

**UNOFFICIAL MINUTES**

MINUTES

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
BOARD OF DIRECTORS' MEETING  
DECEMBER 10, 2004

The 252nd meeting of the Rhode Island Higher Education Assistance Authority was held on Friday, December 10, 2004 in the McKenna Conference Room of the Authority, 560 Jefferson Boulevard, Warwick, Rhode Island. The meeting was called to order at 9:10 a.m.

The following members were in attendance:

Dr. Robert J. McKenna, Chairman  
Dr. William Croasdale, Treasurer  
Ms. Miriam Curtis Coleman  
Ms. Kerrie Bennett, Designee of General Treasurer  
Paul J. Tavares  
Mr. John Howell  
Mr. Solomon A. Solomon

Members Absent:

Dr. Anthony J. Santoro, Vice Chair  
Representative Steven M. Costantino  
Ms. Laura DiSano  
Mr. William B. Hall  
Senator William A. Walaska

Also Attending:

Mr. William H. Hurry, Jr., Executive Director, RIHEAA  
Ms. Gail Mance-Rios, Deputy Director, RIHEAA  
Mr. Marc Lacroix, Chief Financial Officer, RIHEAA  
Attorney Joseph Palumbo, RIHEAA Legal Counsel  
Ms. Nancy Ann Dooley  
Ms. Mary Ann Welch  
Mr. Michael Joyce  
Mr. Steven Mollica  
Mr. John Fitta, Consultant

1) Approval of Minutes of the November 9, 2004 Board Meeting:

Minutes were not available for approval.

2) Chairman's Report:

a. Chairman McKenna reported that the 60<sup>th</sup> Anniversary NEBHE Awards Ceremony would be held on February 25, 2005. This year the Chairman of the Board of Governors for Higher Education, Judge Frank Caprio, will be honored. The Board members are invited to attend.

3) Executive Director's Report:

a. Mr. Hurry informed the Board that Dr. Santoro is recuperating at home. He is anticipating a recuperation period of approximately one month. Cards or calls would be appreciated.

b. Regarding the Board's authorization to become partner with Jump Start Rhode Island, Mr. Hurry noted that there is an article in the Board materials for review.

c. Dr. Croasdale has asked about the snowstorm policy for the Board meetings. Mr. Hurry explained that members would be contacted as soon as possible in the event that a meeting was to be cancelled. He urged everyone to use good judgment and asked that the members call in the event that they cannot make a meeting.

d. Mr. Hurry noted that a copy of an article regarding the *CollegeBoundfund* by Neil Downing is included in the materials for review. Most interesting in the article is that Mr. Downing quotes as his sources of good information about 529 plans Christopher Stack who was president of Collegiate Capital, our original program manager, and Kevin Wasp who was his assistant.

e. Mr. Hurry reported that the General Treasurer, Michael Joyce and he attended a College Savings Plan Network (CSPN) meeting and workshop in Arizona last week. Both the CSPN and the National Association of State Treasurers has formally adopted the statement of principles with respect to full disclosure for 529 programs. He distributed a copy of the statement. He noted that Alliance and our program have been in the forefront regarding including full

disclosures in *CollegeBoundfund* program descriptions. What was approved at the meeting in Arizona was exactly the text that was distributed to the Board absent the marginal notations.

f. Mr. Hurry stated that in Tab No. 3 there is an article from the Providence Journal with respect to students receiving a college degree. As he mentioned at an earlier meeting RIHEAA is collaborating with the Office of Higher Education on a series of presentations and early awareness. The article mentions Ms. Gail Mance-Rios, our Deputy Director, for participating in one of the sessions.

The other piece in Tab 3 is a copy of the "White Paper" which was developed in conjunction with the Office of Higher Education. This document has been offered to the Governor's staff for their review and possible use in developing the Governor's budget message for FY 06. Mr. Hurry has not heard from the Governor's staff regarding their review.

8.a. Ms. Jennifer DeLong, Senior Vice President of Alliance Capital, telephoned in at 9:30 a.m. to participate in the meeting.

Mr. Hurry congratulated Ms. DeLong on her recent promotion to Senior Vice President.

Chairman McKenna reported that he attended, last week, a meeting of the State Investment Commission at which Jennifer DeLong and the General Treasurer were in attendance. The action item for today's meeting regarding the addition to the CollegeBoundfund options for Rhode Island residents of the Vanguard Total Stock Market Index Fund was passed unanimously on a motion by the Chairman of the Rhode Island Higher Education Assistance Authority.

Ms. DeLong reviewed the presentation, which had been distributed with the Board materials, for those who were not in attendance at the earlier S I C meeting. A copy of the presentation is in Tab No. 8 of the materials. The index fund option will be ready on December 15 pending the Board's approval. The option they would like to add to the program for Rhode Island residents is the Vanguard Total Stock Market Index portfolio. The Fund will be available only to Rhode Island participants who are purchasing directly through the program. To date there has been no

demand nationally for this type of option; however Alliance has developed this alternative at the request of the General Treasurer and RIHEAA. The investment will be managed by Vanguard, but the distribution and servicing will be done by Alliance. Vanguard offers this same fund through the 529 plan which they manage directly for the state of Nevada, but the cost is higher. After reviewing several fund options it was determined that this mutual fund option was the best way to go for Rhode Island.

Mr. Howell asked where the responsibility lies between Vanguard and Alliance if Vanguard funds in any way default. Ms. DeLong explained that there is a service agreement in place between Alliance and Vanguard to make participants whole. Mr. Palumbo noted that under the management agreement Alliance has agreed to indemnify the Authority and the SIC for any defaults by firms that Alliance subcontracts with. The Board of Directors and the State Investment Commission (SIC) can remove the option from the *CollegeBoundfund* program at any time if necessary. Ms. DeLong will send copies of the agreement between Alliance and Vanguard. The Authority's counsel, Mr. Palumbo, will review the agreement to ensure that the Authority, the SIC and the Program are adequately protected.

The SIC has already approved the option.

9.a. Action Item

On motion duly made by Ms. Bennett and seconded by Mr. Howell, it was

**VOTED:** To Approve the Resolutions Authorizing the Addition of the Vanguard Total Stock Market Index Fund to *CollegeBoundfund* for Rhode Island Residents who purchase directly from the program.

Voting in favor: Dr. McKenna, Dr. Croasdale, Ms. Curtis Coleman, Ms. Bennett, Mr. Howell, Mr. Solomon. Voting against: none.

Mr. Hurry commented that in the appendix, there is data through September 30, 2004 comparing the performance of *CollegeBoundfund* as against competitive programs.

4) Financial Report: Mr. Lacroix noted that at the last meeting he distributed bound copies of the RIHEAA audit, single audit and business advisory letter. The final versions of the RIHEST audit and SAS 61 letter will be distributed today.

4.a. Regarding the analysis of the Federal Student Loan Reserve Fund which is included in Tab 4.a in the materials, Mr. Lacroix stated that, although these projections are reasonable, there are some variables that could significantly affect the Agency's reserve ratio. The current regulatory requirement for the minimum reserve ratio for the Federal Fund is 25 basis points of the original principal outstanding (OPO) amount of our guaranteed loans. The Department of Education has adjusted the methodology they use to calculate the reserve ratio. DE has excluded from the reserve ratio calculation the allowance that we have established for future unreinsured payments. The allowance is a liability to account for the amounts of unreinsured claims that will be paid in the future. The Authority has always reported this allowance; whereas, some agencies have not. This resulted in an imbalance in terms of the comparative analysis of agencies in that the agencies that do not reflect an allowance have an artificially higher reserve ratio than those who have recorded this liability. DE recently announced that all agencies would now be required to calculate and record this liability.

Mr. Lacroix mentioned that there is an "\*" omitted at the bottom footnote that states "...reflects the \$2.5 million transfer." This should have two asterisks ("\*\*") and correspond to the adjusted Federal Fund percentage of OPO.

It is expected that when the building and HEAL loan issues are settled with the Department of Education, the Authority will make a substantial cash transfer from the agency operating fund into the Federal Reserve fund. This transfer will improve RIHEAA's reserve ratio. RIHEAA was ninth in the reserve ratio rankings among thirty-six Guaranty Agencies at the end of 2003, and our relative standing should remain approximately the same for 2004. The Authority is above average in terms of the strength of its Federal Fund.

Mr. Hurry stated that all this assumes that the Board continues to waive the 1% guarantee fee on an annual basis.

He noted that Mr. Brett Lief, President of NCHELP, recently mentioned that he thought that President Bush's budget is likely to have language in it that would require the reinstatement of the guarantee fee by all guarantee agencies.

Mr. Lacroix updated the Board on the settlement process. The Department of Education hired a company to assist them with asset settlement issues. They visited the Authority and also hired an outside appraiser from Boston to make an assessment. It is hoped that this matter will be settled early next year.

At this time Mr. Hurry introduced Mr. John Fitta, retired Assistant Vice President for Finance at Rhode Island College. Mr. Fitta has agreed to work with the Authority on reviewing the several proposals received from banks to present a fair and objective appraisal as to the relative merit. There will be a meeting of the Finance Committee today following the Board Meeting.

5) Investment Committee Report:

Included in the materials are the Schedule of Cash and Investments at October 31, 2004. Mr. Lacroix noted that there is nothing unusual to report. The interest rates on the short-term investments have increased.

6) Scholarship and Grant Update:

Ms. Welch reported that state grants have been confirmed for \$17.1 million, and the number of students awarded is 15,529. The average award is \$1,102. Major schools have now verified award offers. We are now preparing for the next semester and the new year.

Regarding the Academic Promise Scholarship, there are 339 students who have awards for a total of \$824,819.

Ms Welch stated that on Monday, December 13, the Authority would be hosting a meeting for 14 financial aid administrators to review the web-based delivery system and to get feedback on how the schools feel the system is working for them and any suggestion they might have for refinements/improvements.

A number of staff have been involved with Senator Reed's financial aid seminars that are held in conjunction with Treasurer Tavares. Several Financial Aid nights were held throughout the state at which members of the staff were on the panels. Staff are also involved with financial aid nights at high schools and financial aid workshops at the high schools.

Ms. Welch noted that the Authority, in conjunction with the Rhode Island Association of Student Financial Aid Administrators (RIASFAA) is also sponsoring a "Financial Aid Awareness Week" which will be held the week of January 9, 2005. During this week the Governor will issue a proclamation declaring it Financial Aid Awareness Week; articles will be included in the newspapers; and on January 12 there will be a panel of aid administrators on Channel 12's evening news. She noted also that Justin Greenough, of the Authority's IT Department, has developed a financial aid awareness website.

7) Loan Division Update:

Ms. Dooley reported that we have seen consolidation loan volume decreasing. This has been largely due to the fact that most borrowers, who have had loans in the past, have most likely already consolidated their loans. However, you will note consolidations increased substantially this past month, probably because our recent graduates have exhausted their grace period. It is at the end of the grace period that borrowers will consolidate their loans. We could very well expect this to continue for the next few months since many students completed their educational programs in May or June, 2004.

The Collection Department and the Guarantee Services are working with NELNET/RISLA in doing the annual holiday school visits.

8) CollegeBoundfund Update:

Mr. Joyce noted that as of November 26, 2004 there are approximately 450,000 accounts for a total asset value just above \$5.2 billion, with \$120 million of that total in Rhode Island assets.

The "5&10" application is being updated to make it more user friendly. This is the process used to help investors determine their eligibility for the program.

9.b) Action Item: Election for Secretary of the Board

On motion duly made by Mr. Howell and seconded by Dr. Croasdale it was

**VOTED**: To defer action on this item until the next meeting.

Voting in favor: Dr. McKenna, Dr. Croasdale, Ms. Curtis Coleman, Ms. Bennett, Mr. Howell, Mr. Solomon. Voting against: none.

9.c) Action Item:

The schedule of meetings for 2005 was discussed. Two calendars were considered. One included the first Tuesday of each month with the exception that the January and February meetings be held on the third Tuesday, and the other option was for the third Tuesday of each month.

On motion duly made by Ms. Curtis Coleman and seconded by Mr. Solomon it was

**VOTED**: To approve the first option for the schedule of meetings for 2005 where Board meetings will be scheduled for the second Tuesday of each month with the exception that the January and February meetings will be held on the third Tuesday.

Voting in favor: Dr. McKenna, Dr. Croasdale, Ms. Curtis Coleman, Ms. Bennett, Mr. Howell, Mr. Solomon. Voting against: none.

Mr. Lacroix reported that he just received a message from the regional representative from the U.S. DOE, Gene Greene. He assured Mr. Lacroix that Rhode Island settlement issues are moving rapidly and that they expect a report from the outside consultant next week.

10) Communications: There were no communications

11) Next Meeting: Tuesday January 18, 2005 at 9:00 a.m.

Chairman McKenna wished everyone a Happy Holiday Season.

On behalf of the staff, Mr. Hurry also wished everyone a Healthy and Happy Holiday Season.

There was no need for an Executive Session.  
There being no further business to come before the Board,  
it was agreed to adjourn the meeting.

On motion duly made by Dr. Croasdale and seconded by  
Ms. Bennett, it was

**VOTED:** To adjourn the meeting.

Voting in favor: Dr. McKenna, Dr. Croasdale, Ms. Curtis  
Coleman, Ms. Bennett, Mr. Howell, Mr. Solomon. Voting  
against: none.

The meeting adjourned at 10:30 a.m.

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Mr. William H. Hurry, Jr.  
Executive Director