



The 230th meeting of the Rhode Island Student Loan Authority was held on Friday, June 17, 2005 in the 2nd floor Conference Room, 560 Jefferson Boulevard, Warwick Rhode Island. The Honorable Robert J. McKenna called the meeting to order at 12:15 P.M.

The following Board members were in attendance:

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

Members absent:

Ms. Laura Disano

Others in attendance:

Mr. Noel Simpson, Executive Director, RISLA
Mr. Kevan McAleer, Controller, NESLA
Ms. Charles P. Kelley, Executive Director, NESLA
Mr. David DeBlois, Director, College Planning Center
Mr. Joseph R. Palumbo, Jr., General Counsel
Ms. Shannon Brilliant, NESLA
Ms. Gail Mance-Rios, Deputy Director, RIHEAA

Upon a motion by Dr. Croasdale and seconded by Dr. Santoro it was unanimously

VOTED: To approve minutes from the board meeting held on May 20, 2005 and to move up the two action items.

Action Item #6

Mr. Simpson indicated that the resolutions in the board packet would authorize RISLA to enter into an extension of an existing letter of credit it has with Dexia Bank and to extend the letter of credit for an additional three years from June 30, 2009 to June 30, 2012. Mr. Simpson indicated that he has spoken with Karen Grande, Bond Counsel, as well as RISLA's underwriters at Citigroup and they have recommended that RISLA enter into this agreement. Mr. Simpson indicated that this agreement would lock in the pricing of letter of credit for an additional three years. Citigroup felt that the pricing was very good and Mr. Simpson reports that in addition RISLA got a concession from Dexia Bank to allow RISLA to place additional PLUS loans in the indenture from a 30% cap to a 60% cap which reflect the current volume of the loans that RISLA is making as well as the cash flows that have been run to support the bond issue. Mr. Simpson asked the Board for their favorable vote on the two resolutions. Upon on motion made by Dr. Santoro and seconded by Mr. Howell it was unanimously

VOTED: To accept the resolutions to extend the existing letter of credit with Dexia Bank and to extend the letter of credit for an additional three years from June 30, 2009 through June 30, 2012.

Action Item #7

Mr. Simpson indicated that this action item is related to an item in the budget. Mr. Simpson indicated that 95% of the budget was put together by Kevan McAleer who announced that he is taking a new position with NESLA.

Mr. McAleer provided a summary of the 2006 budget. Mr. McAleer indicated that the revenues have increased substantially based on the increase in student loan interest rates effective July 1 an average of 2%. Mr. McAleer explained that the bond interest expense has also gone up because of this. Mr. McAleer indicated that the SAT program is not in the budget because RISLA wanted to get feedback on the results of the previous program to determine its future. The SAT program budget will be separate and should be presented at the next Board meeting. Mr. McAleer indicated that student loan expenses are very similar to the prior year because RISLA doesn't expect that there will be a change in loan volume from one year to the next. Mr. McAleer indicated that the only numbers with fluctuations in the budget should be student loan revenues and the bond interest

expenses. Mr. McAleer has included the budget for the College Planning Center which has increased a little bit in terms of marketing expenses.

Mr. Howell asked about the increase in the budget for the College Planning Center.

Mr. McAleer indicated that there would be a 10% increase in the College Planning Center's budget due to the increase in personnel and advertising.

Mr. Simpson spoke about the personnel at the College Planning Center and how there is a need for more staff to be at the site at the College Planning Center because Mr. DeBlois has to travel to schools. Mr. Simpson indicated he would like to hire another full time staff member at the College Planning Center to allow for Mr. DeBlois to be able to get out to schools more often.

Dr. McKenna spoke about trying to attract people to the College Planning Center by having a presence at events such as tennis in Newport.

Mr. Simpson spoke about the present advertising campaign on the radio stations in the State. Mr. Simpson indicated that he would come back to the Board with specific recommendations for future advertising campaigns.

Mr. Simpson indicated that there has been a high call volume in the consolidation department.

Mr. Howell asked about the decline in the total personnel costs. Mr. Simpson indicated that a temporary lower level position has been added to fill Mr. McAleer's position. Mr. Kelley indicated that there was a search firm and advertising for a candidate for the position at NESLA and it was determined that Mr. McAleer was the best candidate for the position at NESLA. Mr. Kelley indicated that there won't be any disruption in the staffing at RISLA and will hopefully save RISLA money in the personnel budget by changing this to a lower level position.

Dr. Croasdale asked about a negative line item in the budget. Mr. Simpson addressed this issue and explained the reason this is going down is a reflection of where interest rates are heading.

Dr. McKenna asked the Board if there were any questions relating to the budget.

Dr. Croasdale thanked Mr. McAleer for his time with RISLA.

Upon a motion by Dr. McKenna and seconded by Mr. Howell it was unanimously

VOTED: To approve the RISLA budget for 2005-2006.

Mr. Simpson indicated that the announcement of the Paul Sherlock Scholarship recipients will take place next Wednesday at 11:00 AM. Mr. Simpson passed around to the Board members a thank you card from one of the recipients of the Paul Sherlock Scholarship award. Mr. Simpson indicated that out of 26 past scholarship recipients there was only one person who dropped out of school and the rest are enrolled in school. The person who dropped out of school was for a medical reason and was not a voluntarily drop out.

Mr. Simpson indicated that he feels that there are good quality people applying for the Sherlock Scholarship.

Dr. McKenna asked if there were comments from parents regarding the Sherlock Scholarship. Mr. Simpson indicated that he spoke to a parent who is very pleased his son has received this scholarship.

Mr. Simpson handed out to the Board a letter he received yesterday from the Boston office of the Department of Education which asks RISLA to provide the Department of Education with information on its bond issues. Mr. Simpson indicated that this is part of a project that the Department is undertaking to determine whether or not entities receiving the 9.5% floor income subsidy are eligible for that. Mr. Simpson indicated that there is currently an audit going on in New Mexico and the results of that audit are now public and articles have been published in the Washington Post and New York Times discussing the amount of subsidy paid out to the lenders over the past several years. Mr. Simpson indicated that what's missing in the newspaper articles is that the so-called subsidy paid out to lenders over the years is something that the Dept. of Education has specifically sanctioned and encouraged lenders to apply for over the years. Mr. Simpson understands that every entity that has received the 9.5% floor subsidy is going to be asked for information on their bond issues. Mr. Simpson said that RISLA will comply with this and provide the information necessary and feels comfortable that RISLA has complied with prior guidance that the Dept. of Ed. has provided to everyone in the industry of the appropriateness of receiving the floor income. Mr. Simpson indicated that this has been in place since approximately 1980 and was a provision put into the Higher Education Act during the time when interest rates were much higher than they are today to encourage lenders to participate in the loan program. Mr. Simpson indicated that only recently because interest rates have dropped to levels that no one conceived that the amount paid out to lenders has increased.

Mr. Simpson indicated that he understands that New Mexico has filed suit in federal court over this issue. Mr. Simpson also indicated that he has spoken with

Saul Moskowitz about this issue who felt very strongly that if the Department were to go against their prior advice given to the industry they would leave themselves wide open to actions from those in the industry.

Mr. Palumbo indicated that this issue has been a major discussion among the legal community who work in the student loan industry. Mr. Palumbo indicated that there is a string of guidance type memos from the Department of Education which run contrary to the position taken by the IG of the Department of Education in the New Mexico case. Mr. Palumbo indicated that New Mexico has brought a lawsuit against the Department of Education's IG asking for declaratory judgment that the position is wrong. Mr. Palumbo indicated that everyone who has spoken about this issue who is involved in the industry feel very strongly that the IG's position runs totally contrary to the guidance the Department has given over the years and on which agencies have relied in continuing to take advantage of the 9.5% floor rate.

Mr. Palumbo indicated that the worst case scenario on this issue is that RISLA should not have been getting the 9.5% on the loans that were in a pre-1993 floor rate eligible trust and no longer in a floor rate eligible trust and then RISLA would have to refund the difference on those loans to the federal government. Mr. Palumbo indicated that no one in the industry believes that this will happen.

Mr. Simpson indicated that RISLA is going to respond to the Department of Education and feels that this is just an inquiry from them and he will keep the Board apprised of what's going on with this situation.

Dr. Santoro asked what Nelnet's view is on this issue.

Mr. Kelley indicated Nelnet believes that the Department of Education is wrong but is concerned about the issue.

Mr. Simpson indicated that this is going to have a negative impact on Wall Street and will drive up the borrowing costs and makes it more difficult to offer attractive loan programs to students.

Separation of Powers

Mr. Simpson indicated that it appears that the legislature is looking at separating the RIHEAA and RISLA Boards and creating a separate appointing authority for the RISLA Board. Mr. Simpson indicated that he has had one conversation with folks in the Legislature and what he hopes to be accomplished is to retain the present Board structure because getting a new Board would be very disruptive. Mr. Simpson thinks there will be legislation addressing RISLA's Board structure which he thinks will be coming out in the next few days. Mr. Simpson has heard that this will go back to a seven member Board replacing one of the legislators with the General Treasurer and offering the Governor one additional appointment

to Board, which would bring the RISLA Board back to the seven member membership it had prior to the enactment of the separation of powers. Mr. Simpson indicated that he hasn't seen any specific language regarding RISLA.

Dr. McKenna asked if this would be a separate bill or part of the budget bill.

Mr. Palumbo indicated it would be a separate bill and RISLA is attempting to take out the language that would exclude non-residents from sitting on the Board. Mr. Palumbo indicated that it is not clear how the bill will come out.

Mr. Howell asked about maintaining an overlapping board. Mr. Simpson explained that a member of the RIHEAA Board by virtue of their appointment by the Governor to the RIHEAA Board would serve on the RISLA Board. Mr. Simpson indicated the change would be there would be separate appointments to the RISLA and RIHEAA Boards. Mr. Palumbo added that these could be the same individuals who are appointed to both Boards.

Mr. Howell asked if separate Board members are desirable.

Mr. Simpson feels that any member appointed by the Governor to the RIHEAA should also be appointed to the RISLA Board.

Mr. Palumbo explained that the purpose for linking the two boards initially is because the legislature saw these as two sister agencies who have a lot in common, which hasn't changed.

Mr. Simpson thinks what's driving the separation is the opportunity for more appointments.

Mr. Simpson said the way it was presented to him and Mr. Palumbo is that the legislature is looking toward two separate boards.

Mr. Simpson indicated that to his knowledge legislation regarding the RISLA Board has not been introduced yet.

Mr. Simpson spoke about Reauthorization and indicated that what he understands from Senator Reed's office is Reauthorization is going to be accomplished by the end of the year.

The Board agreed on July 13th for the next Board meeting.

Mr. Simpson and Mr. McAleer met with the auditors this week and they believe that despite the 9.5% floor issue they will be able to complete the audit by September 30th.

Mr. DeBlois spoke about the College Planning Center and indicated that things are moving quickly there. Mr. DeBlois indicated that the lease expires in August but he believes that it is too costly to increase in size. Mr. DeBlois indicated that there are no more areas available in the food court area of the mall. Mr. DeBlois indicated that it makes sense to stay in the same location.

Mr. DeBlois indicated that the numbers at the College Planning Center have been consistent. Mr. DeBlois provided the Board with results of the SAT scores from two schools and is waiting for the results from other schools.

Dr. Croasdale asked if the SAT scores could be measured for those who did take the SAT prep course compared to those who didn't take the SAT course at the particular schools.

Mr. Simpson indicated that the SAT program has not been included in the budget because he wanted to find out the results of the first year before determining

Mr. Kelley indicated that Nelnet has picked up Boston College as being on its preferred lender list, but has not able to convince Boston College to use RIHEAA as the guarantor.

Mr. Kelley discussed NESLA's relationship with AAA and how AAA has been helping NESLA market its consolidation programs. Mr. Kelley has indicated that the consolidation center has been working very hard to get students to lock in their rates before they go up in July.

Upon a motion by Dr. Croasdale and seconded by Dr. Santoro it was unanimously

VOTED: To adjourn.

Dr. McKenna adjourned the meeting at 1:10 P.M.

Adjournment was at 1:10 P.M.

Dr. William Croasdale
Secretary/Treasurer