Minutes

Montana Board of Regents and Montana Higher Education Student Assistance Corporation (MHESAC) Board Joint Meeting
Great Falls, MT 59405
July 8, 2008   6:30 PM

a. Convening of Boards and Introductions:
   MHESAC Chair Fred Flanders & Board of Regents Chair Stephen Barrett

Steve Barrett opened the meeting. He introduced Student Regent Mitch Jessen, who will also be member of MHESAC.

Attendees:
Stephen Barrett, Chair Board of Regents and MHESAC board member
Clay Christian, Vice Chair Board of Regents
Lila Taylor, Regent and MHESAC board member
Lynn Hamilton, Regent
Todd Buchanan, Regent
Mitch Jessen, Student Regent and MHESAC board member
Fred Flanders, Chair of MHESAC
Mark Semmens, MHESAC
Bill Thomas, MHESAC
Sheila Stearns, Commissioner of Higher Education
Cathy Swift, OCHE Legal Counsel
Mick Robinson, OCHE, Deputy Commissioner of Fiscal Affairs
Bruce Marks, OCHE, Director Montana Guaranteed Student Loan
Alan Peura, Legislative Analyst
Pam Joehler, Legislative Analyst
David Ewer, Governor’s Budget Director
Jan Lombardi, Governor’s Office
Regent Janine Pease was excused.

b. Final BOR Resolution, April 29, 2008 ITEM 140-102-R0708 – Regent Barrett

Regent Barrett explained that this is the final version of the resolution adopted by the BOR on April 29, 2008, subject to language clarifications directed by the board.

c. Board of Regents Student Loan Task Force Recommendations:

Regent Barrett explained the proposed changes to the Task Force recommendations adopted by the board at the March 5-6, 2008 meeting, ITEM 140-102-R0708 which provided clarification. These revisions have been proposed by the MHESAC board and have been discussed on several occasions.
Regent Taylor moved approval of item c. Motion passed 6-0.

d. Implemented Status of Student Loan Task Force Recommendations – Mick Robinson, OCHE

Mick Robinson gave an update on the Student Loan Task Force Recommendations. Many of the recommendations deal with communication and volume cap. Mr. Robinson proposed a report by MHESAC at the September Board of Regents meeting. He recommended discussing the seven volume cap recommendations. He stated there was a request by the Student Assistance Foundation (SAF) board for a joint meeting with the Board of Regents (BOR) leadership and SAF board leadership to discuss specific issues regarding the Student Assistance Foundation.

Regent Barrett requested an update on the task force recommendations at each Board of Regents meeting.

There was discussion regarding persistent confusion on the relationship between OCHE, Montana Guaranteed Student Loan Program (MGSLP), SAF, and MHESAC. Part of the confusion is because there are regents serving on both the SAF and MHESAC boards.

There was discussion of the nature of the partnership between the BOR and MHESAC. Mark Semmens agreed there is a strong partnership between the groups, however there are legal separations and distinctions.

Extensive discussion followed on the following points:
- Support for the task force recommendations.
- The importance of communication between OCHE, MHESAC and SAF.
- Mutual dedication to serving students.
- Some disagreement on the relationship and partnership between MHESAC and BOR.
- Questions regarding non-taxable bonds.
- The importance of the national market to the success of the student loan industry in Montana.
- The fact that SAF goes into the national market to acquire loans and makes the decisions on the acquisition of the loan assets.
- The benefit of the non-Montanan loans, which is to improve the overall margin in MHESAC.
- Clarification that the Montana Student Loan Foundation (MSLF) is the independent entity that holds the loans temporarily.
- The careful analysis by MHESAC staff of the loan acquisitions.
- The growth and leveraging of MHESAC and the proper management of growth.
- Necessity for respect for the quality of the people on the MHESAC and SAF boards and for their use of rational and balanced methods of making business decisions.
- The MHESAC business plan.
- Concern for Montana University System students.
• Whether MHESAC should be able to determine the limits of taxable bonding solely by itself.

Bonds:
• Regent Buchanan stated MHESAC was the designee to be able to issue the bonds for student-loan capital.
• Budget Director Ewer thought state agencies had a limit on the amount of taxable bonding they could issue.
• Mark Semmens said the limit is how much the market could accept.

In response to concerns of Mr. Ewer regarding the proposed $900 million Sallie Mae loan portfolio MHESAC was considering in the fall of 2007, and public vetting of that decision, Mr. Semmens clarified that the MHESAC Board would have approved or denied the transaction had the proposed acquisition not fallen apart. Acquisitions of this nature require board approval. The board did not take action only because it never got to the point where it would be ready for a board decision.

Mr. Stipcich clarified that those loans would not have been guaranteed by the Montana Board of Regents or by Montana Guaranteed Student Loan Program.

Mr. Semmens clarified that loan acquisitions are financial assets and that the business decision is at what price MHESAC is willing to purchase the loans. The synergy begins with MHESAC, who originates the requisition of the loan portfolio. The decisions are based on what makes economic sense. SAF provides the servicing. Nationally, SAF provides outstanding service. MHESAC staff analyzes the pricing to assure they are going to be profitable loans. MHESAC makes a small profit on the loan itself and also achieves great efficiencies with the servicing costs of the loans. He stressed the point that there is very careful analysis by staff. Decision starts with what economics they are dealing with. Once economic parameters have been set, then the staff can start negotiating. The servicing side is SAF. MHESAC determines the economics on the purchasing side. SAF board makes the decision on what the economics are on the servicing side.

Mr. Stipcich clarified that the MSLF board’s primary decision is what financing is available to have in place to support the loans in the warehouse. MSLF makes recommendations back to the SAF board. Item 10 of the task force recommendations states that the decision then goes back to the BOR for input since it affects MHESAC.

Mr. Ewer said the Schweitzer administration does not have an official position on this.

Chair Flanders noted there has been and continues to be some concern on leverage. However, as MHESAC looked at competitors in the market, they relied on the analysis work and the overall market for their bonds, he became comfortable that they hadn’t reached the level of leverage that would jeopardize MHESAC.

Mr. Semmens said there are 3 limits on the business decisions MHESAC makes:
1. The market
2. The advice of experienced and qualified advisors, and
3. Trusting that MHESAC and SAF have qualified staff and board members.

e. Update on Student Loan Availability for FY08-09 and Department of Education Plan for FY08-09 – Bruce Marks, Guaranteed Student Loan Program, OCHE

Bruce Marks explained that federal student loans are currently being processed in Montana. For the first time, the financial aid offices are sending the information without the lenders listed. Every loan that MGSLP guarantees comes from an individual borrower application. The access of student loans for the upcoming academic year is not a big issue. Congress passed legislation, H.R. 5715, part of which dealt with the “Lender of Last Resort”, which is what affects MGSLP the most. The lender of last resort is currently MHESAC. If MHESAC cannot or chooses not to be the Lender of Last Resort, MGSLP becomes the Lender of Last Resort, by requesting advance funds from the US Department of Education. Mr. Marks noted that prior legislation, in combination with H.R. 5715, has resulted in an increase to Pell Grant amounts and a reduction of interest rates for certain student loans.

Mr. Semmens added the reason Montana in good shape is because MHESAC rated well financially in terms of the national market and because MHESAC was one of only three entities nationwide who got their financing in place for 2008-09 before the market collapsed.

f. MHESAC Update – Fred Flanders and Jim Stipcich, President of the Student Assistance Foundation

g. Update on 2009 Legislative Bill Draft Requests – Cathy Swift, OCHE

Cathy Swift, OCHE legal counsel, told the group OCHE had looked into requested bill draft legislation that is currently in. There are three bill requests to revise volume cap, however, the detailed Information on the bills is not available yet.

There was discussion of possible legislation to limit the issuance of taxable bonds by MHESAC, as mentioned by Mr. Ewer. Mr. Semmens stated the importance of working with the executive branch and cautioned the group against stating a limit in statute because circumstances change over time and statutory limits become outdated. It was noted by Mr. Robinson that the Taskforce recommendations include constraints on the issuance of taxable bonds without setting specific limits.

Regent Buchanan said the public ability to weigh in on issues is important to him. Public access to MHESAC meetings would take care of the majority of his concerns.

Regent Barrett stressed caution in creating too many checks and balances and added that MHESAC was getting funding for the loans from outside entities, with no obligation to Montana. He noted the more the state reviews MHESAC, the more likely it is to share any liability.

Regent Buchanan encouraged further dialogue. There was no public comment.
Meeting adjourned at 8:50 PM.

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Sheila M. Stearns
Commissioner of Higher Education and Secretary to the Board of Regents

Stephen Barrett
Chair, Board of Regents