

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

October 20, 2010

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on October 20, 2010 at 10:00 a.m. at the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esquire; Mr. Richard Garcia; Ms. Wilma Harris; Dr. Harvey Kesselman; Ms. Rossy M. Matos (teleconference); Ms. Jean McDonald Rash; Mr. Jonathan Nycz (teleconference); Mr. Warren Smith (teleconference); Ms. Nancy Style, Treasurer's Designee; Maria I. Torres; Ms. Kristy Van Horn and Mr. Wilmot Wilson, members.

ABSENT: Mr. Edward Graham and Mr. Julio Marenco.

CALL TO ORDER

Chair Garcia called the meeting to order at 10:05 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Garcia led those present in the Pledge of Allegiance.

Mr. Garcia welcomed the Board members and advised that because some members are participating via teleconference, Roseann Sorrentino will conduct a roll call for the resolutions.

Mr. Garcia welcomed David Reiner, Esq., from the Governor's Authorities Unit; Cheryl Clarke, Deputy Attorney General; and Rev. Michael Braden, St. Peter's College.

He advised that no members of the public have registered to speak.

Mr. Garcia asked Roseann Sorrentino to call the roll.

CONSIDERATION OF THE MINUTES OF THE JULY 22, 2010 MEETING:

A motion to approve the minutes of the July 22, 2010 meeting was made by Wilma Harris and seconded by Dr. Kesselman. The minutes were approved unanimously with one recusal, Maria Torres, who did not attend that meeting.

CONSIDERATION OF THE MINUTES OF THE SEPTEMBER 8, 2010 MEETING:

A motion to approve the September 8, 2010 minutes as vetoed by Governor Christie on September 17, 2010 was made by Jonathan Nycz and seconded by Dr. Kesselman.

Kristy Van Horn asked how Governor Christie's veto affects the vote and Michael Angulo explained that the approval acknowledges that the meeting took place and a veto occurred as well.

The minutes were approved unanimously.

REPORT OF THE BUDGET COMMITTEE AND RESOLUTION 12:10 ADOPTING A BOARD BUDGET POLICY STATEMENT FOR FISCAL YEAR 2012

Harvey Kesselman made the following presentation:

The budget committee of the HESAA Board met on October 5, 2010 to review FY 2012 Full-Time Tuition Aid Grant models reflecting various award parameters, as well as anticipated funding requirements for all other State-supported programs administered through HESAA.

The Board expresses gratitude to Governor Christie and the Legislature for their continued support of New Jersey's state grant and scholarship programs during these difficult economic times. Moreover, the Board, on behalf of the students and families served, also expresses appreciation for this on-going commitment. During the 2010-2011 academic year, the State's financial aid programs are making it possible for approximately 80,000 State residents to pursue a postsecondary education, ultimately benefitting New Jersey's economy.

The FY 2012 Board Budget Policy Statement reflects the Board's fundamental principles of promoting access and affordability to postsecondary education for New Jersey's residents through need-based student financial aid, merit-based scholarship and loan redemption programs. In developing this budget policy statement and its funding recommendations, the committee was mindful of the significant, on-going fiscal challenges facing the State of New Jersey. While the committee affirmed its commitment to advocate on behalf of students to achieve full funding of the full-time TAG Program in future years, its recommended funding levels reflect the State's economic circumstances.

The budget committee's funding recommendations are as follows.

Full-Time TAG Program

When the Board met in July 2010, the Full-Time TAG Award Table that was adopted set awards at a two-year lag compared to tuition for students demonstrating the highest need, less approximately 7.7%. Awards for all other TAG-eligible students were based on a four-year lag compared to tuition, less approximately 7.7%. It was necessary to reduce awards below a two- and four-year lag to remain within available resources, while recognizing a likely increase in the number of award recipients.

At its October 5th meeting, the budget committee reviewed the following FY 2012 Full-Time TAG models. In light of continuing strong demand for TAG, all of the models included funding for an additional 1,800 awards, for a total of 66,115 full-year equivalent awards.

Model 1.

- Awards for students with the highest need (NJEIs below 1500) were based on 2009-2010 tuition levels - a two-year lag compared to tuition
- Awards for all other TAG-eligible students were based on 2007-2008 tuition levels - a four-year lag compared to tuition

The projected cost of model 1 would be \$347.585 million and would require an additional \$50.706 million over FY 2011 resources.

Model 2 was based on the parameters in effect for AY 2010-2011.

- Awards for students with the highest need were based on 2009-2010 tuition levels – a two-year lag compared to tuition less an additional 7.7%
- Awards for all other TAG-eligible students were based on 2007-2008 tuition - a four-year lag compared to tuition less an additional 7.7%

The projected cost of this table would be \$320.869 million and would require an additional \$23.990 million over FY 2011 resources.

Model 3 was based on the parameters in effect from AY 2004-05 through 2009-10.

- Awards for students with the highest need were based on 2010-2011 tuition levels – a one-year lag compared to tuition
- Awards for all other TAG-eligible students were based on 2008-2009 tuition levels - a three-year lag compared to tuition

The projected cost to fund this table would be \$366.902 million and would require an additional \$70.023 million over FY 2011 resources.

Model 4.

- Awards for students with the highest need were based on 2010-2011 tuition levels – a one-year lag compared to tuition less an additional 7.7%
- Awards for all other TAG-eligible students were based on 2008-2009 tuition - a three-year lag compared to tuition less an additional 7.7%

The projected cost to fund this table would be \$338.706 million and would require an additional \$41.827 million over FY 2011 resources

In recognition of the continuing fiscal challenges facing the State, the committee feels it is unrealistic to request an increase of \$70 million to restore the full-time TAG award table to the historic one year/three year lag (model 3). However, it is important to recognize and address the

hardship students in the lowest socioeconomic group have experienced during the 2010-2011 academic year as a result of setting awards at a two-year/four-year lag less an additional 7.7%.

The committee feels that this can best be achieved through model 1, which sets awards at a two-year/four-year lag. It should be noted that the committee also carefully considered model 4, which would set awards at a one-year/three-year lag less an additional 7.7%. While model 4 would cost approximately \$8.9 million less than model 1, the vast majority of students would receive higher awards under model 1.

Accordingly, the committee recommends that HESAA's Executive Director, Michael Angulo, request the funding required for the Full-Time TAG Program to achieve the following:

- Maintain the two-year lag in award values for students demonstrating the highest need (NJEIs below 1500) by increasing awards to reflect 2009-10 tuition levels.
- Maintain the four-year lag compared to tuition by providing proportionate increases based on 2007-08 tuition levels for all other TAG recipients.
- Maintain the current structure of the TAG table by providing awards to students attending a postsecondary, for-profit, proprietary institution currently participating in the TAG Program that do not exceed the corresponding average award amount for State colleges or universities.
- Recognize a likely increase in the number of eligible recipients to include 1,800 additional new awards.

The projected cost to fund these award increases and provide for 1,800 additional new awards at these levels is \$347.585 million, an increase of \$50.706 million over FY 2011 resources.

Part-Time TAG Program for County College Students

The committee recommends \$12.557 million in funding for the Part-Time Tuition Aid Grant Program for County College Students. At this funding level, awards would be set following the same parameters as the full-time TAG table and anticipated program growth would be recognized. This represents an increase of \$2.946 million over the FY 2011 appropriation.

Coordinated Garden State Scholarship Program

Funding for freshman awards through the Coordinated Garden State Scholarship Program was suspended for the 2010-2011 academic year.

- The committee recognizes the importance of both the Distinguished and Urban Scholar Programs, but is especially concerned about the suspension of the Urban Scholar Program, since it serves students with demonstrated academic ability who reside in socioeconomically disadvantaged areas of the State. Historically, over 62% of students offered Urban Scholar awards accept these awards and attend New Jersey colleges and universities. In 2009-2010, approximately 2,300 students received Urban Scholar awards. Without this award, these students may not have been able to attend college.

The committee is recommending \$7.122 million in funding to restore Distinguished and Urban Scholar awards for freshmen and sophomores and continue awards to rising juniors and seniors. At this funding level, annual awards would remain at \$930.

If the State's fiscal constraints preclude funding the GSS Program at this level, the budget committee recommends that the Board include an alternate recommendation to fund all classes of Urban Scholars, at an estimated cost of \$2.3 million.

NJ STARS Program/NJ STAR II Program

In accordance with statutory requirements for these programs, HESAA staff projected the cost of the NJ STARS and NJ STARS II Program would be \$23.047 million in FY 2012, an increase of \$1.908 million over the FY 2011 appropriation.

The merit-based NJ STARS Program covers the cost of tuition for up to 18 college-level credits each term, less other State and federal grants and scholarships, for students who graduated from high school in 2010. NJ STARS also covers approved fees for students who graduated from high school before 2010.

NJ STARS II award values are based on a student's cumulative GPA and may be as high as \$7,000 annually, half of which is paid by the State and half by the four-year public college or university. The award is based on tuition and approved fees for TAG recipients and on tuition only for all other NJ STARS II students, after deducting all other State and federal grants and scholarships. To qualify for NJ STARS II, total family income must be less than \$250,000.

Budget Committee Discussion Regarding NJ STARS II Funding Recommendations

Committee members expressed concern that students who are not required to demonstrate financial need may be receiving NJ STARS II awards that could cover the full cost of tuition, while TAG recipients who have demonstrated financial need are currently receiving awards based on a two-year/four-year lag with an additional 7.7% reduction.

Since State resources are finite, the committee feels that funding the Coordinated Garden State Scholarship Program, and in particular, the Urban Scholars Program, is a higher priority than funding the NJ STARS II Program. At the end of my presentation, the committee would like to discuss the FY 2012 NJ STARS II funding recommendation with the full Board.

All Other HESAA Programs Funded through State Appropriations

The Board recommends funding the following programs as follows:

- **Dana Christmas Scholarships for Heroism**
This program did not receive an FY 2011 State appropriation but was funded through a private donation. \$50,000 in funding is recommended for FY 2012.
- **Survivor Tuition Benefits Program**
To fund all anticipated program participants, an FY 2012 appropriation of \$69,000 is recommended, an increase of \$31,000 over FY 2011.
- **Veterinary Medical Education Contract Program**

An FY 2012 appropriation of \$138,000 is recommended to meet obligations to rising juniors and seniors, a reduction of \$32,000 from FY 2011.

- **World Trade Center Scholarship Program**

The Chair of the WTC Board recommended that FY 2012 funding be restored to \$250,000, an increase of \$48,000 over FY 2011.

Dr. Kesselman stated that due to the elimination of the Coordinated Garden State Scholarship and OSRP program there are no merit based program for students who wish to enter the 4-year colleges directly. He stated his belief that the Urban Scholars program, which has a 62 percent yield of students accepting, should receive funding that would have gone to NJ STARS II. Dr. Kesselman explained that the Urban Scholars program services students with the highest achievement from socio-economically depressed districts in New Jersey, while NJSTARS II is an unfunded mandate to the public four year that provides up to \$7000 annually to students who have not necessarily demonstrated financial need, nor have performed at the same academic level as the Urban Scholars. Dr. Kesselman suggested forming a sub-committee to further discuss this issue. Wilma Harris agreed that these suggestions are consistent with HESAA's overall philosophy of access. She felt that Dr. Kesselman's proposal is consistent with this philosophy because a family that is making up to a quarter million dollars has greater opportunity to provide access for their offspring then those who have NJEI of 1500 or below.

Chairman Garcia announced that he will appoint an Ad Hoc Committee to discuss this issue.

Kristy Van Horn asked how many students are covered by the World Trade Center Survivor Scholarship Fund to which Fran Andrea responded that approximately 70 students receive a scholarship annually.

Fran Andrea advised the Board that the Board Budget statement as distributed needed to be revised to include the request for NJSTARS and NJSTARS II funding, as those areas had been left blank in anticipation of the Board's discussion.

Chair Garcia stated that the Board recommends increased funding to support all students who meet the eligibility requirements of the NJSTARS and NJSTARSII programs. The amended resolution was handed out to all Board members, and members of the public.

A motion to approve Resolution 12:10 as amended was made by Wilma Harris and seconded by Maria Torres.

The motion was passed unanimously with one recusal, Nancy Style.

Chair Garcia thanked Dr. Harvey Kesselman and Sherry Fox, Director of Grants and Scholarships, for all their hard work and commitment.

REPORT OF THE AUDIT COMMITTEE AND RESOLUTION 13:10 ACCEPTING AND ADOPTING THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS FOR FISCAL YEAR 2010

Wilma Harris made the following presentation to the Board.

In accordance with Executive Order #122, the Audit Committee met with Mercadien, P.C. auditors Warren Brody and Jill Ann Murphy on two occasions.

The Committee Met on July 22, 2010 following the regular HESAA Board meeting to discuss the planned scope and timing of the annual financial audit. At that meeting, they discussed with the auditors issues of particular interest to the audit committee as well receiving a detailed explanation of the anticipated audit.

The Committee met again, via conference call, on September 28, 2010 to discuss and review the audit reports. Prior to the meeting, Committee members were provided "Reports to the Audit Committee" and "Financial Statements" for NJCLASS/FFELP Loan Programs, Other HESAA Programs and Funds (which includes the following funds: NJCLASS Loan Reserve, FFELP Sponsor, Federal Collections Escrow, NJBEST Administration, NJ Governors World Class Economy Scholarship Program, NJCLASS Life of Loan Servicing, HESAA Capital Reserve) and the World Trade Center Scholarship Fund.

Mr. Brody and Ms. Murphy provided a detailed explanation of the "Reports" and the "Financial Statements". They answered any and all of the Audit Committee's questions, including a description of any changes in accounting practices that effect the statements.

Ms. Harris reported that no significant issues arose from the audits and that each financial statement presents fairly the financial position of the programs on June 30 2009 and 2010.

This is the final year of the Board's engagement contract with Mercadien, PC. The Audit Committee has asked HESAA staff to prepare a Request for Proposal based upon criteria developed by this committee and ask that the Chair appoint an RFP Evaluation Committee from members of the full Board.

Ms. Harris then introduced Mr. Brody and Ms. Murphy from Mercadien.

Mr. Brody reported that with regard to the Audit one cannot get a higher level of assurance. He stated that there were no findings, which means HESAA's internal controls are working effectively. HESAA's books and records are being kept up to date on a daily, weekly, monthly basis and at the end of the year things went very smoothly.

Ms. Murphy added that as part of the audit they test internal controls related to HESAA's financial reporting which sets the process of how all the numbers get generated and account balances get reconciled. They test that process and the internal controls related to compliance, which would be over the bond indentures or any program requirements with regard to the other HESAA programs or World Trade Center Scholarship Fund. Ms. Murphy stated that they did not have anything to report there. She said that Mercadien also confirmed all the significant account balances relating to each fund with the Trustees which gives third party evidence to support the numbers in the financial statements. Additionally, they made inquiries with HESAA employees

regarding any concerns they may have with regard to the financial reporting or compliance and nothing was brought to their attention.

A motion to approve Resolution 13:10 was made by Dr. Kesselman and seconded by Maria Torres.

At this time, Chair Garcia thanked Mercadien, the Audit committee and management for a great job.

Christy Van Horn asked about the next step to this process after approving this report, to which Gene Hutchins responded that the reports will be posted on HESAA's website and also submitted to the Department of Treasury.

The motion was passed unanimously.

Resolution 14:10 Appointing Special Counsel to a List of Attorneys to Assign Educational Receivables Files

Marnie B. Grodman made the following presentation to the Board.

Background

On September 17, 2010 HESAA issued an RFQ seeking proposals from qualified law firms to create a list of outside counsel to which HESAA can assign defaulted student loans and other educational receivables for collection. Additionally, the firms on the list will represent HESAA in contesting the dischargeability of a debtor from bankruptcy, in Administrative Wage Garnishment hearings and collection related appellate work. The term of the appointment will be for two years.

HESAA mailed the RFQ to the seven law firms currently providing these services for HESAA, posted the RFQ on HESAA's website and advertised the RFQ in the Trenton Times, Star Ledger, Courier News, and Home News.

HESAA received proposals from five law firms, three of which currently represent HESAA and two new firms. One of the proposals was deemed non-responsive as it was lacking responses to three of the sections of the RFQ.

Selection Process

An evaluation committee made up of HESAA's Acting Director of Legal and Governmental Affairs, Controller, Associate Director of Default/Collections, and Defaults/Collections Program Officer, met and reviewed each of the proposals.

The selection criteria for reviewing Collection Counsel proposals are as follows:

- Knowledge and experience of attorneys and firm in educational receivables collections, bankruptcy, and Administrative hearings and appellate work;
- The firm's recovery performance;

- Average time it takes the firm to liquidate debt;
- Resources of the firm;
- Approach to communication with HESAA; and
- Past experience of HESAA with the firm and/or attorneys.

The committee determined that if a firm achieved a minimum score of 400, meaning that it was deemed “fair” in all of the categories, then the firm would be recommended for placement on the list, contingent on the results of a site visit from HESAA’s Servicing & Collections and/or Audits and Quality Assurance staff.

As illustrated by the attached evaluation sheets, all of the firms with responsive proposals achieved the minimum score.

As HESAA currently engages Schachter Portnoy and Solomon & Solomon, HESAA staff has previously conducted site visits of these firms. Accordingly, based on the high scores of their proposals, and that they meet the requirements of the site visit, the evaluation committee recommends that both of these firms be placed on the list.

The other two firms, Krieg & DiBiase, LLC and Law Offices of Russell P. Goldman, PC, also met the minimum criteria established by the committee. As HESAA does not currently engage these firms, site visits will be necessary.

The purpose of the office visit of the potentially new law firm is to confirm that the representations made in the response to the RFQ are accurate. The visit will be performed by the manager in charge of the Servicing and Collections unit and the supervisor in charge of the Recovery Support section. Through the site visit, HESAA staff will be able to gain an understanding of the office organization and how the firm plans to handle the initial placement of files.

In order to pass the site visit the firm must be able to demonstrate that the facilities are secure, that there are computer system securities in place, that there are disaster recovery procedures in place and that the firm's computer systems have the capabilities to service HESAA's accounts.

At the conclusion of the visit, the staff members will prepare a document that summarizes the visit and denotes whether the firm passed. A copy of the visit notes will become a part of the law firm’s operational file maintained by the Servicing and Collections unit.

Because these Krieg & DiBiase and Russell P. Goldman exceeded the minimum score, it is recommended that the Board approve the placement of these two firms on the list, contingent on the firms passing the site visit from HESAA staff, with no further action necessary from the Board.

Once firms are placed on the list, HESAA staff will assign files to the firms based on the following criteria, as was specified in the RFQ:

- The background, qualifications, skills, and experience of the firm and its staff with specific reference to educational receivables collections practice;

- The firm's degree of expertise in all facets of providing legal services relating to educational receivables collections;
- The Authority's prior experiences with the firm, if applicable;
- The firm's recovery performance;
- The average time it takes the firm to liquidate debt;
- The firm's handling of customer service issues;
- The firm's familiarity with the work, requirements, and systems of New Jersey State Authorities and those of the Higher Education Student Assistance Authority; and
- Geographical location of the firm's offices; and
- With respect to educational receivable files, contingency rate.

Recommendation

It is recommended that the Board approve Resolution 14:10 Appointing Special Counsel to a List of Attorneys to Assign Educational Receivables Files. As specified in Resolution 14:10, it is recommended that Schachter Portnoy, L.L.C., Solomon & Solomon, PC, be appointed to the list without a new site visit and Krieg & DiBiase LLC and the Law Offices of Russell P. Goldman PC be appointed to the list contingent on passing a site visit by HESAA staff, with no further action necessary from the Board.

A motion to approve Resolution 14:10 was made by Wilma Harris and seconded by Nancy Style.

Dr. Kesselman questioned the costs of these appointments. Ms. Grodman responded that the fees for most of the services were set by HESAA and have not changed. The contingency fee rates for federal loans are based on the federal collection rate, non contingency work is \$125 per hour, and firms were asked to propose a fee for non-federal educational receivables. They each provided different percentages. These rates will be one of the criteria in determining which firms on the list receive files. All of the proposals are within a range of 15 percent to 22 percent. Contingency rates are only one factor in determining which firms receive files, because the firm with the lowest contingency fee might have the lowest recovery rate.

Dr. Kesselman pointed out that one of the firms had a significantly lower score than the other three. Ms. Grodman explained that the evaluation committee set the floor of acceptable scores before scoring took place. She further explained how that particular firm is a brand new firm. The committee felt the firm deserved a chance on the list and that the attorney previously provided work on HESAA's matters as a paralegal at another firm. This firm will get a few files initially and based on the follow up reviews, will receive more files if it meets all of the evaluation criteria.

Ms. Harris questioned how a firm is removed from the list. Ms. Grodman explained that firms can be terminated if they do not comply with all requirements and that if they do not meet the evaluation criteria they will not receive additional files.

Maria Torres asked whether HESAA's default has rate increased, over the past and if so by how much. Gene Hutchins responded the default rates are very low. HESAA's net default rate is under 3 percent with a gross default rate at approximately 5 percent, placing HESAA's recovery rates in the range of 80 to 90 percent. Mr. Hutchins explained that collection attorneys are just one of tools HESAA uses for recovery. He further stated that HESAA is a model for the rest of

the country and other states are trying to model their programs after New Jersey CLASS including the back end collection tools.

The motion was passed unanimously.

EXECUTIVE DIRECTOR'S REPORT

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

HESAA thanks the Board Budget Committee for developing its recommendations. This was an extremely difficult and challenging situation. HESAA is facing a terrible scenario where students and their families are at their highest need for financial aid yet the State is facing an unprecedented economic crisis and, going into FY 2012, there is no indication that things will improve drastically so the Board's advocacy on behalf of students is a necessary and critical component as the State balances demand for financial aid with the overall fiscal condition that it is faced with.

Over the past year or so, staff discussed with the Board the adverse impact upon the Tuition Aid Grant program from changes made to the Free Application for Federal Student Aid (FAFSA), and the necessary steps HESAA implemented to control program costs and protect students from additional cuts to awards. As shown earlier the cuts to the Tuition Aid Grant (TAG) program that HESAA had to implement were a 7.7 percent cut and would have been far more severe had HESAA not collected the data elements this past year. Specifically, the US Department of Education's elimination of certain data elements used in the calculation of the TAG awards was originally estimated to cost an additional \$10 million in the first year, and at least that amount in subsequent years. A more recent snapshot reveals that the total may be closer to \$14.6 million. However, fall enrollment changes are still coming in from schools that could impact the final savings figure. Since HESAA is required to remain within appropriated resources, the actions taken to collect the additional data negated the need for further cuts to student awards and/or the need to request an additional state supplemental appropriation.

Staff initially anticipated that students would be able to link to the State specific questions directly from the USDE's FAFSA on the Web portal and seamlessly provide the additional data when they completed their FAFSA. Unfortunately, the USDE could not accommodate this request. As a result, beginning in 2008, HESAA developed the collection process internally. On numerous occasions, HESAA updated the financial aid community about the process and the need to collect data to determine State aid eligibility.

Though HESAA encountered some technical difficulties in early spring of this year, more than 227,000 students and parents have responded to the data request. The outreach efforts included notifying students through 14 e-mail campaigns, making more than 115,000 calls, and mailing more than 91,000 letters. Students were advised that they could provide the additional information through the on-line application, phone, e-mail or fax. To address the volume, HESAA added additional phone lines, and brought in temporary staff to assist with calls and data entry. Staff worked with schools and guidance offices by providing information to them for use to notify their students of this process. HESAA is grateful for the support and cooperation of those schools that worked with their students to assist in collecting the additional data. In the

end, HESAA accomplished the universal goal of holding students harmless from what could have been a double digit percentage cut to awards.

HESAA recently received notification from the US Department of Education that they are working towards allowing states to link directly to the FAFSA to gather the state specific information necessary to facilitate the calculation of state grant program eligibility. This link is what HESAA requested from the USDE a couple of years ago, and it is clear that New Jersey is not alone in requesting a process to effectively administer their grant and scholarship programs. Unlike, the federal government who absorbed an estimated 59% increase in Pell Grants during FY10 for New Jersey students (an over \$268.299 million increase), New Jersey's economy cannot sustain that level of growth in the TAG program. New Jersey simply cannot maintain a deficit in state grant programs. PA Staff anticipates working with the USDE towards implementing this process in time for the 2011 academic cycle.

The NJCLASS program continues to experience strong demand as reflected in the significant increase in application volume. To date, HESAA received more than 22,600 applications representing a 4.3% increase over last year at this time. However, the new truth in lending regulations requiring additional borrower steps in the finalization of loans has resulted in a lower number of finalized loans over the same time last year. As a result there are currently 948 loans pending borrower acceptance.

The new NJCLASS repayment option, offering an interest rate of 5.9% (a full two percentage points below the federal PLUS loan) and requiring immediate repayment of principal and interest over only 10 years, as compared to the standard 20 year repayment, makes this new option a very attractive option for families. Providing this savings in interest to families resulted in overwhelming and unanticipated volume.

Also, one of the existing NJCLASS loan options allowing borrowers to defer all payments of principal and interest until leaving school, experienced high demand. Though HESAA allotted a large amount towards the 10 year loan (\$30 million), and Option 3 (55% of available bond funds) the demand outpaced the allocation. As a result, earlier this month, staff notified the public and suspended those two options. Many of those applicants who were unable to secure the full deferral option, elected Option 2 (payment of interest only while in school), and benefitted from its lower interest rate. Staff anticipates that those remaining applicants who could not attend school without full deferral of principal and interest will be accommodated through funding made available by loan cancellations. Working with these students and their families was another unexpected initiative that HESAA staff took on this past year. This involved contacting approx 4,900 students/borrowers by telephone and personally consulting with them about alternative options. Staff continues to work one on one with those borrowers to make sure they have the funding they need.

During the July meeting, the Board was provided with a glimpse of how the Authority continues to do more with less. Since 2005, HESAA has lost 40 positions, or 19.5% of staff. This reduction is due to several factors such as the ongoing State hiring freeze, the 2008 Early Retirement Incentive Plan, and routine staff attrition. In addition, another 61 employees are eligible to retire (representing over 30% of staff). Yet, since just last fiscal year, the TAG program has grown by 7.9% and the NJCLASS program application volume has increased by 4.3%. In addition, the demand for HESAA's outreach programs and services continues to grow.

So far this year staff has presented to more than 214,000 students, parents, financial aid professionals and guidance staff, while also responding to nearly another 223,000 incoming calls and e-mails. While continuing to expand HESAA's technical capabilities, the need to ensure that adequate staffing to support NJ's students and institutions remains a critical factor. Mr. Angulo is working with the Governor's office to address critical vacancies.

Among the keys to HESAA's ongoing success is a strong, user friendly website. HESAA is updating the look and feel of the website to better support students and families. The site is designed to be student focused and will now provide information largely utilized by that constituent group. The site will take the students and parents from the college planning and application stage to understanding the federal and state aid programs available. Students and parents can then apply for their PIN and complete the FAFSA directly on the website. Moreover, students can readily find information to help them manage their loans or grants, pursue information on financial literacy and link to many resources not previously available through the site such as the USDE's MyFSA site which lets students view all federal sources of financial aid they have received. Enhanced materials have been added to help students and parents understand their loan repayment rights and responsibilities, helping to clarify a sometimes confusing process. The site will provide extensive information on HESAA's default aversion programs for students, high schools and institutions to utilize. Webinars and podcasts will soon be accessible through the site allowing customers to access important information in a timely manner. In addition, access to all of HESAA's applications, such as NJCLASS online, including e-signature, will continue to be available through this website to facilitate "one-stop" shopping. Financial aid administrators and K-12 personnel will also continue to find useful tools on the website, and will now have their own section of the website for targeted messaging and direct applications access making it easier for them to quickly locate the information they need. An enhanced shopping cart will offer a simplified process for ordering financial aid forms or publications. Users will be able to bookmark the HESAA website and use it as the portal to New Jersey departments or agencies, the USDE, NASFAA or directly to the FAFSA on the Web. Similarly, teachers and guidance counselors will have comprehensive information about all State and federal financial aid resources to help guide their students through the process. Guidance counselors can register for workshops, financial literacy support, and financial aid night presentations online.

To support this expanded website, the Authority has upgraded its technology infrastructure, and expanded bandwidth capacity. Staff is now testing the new website, and expects to launch it in the next few months.

Strengthening electronic and technology capabilities is critical as HESAA absorbs new program responsibilities. HESAA was recently designated by the Governor to administer the federal John R. Justice Grant Program. This program is intended to encourage qualified individuals to enter into and continue careers as prosecutors and public defenders. HESAA is working with the Office of the Attorney General, and the Office of the Public Defender to implement this program. As the program administrator, HESAA will collect and evaluate applications, comply with program requirements, and distribute approximately \$209,000 in federal grant funding to eligible candidates. The Authority is also responsible for Quarterly, Semi-Annual, and Annual performance reporting to the federal Department of Justice. Under the Program, eligible candidates will benefit from a payment made directly to the federal student loan lender in return for a 3-year service commitment. The program requires that the dollar amount of awards be split

exactly 50/50 with half of the grant dollars going towards eligible Prosecutors and half towards eligible Public Defenders. HESAA must ensure compliance with the statutory requirement that priority consideration be given to those with the “least ability to repay” their loans.

Also on the federal front, the Direct Loan Servicing RFP was issued by the US Department of Education last month. This request for proposals will allow organizations, like HESAA, to service at least 100,000 direct loan accounts on behalf of the federal government. HESAA is working with colleagues across the country to identify questions for clarification on various aspects of the RFP. What has been discussed is the need for the USDE to match loans with the corresponding students’ state of residence to facilitate the proper level of servicing. The USDE is also examining the range of guarantor services it will enter into through the Voluntary Flexible Agreements with guarantors. These services may include public awareness and outreach, financial literacy training and counseling, program oversight, and collection of defaulted federal loans.

Another matter staff is following closely on the federal front is the status of the exemption of tax-exempt bonds issued by student loan issuers from the Alternative Minimum Tax. Extending the exemption from the AMT is important to HESAA to market NJCLASS bonds to a wide range of investors who do not have to worry whether they would be liable to pay the alternative minimum tax. Competition among investors for HESAA’s bonds is instrumental in lowering the yields to be paid. Tax extender bills are currently before Congress, but action on these bills has been delayed until after the election.

The federal government is currently operating under a continuing resolution which does not contain funding to cover the anticipated Pell grant program shortfall for this year of approximately \$5 billion. No appropriations bills have been passed to fund the shortfall, and there is a good chance that the federal government may operate for the entire fiscal year under continuing resolutions.

A Notice of Proposed Rulemaking was issued by the US Department of Education regarding the proposed Gainful Employment regulations which remain under scrutiny. These regulations establish measures to ensure that certain postsecondary educational programs lead to gainful employment in recognized occupations and the conditions under which these programs will remain eligible for federal financial aid. The Secretary has proposed that the measures include repayment rates on federal student loans, the relationship between total student loan debt and earnings and in some cases, whether employers endorse program content. These regulations have the possibility of affecting Title IV eligibility for students enrolled in non-degree granting programs at all institution types, including post-graduate certification programs. The USDE received more than 90,000 comments on the Notice of Proposed Rulemaking and have decided to delay the implementation of the full package of regulations until 2011-12. The regulations are expected to be published sometime in November, according to the Department, but the implementation is not being mandated until July 2012. Campuses will also receive new program integrity rules that will revamp the federal verification process that currently takes place through the financial aid office. These rules will target verification more finely so as to relieve the burden on schools and students where possible, especially if families elect to allow the IRS to populate the income fields on the FAFSA on the Web. HESAA will be discussing this in detail with the aid community at the forthcoming NJASFAA conference scheduled in November.

During the month of September the NJBEST program increased its assets under management by 6.6 percent so the total amount of assets under management is currently \$2.53 billion, which reflects a 10.7 percent increase from the prior year. This is important news to HESAA. As families take responsibility and save for their children's education that will hopefully lower the burden on the TAG program and other State financial aid programs in the future. It will also help reduce the indebtedness that these children will have to take on down the road because their families are now saving for their education early on in their lives. In these economic times families are realizing that they cannot face the cost of higher education without taking on some responsibility as early as possible and starting to save for their children. Should these students choose to elect education in New Jersey, when they go to college they will be eligible for up to a \$1500 scholarship that HESAA will provide through this program.

With the support of the NJ Department of Education, Staff has begun this year's round of guidance counselor training sessions through the Secondary School Counselor Training Institute. Designed to educate guidance counselors on the financial aid application process and program updates, this service has been offered by HESAA for the last 30 years. The training sessions include a general update on federal and state changes, instruction for counselors new to financial aid, and information for more experienced counselors including real life case studies. Many states do not offer programs to support guidance counselors in this area and, in some states, high schools pay exorbitant fees to consultants to help their families apply for financial aid. HESAA offers this service at no cost and this year nearly 1,000 participants have registered for the eight workshops being held around the state.

Dr. Kesselman asked what additional steps students need to take to apply for NJCLASS.

Joel Mayer, Chief Compliance Officer explained that the federal Truth in Lending Act requires lenders to provide additional information allowing consumers to compare different lending products. He further explained that there are additional procedural requirements. Gene Hutchins, Chief Financial Officer added that there is a 30-day cooling off period, which used to be 3-days. Fran Andrea, Chief Operating Officer, added that the family has thirty days to accept the loan offer, but may do so earlier.

Dr. Kesselman stated he does not think enough people realize that HESAA has been working at a substantial disadvantage with the number of employees at a time of tremendous increase in the interest of the people HESAA is serving and asked what percentage of the workforce is actually paid for with state funding.

Michael Angulo responded that HESAA is essentially 98 percent self funded at this time and after the FY2012 budget it will be closer to 100 percent.

Dr. Kesselman questioned if the State hiring freeze precluded HESAA from hiring employees even though the resources are there. Mr. Angulo responded that HESAA abides by all requirements.

Christy Van Horn questioned the nature of the specific proposals to the Governor's Office regarding hiring more staff as well as the pace of the discussions. Mr. Angulo responded that HESAA has targeted critical vacancies internally and are discussing those specific positions with the Governor's Office. Mr. Angulo explained that there is a large potential talent pool out there

that are interested to help HESAA fill those critical vacancies. Mr. Angulo further stated that he typically has conversations with the Governor's Office on a weekly basis and that HESAA has currently been permitted to fill the position of the Director of Audits which was recently vacated, because the USDE recruited HESAA's Director.

Ms. Van Horn asked if the fact that HESAA is 98 percent self funded is helpful in the discussions, to which Mr. Angulo responded it is helpful because then the State does not incur an additional cost for bringing in new employees or an additional pension burden because HESAA does not participate in the State PERS system.

Wilma Harris asked whether HESAA anticipates lifting the suspension of option 1 and 3 repayments for NJCLASS. Mr. Angulo responded it was the 10-year option and Option 3 repayment that were suspended and that the funding for those programs has been exhausted for this year. Mr. Angulo explained that HESAA is limited by the Bond Indenture as to how much money can be allocated towards Option 3, which is full deferral during school, and the amount set aside for the 10-year option was a significant, \$30 million. Setting aside sufficient funds is a consideration discussed during each bond cycle.

Wilma Harris asked with regards to the more than 227,000 students and parents who have responded to requests for data, from how many people was the information requested? Fran Andrea responded that there were 450,000 total applications, but that HESAA did not require additional information from all of the applicants.

NEW BUSINESS

Christy Van Horn asked, how the Governor's veto of the September 8, 2010 Board meeting effected the status of HESAA's relationship with Pashman Stein. Michael Angulo responded that staff is currently working with the Governor's office, the Attorney General's office and the law firm to resolve this issue.

Ms. Van Horn raised concerns that the OIG report with its errors is on a website that is no longer maintained because that entity has been eliminated. Ms. Van Horn made a motion that HESAA work with the appropriate parties to establish a hyperlink to the website that contains the OIG report with a formal response to the OIG report and the documentation and explanation that was prepared for HESA's future investors.

Mr. Angulo responded he would have to speak with the appropriate individuals in the Governor's Office to find out if this request is feasible.

Ms. Van Horn amended her motion to read that "HESAA work with the appropriate parties to explore establishing a hyperlink to the website containing the OIG report on HESAA and that the hyperlink would provide HESAA's formal response and any documentation as well as the explanation that was prepared for potential investors."

The motion was seconded by Dr. Kesselman. The motion was passed unanimously with one recusal, Nancy Style.

ADJOURNMENT

Mr. Garcia announced there will be a Special Teleconference Board meeting on November 23, 2010 at 2:30 pm. The next regularly scheduled Board meeting is January 25, 2011. A motion to adjourn was made by Dr. Kesselman and seconded by Ms. Harris.

The motion to adjourn passed unanimously.

The meeting adjourned at 11:35 am.