

## **MINUTES**

### **HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY**

February 7, 2008

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on October 24, 2007 at 10:00 a.m. at the HESAA offices in Hamilton.

**PRESENT:** Mr. Michael Angulo, Esquire; Mr. James Avery; Mr. Raymond Castor; Ms. Wilma Harris; Ms. Tabatha Ialacci; Dr. Harvey Kesselman (teleconference); Dr. Joann LaPerla-Morales (teleconference); Mr. Warren Smith, Esquire; Ms. Nancy Style, Treasurer's Designee; and Ms. Maria I. Torres, members.

**ABSENT:** Ms. Jean McDonald Rash; Kevin Collins.

#### **CALL TO ORDER**

Chairwoman Torres called the meeting to order at 10:05 a.m. and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Ms. Torres welcomed the Board members.

She advised that no members of the public registered to speak.

Ms. Torres asked Ms. Merci Powell to call the roll.

Deputy Attorney General Melissa Hager swore-in new Board member Sister Paula Marie Buley.

#### **MINUTES**

A motion to approve the minutes of the October 24, 2007 meeting was made by James Avery and seconded by Raymond Castor. The minutes were approved unanimously with two recusals, Rossy Matos-Miranda and Sister Paula Marie Buley because they did not participate in the October meeting.

#### **MINUTES**

A motion to approve the minutes of the December 13, 2007 meeting was made by Warren Smith and seconded by Rossy Matos-Miranda. The minutes were approved unanimously with one recusal, Sister Paula Marie Buley because she did not participate in the December meeting.

#### **REPORT OF PROGRAM REVIEW AND QUALITY CONTROL COMMITTEE**

Warren Smith reported that the Program Review and Quality Control Committee met on Wednesday, January 23, 2008 at 10:00 am at HESAA's Quakerbridge Plaza Office. Included in

this meeting were Maria Torres, Harvey Kesselman, Rossy Matos-Miranda, Warren Smith and Michael Angulo. Warren Smith provided the Board with an overview of the topics discussed at the Committee meeting.

Kenneth Jones, Director of Audits and Quality Assurance gave the following report:

### **Introduction**

To ensure HESAA's programs are in compliance with federal and state statutes, regulations, policies and procedures, the Audits & Quality Assurance unit is tasked with conducting Federal Family Education Loan (FFEL) Program Reviews of lenders and schools, Institutional Management Reviews focusing on State Grants & Scholarships Programs, Special Counsel Reviews, Internal Control Reviews and Evaluations, and Quality Assurance Reviews of HESAA's programs.

### **Federally Mandated Reviews**

Pursuant to Federal Regulation, Guaranty Agencies are responsible for taking all necessary measures to ensure the vigorous enforcement of all federal, state, and guaranty agency requirements. To ensure compliance with this requirement, HESAA's Audits & Quality Assurance unit is responsible for conducting biennial reviews of HESAA's ten largest lenders. These reviews are conducted jointly by 35 Guaranty Agencies under the Common Review Initiative, a program approved by the U.S. Department of Education. All ten of HESAA's largest lenders fall within the parameters of CRI.

For the previous biennium (January 1, 2006 thru December 31, 2007), HESAA staff participated in three of the six CRI reviews required by HESAA to satisfy the federal mandate to review the Authority's "Top 10 Lenders." All six reviews were conducted as required. Five are closed and one is still open, the review team is waiting for additional documentation from the lender. There were no significant findings and all required corrective actions were completed.

In addition, HESAA is also required to conduct reviews of all schools whose cohort default rate exceeds 20 percent and have at least \$100,000 of loans entering repayment in each of the last two years. One institution, Gibbs College meets this requirement. HESAA originally planned to conduct this review in 2007, however due to unforeseen staff health issues, the review was rescheduled for June 2008.

### **HESAA Initiated Reviews**

**Outstanding Scholar Recruitment Program** - The Outstanding Scholar Recruitment Program (OSRP) was established in 1998 as an incentive to New Jersey's high-achieving students to enroll and attend higher education institutions in the State of New Jersey. OSRP was designed as a campus-based program with the institution's being responsible for the recruitment of eligible students and the State providing matching funds to the fifteen (15) participating institutions. The award is merit based without restrictions on family income. OSRP is in the process of being phased-out by the State with no new students receiving OSRP awards since FY 2006.

Eight (8) reviews were completed and closed in 2007. Total OSRP funds refunded from 12 of the 15 institutions reviewed was \$643,411.47.

**Institutional Management Reviews** - HESAA conducts Institutional Management Reviews to ensure that institutions administer the State Grants & Scholarships programs in accordance with all applicable federal and state statutes, regulations, policies and procedures. These reviews are conducted jointly with the Director of Financial Aid Services and Grants & Scholarships' subject matter experts.

These management reviews are also designed to provide institutions with recommendations on how to improve their enrollment management (admissions, registration, bursar/finance and financial aid office) operations and delivery of the State Grants & Scholarships programs, as well as ensure compliance with state and federal statutes and regulations.

Three (3) new reviews were conducted in CY 2007

Two (2) draft reports were issued and HESAA is waiting for the institution's response

One (1) limited review was conducted that reduced TAG awards due the institution by \$320,000.

Four (4) prior year reviews were closed in 2007 – Monetary findings were \$420,845

One (1) prior year review was completed but is still open – Monetary findings \$27,438

**Special Counsel** - HESAA conducts Special Counsel Program compliance reviews at each of the nine Special Counsel and General Revenue Corporation who performs collection activities on approximately 19,365 defaulted student loan accounts. These attorneys manage portfolios of defaulted student loans ranging in size from approximately 300 to 7,500 accounts. Audits & Quality Assurance is responsible for conducting biennial reviews of each Special Counsel. A&QA's 2006-07 Review Schedules included conducting compliance reviews at all Special Counsels.

Seven (7) reviews were closed

One (1) review is open pending completion of corrective action

One (1) review is open HESAA is reviewing counsels response to draft report

One (1) review is on-going

### **Annual Internal Control Evaluation**

The State Office of Management & Budget (OMB) requires all executive branch agencies to conduct an annual self-assessment of their internal controls. The Authority participates in this process through a series of evaluations and discussions that are conducted each year

between April and June by HESAA's program managers and the Audits & Quality Assurance unit. In addition, the Audits & Quality Assurance unit supplements these internal control evaluations by performing internal control testing of specific program areas. The results of the internal control evaluations are provided to HESAA's Executive Staff in a memorandum detailing the review requirements, review program conducted, and any weaknesses identified with recommendations.

On June 27, 2007, HESAA's Executive Director and Chief Financial Officer sent the Director of OMB a letter confirming that HESAA performed the Internal Control Evaluation as required and that HESAA's system of internal accounting and administrative controls complies with the standards prescribed by the State of New Jersey.

Kenneth Jones provided a brief overview of the reviews scheduled to be conducted in CY 2008 (a copy of the proposed review schedule was provided to the Board Members at the meeting).

Nancy Style asked if the \$640,000.00 OSRP refund was over more than one year and whether it was from a specific area. Kenneth Jones responded that the review period was academic year 2003-2004 through 2005-2006 and that if a student was found to be ineligible the refund was from all four years of the student's attendance. The refund was primarily derived from a few institutions failure to refund unexpended State OSRP funds, as well as funds awarded to ineligible students.

Warren Smith moved that the Board accept the Report of the Program Review and Quality Control Committee and approve the proposed 2008 Review Schedule, Wilma Harris seconded the motion and it passed unanimously.

## **REPORT ON 2007 DANA CHRISTMAS SCHOLARSHIP AWARD RECIPIENTS**

Gloria Green reported on the 2007 Dana Christmas Scholarship Award Recipients. The press release regarding the details of these awards was distributed at the meeting. Wilma Harris asked if 19 applications was normal, Gloria responded that although we reached out all over the state, the application response was lower than normal this year. Maria Torres asked if the winners had been notified, Gloria responded they were.

## **EXECUTIVE DIRECTOR'S REPORT**

Executive Director Michael Angulo made the following report to the Board:

Let me first welcome our newest Board member, Sister Paula Marie Buley from Seton Hall who will represent the Independent Institutions. I thank you for your service to this Board, and look forward to your valuable participation towards our many worthwhile objectives.

Though challenging, this past year has inspired constructive changes within the student lending sector, institutional financial aid offices, and the Authority. Among the many proactive changes implemented this past year at the Authority are:

- Development of a strict Code of Conduct and Best Practices manual for the Authority,
- Creation of a Chief Compliance Officer position at HESAA,
- Discontinuation of outdated marketing activities, and implementation of a broader marketing/outreach initiative through HESAA's Director of Communications, and
- Development of a comprehensive FFELP guarantor flow that is borrower friendly, promotes borrower choice, is open to all institutions and lenders, and is compliant with State and federal guidelines.

I want to assure you that the Authority's operational integrity is stronger now than ever before.

With that said, I'm happy to announce that we've hired Joel Mayer as our new Director of Compliance. Joel comes to HESAA with strong credentials as a former First Assistant Prosecutor, a compliance and legal advisor to a military defense contractor, and years as a litigator. Without question, a Chief Compliance Officer is critical to ensure strict compliance with rapidly developing federal regulations, congressional initiatives, State mandates, and the institutional Code of Conduct. In light of the recently promulgated federal regulations, the changes brought about by the College Cost Reduction and Access Act, and the pending reauthorization of the Higher Education Act, Joel's appointment is very timely.

I would also like to introduce to you AnnMarie Bouse, HESAA's new Director of Communications. Among her immediate priorities is building awareness of HESAA's brand name to existing clients, prospective clients, the business community, community organizations, and the public sector. She will also work on developing strategic partnerships across all sectors to ensure that our mission, programs, and services are widely recognized. To begin building our brand recognition, we are in the process of promoting a contest to design a new logo. AnnMarie is working to partner with the New Jersey Association of School Administrators to open the contest to 7 – 12 graders in New Jersey. The school whose student submits the winning logo will receive \$2,500 to be used by the school at its discretion. The logo will then be used to uniformly brand HESAA in all collateral materials, on-line and through media.

Another outreach initiative, College Goal Sunday, is scheduled for this Sunday, February 10<sup>th</sup>. Now in its third year in New Jersey, College Goal Sunday is an opportunity for students and their families to go to seven locations throughout the state (Camden County College, New Jersey City University, Long Branch High School, New Jersey Institute of Technology, Rutgers University, Passaic County Community College and Mercer County Community College) to get help completing the Free Application for Federal Student Aid, or FAFSA, which is the primary application for financial aid. Beginning at 1:00 pm, workshops on completing the form will be conducted in English and Spanish, with financial aid professionals available to personally assist families navigate through the filing process. In recognition of the importance of financial aid and to promote College Goal Sunday, the Governor issued a Proclamation designating February 4 – 10 Financial Aid Awareness Week. Through our volunteers at HESAA and the financial aid community, many students who might otherwise not apply or miss significant application deadlines are able to timely complete their FAFSAs. Last year more than 600 families took advantage of this opportunity. We hope to increase that number substantially this year.

In light of the Governor's State of the State address and New Jersey's current budget deficit, we cannot, with any certainty, know what to expect when the budget review and approval process concludes. However, we have been actively involved in discussions related to financial aid program funding. I would like to commend the members of the HESAA Budget Sub-Committee and the Board for the excellent job in evaluating the needs of the students in the State. The Board's advocacy for need-based aid for New Jersey's students is always critical, but more so this year given the State's budget constraints. The Sub-Committee has also worked diligently to consider merit-based programs as we confront continued program demand in the face of budgetary constraints.

Despite the State's daunting budget, HESAA continues to pursue technological and operational enhancements to support our student borrowers and institutions. As I mentioned earlier, the Authority is in the final stages of implementing a cutting edge software application for institutions, lenders and students. The HESAA Real Choice product is a web based application that provides students with extensive options for comparing borrower benefits, selecting a lender, and completing the loan application process. Borrowers will be able to select a lender they have used in the past, a lender from their institutions' lender list, or any of 3,000 lenders approved by the Department of Education. This comprehensive web based product is unparalleled in the higher education sector. Once the necessary borrower information is entered, the student will be permitted to electronically sign the promissory note, or print and sign it, or request that we mail it to them for signature. Behind the scenes and completely seamless to the student, Real Choice will link the institution, the lender, and the servicer for the student. We will be providing a demonstration later under New Business. Throughout its development, we have thoroughly vetted the application through outside counsel with expertise in higher education regulation to ensure compliance with federal and State regulations, and New Jersey's Code of Conduct for institutions.

Earlier, I mentioned HESAA's strong business growth. Leading the way are NJBEST and NJCLASS. At the end of FY 2007, NJBEST had eclipsed \$2 billion in assets with more than 200,000 accounts under management. This is a sharp contrast to 4 years ago when there was less than \$150 million in assets and fewer than 30,000 account holders. To date, HESAA has paid almost \$350,000 in scholarships to eligible NJBEST beneficiaries. As more beneficiaries reach college age, HESAA anticipates the scholarships to exceed \$1 million each year. Notably, these scholarships are funded, not by State appropriations, but by HESAA revenue.

NJCLASS, our State supplemental loan program experienced a 51% growth for FY07, representing \$328 million in volume, so far. Among the important uses of our revenue is buying down the NJCLASS interest rate. This has allowed us to offer New Jersey students the nation's lowest, 20-year fixed rate supplemental loan this past year. The current rate of 5.75 with ACH is lower than the rate offered under any of the federal loan programs and we expect to continue to be able to offer the NJCLASS program at very competitive rates this upcoming year.

The Authority is also implementing measures to streamline day-to-day functions. For example, HESAA's Grants department processes nearly 400,000 applications each year. This is an extreme burden on the 13 dedicated professionals in that unit. To ease this workload, the Grants department is enhancing the New Jersey change form process. Until this year, if a student needed to make a change in their financial aid information, the Institution could make the change electronically for the federal applications, and then make the change through our system for the

State awards. This new process will now allow the Institutions to make the change once on the federal system only. That change will then be picked up electronically and the student's grant awards will be recalculated. This enhancement has the effect of saving time, increasing efficiency, and reducing confusion for the students and the institutions.

Improved customer service compliments our already robust program offerings including outreach, guidance counselor workshops, financial literacy programs, community support, and default aversion activities. These initiatives sustain our business operations that are essential for revenue growth. As I reported during my last report, though the federal College Cost Reduction and Access Act will have a fiscal impact on HESAA, the Authority's strong operations will allow us to continue the high levels of service and outreach necessary to fulfill our mission.

With the challenges of this past year behind us, we have much to look forward to in terms of opportunities, new products, enhanced services, and broader HESAA brand marketing. Given the stagnant national economy, the difficult State budget, and precarious financial markets, HESAA's ability to assist students and families has never been more important. For 2008, I expect continued program growth, enhanced product and service offerings, wider HESAA brand recognition, and stronger operational integrity. All this is designed to the benefit of our students.

Thank you for your continued support of, and commitment to, the Authority.

Harvey Kesselman commended Michael Angulo, Fran Andrea and Gene Hutchins on HESAA's responsiveness to the investigations. He further stated he was happy there were no findings and commended HESAA for its service and transparency. Dr. Kesselman also commented on the pilot for new software. He stated HESAA was doing an extraordinary job and was very responsive to the needs of the institutions. He believes this will be a tremendous benefit for families and students to get their loans at the lowest cost available.

## **NEW BUSINESS**

### **Presentation on HESAAVantage, REAL Choice product, new loan portal.**

Fran Andrea introduced Heidi Kovalick who demonstrated HESAA's new web portal, HESAAVantage. The product is advantageous for both students in New Jersey and New Jersey residents attending school outside of New Jersey. After the demonstration Tabatha Ialacci asked if the website will explain why the lender was chosen. Heidi responded yes it will be explained. Maria Torres asked if this will be used for federal plus loans as well and was advised that it will be. Raymond Castor stated that as a student he thinks this is going to be a very helpful tool. Nancy Style asked if this program was developed in house and was told yes it was. Wilma Harris asked if HESAA's new logo will go on the site which it will.

### **Financial Disclosure Statements**

Maria Torres announced that the Board members will be receiving information shortly from the State Ethics Commission regarding the Financial Disclosure Statements. Wilma asked if there is going to be in person ethics training or will the training be on line. Marnie Grodman announced that the State Ethics Commission had not yet provided that information but that the next State

Ethics Commission meeting is February 27, 2008. Maria Torres asked if they will be able to find their Financial Disclosure Statements on line. Marnie responded yes.

**ADJOURNMENT**

Ms. Torres said the next meeting would be on May 15, 2008. She reported the Audit Committee will meet immediately following the Board meeting.

A motion to adjourn was made by Wilma Harris and seconded by Raymond Castor. The motion passed unanimously.

The meeting adjourned at 11:09 am.