

MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

January 21, 2009

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on January 21, 2009 at 10:00 a.m. at the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esquire; Mr. Edward Graham (Teleconference); Ms. Wilma Harris (Teleconference); Mr. Tony Hubbard; Ms. Tabatha Ialacci; Dr. Harvey Kesselman; Dr. Joann LaPerla-Morales; Ms. Jean McDonald Rash; Ms. Nancy Style, Treasurer's Designee; and Ms. Maria I. Torres, members.

ABSENT: Sister Paula Marie Buley; Richard Garcia; Ms. Rossy Matos; and Mr. Warren Smith, Esq.

CALL TO ORDER

Chairwoman Torres 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.

Ms. Torres led those present in the Pledge of Allegiance.

Ms. Torres welcomed the Board members and James Carey, Director, Governor's Authorities Unit.

She advised that no members of the public had registered to speak.

Ms. Torres introduced our new Board member, Mr. Edward Graham, CHE representative. Mr. Graham was sworn in on January 14, 2009 by DAG Melissa Hager.

Ms. Torres asked Ms. Nancy Reffner to call the roll.

CONSIDERATION OF THE MINUTES OF THE OCTOBER 21, 2008 MEETING:

A motion to approve the minutes of the October 21, 2008 meeting was made by Harvey Kesselman and seconded by Tony Hubbard. The minutes were approved unanimously with two abstentions, Tabatha Ialacci and Edward Graham, because they did not participate in the October 21st meeting.

RESOLUTION 01:09 – APPOINTMENT OF A FINANCIAL ADVISOR AND SENIOR MANAGER FOR AUTHORITY BOND ISSUES

Maria Torres announced this Resolution has been removed from the agenda and will be presented at a teleconference meeting to be scheduled.

RESOLUTION 02:09 – PROPOSED AMENDMENTS TO THE NEW JERSEY STUDENT TUITION ASSISTANCE REWARD SCHOLARSHIP PROGRAM AND THE NEW JERSEY STUDENT TUITION ASSISTANCE REWARD SCHOLARSHIP II PROGRAM POLICIES AND PROCEDURES, N.J.A.C. 9A:9-10 AND 11.

Marnie Grodman presented this item to the Board.

Over the summer Governor Corzine created a taskforce to review the NJ STARS and NJ STARS II programs and on December 19, 2008, Governor Corzine signed P.L. 2008, c. 124, legislation resulting from that taskforce, amending both programs.

HESAA staff has amended the NJ STARS and NJ STARS II regulations to reflect these statutory changes.

The NJ STARS program statutory and regulatory changes included the following: extending the NJ STARS scholarship to pay for summer semesters; adding an eligibility criteria requiring students to complete a rigorous course of study in high school; requiring high school students who are informed that they may be eligible for NJ STARS to take a college placement test; and for students who do not achieve the required score on the placement test, the amendments require the students to take demonstrate the skill levels required to attend college by the September 1 of the year following high school graduation. Additionally, students are now required to graduate in the top 15.0 percent of their graduating class in order to be eligible for the NJ STARS award.

The regulatory amendments also incorporate statutory amendments made pursuant to P.L. 2007, c. 214, which extends the exception to maintaining continuous enrollment to students who are called to active military duty.

The final statutory and regulatory changes made to NJ STARS provide students in specific programs requiring six semesters for completion to attend county college for a sixth unfunded semester while maintaining eligibility for NJ STARS II and allow students who earned college credits while in high school to apply those credits towards their associates degree, upon the county college's approval.

The statutory and regulatory amendments to NJ STARS II include: an added reference to the Statewide transfer agreement with regards to which credits are transferable from the county college to the four-year public institutions; providing the same admission standards for NJ STARS students as exist for other transfer students; and adding an income element to the eligibility criteria, restricting the NJ STARS II scholarship to students with a family income of less than \$250,000. Additionally, the minimum grade point average (GPA) requirement for new NJSTARS II students has been raised from 3.0 to 3.25. The scholarship amount has also been changed, providing a scholarship of up to \$3,000 per semester for students with a cumulative GPA equal to or greater than 3.25 and less than 3.50, and up to \$3,500 per semester for students with a cumulative GPA of 3.50 or higher. The scholarship will now pay for tuition only, unless the student is also a Tuition Aid Grant recipient, in which case the scholarship will also pay towards approved fees.

Finally, the NJ STARS II regulatory amendments also incorporate the statutory amendments made pursuant to P.L. 2007, c. 214, extending the exception to maintaining continuous enrollment to students who are called to active military duty.

It is recommended that the Board approve Resolution 02:09, Proposed Amendments to NJ STARS and NJ STARS II Program Policies and Procedures, N.J.A.C. 9A:9-10 and 11, so that the proposed amendments can be published in the March 16, 2009 New Jersey Register.

There was discussion regarding the hard work and commitment of the task force members as well as the costs of remediation.

A motion to approve this resolution was made by Tony Hubbard and seconded by Tabatha Ialacci. The motion passed unanimously.

REPORT OF THE PROGRAM REVIEW AND QUALITY CONTROL COMMITTEE

Harvey Kesselman reported that the Program Review and Quality Control Committee met on Wednesday, January 14, 2009 at 1:30 pm at HESAA's Quakerbridge Plaza Office. Included in this meeting were Maria Torres, Harvey Kesselman, Rossy Matos-Miranda, Warren Smith and Michael Angulo. Harvey Kesselman provided the Board with an overview of the topics discussed at the Committee meeting.

Kenneth Jones, Director of Audits and Quality Assurance gave the following report:

Introduction

To ensure HESAA's programs are in compliance with federal and state statutes, regulations, policies and procedures, the Audits & Quality Assurance unit is tasked with conducting Federal Family Education Loan (FFEL) Program Reviews of lenders and schools, Institutional Management Reviews focusing on State Grants & Scholarships Programs, Special Counsel Reviews, Internal Control Reviews and Evaluations, and Quality Assurance Reviews of HESAA's programs.

Federally Mandated Reviews

Pursuant to Federal Regulation, Guaranty Agencies are responsible for taking all necessary measures to ensure the vigorous enforcement of all federal, state, and guaranty agency requirements. To ensure compliance with this requirement, HESAA's Audits & Quality Assurance unit is responsible for conducting biennial reviews of HESAA's ten largest lenders. These reviews are conducted jointly by 35 Guaranty Agencies under the Common Review Initiative, a program approved by the U.S. Department of Education. All ten of HESAA's largest lenders, which are administered by six servicers fall within the parameters of CRI.

For the current biennium (January 1, 2008 thru December 31, 2009), all six of HESAA's required FFELP lender/servicer reviews will be conducted by CRI review teams. Three of these reviews were conducted in CY 2008:

One review is closed,
Two review reports were issued and the CRI team

is reviewing management's response to the findings, and
Three reviews will be conducted in CY 2009.

For this biennium, USDE has added inducement testing to CRI's responsibilities. Guaranty Agencies will test individual lender's compliance with the prohibited inducement provisions in federal regulations, promulgated on November 1, 2007. As part of the testing, lenders are required to complete a Prohibited Inducement Questionnaire and Attestation asserting that the lender did not offer or provide directly or indirectly, any points, premiums, payments or other assets as inducements to any school or other party to secure FFEL program applications or loan volume. HESAA will conduct inducement testing at four (4) lenders during CY 2009.

In addition, HESAA is also required to conduct reviews of all schools whose cohort default rate exceeds 20 percent and have at least \$100,000 of loans entering repayment in each of the last two years. No New Jersey institutions were identified from the 2006 Cohort that met the review requirement.

HESAA Initiated Reviews

Institutional Management Reviews - HESAA conducts Institutional Management Reviews to ensure that institutions administer the State Grants & Scholarships programs in accordance with all applicable federal and state statutes, regulations, policies and procedures. These reviews are conducted jointly with the Director of Financial Aid Services and Grants & Scholarships' subject matter experts.

These management reviews are also designed to provide institutions with recommendations on how to improve their enrollment management operations (financial aid office, admissions, registration, and bursar/finance) and delivery of the State Grants & Scholarships programs, as well as ensure compliance with state and federal statutes and regulations.

Review status:

Four reviews were conducted in CY 2008.

One review is closed – monetary findings totaled \$91,572.

Two draft reports were issued, and HESAA is currently reviewing the institution's responses to these reports – Preliminary monetary findings total \$46,351.

One review begun in October 2008 is still on-going. The institution is working with HESAA staff providing additional supporting documentation – The institution returned \$144,552 in cancelled TAG funds on November 26, 2008.

Two reviews conducted in CY 2007 were closed in 2008 – Monetary findings were \$31,266.

Special Counsel Reviews - HESAA conducts biennial program compliance reviews on all seven Special Counsel. Currently these attorneys perform collection activities for 15,975 defaulted debtors. Their defaulted loan portfolios range in size from 273 to 6,479 debtors. Based on a new program being implemented by the USDE, Guaranty Agencies will be allowed to assign certain judgments to the Department for further collection, which will reduce the number of defaulted loans assigned to these counsel. Placement of these loans with the Department may result in

some Special Counsel withdrawing from the program, causing HESAA to perform close-out reviews instead of the standard program compliance reviews this calendar year.

Annual Internal Control Evaluation

The State Office of Management & Budget (OMB) requires all executive branch agencies to conduct an annual self-assessment of their internal controls. This year the OMB selected 14 target areas, including expenditures, revenue, segregation of duties, travel, Federal & State Grants, audit findings, agency spending plans and information security. The Authority participates in this process through a series of evaluations and discussions that are conducted each year between April and June by HESAA's program managers and the Audits & Quality Assurance unit. In addition, the Audits & Quality Assurance unit supplements these internal control evaluations by performing internal control testing of specific program areas. The results of the internal control evaluations are provided to HESAA's Executive Staff in a memorandum detailing the review requirements, review program conducted, and any weaknesses identified with recommendations.

On June 26, 2008, HESAA's Executive Director and Chief Financial Officer sent the Director of OMB a letter confirming that HESAA performed the Internal Control Evaluation as required and that HESAA's system of internal accounting and administrative controls complies with the standards prescribed by the State of New Jersey.

Nancy Style asked whether HESAA will be audited regarding inducements to which Ken Jones responded that Pennsylvania Higher Education Assistance Authority (PHEA) will test HESAA.

Additionally, Harvey Kesselman commented on the thoroughness and ambitious schedule of the Audits and Quality Assurance Unit.

After reviewing the Proposed 2009 Review schedule which was distributed at the meeting, motion was made by Nancy Style to approve the schedule, seconded by Jean McDonald Rash. Motion was approved unanimously with one abstention, Wilma Harris, who was teleconferencing in and had not yet received the distributed materials.

REPORT ON FY 2008 DANA CHRISTMAS SCHOLARSHIP AWARD RECIPIENT

Gloria Green announced the 2008 Dana Christmas Scholarship Award Recipient. There was discussion regarding the need for more specific instructions on next year's application to encourage more students to provide accurate information to substantiate their courageous acts.

EXECUTIVE DIRECTOR'S REPORT

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

As we all witnessed yesterday in Washington, D.C., these are truly historic times. HESAA is also celebrating a significant milestone... 2009 marks HESAA's 50th Anniversary! Over that time, HESAA has helped an estimated 5 million students with approximately \$10 billion in financial aid towards realizing their dream of a college education. It is humbling to think about

how financial aid benefitted these students, what these students have achieved in their lives, and what contributions they've made, and will continue to make, to the world. Clearly, our ongoing work at HESAA brings hope to our future.

During his inaugural address, President Obama passionately noted that, as we are confronted with seemingly impossible odds, the best in us will emerge to meet these challenges. I am proud to say that HESAA's dedicated staff continues to meet the incredible demand for financial aid information and resources. Without question, sustaining New Jersey's highly educated workforce is a critical component of our economic recovery. In fact, at his State of the State address last week, Governor Corzine emphasized that, even in recent difficult times, New Jersey has supported, and even expanded, financial aid for our neediest students. We are grateful for the Governor's commitment to affordable and accessible higher education for all students.

A significant program offering helping New Jersey students is the NJCLASS program. Demand this year was unprecedented, exceeding even last year's extraordinary levels. As of January 15, 2009, we have originated approx. 24,500 loans totaling over \$350 million. The unanticipated level of demand was such that, on November 25, 2008, as required in the underlying bond indenture; HESAA suspended one of the repayment options offered in NJCLASS. Specifically, the Option 3 payment option, which permits borrowers to defer interest and principal until after graduation, was suspended for those borrowers who applied after that date. To be clear, this was not an arbitrary decision made by HESAA. Rather, it was triggered by a requirement of the bond indenture supporting the NJCLASS program. That provision specified that no more than 50% of funds borrowed could be utilized for Option 3. Given NJCLASS' lowest in the nation interest rate, and the growing need for assistance in our declining economy, the Option 3 cap was met, triggering the suspension. Notably, students who already have an NJCLASS loan and who selected Option 3 will not lose their deferment. They will continue to be permitted to defer principal and interest until graduation. Moreover, Option 1 and Option 2 remain attractive options for borrowers. In fact, Option 2, which requires payment of interest quarterly during the in-school period, offers a more attractive interest rate, and significantly reduces the borrowers overall long term debt. Upon completion of the 2009 NJCLASS bond issue; HESAA will once again be able to offer borrowers the full suite of NJCLASS repayment options.

Last October, I reported that the NJSTARS Taskforce had completed its recommendations and that corresponding legislation would soon be considered. On December 19, 2008, the legislation amending the NJSTARS and NJSTARS II programs was signed into law. It is important to note that these changes were necessary to strengthen the program, as well as contain costs that could have jeopardized the future of the program.

Earlier, you heard about the specific program changes. Due to the timing of these changes and the grandfathering provisions contained in the legislation, administering these changes will be extremely time and resource intensive. To simplify the changes, we have created multiple Fact Sheets outlining the requirements of the revised programs that will be posted on our website later today for use by students, high school guidance counselors and Financial Aid professionals. Each of the Fact Sheets describes the program requirements based on the student's enrollment period and academic year. Earlier, this Board approved amendatory regulations for posting and public comment. HESAA is also working closely with the county college sector on outreach and informational updates, and will be hosting training sessions for college personnel.

One of the major challenges we have been confronting over the past year is the nationwide crisis in the financial markets. You will recall that last year Congress passed the Ensuring Continued Access to Student Loans Act and subsequently extended the terms under the Act. The Act was designed to inject capital into the student loan markets ensuring the long-term availability of federal loans for students. Several recent actions have been taken at the federal level to further ensure availability of student loans.

First, the USDE has launched a Commercial Paper Conduit that provides a federal guarantee so that investors in student loan secured commercial paper can sell their investments when they need to. This is a first step in re-engaging the private markets in student loan revenue securities following the collapse of this market last year.

Second, the economic stimulus being considered by the House and Senate includes a provision to exempt student loan bonds from the Alternative Minimum Tax (AMT). This would greatly expand the number of investors interested in purchasing HESAA NJCLASS bonds and reduce the interest rates HESAA pays on these bonds. This, in turn, should result in lower interest rates to NJCLASS borrowers.

Last is the Troubled Asset Relief Program II legislation that will release the second half of TARP funding, and includes provisions to permit the US Treasury to provide liquidity backstops or purchase troubled securities issued by state or local governments. These provisions will assist issuers like HESAA in resolving remaining auction bonds outstanding.

The on-going efforts by Congress to ensure the viability of the student lending markets should provide assurances to our community that FFELP will be available now and in the future.

HESAA has been actively working with our congressional delegation, including meeting with newly elected Representatives, John Adler and Leonard Lance. In addition, I have been meeting with key legislators, among them, the chairs of the Assembly and Senate Budget committees. Without exception, in all of these meetings, HESAA has received overwhelming support. This will be of critical importance as we begin the FY 2009-10 budget process.

As a reminder, I also encourage everyone to volunteer for the upcoming College Goal Sunday event on February 8. Volunteers from the aid community, NJASFAA, the Commission on Higher Education will be on hand at 9 locations throughout the State to assist students and families complete the FAFSA and answer financial aid related questions. Assistance will be available in English and Spanish, and I anticipate helping even more students this year than the 1,200 from last year.

Before I conclude, I have some somber news. Our good friend and colleague, Mr. James Avery, has announced his retirement from the HESAA Board. Mr. Avery has been with us for more than 15 years and has proven to be a genuine "Champion of Student Interests". During his tenure, he has supported assistance for more than 900,000 students totaling over \$2.4 billion. He has been a staunch proponent of tuition aid assistance programs. We are grateful for his leadership and advocacy over the years and will miss him tremendously. We will more formally recognize Mr. Avery's service at our next Board meeting, and I hope all of you can join us.

Thank you.

NEW BUSINESS

Maria Torres again announced that Mr. James Avery has retired and we will honor him at our next Board meeting.

Marnie Grodman announced that we received a report on our Ethics Audit from the State Ethics Commission stating HESAA is in substantial compliance. Ms. Grodman then distributed Outside Activity Questionnaires for the Board Members to complete and announced copies will be mailed to those members not in attendance.

Robin Johnson announced that we will now offering the board documents via email or regular mail, whichever is more convenient for each member.

ADJOURNMENT

Ms. Torres announced that the date for the next Board meeting has been re-scheduled from April 21, 2009 to April 22, 2009 at 10:00 am. She reported the Audit Committee will meet immediately following the Board meeting.

A motion to adjourn was made by Tony Hubbard and seconded by Tabatha Ialacci. The motion passed unanimously.

The meeting adjourned at 11:12 a.m.