

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Bond Committee Meeting  
December 15, 2011  
The Hartford Club  
46 Prospect Street Hartford, Connecticut

Authority Members Present: Michael E. McKeeman, Chair; Steve Kitowicz (for Ben Barnes); Sarah Sanders (for Denise Nappier)

Authority Staff and Advisors Present: Judith B. Greiman, Executive Director; Samuel E. Rush, Deputy Director; Judith Blank, Day Pitney (General and Bond Counsel); Christine Doyle, PFM (Financial Advisor); Jeffrey Wagner and Gary Wolf, RBC Capital Markets (Underwriter)

A quorum being present, the Chairman called the meeting to order at 1:10 p.m.

Ms. Doyle gave a presentation on finance and operation concerns facing the Authority (A copy is attached to and becomes a permanent part of these minutes.)

Ms. Greiman reported that CHESLA's 1998 and 2000 series GIC provider, Societe Générale, had been downgraded by Moodys. Following committee discussion, Mr. Sanders made a motion asking Societe Générale to collateralize the SCRF and Revenue account GIC investments. Seconded by Mr. Kitowicz, the motion passed unanimously

Mr. Wagner provided an update on the conversations with MBIA regarding the Authority's ability to obtain the release and utilization of excess equity from the 2003 resolution trust. He indicated that he has not received an affirmative answer from MBIA and that a 1.8 coverage marker had been discussed and that he will follow up the marker coverage conversation with a formal letter of understanding with MBIA.

Ms. Greiman reported that servicing costs associated with late borrower payments have been incurred by the trust for years without assessing any late fee penalties on the borrower. She noted that Firstmark indicated some of its clients do pass along late fees to past due borrowers. Ms. Greiman stated that this is a topic that may need to be considered during the next revenue bond deal.

Ms. Greiman reported that the past few bond deals had cash flow projections utilizing much smaller administrative fee draws than what the Authority has historically pulled. She stated that in order to avert a draw on SCRF in the projections it will be necessary to scale back the Authority's administrative fee draw on the 1990 resolution trust from 60 basis points to 30 basis points per annum. Mr. McKeeman made a motion to scale back the administrative fee draw on the 1990 resolution trust from 60 basis points to 30 basis points per annum. Seconded by Mr. Kitowicz, the motion passed unanimously.

Mr. Wagner provided an update on the status of the Authority's opportunity to refund a portion of its bonds within the 1990 resolution trust. Following committee discussion Ms. Sanders made a motion to recommend refunding portions of bonds within the 1990 resolution trust with expectations of at least 3% savings and increasing the Authority's cost contribution to \$175,000. Seconded by Mr. Kitowicz, the motion passed unanimously.

The meeting adjourned at 11:23 a.m.

## **CHESLA Bond Subcommittee: December 15, 2012**

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### **Agenda**

- 1. 1990 Trust Condition & Loan Originations**
- 2. Liquidity in 1990 Trust**
- 3. Administrative Draw**
- 4. Current Refunding Opportunities**
- 5. 2003 MBIA Trust and Captive Funds**
- 6. New Trust for CHESLA**
- 7. Lending Market Environments**
- 8. Decisions for the Authority**



## **1. 1990 Trust Condition & Loan Originations**

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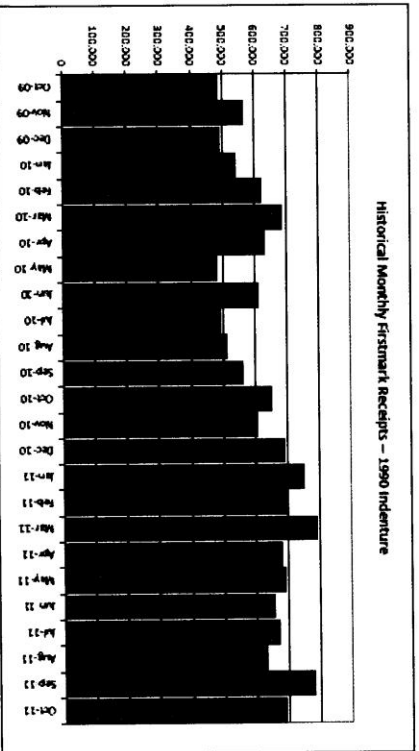
- **The 1990 Trust's financial condition has been impacted by slower than projected origination of the 2010 proceeds**
  - Loan Originations are approximately \$20 million behind original projections
  - Future value difference in loan income for the Trust is \$2.4 million
- **Slower originations are especially impactful for the Trust since the investment earnings on the lendable proceeds are extremely low**
- **Slow originations are linked to several factors:**
  - Federal competition
  - Impact of federal regulations on Financial Aid Officer processes
  - General marketing efforts
- **CHESLA Operational Implications of 1990 Trust Condition & Loan Originations**
  - High priority on all short term marketing efforts
- **CHESLA Policy Implications of 1990 Trust Condition & Loan Originations**
  - Broad and Strategic marketing of the CHESLA Loan
  - Timing of Future Bond Issues vs. Traditional CHESLA timing
    - Remaining \$20 million likely adequate for originations through 2012
    - CHESLA should consider issuance on different timing schedule than previous borrowings

## 2. Liquidity in 1990 Trust

- In spite of slow originations, liquidity in the 1990 Trust appears adequate for 2012
- Because of the larger debt service bump in 2012, CHESLA has been monitoring the Trust with care and is currently satisfied that the 1990 Trust has adequate liquidity over the coming year
  - CHESLA will not plan on a mandatory redemption on May 15, 2012

### CHESLA Operational Implications of Liquidity in 1990 Trust

- No May redemptions unless November 2012 funds available
- CHESLA Policy Implications of Liquidity in 1990 Trust
  - Continue close monitoring of portfolio condition



Revenue Fund Cash on Hand 11/30/11	4,035,815
Less: 5/15/12 Interest Payment	(1,078,468)
Plus Loan Receipts:	626,469
Average Monthly Receipts	6,891,161
Times: 11 months	907,884
Plus Available Capitalized Interest:	(260,769)
(Equals 6 months' interest on 2010 bonds)	(137,500)
Less Expenses:	10,549,123
Full Year Admin Draw @ 60 bp	
Trustee Expenses	
Equals: Cash Available on 11/15/12	
Less 11/15/12 Debt Service:	(1,878,468)
Interest Payment	(5,189,090)
Principal Payment	(7,058,468)
Equals: Expected Cash Excess	3,490,655

- Does not include investment income





## **4. Current Refunding Opportunities**

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- **At current interest rates, current refunding of 1999 and 2001 bonds saves about \$510,000 on a present value basis and a net basis (after support for transaction costs)**
  - 4% savings using a benchmark 5% discount rate
  - Municipal yields have dropped slightly since September 2011
- **Refunding of 2000 bonds increases savings by an additional \$90,000 on a PV basis**
  - However, 2000 bonds may want to be considered as future source of funding for a new trust (see later)
  - Recent GIC downgrade may also influence refunding decision
- **Refunding results vary with refunding bond structures**
  - Current savings structure is front-loaded
  - Debt Service does not increase in any year
  - Refunding may reduce the SCRF requirement
- **Team evaluated refunding opportunities in light of existing investment agreements**
- **Team evaluated defeasance opportunities**
- **CHESLA Operational Implications of Current Refunding Opportunities**
  - A refunding process would take 6- 8 weeks
  - Some discussions with investment providers needed
- **CHESLA Policy Implications of Current Refunding Opportunities**
  - Value of savings to CHESLA



## Summary of Refunding Results

- The table below highlights the results of refunding the Series 1999A and 2001A Bonds
- CHESLA would achieve present value savings of 4.04% of the refunded par

### Series 2012 Refunding of Series 1999A & 2001A Bonds

Dated Date	2/17/2012
Par Amount	\$13,320,000
Par Amount of Refunded Bonds	\$12,830,000
True Interest Cost	3.72%
Average Life	3.47
Average Coupon	2.69%
Average Coupon of Refunded Bonds	5.18%
Present Value Savings <sup>1</sup>	\$517,862
PV Savings as a % of Par	4.04%
Average Annual Savings	\$51,786
Fiscal Year 2013 Savings	\$507,688
Gross Dollar Savings	\$527,917

<sup>1</sup>. Assumes discount rate of 5.00%.



## Summary of Refunding Results

- The table below highlights the results of refunding the Series 1999A and 2001A Bonds as well as the 2012 – 2016 maturities of the Series 2000A Bonds
  - CHESLA would achieve present value savings of 4.12% of the refunded par

### Series 2012 Refunding of Series 1999A, 2000A & 2001A Bonds

Dated Date	2/17/2012
Par Amount	\$15,265,000
Par Amount of Refunded Bonds	\$14,685,000
True Interest Cost	3.62%
Average Life	3.36
Average Coupon	2.66%
Average Coupon of Refunded Bonds	5.19%
Present Value Savings <sup>1</sup>	\$605,237
PV Savings as a % of Par	4.12%
Average Annual Savings	\$60,524
Fiscal Year 2013 Savings	\$591,886
Gross Dollar Savings	\$616,463

<sup>1</sup>. Assumes discount rate of 5.00%.





## **5. 2003 MBIA Trust and Captive Funds**

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- **2003 Trust is insured by MBIA and was structured to permit the release of excess funds with MBIA permission**
  - 1990 Trust does not permit the release of funds
  - MBIA no longer has insurance value and is essentially in “wind-down” mode
- **Coverage ratio on the 2003 Trust is about 1.08x**
  - In theory, substantial cash could be released from the Trust and coverage of 1.03 x could be maintained in the 2003 Trust
- **CHESLA could use released funds from 2003 Trust**
  - As equity for a new Trust with modern, flexible terms
  - As support for operations or the building of organizational reserves
- **RBC has approached MBIA regarding the release of excess funds**
  - MBIA has indicated that such a release is highly unlikely in the foreseeable future
- **CHESLA Operational Implications of MBIA Situation**
  - Need to find other sources of equity for any future new Trust
- **CHESLA Policy Implications of MBIA Situation**
  - Can CHESLA develop an alternative Lending and Security Structure?

## **6. New Trust for CHESLA**

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- **It would be highly desirable for CHESLA to issue any new bonds under a new Trust**
  - Issuance is still possible under the 1990 Trust, but restrictions are significant
  - No release of funds permitted and certain rating agencies prescribed
- **What would a new Trust look like and how could it be started?**
  - Potential senior/subordinate structure
- **CHESLA Operational Implications of New Trust for CHESLA**
  - Operational efforts to build equity and reserves
- **CHESLA Policy Implications of New Trust for CHESLA**
  - Continued Exploration of Alternatives to 1990 Trust
  - Long term implication of Issuance under 1990 Trust
  - Policy process for considering new Trust

## **7. Lending Market Changes**

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- **Dynamics in the broader lending and capital markets have always influenced the CHESLA loan program**
  - Competition from Federal lending and from private lenders
- **Federal actions regarding abuses from private lenders has influenced behavior of Financial Aid Officers**
  - Continued scrutiny likely with new federal Consumer Financial Protection Bureau
- **Potential political developments that may impact the bankruptcy protection of student loans**
- **U.S. News college rankings of student loan treat parent debt and student debt differently**
  - CHESLA loan is considered student loan
- **CHESLA Operational Implications of Lending Marketing Changes**
  - Develop deeper communication and education of FAO
  - Communicate with U.S. News
- **CHESLA Policy Implications of Lending Market Changes**
  - Implications for future volume
  - Alternative marketing strategies

## **8. Decisions for the Authority**

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- Should the Authority proceed with a refunding ?
- What should be the revised level for the Administrative Draw?

Approved FY 2011 Compared to Proposed FY 2012  
 CHESLA Budget and Plan of Operations:

A. Operating Budget  
 ORIGINAL

	Proposed FY 2012
Admin. Fees 1990 Bond/Loan Program (1)	\$0
Admin. Fees 1991 Bond/Loan Program (2)	\$0
Admin. Fees 1993 Bond/Loan Program (3)	\$1,500
Admin. Fees 1994 Bond/Loan Program (4)	\$3,100
Admin. Fees 1996 Bond/Loan Program (5)	\$4,500
Admin. Fees 1998 Bond/Loan Program (6)	\$5,900
Admin. Fees 1999 Bond/Loan Program (7)	\$14,900
Admin. Fees 2000 Bond/Loan Program (8)	\$28,000
Admin. Fees 2001 Bond/Loan Program (9)	\$42,600
Admin. Fees 2003 Bond/Loan Program (10)	\$111,000
Admin. Fees 2005 Bond/Loan Program (11)	\$176,100
Admin. Fees 2006 Bond/Loan Program (12)	\$183,000
Admin. Fees 2007 Bond/Loan Program (13)	\$178,800
Admin. Fees 2009 Bond/Loan Program (14)	\$128,000
Admin. Fees 2010 Bond/Loan Program (15)	\$74,100
Interest Earnings (16) May 31, 2011	\$5,500
*COBRA Reimbursement (S.Hardin - Med/Dental)(17)	\$12,748
<b>Total Revenues</b>	<b>\$370,748</b>

	Proposed FY 2012
Personnel	
Salary & Benefits	\$188,450
Soc. Sec./Medicare/WComp	\$14,376
*COBRA (S.Hardin - Med/Dental)	\$5,405
Non-Personnel	
Accounting Services (Beers Hammenan - Yr 3 of 3)	\$30,500
Audit (Bum Shapiro - Yr 1 of 3)	\$33,000
Computer Access/Special Reports	\$3,200
Contingency	\$10,000
Gear-Up	\$0
Insurance - Directors & Officers Liability	\$9,000
Insurance - Surety Bond	\$800
Legal Fees (Day Pitney, Gen. Counsel - Yr 1 of 3)	\$80,000
Marketing	\$35,000
Office Exp. (rent, phone, postage etc)	\$33,000
Special Project-Early College Awareness	\$0
Staff Services - CCIC	\$106,000
Subscriptions/Memberships	\$14,000
Travel/Meetings	\$9,000
Web Design	\$5,500
<b>Total Expenses</b>	<b>\$579,232</b>
<b>Total Revenues Over (Less Than)</b>	<b>\$391,516</b>
<b>Total Expenses</b>	<b>\$391,516</b>

Approved FY 2011 Compared to Proposed FY 2012  
 CHESLA Budget and Plan of Operations:

A. Operating Budget

	Proposed FY 2012
Admin. Fees 1990 Bond/Loan Program (1)	\$0
Admin. Fees 1991 Bond/Loan Program (2)	\$0
Admin. Fees 1993 Bond/Loan Program (3)	\$1,500
Admin. Fees 1994 Bond/Loan Program (4)	\$3,100
Admin. Fees 1996 Bond/Loan Program (5)	\$4,500
Admin. Fees 1998 Bond/Loan Program (6)	\$4,450
Admin. Fees 1999 Bond/Loan Program (7)	\$7,450
Admin. Fees 2000 Bond/Loan Program (8)	\$14,000
Admin. Fees 2003 Bond/Loan Program (9)	\$21,300
Admin. Fees 2005 Bond/Loan Program (10)	\$111,000
Admin. Fees 2006 Bond/Loan Program (11)	\$176,100
Admin. Fees 2007 Bond/Loan Program (12)	\$183,000
Admin. Fees 2009 Bond/Loan Program (13)	\$176,800
Admin. Fees 2010 Bond/Loan Program (14)	\$84,000
Admin. Fees 2011 Bond/Loan Program (15)	\$37,050
Interest Earnings (16) May 31, 2011	\$5,500
*COBRA Reimbursement (S.Hardin - Med/Dental)(17)	\$12,748
<b>Total Revenues</b>	<b>\$822,493</b>

	Proposed FY 2012
Personnel	
Salary & Benefits	\$188,450
Soc. Sec./Medicare/WComp	\$14,376
*COBRA (S.Hardin - Med/Dental)	\$5,405
Non-Personnel	
Accounting Services (Beers Hammenan - Yr 3 of 3)	\$30,500
Audit (Bum Shapiro - Yr 1 of 3)	\$33,000
Computer Access/Special Reports	\$3,200
Contingency	\$10,000
Gear-Up	\$0
Insurance - Directors & Officers Liability	\$9,000
Insurance - Surety Bond	\$800
Legal Fees (Day Pitney, Gen. Counsel - Yr 1 of 3)	\$80,000
Marketing	\$35,000
Office Exp. (rent, phone, postage etc)	\$33,000
Special Project-Early College Awareness	\$0
Staff Services - CCIC	\$106,000
Subscriptions/Memberships	\$14,000
Travel/Meetings	\$9,000
Web Design	\$5,500
<b>Total Expenses</b>	<b>\$579,232</b>
<b>Total Revenues Over (Less Than)</b>	<b>\$243,261</b>
<b>Total Expenses</b>	<b>\$243,261</b>

Approved FY 2011 Compared to Proposed FY 2012  
 CHESLA Budget and Plan of Operations:

A. Operating Budget

	Proposed FY 2012
Admin. Fees 1990 Bond/Loan Program (1)	\$0
Admin. Fees 1991 Bond/Loan Program (2)	\$0
Admin. Fees 1993 Bond/Loan Program (3)	\$1,500
Admin. Fees 1994 Bond/Loan Program (4)	\$3,100
Admin. Fees 1996 Bond/Loan Program (5)	\$4,500
Admin. Fees 1998 Bond/Loan Program (6)	\$3,291
Admin. Fees 1999 Bond/Loan Program (7)	\$5,878
Admin. Fees 2000 Bond/Loan Program (8)	\$10,967
Admin. Fees 2003 Bond/Loan Program (9)	\$19,159
Admin. Fees 2005 Bond/Loan Program (10)	\$111,000
Admin. Fees 2006 Bond/Loan Program (11)	\$176,100
Admin. Fees 2007 Bond/Loan Program (12)	\$183,000
Admin. Fees 2009 Bond/Loan Program (13)	\$176,800
Admin. Fees 2010 Bond/Loan Program (14)	\$64,000
Admin. Fees 2011 Bond/Loan Program (15)	\$37,050
Interest Earnings (16) May 31, 2011	\$5,500
*COBRA Reimbursement (S.Hardin - Med/Dental)(17)	\$12,748
<b>Total Revenues</b>	<b>\$814,593</b>

	Proposed FY 2012
Personnel	
Salary & Benefits	\$188,450
Soc. Sec./Medicare/WComp	\$14,376
*COBRA (S.Hardin - Med/Dental)	\$5,405
Non-Personnel	
Accounting Services (Beers Hammenan - Yr 3 of 3)	\$30,500
Audit (Bum Shapiro - Yr 1 of 3)	\$33,000
Computer Access/Special Reports	\$3,200
Contingency	\$10,000
Gear-Up	\$0
Insurance - Directors & Officers Liability	\$9,000
Insurance - Surety Bond	\$800
Legal Fees (Day Pitney, Gen. Counsel - Yr 1 of 3)	\$80,000
Marketing	\$35,000
Office Exp. (rent, phone, postage etc)	\$33,000
Special Project-Early College Awareness	\$0
Staff Services - CCIC	\$106,000
Subscriptions/Memberships	\$14,000
Travel/Meetings	\$9,000
Web Design	\$5,500
<b>Total Expenses</b>	<b>\$579,232</b>
<b>Total Revenues Over (Less Than)</b>	<b>\$235,361</b>
<b>Total Expenses</b>	<b>\$235,361</b>