A meeting of the Finance Committee at the Rhode Island Higher Education Assistance Authority was held on Friday, September 21, 2012 in the McKenna Conference Room of 560 Jefferson Boulevard, Warwick, Rhode Island.

Committee Members in attendance:
Dr. William Croasdale
Mr. John Howell
Mr. Christopher Feisthamel, designee for General Treasurer Gina Raimondo.

Committee Members absent:
Dr. Anthony Santoro

Also attending:
Mr. Charles P. Kelley, Interim Coordinating Officer
Mr. Joseph Palumbo, Legal Counsel
Mr. Marc Lacroix, RIHEAA
Ms. Kathleen Sisson, RIHEAA
Ms. Dana Peterson-Fatuda, RIHEAA
Ms. Laurie Brayton, Fiscal Analyst
Mr. James Prescott, Braver Group
Ms. Erica Olobri, Braver Group

1. Dr. Croasdale called the meeting to order at 10:30 a.m.

Dr. Croasdale introduced Mr. James Prescott of the Braver Group to the committee. Mr. Prescott went through the financial statements and stated there are two significant adjustments from last year; how the unreimbursed allowance increased $3.2 mil, unreinsured allowance increased to $2.3 mil. The default aversion fee returned allowance increased by $1 mil. Ms. Olobri stated on the balance

sheet if you compare it to last year the balance was $ 840,000, which doubled. Mr. Lacroix will go over the methodology with the Finance Committee once the meeting is completed.

Mr. Prescott stated that the overall results from each fund compare to the prior year, cash is down $2.6 mil. Conduit loan with RISLA, the conduit loan line of credit is up by $5.8 mil, which is described in footnote nine on page 37. Mr. Lacroix stated that the Board authorized that transaction in February 2011, but the first transaction did not occur until July, we disclosed the subsequent event last year, and this year it is not in the financials.

Mr. Prescott stated that accounts payable is down by $400,000. The allowance for the default aversion fees are up by $900, which is related to the allowance on the balance sheet. The recovery revenue is up by $ 1.4 mil.

Mr. Prescott stated that in the prior year on the income side of things of the default aversion fees are being shown differently this year then in prior years, the results are the same, but because of the expense part the provision is $1.4 mil, last year it netted out to be a positive number Mr. Lacroix decided that we show the revenue side of things on the top, last year that number was netted at $ 0.5mil. This year we are showing $800,000 of revenue, but down in the expense (on page 14) the provision of the default is $1.4 mil.

Ms. Olobri stated the revenues for last year was $1 mil, gone down to $805,000, conversely the expenses went from $500,000 to $1.4mil, mainly due to the change in the allowance.

Mr. Prescott stated that the revenue from the CollegeBoundbaby income was $.5 mil. Overall the expenses are up by $1.6 mil, which relates to the provisions. Sallie Mae fees are a little bit higher this year (on the collections side) $300,000. The collection agency fee is $200,000, salaries are down $ 133,000.

Dr. Croasdale asked how many employees do we have, and Mr. Kelley responded about 27 currently. Mr. Lacroix explained that the results of an adjustment to the compensated absences and if you exclude the adjustment for compensated absences liability, which was recorded on June 30th, the total salary expense is consistent with last year.

Mr. Prescott stated that net assets overall decreased by $625 mil., which is under the 529 plan.

Ms. Olobri stated that there is more detail on the Default Aversion Fee and the reinsured allowance on pages 27 & 28 and 36.

Mr. Prescott asked the group to read the footnotes.

Mr. Kelley asked about the post retirement healthcare benefits at

6.8% percentage of payroll is that all employees or certain ones? Mr. Lacroix stated that it is everyone except the TIAA Cref employees. Mr. Lacroix explained that those employees are in the Office of Higher Education, those employees are Gail Mance-Rios and Charles Miller. The healthcare retirement benefit is not 6.8%, but everyone else is in the defined benefit plan and has the post retirement health as benefits. And there is no unfunded liability, and the rate just went up.

Dr. Croasdale asked if our employees get a lower fee from TIAA CREF than they do at the Office of Higher Education. Mr. Kelley stated that he would have Mr. Lacroix look into that and provide an answer at the next meeting.

Mr. Prescott stated we have completed our single audit compliance testing which is required by the governmental standards account. We are still waiting on additional information from Mr. Lacroix in order to conclude what is in the draft form on page 29, first paragraph which states; we are still going through the files, but we have not found anything as far. A management letter is due. The segregation of duties, because of the reduced staff size, conflicts in accounting controls that are incompatible which could lead to issues. Mr. Prescott stated that he believes that we should clean out the outstanding check list; they should be taken care of, and researched.

Mr. Lacroix explained that a couple of years ago we did a clean- up and the majority of the uncashed checks were refunds due to the defaulted borrowers. Mr. Lacroix stated that we could hand this off to the Treasurer's Office in the unclaimed property, but we tried to locate the borrower's. The Borrower's are in default, they overpaid their loan, we sent them the check, but they didn't cash them, could be a bad address. We have had some success with skip tracing when we have staff to chase them down. Mr. Lacroix stated that we have about 125 checks, with a value of approximately $30,000. Mr. Feisthamel stated that is what the Treasurer's Office does, and has had much success. Mr. Lacroix stated that he will turn them over to the Treasurer's Office and develop a policy.

Ms. Olobri stated that Mr. Lacroix does the journey entries, but should be done by other staff so that there is no conflict. Mr. Lacroix stated that he has a restructure in mind, and adding more staff to alleviate this concern.

Mr. Prescott stated that there are estimates in the financial statements that management has, which we agree with. Mr. Prescott asked the group to look at footnotes 2 and 7. No difficulty in general with the audit, and we made our deadline. There were adjustments that were talked about related to the allowances. No disagreements and no findings.

Next step is for the management team to sign-off stated Mr. Prescott.

Mr. Lacroix explained the two major adjustments are; first the default aversion fee. The agency gets paid a fee on loans that become delinquent. The fee is 1% of the principle and interest balance at the time the lender/servicer makes what is known as the request for assistance, which is when the loan becomes 60 days delinquent. That fee is paid to us from the federal fund, out of the federal asset that we administer. That 1% is paid to us; it comes in to the guaranty agency as revenue. We perform the default aversion work, which we outsourced to NCO. The incentive to actually do the work lies in the fact that if that loan upon which we were paid that 1%, ultimately defaults the fee must be returned. Over the years we took provisions and reflected as a reduction of revenue and created a liability on the agency operating fund for the fees that would be returned. That liability on the operating fund matches the asset on the federal fund because the money goes from one to another. Since there hasn't been any new loan origination since July 1st 2010, the revenue stream from default aversion has been declining and eventually will go away completely. However, the liability for returns will outlive the revenue for quite some time. What we have seen over the last year is the liability balance that we recorded is declining. Mr. Lacroix stated, after watching the revenue and expense numbers, I realized that the approach that we were using is not working, especially given the new structure.

On the Federal Fund, Mr. Lacroix stated, when we pay the lenders for a defaulted loan, the amount that is returned to us (the reinsurance), comes from the Department of Ed. is an amount that is less, (depending on the amount issued on the loan). There is a loss to the federal fund that comes out of the federal asset on that reinsurance transaction. We have recorded a liability for the uninsured losses.

Mr. Lacroix stated, to give you some background; prior to 2006, there were no consistencies in reporting among guaranty agencies to the Department of Education. Some agencies were reporting allowances, a liability for future losses and others were not. The Department then decided they wanted all guaranty agencies to record an allowance. The example that they provided, we implemented it for federal fiscal year end. That resulted in us reducing the liability that we had recorded. The following audit season, we looked at the numbers and thought it looked too low, so we moved it back up again. Annually we evaluate the portfolio size by that number.

Mr. Lacroix stated that he put together data points with analyst for the allowances, and feels comfortable with the adjustments. The adjustment on the Federal Fund does not affect our minimum reserve ratio because the allowance is added back to the fund balance in the calculation of the reserve ratio. Mr. Lacroix stated that the reserve ratio stays the same, which is a much better representation of the future liability. On the agency operation fund side, it is a significant charge against earnings; there are sufficient reserves to support those future payments. The problem is, when you run out of revenue and have an ongoing liability that has to be satisfied by cash, if you didn't have the funds available, either from other sources. The only alternative that will support that liability is from the revenue. Mr. Lacroix stated that the next six to twelve months the predictability will improve.

Mr. Kelley stated the net revenue this year is about $2.0 mil, but of the $2.0 mil, about $400,000 is the net revenue from the Collegeboundfund. The net revenue for on-going operations is about $1.6. Mr. Lacroix agreed, and stated that the guaranty agency net revenue is $1.6 after the $900,000 adjustment for the reserve.

2. Action Item: Mr. Feisthamal made a motion to approve the Audited Financials subject to the MD&A and the Auditor General's comments. Seconded by Mr. Howell and Dr. Croasdale.

Voted in favor: Dr. Croasdale, Mr. Howell and Mr. Feisthamel.

Voted against: None

The meeting adjourned at 11:20 a.m.