

**UTAH HIGHER EDUCATION ASSISTANCE AUTHORITY  
BOARD OF DIRECTORS MEETING  
MINUTES**

**Board of Regents Building, The Gateway  
60 South 400 West  
Salt Lake City, UT 84101-1248**

**February 20, 2014**

**Members Present**

Mr. Edward Alter  
Commissioner Buhler  
Mr. Dan Campbell, Chair  
Ms. Lisa-Michele Church  
Mr. David Feitz  
Mr. Fred Hunsaker  
Mr. Robert Marquardt  
Dr. Gregory Stauffer  
Mr. Mark Stoddard  
Dr. Norm Tarbox

Mr. Andrew Madsen  
Mr. Bob McRae  
Mr. Jeremy Morrison  
Mr. Paul Packard  
Ms. Debbie Phillips  
Ms. Ashley Reyes  
Mr. Steve Rogers  
Mr. Troy Runnells  
Mr. David Schwanke  
Ms. Lynne Ward  
Mr. Randy Willardsen

**Staff Present**

Ms. Christina Burns  
Ms. Brenda Cox  
Mr. Ronell Crossley  
Mr. Richard Davis  
Mr. Charles Downer  
Mr. Alex Janak  
Ms. Diane Johnson

**Others Present**

Ms. Andrea Feirstein  
AKF Consulting  
Mr. Bruce Miller  
TruNorth Wealth  
Mr. Kevin Olsen  
Assistant Attorney General  
Mr. David Tietjen

Chair Campbell called the meeting to order at 10:02 a.m. and declared the presence of a quorum. Mr. Combe, Mr. Jensen, and Dr. Nadauld were excused.

It was moved by Mr. Stoddard and seconded by Mr. Hunsaker to move into closed session for the purpose of discussing fiduciary or commercial information as authorized in Utah Code Section 52-4-205. The motion carried unanimously.

It was moved by Mr. Stoddard and seconded by Mr. Alter to reconvene the UHEAA Board in open session. The motion carried unanimously.

The first agenda item discussed was UHEAA Board Report I-A, Minutes of the December 12, 2013 Meeting.

It was moved by Mr. Marquardt and seconded by Dr. Tarbox to approve the minutes of the December 12, 2013 Board of Directors Meeting. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-B, Investment Reports. Mr. Schwanke summarized investment activity for the months of November 2013 and December 2013.

It was moved by Mr. Hunsaker and seconded by Mr. Marquardt to approve the Investment Reports. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report I-C, Report of the Audit Committee. Mr. Tarbox remarked information security and business continuity efforts are going well and the Audit Committee continues to receive regular updates from both areas. He reviewed several audits conducted over the past quarter: a review of death claims by the Department of Education (ED); an audit of the legacy and CornerStone servicing environments by Ernst and Young; and several internal audits including a UESP operational risk assessment and a review of the EthicsPoint fraud hotline, all of which were clean. Chair Campbell expressed appreciation for the service of the Audit Committee and strong performance of the accounting staff.

It was moved by Mr. Alter and seconded by Mr. Marquardt to accept the Report of the Audit Committee. The motion carried unanimously.

The next agenda item discussed was UESP Board Report II-A, UESP Executive Director's Report. Ms. Ward requested a motion to approve the December 31, 2013 Investment Report.

It was moved by Mr. Stoddard and seconded by Mr. Hunsaker to approve the December 31, 2013 Investment Report as presented. The motion carried unanimously.

The next agenda item discussed was UESP Board Report II-B, UESP Informational Report. Ms. Ward reviewed the FDIC-insured account interest rate comparison under Tab II-B-1. She remarked UESP will move the FDIC-insured funds from Zions Bank to two new banks that will have different interest rate structures.

Ms. Ward shared two new UESP TV commercials for 2014, produced by Love Communications. She noted UESP has issued a Request for Proposal for an advertising agency as the contract with Love Communications is ending.

Ms. Ward highlighted several points in the UESP Outreach Report, under Tab II-B-2, including recent articles that mention UESP. She reviewed the Investment Option Performance as of January 31, 2014, under Tab II-B-7, and noted the January 2014 Newsletter under Tab II-B-8. Ms. Ward discussed the February 1, 2014 Program Description Supplement under Tab II-B-9, highlighting the updated Utah state income tax credit amounts for 2014. She indicated a new Program Description Supplement will be issued this spring regarding the transition from Zions Bank. Ms. Ward remarked Zions Bank has been a great, active partner.

The next agenda item discussed was UHEAA Board Report III-A, UHEAA Executive Director's Report. Mr. Feitz remarked UHEAA earned the top metrics score among NFP servicers in December 2013, completing seven quarters of strong metric performance. He attributed the success to management's sustained focus on metrics and the newly formed late-state delinquency prevention unit. He reviewed UHEAA's performance in each metric category and expressed management's goal to receive the top performance

metric in every category. Mr. Feitz summarized UHEAA's student loan servicing portfolio, which consists of \$3.3 billion and 199,000 accounts.

Mr. Feitz noted the rapid moving Federal budget agreement passed in December 2013 to avoid a government shutdown, which moved NFP servicer funding to the discretionary funds, the same as the TIVAS. He indicated the House and Senate have both reaffirmed support for the NFP servicing program through colloquy language, which stipulates the intent of Congress. He reported Senator Hatch participated in the colloquy in support of NFPs and Congressman Ryan declared Congress' intent for NFP servicers to compete with TIVAS for additional accounts in his statement. Mr. Feitz remarked UHEAA welcomes the opportunity to compete fairly with TIVAS for more accounts and is well positioned to do so with its strong performance metrics and low servicing costs. He indicated the bill directs ED to streamline the metrics for TIVAS and NFP servicers by March 31, 2014, and ED has confirmed additional allocations will be announced after August 15, 2014.

Mr. Feitz reiterated UHEAA has met or exceeded all ED requirements despite a challenging portfolio. He estimated only 500,000 accounts are needed for positive net revenues on NFP servicing, a small percentage of the 12 million annual student borrowers. He remarked UHEAA would create approximately 30 new full-time Utah jobs for every 100,000 accounts it receives, and management's goal is 1 million or more accounts.

Mr. Feitz noted UHEAA is pursuing a demonstration project for more volume, to be sponsored by Representative Matt Salmon, which would aim to improve repayment habits, reduce defaults, improve customer service, and incentivize completion. He indicated he would be traveling with Commissioner Buhler and UHEAA's lobbyist to Washington next week to discuss the project with Senator Hatch.

Responding to a question from Ms. Church about contingency planning, Mr. Feitz confirmed UHEAA has contingency plans, which will be presented in the next report.

Mr. Feitz remarked the budget act also cuts the retention rate for loan rehabilitation, which provides defaulted borrowers with a second chance by removing their loans from default status, repairing their credit, and qualifying them for additional financial aid. He pointed to the growth in rehabs at UHEAA in recent years and indicated the cuts will reduce the amount of resources UHEAA is able to put towards this effort. He indicated the 20.5% retention cut is expected to reduce revenue by \$1.5 to \$2 million annually, and UHEAA has a meeting with the ED to discuss the effects in February 2014. He noted the cuts will curtail UHEAA's ability to provide outreach services as management makes cuts to adjust to available revenues. He highlighted UHEAA's strongest-in-the-nation Federal Reserve Ratio, which measures financial strength, and indicated other agencies may not be able to withstand the cut.

Mr. Feitz reported on progress in purchasing the Federally-insured Wyoming Student Loan portfolio, which will be purchased at a discount and has an estimated incremental benefit of \$6.3 million. He noted the financing has been approved by the Regents and interim financing is scheduled to close on February 27<sup>th</sup>, with the next steps being the conversion of Wyoming loans to the UHEAA system by June 30 and permanent financing by fall of 2014. Mr. Feitz expressed appreciation to Mr. Davis for his efforts concerning the Wyoming financing.

Mr. Feitz remarked a new business opportunity is underway, processing IBR applications for PHEAA, one of the TIVAS. He noted the processing unit will support 20 new positions; will provide an additional, diversifying revenue source; and has a strong potential for growth. Responding to a question from Mr. Alter about why PHEAA is turning to UHEAA for this service, Mr. Feitz indicated PHEAA is overloaded and turned to UHEAA for relief due to UHEAA's expertise, low costs, and strong reputation.

Mr. Feitz reported UHEAA is making progress on the development of a supplemental loan program for high cost, high demand programs, and management will present a proposal to the Board in 2014. Responding to a question from Mr. Stoddard about borrowing limits, Mr. Feitz confirmed borrowing would be limited to cost of attendance, which varies by school, and UHEAA's program would include financial underwriting criteria and would begin as a pilot.

Mr. Feitz shared a recent comment from Chair Campbell declaring "What a great asset we have in UHEAA!" Mr. Feitz remarked UHEAA is an asset for the state, for higher education, and for the students it serves. He highlighted the \$1 million in annual support UHEAA provides to the Commissioner's office and Regents' and New Century Scholarships; the \$192 million in borrower benefits UHEAA has provided on 692,000 loans; the 275 free paying-for-college outreach events UHEAA has sponsored in the last 24 months, and the more than \$11 million in grants UHEAA has provided to 12,400 low-income students.

It was moved by Mr. Hunsaker and seconded by Mr. Stoddard to accept the UHEAA Executive Director's Report. The motion carried unanimously.

The next agenda item discussed was UHEAA Board Report III-B, Analysis of UHEAA Business Lines. Mr. Schwanke reviewed the five UHEAA business lines: the Legacy FFELP portfolio, CornerStone Direct Loan Servicing, Customer Document Processing, the Loan Guaranty Program (LGP) legacy guarantee and collections portfolio, and BorrowWisely. He pointed to the projected income by business line for Fiscal Year (FY) 2014. He indicated the legacy portfolio is the major income provider and will generate \$10 million in operating income in FY 2014. He noted the portfolio consists of about half consolidations loans which mature more slowly than non-consolidation loans. Responding to a question from Ms. Church about amortization of the portfolio, Mr. Schwanke confirmed it is static outside of the acquisition of the Wyoming portfolio and it will decline over time.

Mr. Schwanke reiterated volume is key to profitability for CornerStone. He contrasted the annual yield for legacy accounts and Direct Loan accounts, and remarked a minimum of 500,000 accounts is needed for breakeven in CornerStone, whereas the legacy portfolio is profitable today. Mr. Feitz indicated economies of scale are needed because UHEAA earns a fraction of the revenue for serviced accounts, as compared to FFELP accounts it owns, and noted the Wyoming portfolio consists of FFELP accounts. Responding to a question from Chair Campbell about investments made in CornerStone, Mr. Schwanke indicated a new phone system, security protocols for the building, and overhead for expansion capacity in the building are some of the major costs. Responding to another question from Chair Campbell about use of building space with and without more volume, Mr. Feitz confirmed UHEAA will fill the building and even expand to a satellite call center if required volume is realized, and will consolidate and vacate space for others, including UESP, if new volume is not received.

Responding to a question from Mr. Stoddard about the amortization of the legacy portfolio, Mr. Schwanke confirmed 4-5% is paid off each year. Mr. Davis remarked the large portion of consolidation loans and relatively low interest rates for borrowers extend the portfolio's life.

Mr. Schwanke summarized the profitability of the document processing unit, which will start with a modest operating income, but has a strong potential for growth.

Mr. Schwanke indicated the legacy LGP portfolio is projected to produce \$2.4 million in net operating income in FY 2014. He noted the budget includes \$715,000 for outreach, \$200,000 for UHEAA Grants, and \$514 for scholarship administration. He remarked the rehab retention cut will reduce revenues by \$1.5 to \$2 million annually, and will require some shifting and curtailing of costs to manage to available revenues.

Mr. Schwanke pointed to a pro forma provided to the Board that excludes the CornerStone business line. He noted eliminating CornerStone now would have a positive short term effect on operating income, but the opportunity for future income would be lost.

Responding to a question from Ms. Church regarding profitability and growth projections for the new document processing and Borrow Wisely business lines, Mr. Schwanke indicated fees for service are easy to calculate, but expected volume and associated costs are harder to project due to the relative newness of the programs. He indicated management will continue to analyze these projections.

Responding to comments from Chair Campbell about the losses attributed to CornerStone and UHEAA's to continue waiting for volume, Mr. Feitz remarked investments in the program are a sunk cost and a decision will be made about whether to continue the program in 2014. He noted there is a clear need for additional education loans in Utah and UHEAA is developing a supplemental loan program, which will diversify revenue further.

The next agenda item discussed was UHEAA Board Report III-C, UHEAA Community Outreach Update. Mr. Davis introduced Steve Rogers, Manager of Outreach. Mr. Rogers indicated the Outreach team is focused on FAFSA completion in the state, with 65 FAFSA completion nights scheduled through April. He noted the Outreach team trained 250 counselors and advisors in December and January at FAFSA boot camp events, which are train-the-trainer events that provide scenario planning for FAFSA Completion. He pointed to UHEAA's active presence on social media and its partnership with UEN to produce five videos with information about financing higher education. He indicated a FAFSA completion database is under development and will be available in March.

Chair Campbell adjourned the meeting at 12:20 p.m.

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Executive Director, UHEAA

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Date