

## **MINUTES**

### **HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY**

**May 24, 2006**

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on May 24, 2006 at 10:00 a.m. at its offices in Hamilton.

**PRESENT:** Michael Angulo, Esq.; Mr. James Avery; Ms. Dana Downer; Ms. M. Wilma Harris; Dr. Harvey Kesselman (teleconference); Ms. Rossy Matos; Ms. Jean McDonald Rash; Mr. Thaddeus Kukowski, Treasurer's Designee; Warren Smith, Esq. and Ms. Maria I. Torres, members.

Melissa Hager, Deputy Attorney General; Sonia Frontera, Esq., Governor's Authority Unit; and HESAA staff.

**ABSENT:** Mr. Mubarak Guy, Mada Liebman, Secretary of State

#### **CALL TO ORDER**

Chairman Smith called the meeting to order at 10:00 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Mr. Smith welcomed the Board members. He advised members of the public who wished to speak to register with Ms. Merci Powell.

Mr. Smith asked Ms. Powell to call the roll.

Mr. Smith welcomed Robin Bridges Johnson, Esquire, Director of Legal and Governmental Affairs for HESAA; Sonia Frontera, Esquire, Assistant Counsel, Governor's Authorities Unit, and Melissa Hager, DAG.

Mr. Smith also introduced and welcomed Dr. Joann LaPerla-Morales, President, Middlesex County College. Dr. LaPerla Morales will soon be appointed to the HESAA Board as our County College Representative. She became president of Middlesex County College in 2005, a continuation of her distinguished 45-year commitment to higher education as both teacher and administrator.

#### **CONSIDERATION OF THE MINUTES OF THE FEBRUARY 8, 2006 MEETING:**

Mr. James Avery made a motion to approve the minutes of the February 8, 2006 meeting. The motion was seconded by Ms. Wilma Harris. The minutes were unanimously approved.

**CONSIDERATION OF THE MINUTES OF THE APRIL 3, 2006 MEETING:**

Ms. Dana Downer made a motion to approve the minutes of the April 3, 2006 meeting. The motion was seconded by Dr. Harvey Kesselman. The minutes were unanimously approved.

**RESOLUTION 07:06 ADOPTING A SCHEDULE OF MEETINGS FOR FISCAL YEAR 2007**

Marnie B. Grodman, Esquire presented Resolution 07:06 to the Board.

Ms. Grodman stated that the Resolution 07:06 seeks to adopt a Board meeting schedule for FY 2006. HESAA staff had contacted each of the Board members and the dates were chosen based on the members' availability. Ms. Grodman requested and recommended that the dates of Monday, July 17, 2006, Tuesday, October 17, 2006, Wednesday, February 7, 2007 and Thursday, May 10, 2007, be adopted as the schedule for the FY 2007 Board meetings.

A motion to approve Resolution 07:06 was made by Ms. Wilma Harris and seconded by Ms. Maria Torres. The FY 2007 meeting schedule was approved unanimously.

**RESOLUTION 08:06 – CONSIDERATION OF ADOPTING PROPOSED OB/GYN STUDENT LOAN EXPENSE REIMBURSEMENT REGULATIONS, N.J.A.C. 9A:10-3.**

Marnie B. Grodman, Esquire presented this item to the Board.

The “New Jersey Medical Care Access and Responsibility and Patients First Act”, P.L. 2004 c. 17 was signed into law on June 7, 2004. (“Act”). Section 29 of the Act, establishes a student loan expense reimbursement program for obstetrician/gynecologists who agree to practice in State designated underserved areas. This program expires after three years. Pursuant to section 29 c. of the act, the Higher Education Student Assistance Authority (HESAA) is responsible for promulgating rules and regulations to effectuate the purpose of this section, including but not limited to: eligibility for the program, procedures for applications, selection of participants, establishment and nullification of contracts established with participants under the program, and reports to the program by participants. Funding became available in Fiscal Year 2006.

At its February 8, 2006 meeting the Board voted to propose adopting the attached Regulations and the Proposed Rule No. PRN 2006-84, was published in the March 20, 2006 New Jersey Register at 38 NJR 1368, on the HESAA website at HESAA.org, sent to the Statehouse News Media and Secondary notice was mailed to interested parties.

The OB/GYN Student Loan Reimbursement Program (“LRP”) provides reimbursement of NJCLASS and federal loans to obstetrician/gynecologists. An obstetrician/gynecologist who receives a payment under the LRP is required to practice

as an obstetrician/gynecologist in an underserved area in this State for a period of at least four years after receipt of the payment.

The LRP is funded through a \$1 million allocation from the Medical Malpractice Liability Insurance Premium Assistance Fund, established pursuant to section 27 of the Act.

The 60-day legislative review period for this rule expired on April 18, 2006, with no comments received. The public comment period for this rule expired on May 19, 2006 with no comments received.

After the expiration of the public comment period, we received comments and recommendations from Raymond Cantor, Director of Governmental Affairs for the Medical Society of New Jersey.

Mr. Cantor stated that while the \$120,000 redemption limit is a regulatory creation, they realize that it is consistent with the existing primary care loan reimbursement program and they support this limit. He also recommended that HESAA work with the Medical Society of New Jersey and other physician groups to communicate the existence program. HESAA staff agrees that this is a good idea and will use this resource as a marketing tool.

Mr. Cantor also suggested that the reimbursement be paid over a four-year period, as opposed to in a lump sum in order to alleviate a large tax bill. However, this programmatic change cannot be made, as the statute requires the participant to complete the four years of service after receipt of the loan redemption.

Mr. Cantor also recommended that HESAA determine why the existing primary care physician loan reimbursement program is underutilized. In actuality, as we will be advising Mr. Cantor, this program is not underutilized as the full appropriation is used each year and there currently is a waiting list for this program.

Mr. Cantor further recommended that HESAA prepare a report on how many physicians applied, how many received reimbursements and in what amounts, how many dropped out and why and how many maintained practice in New Jersey and in underserved areas once the reimbursement requirements no longer apply. This is a very helpful suggestion that will be taken under advisement by HESAA staff.

Finally, Mr. Cantor stated that the Medical Society for New Jersey supports the fact that the program is open to all obstetrician/gynecologists with applicable outstanding student loans and not just those newly in practice as well as the fact that participants are not prohibiting from also utilizing the medical liability subsidy provided by this act.

In light of the fact that no comments were received requiring substantive changes, it was recommended that the Board approve Resolution 08:06 – Adopting OB/GYN Student Loan Reimbursement Program Regulations, N.J.A.C. 9A:10-3.

After a brief discussion, motion to approve this resolution was made by Mr. James Avery and seconded by Ms. Maria Torres. Ms. Powell took a roll call vote and the motion passed unanimously.

**RESOLUTION 09:06 – CONSIDERATION OF PROPOSED AMENDMENTS TO THE NJCLASS REGULATIONS, N.J.A.C. 9A:10-6.3, 6.4, 6.11, 6.12, 6.13 AND 6.14.**

Tera Gervasio presented this item to the Board.

HESAA is responsible for the administration of NJCLASS pursuant to N.J.S.A. 18A:71C-21 et seq. NJCLASS is a state supplemental loan program available to undergraduate, graduate and professional school students with the main objective of making affordable student loans to students with additional unmet need. In order to meet this objective, HESAA has expanded the NJCLASS graduate and professional student program to meet current needs.

In 1996, HESAA initiated an NJCLASS loan program directed to graduate and professional students utilizing a variable interest rate. In light of the current environment of rising interest rates, HESAA finds it beneficial to utilize a fixed rate instrument to assist graduate and professional students and provide these borrowers with a loan program that provides additional funding at the lowest possible cost to meet their educational goals. The proposed regulatory amendments provide for the implementation and administration of this fixed rate program. Eligibility criteria for the new NJCLASS Graduate/Professional Student program are similar to the eligibility criteria previously utilized by the Variable Rate Program.

The regulations currently provide for NJCLASS consolidation loans. In 2005, HESAA initiated a pilot NJCLASS loan consolidation program to assist borrowers with high loan balances and provide them with longer repayment terms allowing for lower monthly payments. The pilot NJCLASS program allows borrowers with several NJCLASS loans to lock in one fixed interest rate. Borrowers with outstanding balances between \$30,000 and \$60,000 are provided repayment terms of 25 years, while borrowers with balances exceeding \$60,000 can obtain repayment terms of 30 years. The proposed regulations outline the NJCLASS Consolidation program's eligibility criteria, interest rates and repayment terms.

In response to constituent need, HESAA is aiding families by providing a longer repayment term for the fixed rate loan program. The repayment term for loans disbursed on or after June 1, 2006 has been extended from 15 years to 20 years. The proposed amendments provide for this service.

HESAA has also amended the regulations to more closely mirror the unemployment deferment periods offered by the federal student loan program.

After some discussion, motion to approve this resolution was made by Ms. Wilma Harris and seconded by Ms. Dana Downer. Ms. Powell took a roll call vote and the motion passed unanimously.

## **RESOLUTION 10:06 – APPOINTING INDEPENDENT AUDITORS**

Warren Smith presented this item to the Board.

Governor McGreevy's Executive Order (E.O.) 122 requires public authorities, agencies and commissions to create an Audit Committee. HESAA was already in compliance as we have always had an Audit Committee. Among other duties, the Audit Committee is charged with recommending to the Board the appointment of an independent auditor to conduct an audit of the Authority's financial statements. Under E.O. 122, an Audit Evaluation Committee is responsible for issuing a Request for Proposal (RFP) for auditing services, evaluating responses to the RFP, and forwarding its recommendation to the Audit Committee. After reviewing the Audit Evaluation Committee recommendation, the Audit Committee forwards the recommendation to the full HESAA Board for approval.

The HESAA Board appointed an Audit Committee consisting of Maria I. Torres, Nancy B. Style and Warren Smith. At the same time the Board formed an Audit Evaluation Committee, which included James Avery, Wilma Harris and Rossy Matos. In January 2006, at the request of Audit Evaluation Committee, staff at HESAA developed a RFP for E.O. 122 auditing services for review and approval by the Evaluation Committee. Following the Committee's approval, the RFP was circulated to forty-three (43) auditing firms. Of these, three firms attended a mandatory prospective bidders conference, and two responded to the RFP with proposals. The two responses, from Wiss & Company, LLC, and Mercadien, PC, were circulated to the Evaluation Committee for their review.

On April 21, 2006, the Audit Evaluation Committee met by telephone conference to evaluate these proposals. The Audit Evaluation Committee used the evaluation criteria contained in Section 7.0 of the RFP as the primary guidance in its selection process and determined that Mercadien, PC would provide superior services at a lower cost.

Based on their review and determination, the Audit Evaluation Committee prepared an Evaluation Report recommending that the Audit Committee recommend to the Board the selection of Mercadien, PC as the auditing firm for HESAA for the initial term of three years, beginning with the 2006 fiscal year, subject to two one-year extensions at the option of HESAA.

Upon review of the Evaluation Report, the Audit Committee agreed with the Audit Evaluation Committee's recommendation and recommended that the Board approve Resolution 10:06 – Appointing Mercadien, PC as Independent Auditor.

Mr. Avery commented that after careful review of the proposals Mercadien was head and shoulders above the competition.

A motion to approve this resolution was made by Ms. Wilma Harris and seconded by Ms. Dana Downer. Ms. Powell took a roll call vote and the motion passed unanimously.

### **CHAIR TO ANNOUNCE NOMINATING COMMITTEE APPOINTMENTS**

Mr. Smith announced that Wilma Harris agreed to chair the Nominating Committee and that Harvey Kesselman and Rossy Matos have agreed to be on the Nominating Committee. Mr. Smith thanked them for agreeing to be on this committee.

### **EXECUTIVE DIRECTOR'S REPORT:**

Mr. Michael Angulo delivered the Executive Director's report.

Good Morning everyone. Also, I would like to welcome our prospective new Board member Dr. Joanne LaPerla-Morales. I had the opportunity to sit down and meet with her earlier this month and look forward to working with her on this Board.

Let me first begin by thanking everyone on this Board for timely completing your financial disclosure forms. Having filled one out myself I truly appreciate the concerns that you may have had in filling them out, but your doing so ensures the continuity of this Board and ensures that our important work will go for the greater good of our students. I thank you again for submitting those forms in a timely manner.

Since we last met on April 3rd, HESAA has been extremely busy. The Authority has participated in the State's budget deliberation, completed our bond issue, launched the NJLIFE Stafford Loan Program, and has redesigned and expanded our supplemental loan program (NJCLASS). This was all done with an eye on improving higher education affordability and accessibility for New Jersey residents and those students who attend New Jersey institutions. Without question, the State's current fiscal situation has presented a daunting challenge. Nevertheless, I am proud to say that HESAA's dedicated staff successfully overcame numerous obstacles to maintain, indeed enhance, the Authority's effectiveness in the marketplace.

I am happy to report that NJLIFE has been fully implemented. As you may recall, NJLIFE is a federal Stafford loan designed to specifically assist those students with family incomes of less than \$25,000. NJLIFE's borrower benefits are unmatched... providing approximately \$8 million in savings to 25,000 of our neediest students each year. Under NJLIFE, a borrowers origination and default fees traditionally totaling 3% of the loan amount are waived and they can receive an additional borrower benefit of up to a 3.5% reduction in principal following 24 on-time payments. Students borrowing \$15,000 over a four-year period would save over \$1,400 when compared to loans directly available from the federal

government and approximately \$500 compared to other available student loan products. HESAA has expanded its already robust professional training platform to include NJLIFE, thereby ensuring that participating campus financial aid directors make NJLIFE available to their students.

With your advice and approval, NJCLASS has been restructured to serve our student borrowers. As Tera mentioned earlier, we are making some changes to the program. The NJCLASS Fixed-Rate Loan for undergraduate students will offer an interest rate of 6.4% (5.9% with auto debit) beginning June 1, 2006. This is 2.1% lower than the parental loan offered by the federal government, which is set at 8.5%. NJCLASS now offers a graduate/professional fixed-rate loan of 6.5% and again that is reduced through auto debit to 6%. In addition to favorable interest rates, HESAA is reducing its application fee by 1% on all NJCLASS loans, translating into more useable proceeds in the pocket of the borrower. Collectively, these borrower benefits make NJCLASS a superior choice compared to other alternative supplemental loan products. This year, NJCLASS will originate over 13,200 loans exceeding \$161 million.

The NJBEST 529 College Savings program continues to experience tremendous growth.

- Assets under management have increased from \$150.0 million in March 2003 to \$1.230 billion as of the end of April 2006. That's a growth rate of 800%, with the majority of the new participation from families with children under the age of five.
- Cumulative net investment returns for the youngest age group for the last three years is 76.2% as compared to the S&P index growth of 61%.
- The number of NJBEST participants has increased from 27,447 in March 2003 to 135,854 as of April 2006. That's a 400% increase.
- The average savings balance has increased from \$5,450 to \$8,320.

NJBEST has been the fastest growing 529 college savings plan in the nation over the last 4 quarters, and has performed well above the industry average. HESAA also continues to fund the NJBEST scholarships, ranging from \$500 to \$1,500 for eligible participants who attend college in New Jersey. These scholarships are paid out of Authority revenue, not State appropriations.

HESAA has been actively engaged in the State budget process. Earlier this year, we submitted the Board's budgetary recommendations to the Governor's Office. Recognizing the critical role student financial assistance plays, but facing an over \$4.5 billion deficit, Governor Corzine's recommended budget, as you may be aware, provides approximately \$290.1 million for various student aid programs, including the Tuition Aid Grant and Educational Opportunity Fund programs. This recommended budget increases funding for need-based student assistance

programs by \$6.3 million, while reducing non-need-based student aid programs by \$5.7 million. Obviously the State is facing a time where many difficult decisions have to be made. We're fortunate the Governor maintained the need-based programs at above levels compared to last year.

The recommended funding level for the Tuition Aid Grant (TAG) Program is \$214.7 million. At this funding level, students who demonstrate the highest need (those with NJEIs below 1500) would receive increased awards based on 2005-06 tuition levels, plus additional funds to offset approximately 5% of the 2006-07 tuition increases. Students with NJEIs greater than 1499 would receive increased TAG awards based on 2003-04 tuition levels, that's the 3-year lag and that's been the program for the past couple of years.

The budget calls for an appropriation of \$4.9 million for the Part-Time TAG Program for County College students. This represents an increase of \$490,000 over FY06.

Unfortunately, the merit-based programs, in particular OSRP, did not fare as well. The recommended appropriation of \$9.65 million for the Outstanding Scholars Recruitment Program represents a decrease of \$4.3 million compared to FY06. Funding at this level would support students currently in the program, but would not fund a 2006-07 freshmen cohort. I do have to recognize that this will create an additional burden on institutions participating in OSRP because this freshman class will have to be funded by those institutions and I commend Rutgers and the College of New Jersey for committing their resources already to ensure that those students will continue under this program. In addition, the Veterinary Medical Education Program is slated for elimination.

Level funding is recommended for all other programs administered by the Authority. It is important to note that both the NJSTARS I and NJSTARS II programs have been folded into a one-line appropriation in the budget with the combined program expenditures projected to be \$8 million.

Another critical component of HESAA's operations is the federal financial aid environment. As you know, we closely monitor federal legislative activity. The Federal Higher Education Reconciliation Act of 2005 (the "Act"), signed into law in February, includes a number of changes that will impact how we administer both the Federal student loan and TAG programs, as well as having a tremendous impact on institutions and students. This Act changed how dependency status, as well as need, is calculated. Some of the changes occur during this academic year, while other take effect next year. These changes will not impact TAG eligibility for the upcoming academic year, affording staff some time to determine their effect for the FY 2008 budget.

The Act also changed many provisions of the law regarding federal student loans. For example, effective this July:



- Stafford interest rates become fixed at 6.8%. They are now currently at variable rate loans.
- FFELP/PLUS rates also become fixed at 8.5%.
- Graduate and professional borrowers are now eligible for PLUS loans.
- Origination fees to students are reduced from 3% to 2%.

Among the more important aspects of this bill are two new grant programs – the Academic Competitiveness Grants and the National SMART Grants funded by a \$790 million appropriation for FY 06-07. These are extremely welcomed and needed new programs for our students.

The Academic Competitiveness Grants for FY 06-07 are for first and second year students, and range from \$750 to \$1300.

The SMART Grants – awarded to third and fourth year students – are up to \$4,000 per year.

These grant programs are for Federal Pell Grant recipients enrolled full-time in a degree program. They carry with them eligibility requirements, which include grade point average minimums; selected areas of concentration in math, science and critical foreign languages; and citizenship requirements.

One of the eligibility requirements – that a first year student have completed a rigorous secondary school program – has generated many questions. The definition of a “rigorous course of study” was left to the States, at their option, to define. Lucille Davy, Acting Commissioner of the Department of Education, in consultation with Executive Director Jane Oates of the Commission on Higher Education, and I carefully considered this and decided to accept the Secretary of Education’s guidelines for “rigorous study.” As defined by the Secretary, “rigorous study” is:

- an honors or advanced diploma program
- a State scholar initiative program
- a set of courses similar to those required under the previous program; and
- AP or IB courses and test scores.

While these two new grant programs are Federal, they will impact Pell-eligible students who are, in large part, TAG recipients. I will be contacting all of the institutional presidents regarding the administration of these programs, and offer our assistance with start-up and compliance issues. Again these programs are very helpful to our students and by utilizing the definition recommended by the Secretary, we will be able to capture the largest number of high schools to assist those students.

There is one outstanding PLUS loan issue that needs legislative attention as a result of the Act. The Deficit Reduction Act set different interest rates for the FFELP PLUS loans and the Direct PLUS loans. While we've heard that this was a drafting oversight, we believe that all students should receive the same federal benefit. And that no federal policy should go in favor of one group of Title IV recipients against another. We are working closely with members of the NJ delegation to rectify this situation.

In July 2007, changes will also take place for Stafford loans. Limits for borrowers will increase for freshmen and sophomores, as well as graduate students and those studying for advanced professional degrees. That was a lot of federal information and the handouts will provide further detail on those.

As we enter summer, I do not anticipate any let up in the Authority's vigorous agenda. HESAA staff will continue with outreach, marketing and training, locally and nationally. Last year HESAA met with over 40,000 parents, teachers, and educators, and again that is meeting face to face, throughout the State of New Jersey. Our goal is to eclipse that number. By continuing to spread the word about our many helpful grant, scholarship, loan and savings programs, we can help make higher education an affordable and accessible option for all New Jersey students.

Thank you Mr. Chair for the opportunity to present this report.

Dr. Kesselman asked questions regarding the federal need analysis. Fran Andrea explained that there have been changes to how the neediest recipients are defined. This will create more work at the campus level. Dr. Kesselman questioned if HESAA would be conducting workshops on the federal changes. Ms. Andrea advised him that we have already held two workshops and will be holding more in the future. Dr. Kesselman thanked HESAA for following through on its commitment for putting the lottery information on its website. Ms. Torres asked a question regarding dual degree programs. Ms. Andrea advised that we are waiting for more guidance from the U.S. Department of Education.

#### **NEW BUSINESS:**

Mr. Smith announced that Wilma Harris received an honorary doctorate from St. Peter's University.

Mr. Smith announced that the Board was honoring Dana Downer and Mubarak Guy, Chair and Vice Chair for the Student Advisory Committee. Mr. Smith read the resolutions and acknowledged and thanked them for their service and dedication to the Higher Education Student Assistance Authority Board, and stated that a copy of the resolutions would be noted in all the official records of the Authority. Ms. Harris moved

to accept these resolutions and Mr. Avery seconded the motion. The motion passed unanimously.

**ADJOURNMENT:**

Mr. Smith announced that the next meeting would be on July 17, 2006 at 10:00 am.

A motion to adjourn was made by Dr. Kesselman seconded by Ms. Torres. The motion passed unanimously.

Meeting was adjourned at 10:56 am.