CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Bond Committee Meeting
February 1, 2012
CHESLA - Teleconference
21 Talcott Notch Rd, Suite 1 Farmington, 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); Robert Guadagno and Christine Doyle, PFM (Financial Advisor)

A quorum being present, the Chairman called the meeting to order at 10:35 a.m.

Ms. Blank outlined options in working with Moody's to have the refinance deal rated by the public finance group instead of structured finance, given that the SCRF will be covered by maximum P&I.

The committee discussed issues related to Moody's downgrade of Connecticut's rating and its impact on CHESLA's rating. Members noted that it is important that existing bondholders not view the new issuance deal as triggering a downgrade of CHESLA by Moody's since any downgrade would, in fact, be done based on the reliance on the SCRF and the connection with the downgrade in the State of Connecticut's rating.

Ms. Doyle indicated that the difference in cost to the deal is approximately $60,000 – 80,000 depending on which Moody's group is used and that future deals would not be tied to the public finance group, but would be based on how the deal was structured.

Ms. Blank reported on conversations she and Mr. Wagner had with Moody's regarding the expectation that it would eventually downgrade the Authority given the SCRF connection with the State.

Ms. Doyle noted that the savings for the proposed deal are now projected to be 5%, which is above the 3% requirement set by the Bond Committee.

The committee discussed Governor Malloy's proposed legislation to merge CHESLA with CHEFA and whether there would be any market issues related to the action. Ms. Blank stated that the proposed merger has been included in the State's disclosure.

The committee agreed that the deal should proceed and that it should be moved to the public finance group at Moody's and, if possible, at Fitch.

The meeting adjourned at 11:25 a.m.

CHESLA Bond Subcommittee: December 15, 2012

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

- **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
- **<u>CHESLA Operational Implications</u> of 1990 Trust Condition & Loan Originations**
  - High priority on all short term marketing efforts
- **<u>CHESLA Policy Implications</u> 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

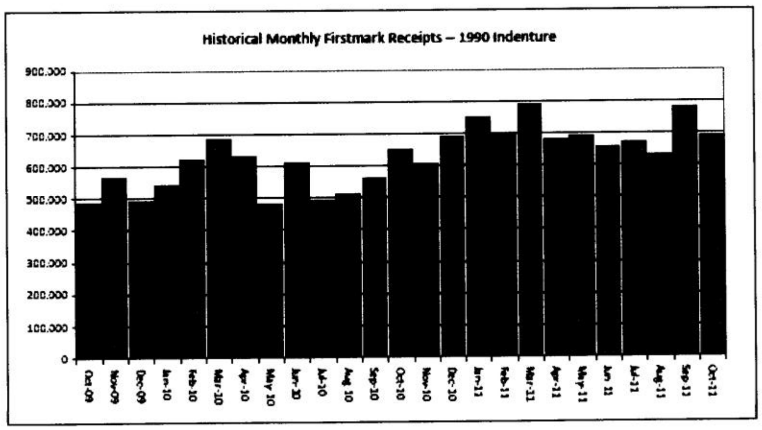
2. Liquidity in 1990 Trust

- **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		4,935,815
Less: 5/15/12 Interest Payment		(1,878,468)
Plus Loan Receipts:		
Average Monthly Receipts	626,469	
Times: 11 months		6,891,161
Plus Available Capitalized Interest:		
(Equals 6 months' interest on 2010 bonds)		907,884
Less Expenses:		
Full Year Admin Draw @ 60 bp		(269,769)
Trustee Expenses		(37,500)
Equals: Cash Available on 11/15/12		10,549,123
Less 11/15/12 Debt Service:		
Interest Payment	(1,878,468)	
Principal Payment	(5,180,000)	
		(7,058,468)
Equals: Expected Cash Excess		3,490,655

- Does not include investment income

3. Administrative Draw

- **Administrative Draw modeled in 2010 financing was 15 bp / annum rather than the actual 1990 Trust draw of 60 bp / annum**
  - Base Case cash flow projections assume draw of 15 bp / annum (PV of ~ $590,000)
  - Considerable modeling completed on various levels of Administrative Draws
  - The Trust cannot presently sustain a 60 bp / annum draw (the traditional 1990 Trust draw) for its remaining life
  - In CHESLA's 2012 budget, 67% of revenue comes from the 2003 Trust and 33% from the 1990 Trust
- **Administrative Draw supports**
  - CHESLA operations
  - Transaction costs of debt issues (because of 2% of par cost limit and the policy choice for lower rate)

CHESLA Operational Implications of Administrative Draw

  - Administrative Draw needs to be reduced soon
    - 15 bp Draw does not support CHESLA functions; 30 bp Draw does support CHESLA functions
  - CHESLA evaluated its ability to shift administrative costs between Trusts
    - Already shifted some appropriate administrative costs to 2003 Trust
- **CHESLA Policy Implications of Administrative Draw**
  - To what extent should CHESLA support transaction costs for reasons of 2% limit as opposed to reasons of management of the loan rate?
  - Should CHESLA institute fees to increase revenues (ie late fees, etc) and what are the likely revenues ?

Proposed Revision in 1990 Indenture Administrative Fee

	Per Year - Budget	Per Year - Proposed	$ Difference	% Difference	Per Quarter - Budget	Per Quarter - Proposed	Difference
1990 Resolution	296,500	140,345	-156,155	-52.7%	74,125	35,086	-39,039
2003 Resolution	656,000	656,000	0	0.0%	164,000	164,000	0
Other Sources	18,248	18,248	0	0.0%	4,562	4,562	0
Total Revenues	970,748	814,593	-156,155	-16.1%	242,687	203,648	-39,039
Expenses	579,232	579,232	0	0.0%	144,808	144,808	0
Revenues Over Expenses	391,516	235,361	-156,155	-39.9%	97,879	58,840	-39,039

4. Current Refunding Opportunities

- **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**
- **<u>CHESLA Operational Implications</u> of Current Refunding Opportunities**
  - A refunding process would take 6- 8 weeks
  - Some discussions with investment providers needed
- **<u>CHESLA Policy Implications</u> 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[1]	$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

1. 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[1]	$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

1. Assumes discount rate of 5.00%.

5. 2003 MBIA Trust and Captive Funds

- **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?

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6. New Trust for CHESLA

- **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

- **<u>CHESLA Operational Implications</u> of New Trust for CHESLA**
  - Operational efforts to build equity and reserves

- **<u>CHESLA Policy Implications</u> 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

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7. Lending Market Changes

- **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

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8. Decisions for the Authority

- **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)	$8,900
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)	$176,800
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.Harlan - Med/Dental)(17)	$12,748
Total Revenues	$970,748

	Proposed FY 2012
Personnel	
Salary & Benefits	$188,450
Soc. Sec./Medicare/WComp.	$14,376
*COBRA (S.Harlan - Med/Dental)	$6,405
Non-Personnel	
Accounting Services (Beers Hammerman - Yr 3 of 3)	$30,500
Audit (Blum 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	$6,500
Total Expenses	$579,232
Total Revenues Over (Less Than) Total Expenses	$391,516

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

A. Operating Budget

[redacted]

	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
[redacted]	$4,450
[redacted]	$7,450
[redacted]	$14,000
[redacted]	$21,300
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)	$176,800
[redacted]	$64,000
[redacted]	$37,050
Interest Earnings (16) May 31, 2011	$5,500
*COBRA Reimbursement (S.Harlan - Med/Dental)(17)	$12,748
Total Revenues	$822,498

	Proposed FY 2012
Personnel	
Salary & Benefits	$188,450
Soc. Sec./Medicare/WComp.	$14,376
*COBRA (S.Harlan - Med/Dental)	$6,405
Non-Personnel	
Accounting Services (Beers Hammerman - Yr 3 of 3)	$30,500
Audit (Blum 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	$6,500
Total Expenses	$579,232
Total Revenues Over (Less Than) Total Expenses	$243,266

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

A. Operating Budget

[redacted]

	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
[redacted]	$3,291
[redacted]	$5,878
[redacted]	$10,967
[redacted]	$19,159
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)	$176,800
[redacted]	$64,000
[redacted]	$37,050
Interest Earnings (16) May 31, 2011	$5,500
*COBRA Reimbursement (S.Harlan - Med/Dental)(17)	$12,748
Total Revenues	$814,593

	Proposed FY 2012
Personnel	
Salary & Benefits	$188,450
Soc. Sec./Medicare/WComp.	$14,376
*COBRA (S.Harlan - Med/Dental)	$6,405
Non-Personnel	
Accounting Services (Beers Hammerman - Yr 3 of 3)	$30,500
Audit (Blum 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	$6,500
Total Expenses	$579,232
Total Revenues Over (Less Than) Total Expenses	$235,361