



The Rhode Island Student Loan Authority Strategic Planning Session was held on Friday, April 8, 2005. The Honorable Robert J. McKenna called the meeting to order at 8:26 A.M.

The following Board members were in attendance:

Hon. Robert J. McKenna
Dr. William Croasdale
Mr. John Howell
Dr. Anthony Santoro
Ms. Laura DiSano

Others in attendance:

Mr. Noel Simpson, Executive Director, RISLA
Mr. Kevan McAleer, CFO, RISLA
Mr. Charles Kelley, Executive Director, NESLA
Ms. Christine Jenkins
Mr. David DeBlois
Mr. David Souto, Deputy Director, NESLA
Mr. Joseph R. Palumbo, Jr., General Counsel
Ms. Jennifer Dutch, RISLA
Ms. Kathleen Smith, President, EFC

Chairman's Report

Dr. McKenna reported that the 2nd \$5 million from RISLA will be given to the State next Tuesday at the State Office and he encouraged Board members to attend the event.

Executive Director's Report

Mr. Simpson indicated he would like this meeting to generate some thoughts for the future of RISLA.

Mr. Simpson discussed making access to higher education more affordable, which Mr. Simpson indicated is RISLA's vision for the future and how RISLA distinguishes itself from other lenders in the student loan industry. Mr. Simpson indicated that the meeting today is designed to develop a strategic plan for RISLA. Mr. Simpson referred to the state plan for strategic planning which is a report that RISLA contributes to each year. Mr. Simpson indicated that RISLA would like additional input from the Board on its day to day operations.

Mr. Simpson discussed the strategic strengths of RISLA, which include:

- Competitive priced loan products
- Strong relationships with R.I. schools
- Customer service – without which customers would go to competitors
- Government relations
- College Planning Center
- Recognition as the local low cost loan provider
- Special programs for Nurses & Teachers
- Relationship with Nelnet and NESLA

Mr. Simpson also discussed the strategic weaknesses of RISLA, which include:

- Competition from large financial institutions in marketplace and start up agencies
- The question of whether Rhode Island needs a state sponsored educational loan agency.
- Success of RISLA depends on success of RI colleges and universities
- Capital markets

Mr. Simpson then discussed the threats to RISLA. Mr. Simpson indicated that the direct loan program has been reinvigorated. Mr. Simpson indicated that there have been proposals over the last two months from Congress to give incentives to colleges to leave the FFELP program and enter the direct loan program by giving monetary incentives to those schools. Mr. Simpson indicated that the changes in lender yield affects borrower benefit programs. Mr. Simpson indicated that the present federal budget includes proposals that would lower the lender yield by at least 25 basis points which would impact RISLA's ability to offer, for example, 3% off on Stafford Loan origination fees and 1% off on Parent PLUS loans and its Nursing, Teacher, and Pharmacy Reward programs.

Mr. Simpson discussed RISLA's opportunities, which include:

- The position of RISLA as a low cost lender
- The possibility of expanding the College Planning Center
- Expansion of the SAT preparation program
- Legislation to expand Nursing Reward Program
- Increase market share
- Additional services to schools
- Direct marketing

Mr. Simpson then discussed RISLA's loan products.

RISLA Stafford Loan:

- RISLA has paid the 3% origination fee for the last two years
 - Saves borrowers approximately \$514 over 4 years – lower borrowing burden
 - In 2004/2005 Rhode Islanders saved approximately \$3.3 million dollars through this incentive
- RISLA reduces interest by 1% through ACH payment
- RISLA provides a 2% interest reduction after 36 on-time payments
- Possible increase to loan limits for 1st and 2nd year students

RISLA Advantage PLUS Loan

- Discounts federal interest rate by 1%
 - Discount has been in effect since 1994
 - Saves parents thousands of dollars
 - Rhode Islanders have saved \$7 million since inception of program

Consolidation Loan

- Marketed with Nelnet
- Current law: borrower can fix interest and extend payment up to 30 years

- Proposed law: borrower will have choice of either fixed or variable rate
- Proposed law: borrower pays origination fee
- .24% interest reduction on ACH
- Other reduction plans in effect

Alternative Loans:

- CollegeBound Loan
 - Instant on-line credit decisions
 - Interest equals prime plus zero
 - No payment until 6 months after graduation
 - 15 year repayment
 - 4% repayment fee
- RI Family Education Loan
 - 4.95% fixed interest rate
 - Other terms same as CollegeBound Loan

Mr. Simpson discussed the relationship RISLA has with Rhode Island schools and provided an outline of the programs that are offered by RISLA at the Rhode Island schools.

Mr. Simpson discussed of the exceptional customer service provided by RISLA and in that regard explained various features of the agency's excellent customer service:

- Distinguishes RISLA from out of state competition
- Provides a local presence which is important for schools and borrowers
- Gives daily courier service to schools
- Provides default prevention programs
- Provides exit counseling
- Provides local disbursement to schools
- Provides loan consolidation counseling
- Technology plays a role
 - NESLA invests \$1000K in new phone system
 - Disbursement Middleware (ELM, Open Net, Nelnet)
 - Streamline internal process

Mr. Simpson discussed the College Planning Center and noted that it:

- Provides free higher education counseling to thousands of Rhode Islanders
- Provides one-to-one counseling as well as group programs
- Has satellite locations

- Provides assistance with completion of financial aid forms
- Provides an SAT program to seven (7) high schools
- Administers the Paul Sherlock Scholarship Presentations and workshops to high schools throughout the State.

Mr. Simpson provided a report on the relations RISLA has with the state government. Mr. Simpson noted that the Governor's office announced the SAT preparation program and results. Mr. Simpson reported that RISLA will transfer \$5 million to the State for FY 2004 and 2005 which will be used to supplement State Grant Program.

Mr. Simpson provided an update regarding the General Assembly. Mr. Simpson indicated that prior to January 1, 2005 RISLA had 2 seats on the board and there is pending legislation to appoint 2 new members. Mr. Simpson also indicated that there is legislation pending to expand the Nursing Reward Program and provide \$250,000 appropriation, and, pointed out that \$50,000 per year will go toward the Paul Sherlock Scholarship which Nelnet will fund for the next nine years.

Mr. Simpson next provided an update on the General Treasurer and Public Finance Board. Mr. Simpson noted that historically, RISLA receives all volume cap it requests and received \$100 million in 2004 and \$110 million in 2003.

Mr. Simpson indicated that RISLA has maintained contact with all 4 Congressmen. Mr. Simpson noted that Senator Reed was the keynote speaker at the RISLA/NESLA school conference in Newport. Mr. Simpson indicated that he, Mr. Souto, and Mr. Kelley have participated in Senator Reed's Financial Aid nights.

Mr. Simpson discussed how RISLA gets its message across and named several of RISLA's programs and affiliations which enable RISLA to do this. Some of which include:

- College Planning Center
- Financial Aid Nights
- RIHEAA/RISLA seminar for guidance counselors
- Press releases
- Free FAFSA preparation service
- SAT preparation
- Sherlock Scholarships
- Low cost loan programs
- Advertising (mainly print)
- Outbound call campaigns
- Cross marketing with Chamber of Commerce Central Rhode Island/Newport
- RISLA web site
- Word of mouth

- Job Fair

Mr. Simpson went on to discuss the aspects of the Teacher, Nursing and Pharmacy Reward Programs.

Mr. Simpson described the federal teacher reward in which there is up to \$17,500 in Stafford Loan forgiveness. Eligible participants must teach in a high need school as defined by the U.S. Department of Education, and the eligibility is limited to math, science, and special education.

Mr. Simpson described RISLA's relationship with NESLA/Nelnet. Mr. Simpson indicated that RISLA sold \$175 million in loans to Nelnet in March 2004. He also indicated that RISLA granted Nelnet a license to originate and market loans using the RISLA name, and that Nelnet paid \$13 million for the license. Mr. Simpson indicated that Nelnet agreed to maintain 22 RISLA employees for at least 3 years and 22 jobs in Rhode Island for at least 5 years. Mr. Simpson also mentioned that Nelnet created the New England Student Loan Authority.

Mr. Simpson indicated that all former RISLA staff (except 4) have moved to New England Student Loan Authority. Mr. Simpson indicated that NESLA is marketing in Massachusetts and Connecticut. NESLA provides marketing and tech support to RISLA. NESLA maximizes portfolio return on bond issues, manages the College Planning Center, and assists schools with loan delivery.

Mr. Simpson discussed in detail the competition with regard to the FFELP loan holders.

Mr. Simpson provided the Board with 9 reasons why Rhode Island needs a state sponsored educational loan agency, which include:

- Free higher education counseling
- Free SAT preparation course
- Free publications to RI high schools
- Zero origination fee Stafford Loan
- 1% discount on PLUS Loans
- Teacher, Nursing and Pharmacy Reward Program
- Customer friendly and efficient local loan delivery
- Loan consolidation
- College Bound Loan

Mr. Simpson discussed why the success of RISLA depends on the success of Rhode Island schools and provided an outline of the enrollment in Rhode Island schools in 2002 and 2003.

Mr. Simpson discussed in further detail the capital markets and that RISLA finances its student loans through the issuance of debt. Mr. Simpson indicated

that RISLA currently has \$803 million in bonds outstanding, and, as of January 31, 2005 RISLA held \$788 million in FFELP and Alternative Loans.

Mr. Simpson provided the Board with RISLA's current debt composition and current credit support.

Mr. Simpson discussed the current capital market challenge and indicated that interest rates on tax exempt auction notes have increased about 50 basis points in the past month. Corporations fund this market and generally interest rates rise in March as corporations use cash to pay taxes. Interest rates have increased higher than usual because accountants are forcing cash managers to reclassify tax exempt auction notes as investments rather than cash. The reclassification makes corporate balance sheets look less liquid.

Mr. Simpson indicated that the Board recently added a third remarketing agent to RISLA's auction rate securities. Mr. Simpson noted that besides Citigroup and UBS, RISLA has added RBC Dain Raucher as a remarketing agent. Mr. Simpson indicated that each firm has a substantial presence in remarketing auction rate securities for student loan insurers. Mr. Simpson noted that the addition of a third remarketing firm gives RISLA the additional ability to compare the performance of the remarketing agents.

The Star Act which was introduced by Senators Kennedy and Smith and Representatives Miller and Petri was discussed. This legislation would provide an incentive to schools to exit the FFEL program and enter the Direct Loan Program by increasing the Pell Grant allocations to direct loan schools.

Mr. Simpson discussed how the changes in lender yield affects borrower benefit programs. Mr. Simpson provided an overview of the President's budget and how it would affect the borrower benefit programs.

Mr. Simpson discussed both the College Access and Opportunity Act of 2005 (introduced by Rep. Boehner from Ohio) and the Access and Equity in Higher Education Act (introduced by Rep. Andrews from New Jersey) and their affect on student loans in Rhode Island.

Mr. Simpson indicated that RISLA needs to continually position itself as the low cost loan provider because of the competition. Mr. Simpson indicated that if we don't continue to promote RISLA the loan volume decreases, which would reduce RISLA's ability to offer its programs.

Mr. Simpson indicated that the College Planning Center currently has a budget of \$40,000 for advertising for FY 2005, and, the RISLA's advertising budget for FY 2005 is zero.

Mr. Simpson recommended raising RISLA's advertising budget to \$20,000 for FY 2005 and indicated that he will bring recommendations to the Board for FY 2006 budget.

Mr. Simpson expressed that there has been a need for expansion of the College Planning Center, and foot traffic at the mall is up 18% from the prior year. Mr. Simpson indicated that the College Planning Center continues to provide resources to guidance counselors, students, and parents. It also provides free assistance with filing out financial aid applications, and, promotes borrower benefits.

Mr. Simpson provided a list of what would happen if the College Planning Center closed or if the services were reduced. Mr. Simpson indicated that he will be reviewing the staffing levels of the College Planning Center with Mr. DeBlois and will consider hiring additional staff (perhaps Spanish speaking) if service levels are expanded.

Mr. Simpson discussed the SAT Prep service and indicated that the pilot program demonstrated that practice will increase scores. He indicated that Rhode Island scores are currently the last in New England, and, that there is a need to improve. Mr. Simpson added that higher SAT scores should lead to more merit aid for students. Mr. Simpson discussed what would happen to RISLA if it did not provide the SAT Test Prep service. Mr. Simpson indicated that RISLA should review the results of the FY 2005 program this summer and should contract, continue, or expand the program in FY 2006 based on the results this year.

Mr. Simpson indicated that the need for skilled nurses is projected to expand and that it is the fastest growing occupation in Rhode Island, and, that the growth of medical facilities in Rhode Island is limited by available nurses and other health professionals. Mr. Simpson noted that the State may provide \$250,000 appropriation. Mr. Simpson indicated that if the legislation is not enacted then RISLA would continue to provide a 48 month zero interest program. It was also noted that nursing enrollments are already at capacity. Mr. Simpson recommended that RISLA monitor enrollments in Nurse rewards program, continue to promote RISLA program at schools, and monitor legislation.

Mr. Simpson discussed the need to increase the market share in FFELP and Alternative Loans. Mr. Simpson explained that growth enhances RISLA's ability to offer its programs and that some Rhode Islanders cannot access RISLA's low cost loan programs. Mr. Simpson noted that growth strengthens RISLA's and NESLA's operations and provides RIHEAA additional guarantee volume. Mr. Simpson indicated that if RISLA and NESLA do not grow the competition may erode RISLA's revenue base, RISLA will not be fulfilling its mission, and RISLA and NESLA may have to scale back operations. Mr. Simpson recommends that RISLA continue its efforts to expand the market share, emphasizing schools where RISLA's market share is small. Mr. Simpson also recommends reinforcing

the market share at schools where RISLA's share is high, and, to assist NESLA's efforts to expand its market share in Massachusetts and Connecticut.

Mr. Simpson discussed providing additional services to schools.

Mr. Simpson also discussed direct marketing by RISLA to the student/borrower/customer who ultimately makes the final decision as to which lender they will use. Mr. Simpson indicated that RISLA has used small banks and credit unions to market to the consumer and that it has recently entered into an agreement with AAA Southern NE to market its loans. Mr. Simpson recommends RISLA continue to monitor the effectiveness of all marketing distribution channels, and, adjust resources as market conditions dictate.

Upon a by Dr. McKenna and seconded by Ms. DiSano it was is was unanimously

VOTED: To adjourn.

Dr. McKenna adjourned the meeting at 12:10 P.M.

Adjournment was at 12:10 P.M.

Dr. William Croasdale
Secretary/Treasurer