MINUTES

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

February 7, 2007

The Higher Education Student Assistance Authority (HESAA) Board held a meeting on February 7, 2007 at 10:00 a.m. at the HESAA offices in Hamilton.

PRESENT: Mr. Michael Angulo, Esq.; Mr. James Avery (teleconference); Dr. Harvey Kesselman (teleconference); Dr. Joann LaPerla-Morales; Ms. M. Wilma Harris; Ms. Rossy Matos-Miranda; Ms. La-Trenda Ross; Mr. Warren Smith, Esquire, Ms. Nancy Style, Treasurer's Designee; Mr. Raymond Castor and Ms. Maria I. Torres, members.

ABSENT: Mr. Kevin Collins and Ms. Jean McDonald Rash.

CALL TO ORDER

Chairman Smith called the meeting to order at 10:04 am and stated that the meeting had been noticed in compliance with the requirements of the Open Public Meetings Act.

Chairman Smith asked Ms. Merci Powell to call the roll.

Chairman Smith welcomed the Board members, Melissa Hager, Esquire, Deputy Attorney General; and Sonia Frontera, Esq., Governor's Authorities Unit.

He advised members of the public who had signed up to speak to identify themselves to Ms. Mercedes Powell.

CONSIDERATION OF THE MINUTES OF THE OCTOBER 17, 2006 MEETING:

A motion to approve the minutes of the October 17, 2006 meeting was made by Mr. Avery and seconded by Ms.Torres. The minutes were unanimously approved.

RESOLUTION 01:07 – CONSIDERATION OF PROPOSED READOPTION WITH AMENDMENTS OF REGULATIONS GOVERNING THE GRANT AND SCHOLARSHIP PROGRAMS, N.J.A.C. 9A:9

Sherry Fox and Marnie Grodman, Esq., presented this item to the Board.

On August 2, 2007 N.J.A.C. 9A:9, the regulations governing the grant and scholarship programs are set to expire. Accordingly, HESAA staff has reviewed the rules to be proposed for readoption and determined them to be necessary, reasonable and proper for the efficient operation of the grant and scholarship programs for which they were originally promulgated. The readoption of these rules will ensure the continuity of these programs and the proposed amendments will create more clarity and efficiency for the students and institutions that participate in these programs.

Ms. Fox and Ms. Grodman summarized the highlights of the proposed amendments.

The amendment to subchapter 1.2 clarifies that members of the Student Advisory Committee must be NJ residents and U.S. citizens or eligible noncitizens.

In subchapter 2.1 the amendment clarifies the definition of an eligible institution. Previously, eligible institution was defined by cross-referencing the statutory definition. The proposed amendment incorporates the statutory definition and expands upon that definition by explaining what it means to be in the State of New Jersey.

Additionally, the amendment describes the existing procedure that has not previously been in regulations that an institution seeking to participate in State grant and scholarship programs must follow.

The amendment to subchapter 2.16 puts in regulation the existing procedure institutions must follow if they wish to appeal HESAA's Program Review findings. Additionally, language was added that indicates that when institutions have not properly applied program rules and regulations they may be placed on reimbursement status and may not receive advance payments.

Subchapter 3 has been updated to reflect the creation of the Part-Time TAG for County Colleges Program. In addition, the statutory approval and award value differences between this program and the Part-Time TAG for EOF Students Program have been incorporated.

Currently subchapters 5.5, 7.3 and 8.4 specify that a student receiving assistance through the Survivor Tuition Benefit, World Trade Center Scholarship, or Law Enforcement Officer Memorial Scholarship Programs is not eligible to receive funding for a second baccalaureate degree but does not specify that a student is not eligible for funding for a second associate degree. The proposed amendments clarify that a student receiving assistance through these programs who has received either a baccalaureate or associate degree may not receive funding to pursue another degree at the same level.

The proposed amendment to subchapter 7.4 reflects a legislative change to the World Trade Center Scholarship Program that was enacted on January 17, 2007. The amended statute expands Program eligibility to dependent children and surviving spouses of persons who had direct contact with the September 11th attack sites, such as first responders, rescue and recovery workers, and other persons, who died as a result of illness caused by exposure to the attack sites, as established in medical records or other appropriate documentation as may be deemed necessary by the World Trade Center Scholarship Fund Board upon specific case review.

Subchapter 9 sets forth the policies and procedures for the Paul Douglas Teacher Scholarship Program. This Federal program provided scholarships for students who were studying to become teachers. The enabling statute for this program, 20 U.S.C.A. 1111, was repealed in 1998.

The proposed amendments to subchapter 9 delete 9.1-9.8 because they contain obsolete language as students can no longer apply for or receive this scholarship. The students currently in this program are fulfilling their teaching requirement, are repaying their scholarships or are in default status. N.J.A.C. 9A:9-9 through 9.15 are the regulations applicable to these situations, and are being renumbered as 9.1-9.7 for readoption.

Other amendments are being proposed to reflect updates to Federal law, statutorily authorized practices, and stylistic changes to conform to updated Office of Administrative Law rules.

Board approval was requested of Resolution 01:07 proposing the Readoption with Amendments of Regulations Governing Grant and Scholarship Programs, N.J.A.C. 9A:9.

Dr. Kesselman asked for a clarification as to whether there were changes to the chart in subchapter 2.11. Ms. Fox responded there were no changes and that is why the chart is not reprinted.

A motion to approve this resolution was made by Ms. Style and seconded by Ms. Avery. Ms. Powell took a toll call vote and the motion passed unanimously.

RESOLUTION 02:07 – APPOINTMENT OF BOND ISSUE TRUSTEE

Robert Clark, Controller, Accounting, presented this item to the Board.

Since the program began in 1991, the trustee for the HESAA Bonds issued to fund the NJCLASS & FFELP Secondary Market Loan Programs had been Wachovia Bank and its predecessor banks. In early 2006, Wachovia Bank, NA, announced the sale of its Corporate Trust Department to US Bank. The conversion date announced by US Bank for transition of services to its systems and accounts was September 5, 2006. After the announcement of this merger, US Bank demonstrated a lack of attention to the technical and operational details, as well as the time constraints of the conversion process. After repeated contacts by HESAA urging US Bank to move forward with conversion issues, weekly conference calls finally began in mid-June to plan and discuss the information technology and operational conversion issues, with the goal of achieving a smooth transition and uninterrupted service. This conversion process proved difficult, and we encountered resistance from US Bank to accommodating HESAA file layouts and process flows. Subsequent to the cutover, HESAA experienced severe, recurring problems with loan disbursements and other transactions. Many of these problems resulted in incorrect disbursements to our client institutions, which required much time & effort on the part of our staff to correct. After these recurring problems were communicated to US Bank management in a conference call in November 2006, no substantive actions were taken to make the needed upgrades to its processing procedures and systems, improve its internal control structures in order to eliminate errors, or provide sufficient staff to support HESAA's disbursement needs during peak periods.

In order to meet its ongoing objective of providing outstanding service to its client institutions and borrowers, HESAA issued a Request for Proposal for corporate trust services for the NJCLASS/FFELP Programs on November 3, 2006.

Three banks with corporate trust departments, Bank of New York, M&T Bank, and Wells Fargo Bank, submitted proposals for consideration.

A Trustee Selection Committee composed of HESAA managers and staff evaluated the proposals and made a recommendation to HESAA Executive Staff for their review and approval. Detailed information about the evaluation process and the results are contained in the enclosed materials.

Based on the factors cited above, the Authority staff recommends the selection of **Wells Fargo Bank** as the successor Trustee for the NJCLASS/FFELP Loan Programs. We require a decision by the board to appoint Wells Fargo as successor trustee at today's meeting, in order to incorporate the trustee change into the planning for the 2007 HESAA Bond Issue, as well as achieve a service start date of May 1, 2007, to accommodate the loan origination and disbursement cycle for the next academic year. We welcome your comments and questions regarding the selection of a successor Trustee for the NJCLASS/FFELP Programs.

Board approval was requested of Resolution 02:07 – Appointment of Bond Issue Trustee.

Mr. Avery complimented the Evaluation Committee on their comprehensive evaluation as well as their section. Chairman Smith agreed. Ms. Harris seconded the compliment and added they should also be complimented for the speed in which they addressed the situation.

A motion to approve this resolution was made by Ms. Harris and seconded by Mr. Castor. Ms. Powell took a toll call vote and the motion passed unanimously.

REPORT OF THE PROGRAM REVIEW AND QUALITY CONTROL COMMITTEE

Rossy Matos-Miranda reported that the Program Review and Quality Control Committee met on Monday, January 29, 2007. Included in this meeting were Warren Smith, Rossy Matos-Miranda and HESAA Staff members. Ms. Matos-Miranda provided the Board with an overview of the topics discussed at the Committee meeting.

Kenneth Jones, Director of Audits and Quality Assurance gave the following report:

HESAA is responsible for ensuring that all state and federal student financial assistance programs administered by HESAA are in compliance with federal and state guidelines. To ensure compliance the Audits & Quality Assurance unit conducts Federal Family Education Loan (FFEL) Program Reviews (lenders and schools), Institutional Management Reviews focusing on State Grants & Scholarships Programs, Special Counsel Reviews, Internal Control Reviews and Evaluations, and Quality Assurance Reviews of HESAA's programs.

Federal Regulations requirement Guaranty Agencies take all necessary measures to ensure the vigorous enforcement of all federal, state, and guaranty agency requirements. To ensure compliance with this requirement, HESAA's Audits & Quality Assurance unit conducts biennial reviews of HESAA's ten largest lenders. These reviews are conducted jointly with 31 Guaranty Agencies under the Common Review Initiative, a pilot program approved by the U.S. Department of Education. All ten of HESAA's largest lenders or their designated service provider fall within the parameters of CRI. USDE recently authorized the extension of the CRI pilot program through CY 2007.

For the current biennium (Review Cycle 11), which began on January 1, 2006, A&QA staff participated in three CRI reviews (one as the team leader) required by HESAA to satisfy the federal mandate to review the Authority's "Top 10 Lenders." The remaining three lender/servicer reviews required by HESAA are scheduled for CY 2007 and are listed on the 2007 Review Schedule.

In addition, HESAA is also required to conduct reviews of all schools whose cohort default rate exceeds 20 percent (that have at least $100,000 of loans entering repayment in each of the last two years). For CY 2006, HESAA was not required to conduct any FFEL Program school reviews, however, for CY 2007 one institution's cohort default rate exceeds the 20% threshold and is required to be reviewed. This review has been scheduled for June 2007.

Chairman Smith asked if the pilot program was working and Mr. Jones responded that the program was working very well. The USDE is seeking permanent approval of the CRI Program which is a more through and comprehensive review focusing on attribute testing that the reviews previously conducted by the guaranty agencies individually.

Mr. Jones continued reporting on the Outstanding Scholar Recruitment Program. In CY 2006, HESAA conducted program compliance reviews of the Outstanding Scholar Recruitment Program (OSRP) at the 15 participating institutions.

OSRP began in 1998 as a partnership between the State of New Jersey and participating higher education institutions located in the State of New Jersey. The goal of the partnership is to recognize and retain New Jersey's high achieving students. The institutions are responsible for the identification and recruitment of eligible scholars. OSRP funds are only awarded to students enrolled at a participating institution. The award is merit based with funding for each award shared between the institution and the State without restrictions on eligibility based on family income.

Administration requirements are included in the OSRP program participation agreement signed by the institution and the Higher Education Student Assistance Authority. The agreement is renewed annually. Administration requirements include proper recording and reporting of Outstanding Scholar Recruitment Program funds and student eligibility criteria for both initial & renewal recipients.

15 institutions were reviewed, 7 final reports, and 4 draft reports were issued, 2 draft reports are being finalized and 2 draft reports in process. We found most schools to be in compliance with

program requirements. The state share of OSRP funds for the 3 academic years reviewed (2004-2006) was $40,298,000 awarded to 15,540 students. Monetary findings total $670,000 ($505,000 due from 2 institutions). $265,000 has been recovered and $405,000 is pending. Common findings from the audits include the following:

- Institutions commingled OSRP funds with institutional awards.
- Failure to refund unexpended state funds in a timely manner.
- OSRP funds awarded to ineligible students.

HESAA also conducted two management reviews to ensure that these participating institutions administer their State Grants & Scholarships programs in accordance with all applicable federal and state statutes, regulations, policies and procedures. These reviews are conducted jointly with the Director of Financial Aid Services, with assistance from Grants & Scholarships subject matter experts.

These management reviews are also designed to provide institutions with recommendations on how to improve their enrollment management (admissions, registration, bursar/finance and financial aid office) operations and delivery of the State Grants & Scholarships programs, as well as ensure compliance with state and federal statutes and regulations. Both reviews are in process.

HESAA conducted compliance reviews at all eight Special Counsel. These attorneys are responsible for collection activities on approximately 18,800 defaulted student loan accounts. Their portfolios range in size from approximately 350 to 7,700 accounts. The Audits & Quality Assurance unit is finalizing these reviews and expects to have the review reports completed by March 31, 2007.

For CY 2007, HESAA plans to conduct reviews of two new collectors: Solomon & Solomon and General Review Corporation. These reviews are scheduled for May and July, respectively.

Mr. Jones provided the Board an overview of the reviews scheduled to be conducted in CY 2007.

Ms. Harris asked if anything learned from the audits could help with processing at this end. Mr. Jones replied that HESAA is actually changing some of its procedures in choosing samples to ensure that the proper attributes are being tested. Mr. Avery questioned whether Guidance Counselors were ensuring that students knew about OSRP. Mr. Jones responded that we are not able to test where students are getting their information however; all eligible students are getting their scholarships.

Mr. Angulo explained the importance of the auditing process due to the budget constraints to ensure that money is being used appropriately and can be recuperated if it is not. This money is then used to fund additional programs. This helps students and the budget.

Ms. Harris commented she finds it disquieting that money is commingled so the State and HESAA are not getting the “biggest bang for their bucks.” Ms. Style asked if the recuperated money is coming from the institutions or the students. Mr. Jones responded it is coming from the institutions, no students are being harmed.

Dr. Kesselman stated that institutions are not trying to slight the State, but are trying to maximize use of funds, which leads to combining state and institutional scholarship monies.

Mr. Angulo clarified that there was no allegation of intentional misfunding. Dr. Kesselman stated that other states are mirroring the grid New Jersey uses to show award packages. Ms. Harris reiterated that her statement was just a question as to whether we are getting as big a bang for the buck.

Mr. Jones stated that most of the participating schools were found to be in compliance with OSRP program requirements and HESAA was pleased with the results.

Dr. Kesselman said that he was happy to hear that because students do not always understand when they are getting State money versus Federal money and he believes that HESAA is doing an extraordinary job and he hopes that the institutions are doing as well.

Ms. Matos-Miranda moved that the Board accept the Report of the Program Review and Quality Control Committee, Ms. Torres seconded the motion and it passed unanimously.

REPORT ON 2006 DANA CHRISTMAS SCHOLARSHIP AWARD RECIPIENTS

Gloria Green reported on the 2006 Dana Christmas Scholarship Award Recipients. The press release and memo from the Executive Director regarding the details of these awards were distributed at the meeting. Chairman Smith announced that approximately 45 applications were received and reviewed. Each year it becomes more difficult to choose the scholarship recipients as these are very brave young people whose heroic measures have even put themselves in peril.

EXECUTIVE DIRECTOR'S REPORT

E. Michael Angulo gave the following report to the Board:

I would like to welcome Sister Buley to the meeting and announced in addition to Sister Buley, there have been two other nominations to the HESAA Board.

Over the past 12 months, HESAA has experienced significant growth in the number of TAG recipients, initiated the NJ STARS II program, increased the number of institutions participating in the FFEL Program, and shattered the prior benchmark for dollar and loan volume for the NJ CLASS program. We have surpassed many of our programmatic objectives, without any sacrifice in the level of quality services NJ students and families have become accustom to. For FY 2008, HESAA will continue to work with the Treasurer/OMB, and the Governor's Office to ensure that TAG receives favorable consideration in the face of another difficult State budget. While New Jersey's budget is typically a vanguard consideration for this Board, it is important to note that our challenges are not limited to local issues.

We are currently at a significant juncture in federal higher education financing. The new 110th Congress has proposed numerous changes to federal student aid programs which may have unintended consequences for the students and families HESAA serves. The Congressional agenda, while predicated on the best of intentions, may have a negative impact on the parties it is intended to assist. We are encouraged that the legislation includes a direct reduction in student loan interest rates and Pell grant increases. The Authority strongly endorses these changes since they benefit students. However, the Authority does not endorse the funding mechanism proposed to effectuate these student benefits.

Specifically, the College Student Relief Act, passed by the House of Representatives on January 12, 2007 and the Student Debt Relief Act, introduced in the Senate last month, each call for reducing the student loan interest rates in half, from the current 6.8% to 3.4%, on new Subsidized Stafford loans over a five year period. However, in order to fund this reduction, a series of cuts to providers under the Federal Family Education Loan (FFEL) Program have been proposed. The proposal calls for a 7% reduction, over four years, in collection costs on defaulted student loans.

As you are aware, HESAA is a "not for profit guaranty agency" that earns revenue from the administration of the FFELP program. The decrease in collection revenue would negatively affect our neediest students. For example, in the NJ LIFE Program, students from low-income families may receive up to a 3.5% reduction in principal after graduation and 24 consecutive payments. This benefit over time results in a substantial reduction in the cost of financing the student’s education. One can clearly foresee the detrimental impact this recommended funding mechanism will have on guaranty agencies, like HESAA, whose revenue is reinvested back into the State’s financial aid programs, services and our students.

These federal proposals would negatively impact HESAA’s, and therefore the State’s, ability to support the administration of grant and scholarship programs, TAG, Part-Time TAG at the County Colleges, and NJ STAR, collectively serving over 75,000 low-income students each year. Moreover, our outreach activities, our guidance counselor workshops, our default aversion and financial literacy programs, would be jeopardized.

Additionally, the Senate bill offers incentives to schools that switch from the FFEL Program to the competing Federal Direct Loan Program in the form of additional Pell grant funds. This effectively subverts the competitive marketplace model. As a result, **students** at nearly 75% of New Jersey institutions would be **ineligible** for these new Pell dollars since their institutions voluntarily participate in the FFEL Program. This proposal contravenes the pre-eminent founding principle of the Pell Grant Program, grant assistance to students based solely on need. We believe any grant increases must be extended to all students regardless of the loan delivery system utilized by an institution.

Increasing grants and decreasing student indebtedness are state and national imperatives; however, neither of these objectives should be accomplished at the expense of the current student aid programs. HESAA is urging members of Congress to identify a NEW source of funding for the interest rate reduction and grant increases instead of undermining long standing effective programs.

We ask for your support in encouraging our delegation to ensure that any federal legislation does not provide incentives to institutions for switching from the FFEL Program to the Federal Direct Loan Program. Since 1993, each institution has been free to select the loan program that provides the highest quality of service and the lowest cost to students. We encourage the healthy competition two programs has fostered. As envisioned when the competing programs were first created, each institution could objectively consider which program is best for its students. This should be the ultimate goal, regardless of program type. HESAA will continue to monitor this situation and update the board on our discussions with members of the New Jersey Congressional delegation.

At the same time that Congress is introducing the above legislation, the U.S. Department of Education negotiated rule-making sessions have begun in Washington DC. We are fortunate that HESAA's CFO, Gene Hutchins, serves as an alternate on the Negotiated Rulemaking Committee for Student Loan Issues. One of the items to be addressed is a list of prohibitions with regard to Guaranty Agency practices. Many of these prohibitions parallel the FFELP community's Proposed Business Code, however, provisions related to services and assistance provided to the institutions and students we serve run contrary to the core mission of Guaranty Agencies and the FFEL Program.

The role of the FFEL Program has expanded over the years to provide comprehensive financial aid services, whether for loans or grant. These services include extensive public awareness and outreach activities especially in underserved communities, student and parent counseling, on campus financial literacy training and student exit counseling, extensive delinquency and default aversion activities, and the recovery of funds on those which do default despite best efforts. Through these efforts, the Authority assists over 1 million constituents each year.

The end result has been an increased awareness at the grassroots level. Students and families better understand the nature of and the financial responsibilities associated with student loan borrowing. Consequently, far fewer students are defaulting on their loans. This preserves not only the federal fiscal interest, but also the best interests of our students. Overall, the fiscal health of the FFEL Program has consistently improved year by year.

I cannot emphasize enough that marketplace competition drives enhanced student benefits and services. This has been facilitated through close partnerships between the guaranty agencies and the schools with critical support from lenders. To inaccurately categorize services provided to the students and institutions as "inducements" based on the amount of time spent on campus by the financial aid professionals employed by the public or non-profit guaranty agencies are, at best, short sighted, and fail to recognize the synergies that have been achieved in terms of the overall effective administration of the FFEL Program. Furthermore, in light of the severe cuts to New Jersey's higher education community, the financial aid expertise and assistance HESAA offers, at no cost to the institution, is all the more critical. Indeed, guaranty agencies have contributed to institutions achieving efficiencies in their financial aid delivery processes and, in part, have helped mitigate tuition increases. Guaranty agencies are on the ground in every state and are sensitive to localized issues faced by students, parents and institutions. Currently, this is the best example of a successful federal/state, public/private partnership achieving desired goals.

The close working relationships between the guaranty agencies and the institutions should be placed in the appropriate context. There is no for profit motive in the services provided. In fact, dollars earned from the administration of FFELP are, by law, reinvested back into services and benefits for students. By proposing to put artificial barriers in place based on a false supposition of "inducements" fundamentally erodes the gains that have been realized over the last decade. It is this perspective that will be advocated with the rulemaking committee so that the negotiated rulemaking process yields informed results.

I would next like to share with the Board two important collaborative activities involving HESAA and our financial aid partners.

The Authority was pleased to co-sponsor a working group on Higher Education Reauthorization with the Commission on Higher Education. This was one of a series of working groups scheduled by the Commission on Higher Education throughout the month of January with the objective of delivering a global State position paper to the New Jersey Congressional delegation. The Financial Aid Issues meeting was focused in the areas of Pell Grants, Campus based aid programs, LEAP/SLEAP, need analysis, simplification of the FAFSA, the FFEL and Direct loan programs and Loan Forgiveness. Each subsection of the statute is being evaluated and, upon completion, a comprehensive series of recommendations will be submitted to our delegation. We are grateful to Jane Oates at the Commission, and all of the key individuals from the various sectors who have participated in this very important and painstaking work.

I am proud to report that College Goal Sunday, held on January 28th at seven locations throughout the State, was a resounding success. As you may recall, College Goal Sunday is a national initiative intended to encourage students to timely apply for financial aid. Over 1,000 students and families participated. We were also able to award a $500 scholarship to an attending student at each location. During CGS, financial aid professionals volunteered their Sunday to conduct workshops in English and Spanish, assist families with applying for their Personal Identifier Number, and complete the financial aid application, the FAFSA. The NJ Association of Student Financial Aid Administrators (NJASFAA), and HESAA are pleased to coordinate this event each year. Thank you to the many volunteers from NJASFAA, HESAA, the Commission on Higher Education, and the TRIO and Gear Up Programs who were instrumental in making this event a success. We look forward to continuing this project and increasing participation in the years to come.

Notwithstanding the daunting challenges posed by our difficult State budget and the federal activities mentioned earlier, I remain extremely optimistic about our continued ability to provide top-quality programs, services, and administrative support. I say this knowing the high level of proficiency and commitment by HESAA staff, the strong gubernatorial, congressional, and legislative support we have, the technological improvements underway at the Authority, and the many revenue-enhancing opportunities we are now considering. The Authority is well positioned for future growth and success. We have much to look forward to.

Mr. Avery thanked Mr. Angulo for the report and questioned whether we have been able to communication our concern about federal actions to students and parents. Mr. Angulo responded that we are working with our congressional delegation as well as the Governor and the Legislature to best protect our students.

ADJOURNMENT

Chairman Smith announced that the next meeting would be on May 10, 2007 at 10:00 am.

A motion to adjourn was made by Ms. Harris seconded by Mr. Castor. The motion passed unanimously.

The meeting adjourned at 11:00 a.m.