

## MINUTES

### HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

May 28, 2008

The Higher Education Student Assistance Authority (HESAA) Board held a meeting by conference call on May 28, 2008 at 3:00 p.m. from the HESAA offices in Hamilton.

**PRESENT:** Mr. Michael Angulo, Esq.; Mr. James Avery; Sr. Paula Marie Buley; Mr. Raymond Castor; Mr. Richard Garcia; Ms. M. Wilma Harris; Ms. Tabatha Ialacci; Dr. Harvey Kesselman; Dr. Joann LaPerla-Morales; Ms. Rossy Matos-Miranda; Ms. Jean McDonald Rash; Mr. Warren Smith; Ms. Nancy Style, Treasurer's Designee; and Ms. Maria Torres; members.

**Also participating via teleconference were Sonia Frontera, Esq., Assistant Counsel, Governor's Authorities Unit; Melissa Hager, DAG; Noreen White, Acacia Financial Group Inc.; Jerry Ostow, Bond Counsel of McManimon and Scotland; and Barbara Thomas of Morgan Stanley.**

Participating in person were Clifford Rones, Deputy Attorney General.

Members of the Public: Marguerite Beardsley, CHE

**ABSENT:** Mr. Kevin Collins

#### **CALL TO ORDER**

Co-Chair Matos-Miranda called the meeting to order at 3:00 pm and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Ms. Matos-Miranda welcomed the Board members.

Ms. Matos-Miranda asked the Board Secretary to call the roll.

Merci Powell called the roll.

**RESOLUTION 04:08 AUTHORIZING THE ISSUANCE AND SALE OF STUDENT LOAN REVENUE BONDS AND AUTHORIZING AND APPROVING THE EXECUTION AND DELIVERY OF A SUPPLEMENTAL INDENTURE, FINAL OFFICIAL STATEMENT, CONTINUING DISCLOSURE AGREEMENT, BOND PURCHASE AGREEMENT, AND OTHER MATTERS IN CONNECTION THEREOF.**

Mr. Eugene Hutchins, Chief Financial Officer, presented the resolution.

Enclosed is the proposed resolution relating to Bond Issue XVII together with drafts of the various bond documents referenced in the resolution. The resolution authorizes a total bond sale

not to exceed \$400.0 million in fixed rate bonds with a final maturity not later than December 1, 2035. All of the proceeds of the bonds (net of funds required for bond reserves) will be used to finance fixed rate standard NJCLASS loans.

The credit market crisis has required the Authority to revise the structure of this year's bonds to fixed rate serial and term bonds. As outlined in the documents, the 2008 bonds will be insured by Assured Guaranty, a bond insurer that has not been impacted by the subprime credit crisis and which has maintained a strong AAA rating by Moody's, S&P and Fitch. This will enable NJCLASS bonds to also be rated as AAA and improve their marketability.

NJCLASS standard fixed rate loan volume for academic year 2008-09 is expected to total close to \$400 million. As part of the bond sale, the senior manager will assess market conditions at the time of sale and in coordination with HESAA and the financial advisor will make final sizing decisions on the initial sale, which is expected to take place in mid-June. If market conditions are unfavorable to sell all of the bonds in June, a second sale will be scheduled for later in the year. HESAA will use unexpended proceeds from the 2007 and earlier bonds to finance NJCLASS graduate and consolidation loans.

In order to further enhance the sale of the bonds in the current extremely difficult market conditions, the Authority will pay the costs of issuance out of existing reserves and recover the advance over the life of the bonds. This will provide the bonds with an initial parity of the trust above par and make them more appealing to investors. HESAA is also discussing with its financial experts whether it would be appropriate to pledge additional reserves to the trust estate in order to further enhance bond parity, and obtain better interest rates on the bonds. This in turn would result in lower interest rates to students. We are also investigating with the Treasurer and the Attorney General's Offices the possibility of utilizing a surety bond in place of a funded debt service reserve fund, which would free additional funds within the issue to utilize for loans and again lower the interest rates we will have to charge to borrowers. Approval of the potential use of a debt service surety bond was included in the revised resolution circulated earlier today.

This resolution delegates to the Chairperson, Vice Chairperson, Secretary –Treasurer, Executive Director, Chief Financial Officer or other authorized representative or designee of the Authority the power to modify and approve the final structure and interest costs of the bonds.

In conformance with Executive Order 26 (Whitman), the bonds are being issued through a negotiated sale. Because of the complexity of the underlying student loans credit which secure the bonds, the size of the issue, and very difficult market conditions, a negotiated sale should result in better pricing for the bonds than would be obtained from a competitive sale.

Bond Counsel will now review the Bond Resolution.

Jerry Ostow stated that Mr. Hutchins gave a very thorough summary that the main differences in this Resolution from year's past are that this year we are executing a new indenture of trust. These bonds will not be sold under the indenture of 1998. We are approving up to \$400 million in bond sales at an interest rate not to exceed 7% with a maturity date no later than December 2035 with bonds sold at an amount not to exceed par.

Morgan Stanley is the Investment Manager, Wells Fargo is serving as Trustee and we are exploring a surety bond in lieu of a cash debt service reserve.

Nancy Style asked whether \$400 million is larger than last year's bond issuance. Mr. Hutchins responded that last year's bond issuance was \$275 million; however, we relied on \$75 million from previous year's bonds. The entire \$350 million was during this academic year. We need a \$400 million dollar ceiling because demand for the NJCLASS Loans is growing due to the fact that NJ is one of the few states still offering alternative loans.

James Avery stated that 56,000 student loans are not in default and questioned whether in the current market the number of defaults could increase impacting the reserve fund. Mr. Hutchins responded that the surety bond is like an insurance policy which only kicks in if the debt service reserve needs to be drawn upon. We are currently working with Treasury and the Attorney General's office to ensure that statutory requirements of the moral obligation make-up provision match up with the mechanisms of a surety bond. HESAA has a lot of mechanisms in place to ensure that loan defaults remain low such as requiring good credit ratings and co-signers. We also have a number of statutory tools to enable us to collect from borrowers resulting in high recovery rates. We have been explaining HESAA's mechanisms to the rating agencies and bond insurers. HESAA's unique business model leads to low default rates and high recovery rates.

Dr. Kesselman inquired as to whether the cost of the surety bond would be included in the \$400 million bond issuance. Mr. Hutchins responded yes that would be part of the trust estate. Dr. Kesselman further questioned as to whether the NJCLASS interest rate had yet been determined. Mr. Hutchins responded that it is too premature and that we will be able to set the rate after we determine the bond interest cost rates. However, due to current market conditions it is anticipated that the rates will be higher this year. HESAA is hoping to minimize any increase in the rates. Dr. Kesselman asked if we were eliminating swaps with the bond deal and going back to fixed rates. Mr. Hutchins responded that we are using a fixed rate bond due to the current market conditions. Dr. Kesselman agreed that swap rates are very volatile and not feasible in current market conditions.

Nancy Style asked whether the surety bond would cost more or if there would be no difference. Mr. Hutchins explained that there is a difference because HESAA would have to fund a debt service reserve by setting money aside that we could not lend. Therefore, to meet the cash flow spread requirements, HESAA would have to charge a higher interest rate to the students. Ms. Style responded that means it would be less expensive to students with a surety bond.

Tabatha Ialacci requested clarification as to whether the 7% interest rate applied to students. Mr. Hutchins explained that the 7% interest rate discussed earlier was the interest for the bonds. Raymond Castor asked how far north of the 7% bond rate the student loan rate would be. Mr. Hutchins explained that the 7% rate is an upper ceiling and if this was the actual rate we would reconsider whether or not to sell the bonds because the interest on the loans would be 9% to 10%. Michael Angulo added that this is a ceiling and HESAA attempts to buy down interest rates whenever possible. We are hopeful that we will be able to sell the bond well below the ceiling.

Motion to approve the resolution was made by Ms. Wilma Harris and seconded by Dr. Harvey Kesselman. The motion was adopted unanimously by roll call.

#### ADJOURNMENT

Co-Chair Matos-Miranda announced the next HESAA Board meeting will be held on Wednesday, July 16, 2008 at 10:00 am. A motion to adjourn was made by Raymond Castor and seconded by Tabatha Ialacci.

The meeting adjourned at 3:25 pm.