

Approved – October 26, 2011
New York State Higher Education Services Corporation
Board of Trustees Meeting
Minutes
April 27, 2011
11:00 a.m.

The meeting was called to order by Chairperson Eileen Bagnoli at 11:05 a.m. The following members of the Board were in attendance: Ms. Eileen Bagnoli, President and Chief Executive Officer of Pioneer Savings Bank; Ms. Angela Van Dekker, Associate Vice President of Student Financial Services at Fordham University; Mr. Philip Williams, President of the Utica School of Commerce; Mr. Charles DeLaney, Director, New York Institute of Photography and the Sheffield School; Dr. Robert Ptachik, designee of Dr. Matthew Goldstein, Chancellor of the City University of New York (CUNY); Mr. Stan Hansen, designee of Dr. David Steiner, Commissioner of the New York State Education Department (SED); Ms. Patricia Thompson, designee of Dr. Nancy Zimpher, Chancellor of the State University of New York (SUNY); Mr. Cory Provost, Chairperson of the University Student Senate, CUNY; and Mr. Alan Klinger, Co-Managing Partner of Strook & Strook & Lavan LLP.

Present for the Agency were: Ms. Elsa Magee, Acting President & Executive Vice-President; Ms. Cheryl Fisher; Mr. Kirk Schanzenbach; Mr. George Kazanjian; Mr. Aaron Pisacane; Mr. Frank Ballmann; Mr. John Austin; Ms. Aleah Wendell; Mr. Satoshi Inoue; Ms. Cori Biviano; Ms. Kathy Crowder; Ms. Christine Konsistorum; Mr. Charles Treadwell; Mr. Victor Stucchi; Mr. Matthew Downey; and Mr. Thomas Brennan.

Present for the Leadership Council: Mr. Daniel Tramuta, Associate Vice President for Enrollment at SUNY Fredonia and President of the New York State Financial Aid Administrators Administration (NYSFAAA).

Also in attendance were: Ms. Anne Doyle; Ms. Lisa Simpson; Mr. Bernie Maskell; Mr. Louis Christie; and Ms. Pat Spath.

Nominating Committee Report

Mr. Williams, Chairman of the Nominating Committee, reported that the Committee, comprised of Mr. Charles DeLaney, Ms. Angela VanDekker and himself, met on April 13, 2011 to fill the vacancy on the Audit Committee and selected Mr. Alan Klinger. Mr. Williams also announced that he would be serving as Chair of the Audit Committee and that Ms. Eileen Bagnoli would continue to serve as a member of the Audit Committee.

Welcome to New Board Member and HESC staff

Chairwoman Bagnoli introduced and welcomed new Board and Audit Committee member Mr. Alan Klinger, Co-Managing Partner of Strook & Strook & Lavan LLP, as well as Mr. Kirk Schanzenbach of Bollam, Sheedy and Torani (BST) consulting firm, Interim Director of HESC's Audit Division.

Approval of September 22, 2010 Minutes

Chairwoman Bagnoli asked for a motion adopting the draft minutes from the September 22, 2010 Board meeting. Mr. Williams moved to adopt the minutes and Mr.

Provost seconded the motion. The motion passed unanimously and the minutes were adopted without change.

Chairperson's Report

Chairwoman Bagnoli was pleased to report that the 2011-12 New York State Budget was enacted in advance of this year's April Board meeting. Ms. Bagnoli reported that the Board will hear more about the 2011-12 State Budget as it pertains to student financial aid programs and the activities of the agency since our September meeting from Acting President, Elsa Magee and members of her staff.

Audit Committee Report

Mr. Williams, Chairman of the Audit Committee, presented the Audit Committee Report. Mr. Williams reported that the Committee had met and discussed a number of issues and that the Board would be receiving a presentation from Mr. Kirk Schanzenbach, Interim Director of HESC's Audit Division. Mr. Williams expressed his and Ms. Bagnoli's pleasure at working with Mr. Schanzenbach and also thanked Ms. Konsistorum for the work she did as Audit Director.

Mr. Williams then introduced Mr. Brendan Kennedy from KPMG, HESC's independent auditor.

KPMG Report

Brendan Kennedy, Senior Manager at KPMG, reported that KPMG had issued the highest opinion, an unqualified opinion, on KPMG's audit of HESC's 2009-10 financial

statements as well as their audit of HESC's compliance with the Federal Family Education Loan Program (FFELP). Although a few observations and findings were noted respectively, none were significant to affect the rating. Mr. Kennedy also reported that the 2011 audit was underway and that that report would be provided at the September Board meeting.

Audit Division Presentation

Mr. Williams called upon Interim Director of the Audit Division, Kirk Schanzenbach, to address the Board. Mr. Schanzenbach began by expressing that it has been his pleasure to work at HESC, and that he has received strong support from Executive Management.

Mr. Schanzenbach's update focused on two areas: the NYS Banking Department's (the Department) draft examination report and a follow up letter from the NYS Inspector General on the investigation into HESC student loan collection activities. Mr. Schanzenbach explained that the Department's draft examination report consisted of four major sections: Financial, which in essence was the KPMG report to the Board; Comments; Business Conditions and Challenges; and Overall Examination Ratings. The Comments section contained recommendations regarding HESC's information technology related areas (including IT, IT Audit and Information Security) and the Audit Division. With regard to IT related areas, the Department recommended HESC continue to work toward compliance with federal government standards including improvements in the areas of risk assessment and planning processes, disaster/ business recovery pandemic planning, and penetration testing. The Department also recommended

improvements for IT Audit in the areas of staffing, coverage and participation in disaster recovery testing. For Information Security, the Department recommended HESC implement user access recertification. Mr. Schanzenbach reported the Audit Division comments related to a lack of an audit universe risk assessment definitions and process; completing the annual audit schedule and audit staffing; and lack of timely response to draft audit reports. Mr. Schanzenbach also stated that the Audit Division had addressed or had begun to address all comments by identifying an audit universe, developing and implementing a risk assessment process and focusing on the reduction of delay in issuance of audit reports based on lack of timely response to draft audit reports.

The Department also looked at HESC's business conditions and longer-term business challenges as a result of the elimination of FFELP and noted efforts by HESC management to address those challenges. Based on its examination, the Department rated HESC Satisfactory overall, and Needs Improvement for the IT related areas.

Mr. Hansen asked if the Satisfactory rating was the highest that the agency could receive. Ms. Bagnoli stated that there is one higher rating.

Mr. Schanzenbach then addressed the recent investigation by the NYS Inspector General's (IG) Office. The agency received a follow up letter in early March explaining that they had reviewed additional accounts and, of those accounts, had found only one other irregularity where collection fees were improperly removed, resulting in approximately \$176 in lost collection fees to the agency. Mr. Williams then noted for the Board that the IG found nothing systemic in its review. Mr. Schanzenbach agreed and stated that the agency's internal review had also not revealed anything systemic.

President's Report

Acting President Magee reported to the Board that HESC continues to administer the nation's premier grant program, the New York State Tuition Assistance Program (TAP). She then reported that Grants and Scholarship staff, in conjunction with Information Technology staff, are making operational changes to implement program changes contained in the 2011-12 State Budget.

Ms. Magee also reported that the second cohort of over 7,000 GEAR UP students is about to complete high school, with 95 percent of students surveyed saying they expect to attend some college. In addition, 49 College Access Challenge Grant (CACG) award recipients are serving at-risk and underrepresented students across the State in achieving their secondary and post-secondary education goals. She added that HESC staff from various divisions was providing hands-on assistance throughout the State, making presentations regarding financial aid.

Ms. Magee reported that NYHELPS continues to assist families looking for a low-cost way to close the financing gap in paying for college.

Ms. Magee then reported that staff is working to implement a national approach to assisting families with minimizing their college costs as part of HESC's component of the New York State Attorney General's Student Loan Empowerment Center Grant.

In conclusion, Ms. Magee added that all of these activities continue even as the agency works toward defining a future role in the administration of federal student loans. Ms. Magee emphasized that the agency's talent, expertise and history of service to students, families and schools will go far in securing and maintaining an appropriate role for the agency in this arena.

Federal Update

Mr. Frank Ballmann, Director of Federal Relations, reported that the Department of Education (the Department) provided an update in January regarding an RFP for guarantor services. The Department indicated that it is looking for three “baskets of service” from guaranty agencies and is encouraging groups to form consortia to provide a broader reach and a broader range of services. The issuance of this RFP is delayed in part due to the Department’s earlier focus on a successful transition from FFELP to Direct Loans, and a more recent focus on gainful employment regulations. It is anticipated that the not-for-profit servicing RFP should be final in May, and that the Department will then be able to focus on getting out the RFP for guaranty services. HESC will submit a proposal when it is issued. The Department will be using the VFA model which allows guarantors to identify services and set up a fee structure which must be budget neutral or better.

Regarding the Federal fiscal year 2011 Budget which was approved earlier this month, Mr. Ballmann informed the Board that the maximum Pell grant of \$5,550 was retained, but year-round Pell was eliminated. Mr. Ballmann also reported that LEAP and the Byrd Scholarships were zero funded in the Budget, but not repealed. In addition, SEOG, TRIO and GEAR UP received cuts of 3-6 percent, and CACG and Perkins had sustained no cuts. Discretionary programs are still pending final numbers, and rescissions of up to \$560 million may have an impact on funding level.

Dr. Ptachik asked about the impact of a delay in the Department’s issuing and decision on a contract on the need for State support for HESC. Ms. Magee responded that HESC operating fund revenues will not be offset to General Fund payments of TAP

awards this year as it has been for several years, which will allow HESC to retain \$22 million in the agency's operating fund. In addition, Ms. Magee assured Dr. Ptachik that HESC management meets regularly with the State Division of the Budget to discuss revenue projections, which are showing HESC ending 2012 with a positive balance.

Mr. Hansen asked how schools were being advised by the Department to handle Byrd scholarships in light of the zero funding level. Mr. Ballmann replied that institutions were being told to select their Byrd recipients as if the programs were funded, but that he was very doubtful the level of funding would be enough to address existing Byrd scholars, much less adding new ones.

Ms. Bagnoli and Mr. Williams commented that they would each be meeting with members of the NYS Delegation in Washington, D.C. in the near future, and asked if they could be helpful in delivering a message in support of HESC and its initiatives to obtain a contract with the Department. Mr. Ballmann replied that a reminder of the value of HESC's services to New Yorkers would be appreciated.

Mr. Tramuta then commented that NYSFAAA is doing a lot of outreach at both the State and Federal level.

Dr. Ptachik requested a succinct message to provide to the CUNY Chancellor regarding HESC's efforts that the Chancellor could develop into a statement of support on the agency's behalf. Ms. Thompson then requested the same for the SUNY Chancellor. Mr. Ballmann replied that Ms. Magee would send the appropriate information to the Board.

Grants and Scholarships Update

Mr. George Kazanjian, Vice President for Grants and Scholarships, reported that due to the timeliness of the enactment of the 2011-12 NYS Budget, HESC has already begun processing TAP applications for next year. Estimated TAP awards have already been shared with students and schools and the income verification process is expected to begin in early May.

Mr. Kazanjian reported that his staff has been working to implement permanent changes to the Education Law affecting programs administered by HESC included in the 2011-12 New York State Budget. These changes include: (i) no across-the-board reduction to TAP awards; (ii) elimination of Graduate TAP; (iii) transfer of certain independent students, who had been on the higher dependent schedule, to the lower independent schedule; (iv) reduction in the maximum TAP award from \$5,000 to \$4,000 for undergraduate students enrolled in non-public registered business schools or non-profit schools (except nursing) that do not offer a baccalaureate degree; (v) inclusion of both public and private pensions in the definition of income for purposes of calculating a TAP award; (vi) institution of default parity, whereby students in default on any federal or state education loan will be ineligible to receive TAP until the default status is rectified; (vii) maintenance of the requirement that minimum academic standards (Good Academic Standing) for non-remedial students be increased for continued TAP eligibility, but modifies the standards to be more attainable for students first receiving State aid in 2010-11 and thereafter; remedial students will stay on the 2006 chart; and (viii) authorization of TAP awards for students who attend institutions that are not currently under the supervision of SED, effective Spring 2012.

Mr. Kazanjian received and addressed questions from the SED Commissioner and SUNY Chancellor designees with regard to TAP funding.

Mr. Kazanjian also provided an update regarding the scholarship and loan forgiveness programs administered by HESC. The 2010-11 NYS Budget eliminated the 2 percent reduction to scholarship awards. It also extended the statutory authorization for the NYS Licensed Social Worker Forgiveness Program, the Senator Patricia McGee Nursing Scholarship Program, the Nursing Faculty Loan Forgiveness Program, and the Regents Physician Loan Forgiveness Program. In addition, the New York State District Attorney and Indigent Legal Services Attorney Loan Forgiveness Program was amended to require NYS residency and to clarify the calculation of applicable eligibility timeframes.

With regard to federal issues, Mr. Kazanjian explained that HESC would be issuing a Bulletin to clarify how to apply funds from the federal Post 9/11 G.I. Bill with respect to State Veterans Tuition Award program funds.

In closing, Mr. Kazanjian spoke of the success of the GEAR UP Program, and announced that HESC would be applying for the next federal GEAR UP grant.

NYHELPS Update

Mr. Aaron Pisacane, NYHELPS Chief Credit Officer, presented some Program statistics regarding the number of participating schools, number of loans and loan volume since that last Board meeting. Mr. Pisacane reported that NYHELPS has grown from approximately \$250,000 in loan volume, representing approximately 40 loans, to 673 loans and just over \$6 million. Mr. Pisacane stated that the NYHELPS loan portfolio is

high quality. Furthermore, greater than 65 percent of borrowers fall within TAP income eligibility requirements, which demonstrate that the Program is being used by the middle class. He reported that the average loan size is just over \$8,900 and that NYHELPS does not allow for over-borrowing.

Mr. Pisacane credited the \$2.5 million mass media and marketing campaign for the Program's growth. Mr. Pisacane stated there would be a similarly-funded marketing and media campaign for NYHELPS this year. He favorably compared NYHELPS \$6 million in-State volume as a new program, in these times of federal restriction to college promotion, to Discover's unrestricted launch of an \$8 million national product in 2007. Mr. Pisacane praised the efforts of the many staff involved in the promotion and implementation of NYHELPS for making it so successful in its first year.

Mr. Pisacane emphasized the benefits of the NYHELPS fixed-rate loan over variable products, especially with any increase in interest rates. In addition, he stated that NYHELPS rates of 7.55%, 8.25% and 8.75% remain competitive.

Mr. Pisacane reported that the bond deal was restructured to right-size the Program to cover anticipated originations for 2011-12. As a result, there will be approximately \$15 million to lend, allowing the Program to grow 2.5 times its current volume. It is possible that there could be continued demand after the entire \$15 million is used, and HESC will have strategies in place to address that possibility.

Mr. Pisacane reported that NYHELPS has a zero percent delinquency rate for loans 30 days or more past due, compared to Sallie Mae's 13 percent. Mr. Pisacane explained that HESC is automating delinquency mitigation activities involving email communications from its current manual process to address the growing number of

repayment loans. These early outreach efforts are unique among student loan programs, and appreciated by borrowers and cosigners as they serve to preserve the credit histories of NYHELPS borrowers.

Ms. Bagnoli asked about the breakdown of repayment options for those loans in repayment. Mr. Pisacane replied that approximately 25 percent of loans are Immediate Repayments, 25 percent are Interest Only, and the remainder are Fully Deferred.

NYS Attorney General's Student Loan Center Empowerment Grant

Mr. John Austin, Senior Vice President of Customer Relations, reported that in December 2010, HESC received a conditional award of \$2.5 million to provide a national Web site and live operator call center to advise students and families about student financial aid and student lending. The Web Site and Call Center components of the project will be led by Kathy Crowder, Senior Vice President for Communications and Mr. Austin, respectively. NYPIRG was also simultaneously conditionally awarded \$10.5 million to produce a one-year public service announcement and advertising campaign to support the efforts. Mr. Austin explained that both entities are awaiting a final contract. Since expectations are that both projects will be launched six months from contract completion, HESC has done much proactive planning.

The focus of the Web site will be to simplify and reduce confusion regarding the financial aid process. It will assist families in how best to finance a college education and help to ensure that when borrowing is necessary, debt is minimized. Visitors to the Web site will go through a "wizard" that will ask a short series of questions and then present a printable financial aid action plan including suggestions for navigating the

financial aid process and options based on the visitor's state of residence. The Call Center will also offer a live-chat during business hours.

The Web site will provide information regarding private student loans that will be objective, financially literate and in the families' best interest, utilizing resources from a nationally-known industry expert. HESC is seeking the services of Tim Ranzetta from Student Lending Analytics to objectively rate loan options based on total cost, while considering the potential risks to the borrower. State and federal loan programs will be included in the ratings list that is developed.

Callers to the Call Center will also have an option to complete a "repayment wizard" on the Web site that will identify the type of loan and the issue the caller is requesting assistance with, as well as assign a reference number to the caller. This will enable the call center representatives to best address the needs of callers. Agents will answer callers' questions and suggest options designed to help manage their debt. Mr. Austin said the agency would be requesting feedback from its partners in financial aid.

Mr. Austin addressed two questions from the SUNY Chancellor and SED Commissioner designees regarding the Call Center aspect of the project.

Motions to Adopt Resolutions

Chairwoman Bagnoli asked Mr. George Kazanjian, Vice President for Grants and Scholarships, to address the Board regarding Amendments to HESC Grant and Scholarship Regulations . Mr. Kazanjian requested permission of the Board to move forward with official promulgation of four proposed rulemakings before the Board.

He presented the following regarding HESC's Regulations over certain grant, scholarship and loan forgiveness programs: adoption of a new section to implement the District Attorney and Indigent Legal Services Attorney Loan Forgiveness Program; adoption of a new section to implement the Military Service Recognition Scholarships; repeal of the section relating to Award Determinations; and an amendment to clarify Institutional Responsibilities.

A motion to authorize HESC to proceed with the promulgation of these four regulatory actions was made by Mr. Hansen and seconded by Mr. Klinger. The resolutions were unanimously adopted.

The Chairwoman asked Ms. Cheryl Fisher, Supervising Attorney, to give an update on the Amendments to the NYHELPS Regulation. Ms. Fisher discussed the amendments to the NYHELPS regulation and a motion to adopt the resolution authorizing HESC to take all necessary steps to achieve promulgation of the amendments was made by Ms. VanDekker and seconded by Mr. Delaney. The resolution was unanimously adopted.

Resolutions of Appreciation

Ms. Cheryl Fisher, Secretary to the Board, presented Resolutions of Appreciation to Mr. Thomas Murphy, Trailhead Advisors; and Mr. Joseph Frey, Deputy Commissioner, Office of Higher Education at the NYS Education Department and designee of Commissioner Steiner.

Leadership Council

Chairwoman Bagnoli then asked the only present member of the Leadership Council, Mr. Daniel Tramuta, to give an overview of the New York State Financial Aid Administrators Association (NYSFAAA), of which he is President, to the Board.

Set date for Fall Board of Trustees Meeting

The Chairwoman announced that the next meeting of the Board of Trustees will be held on Wednesday, September 21, 2011.

Adjournment

Chairwoman Bagnoli then asked for a motion to end the meeting. The motion was made by Mr. Hansen and seconded by Ms. VanDekker. The meeting was adjourned at 12:23 p.m.