operate (ATO) certification from the USDE and is already engaged in the servicing of Federal Direct Loans, and;

WHEREAS: The Evaluation committee determined MOHELA's response to be to be superior to all other responding entities' proposals and the most financially beneficial to the Authority.

NOW, THEREFORE, LET IT BE:

RESOLVED: That the Board approves the contract for a Teaming Arrangement with MOHELA as HESAA's remote site, third party Direct Lending service provider to which HESAA will place its share of DL loans for an initial period of five (5) years with up to two (2) one year extensions at the option of the Authority.

December 20, 2011