BOARD OF DIRECTORS MEETING
OF THE
ALASKA STUDENT LOAN CORPORATION

May 7, 2015

A meeting of the Board of Directors of the Alaska Student Loan Corporation was held Thursday, May 7, 2015, from the offices of the Corporation at 3030 Vintage Blvd., Juneau, Alaska.

CONVENE

Chair Randy Weaver called the meeting to order at 11:00 a.m.

ROLL CALL

Members of the Board attending all or part of the meeting were Chair Randy Weaver, Jim Johnsen, John Boucher, Jerry Burnett, and Jim Andersen.

Staff present for all or part of the meeting were Diane Barrans, Executive Officer; Charlene Morrison, Chief Finance Officer; Mary Ellen Beardsley, Assistant Attorney General; Melissa Plosay, Bond Accountant; and Rochelle Rogers, Executive Assistant and Secretary to the Board.

Others in attendance: Lee Donner, Financial Advisor, First Southwest Company.

ADOPTION OF AGENDA

Mr. Johnsen moved to adopt the agenda of the May 7, 2015 Board Meeting. The motion was seconded by Mr. Burnett. By roll call vote, all members present voted Aye. The motion carried.

WELCOME NEW MEMBERS

Chair Weaver welcomed new members to the board: Deputy Commissioner John Boucher, Department of Administration; Loan/Collection Manager Jim Andersen, Department of Commerce, Community & Economic Development; and Deputy Commissioner Jerry Burnett, Department of Revenue.

APPROVAL OF MINUTES

Mr. Johnsen moved to adopt the Minutes of the November 5, 2014 Board Meeting. The motion was seconded by Mr. Boucher. By roll call vote, all members present voted Aye. The motion carried.

EXECUTIVE OFFICER REPORT AND LEGISLATIVE UPDATE

Ms. Barrans presented her written report. Relating to federal activity, the Alaska Student Loan Corporation (ASLC) is a member of the Education Finance Council (EFC), a Washington, D.C.-based association that focuses on federal issues of interest for state agency and state-affiliated nonprofit education lenders. EFC has been working to develop beneficial positions for lending organizations relative to federal rules. Current efforts are underway to seek U.S. Treasury clarification regarding the use tax exempt debt to fund a broader class of education loans. While not prohibited by Internal Revenue Service rules, there is some confusion around the issue of lending tax exempt bond proceeds to non-students (such as Family Education Loans). Another open issue relative to tax exempt bond funds is the ability to fund consolidation loans. The Corporation may consolidate loans originated by ASLC; however, there is question as to whether the Corporation could allow an Alaska resident to consolidate loans originated by another education loan provider. Ms. Barrans is actively working with Alaska's congressional delegation to urge the Secretary of Treasury to make clarification of the issues a priority.

In state legislative activity, the FY16 budget (House Bill 72) was an area of interest for the Corporation. Management proposed a budget with a small increment of $359,000 to fully fund implementation of ANSWERS, Alaska's statewide longitudinal data system. The increment was denied and the legislature made a substantial base budget cut of $925,000 to ASLC receipt authority. Intent language strongly encouraged the Corporation to use the reduction in operating costs as an opportunity to pay a dividend to the state in FY16. Ms. Barrans testified to the matter explaining the Corporation exhausted its ability to pay dividends after having paid in excess of $190 million to the state in the past. Additionally, the Corporation has supported general activity of the state through the issuance of more than $164 million in capital project bonds. Without regard to that fact House Bill 72 passed with the Corporation's reduced budget. Ms. Barrans has been engaged in discussions with the Office of Management and Budget about the implications of the intent language. The Attorney General's office will determine what, if any, force of law is associated with the language given that appropriations bills' scope of authority is generally limited to appropriations. In the interim, staff is identifying cost savings to absorb the budget reduction. The ANSWERS project does have some federal grant funds remaining to carry forward through FY16 to allow for completion of the project itself. ANSWERS staff positions will not be filled, and management will need to determine if there is a method in which program operation is possible on a minimal budget.

During the previous legislature Senate Joint Resolution 23 was introduced to provide an opportunity for voters to decide on the allowance of state general obligation bonds for the purpose of educational loans. The resolution progressed to the House floor but failed to pass at the end of the 2014 session. In 2015 Senator McKinnon (formerly Fairclough) reintroduced Senate Resolution 2. The next opportunity for the resolution to go before voters is in 2016; therefore Senator McKinnon did not expedite the resolution. The resolution made it through the Senate, and Senator McKinnon plans to support the resolution through the House in the 2016 session.

FY15 MID-YEAR UNAUDITED FINANCIAL STATEMENTS

Ms. Morrison presented the mid-year financial statements indicating that they represent the six-month periods ending December 31, 2014 and 2013. The net income for the first six months is nearly $1.4 million. The balance sheet is comprised of loans and investments, both portfolios of which are declining significantly. Ms. Morrison has been engaged in conversations with the Corporation's investment manager regarding methods in which to increase the return on the investment portfolio. The Corporation is limited in what can be done with pledged investments as they must be in compliance with trust documents. The biggest operating expense is the provision for loan loss. The provision is a significant estimate management develops which is examined closely by auditors.

Ms. Morrison reported the Corporation paid off bonds in July and submitted a request to the Internal Revenue Service (IRS) to request a rebate of the yield payment previously remitted in accordance with regulations. On June 30 a $700,000 receivable of rebate paid on 2005 capital bonds was recorded in the financial statements. The receivable had not yet been collected and remains on the December statements. The Corporation did receive a letter from the IRS indicating that payment of the amount requested is being processed. Management was pleased to get this communication given the fact that the IRS audit of the Corporation's tax-exempt bonds remains outstanding.

The financial statements contain equity balances in the form of unrestricted and restricted net positions. Unrestricted equity balance may be used for any necessary business purposes, while the restricted equity balances are tied up in various trust estates. Typically unrestricted net income declines over time; however, the financial statements show an increase in unrestricted net income and a decline of restricted net income. This anomaly is a result of loans pledged to the 2005 Capital Project bonds being switched to unrestricted after having paid off the bonds.

CHIEF FINANCE OFFICER REPORT

Ms. Morrison reported the Municipal Continuing Disclosure Cooperation (MCDC) Initiative, led by Bond Accountant Melissa Plosay, took a significant amount of staff time. The initiative was created by the Securities and Exchange Commission (SEC) based on concerns issuers and underwriters may not be in compliance with obligations to appropriately issue disclosures related to bond issues. The SEC opened a window of time during which users and underwriters could self-report violations and receive favorable treatment in terms of determining settlement or penalty. Staff worked closely with Bond Counsel reviewing documentation and disclosure to ensure compliance. A few discrepancies were identified but were deemed inconsequential under the MCDC Initiative. Through the process Ms. Plosay developed spreadsheets and files to annually review and maintain to ensure proper disclosure going forward.

Included in Ms. Morrison's written report was a copy of the Audit Engagement Letter and the external auditor's Independence Letter. Both are standard communications related to the upcoming audit in September. The Engagement Letter outlines services to be provided by the auditor and management's responsibilities. The Independence Letter indicates services the auditor can and cannot provide for purposes of remaining independent while issuing an opinion on financial statements.

There is no update relative to the Internal Revenue Service (IRS) audit. Staff received communication indicating the IRS audit is still active but no clarification has been received relative to the IRS' compliance concerns.

Ms. Morrison noted the State of Alaska is converting from its existing accounting system to a new integrated accounting system. IRIS is an integrated resource information system and conversion is scheduled to occur July 6, 2015. The conversion is significant and involves considerable staff time.

Ms. Morrison has been engaged in an ongoing project with the Corporation's financial advisors relating to defeasing remaining bonds in the 2002 Trust. The specific trust has a parity ratio in excess of 200%, meaning for every dollar of debt the trust has two dollars of assets. If defeased, the loans in the trust will become nonpledged and payments received may be used for originating new loans or paying operating costs. Ms. Morrison hopes the bonds can be defeased by January 2016. The second phase of the project will be to analyze nonpledged loan assets to determine their capacity for supporting origination volume going forward. The outcome will influence the next financing to meet loan demand.

2015-2016 EDUCATION LOAN INTEREST RATES

Regulations were adopted in 2014 to allow the Board greater flexibility in regards to setting interest rates; however, there are certain parameters to be considered when determining an interest rate, the most significant being to ensure loans are of sufficient value to be financed or refinanced by bonds and ensure the financial stability of the loan program. Although the Corporation is not currently financing loans with debt, staff must ensure loans can be used efficiently when being pledged to the next financing. In March, the Corporation's financial advisor indicated that if the Corporation were to issue bonds in March the true interest cost associated with fixed rate debt would be 3.52%. The five-year average cost for servicing the Corporation's loan portfolio is 2.73%. Combining the two figures produced the proposed rate of 6.25% for fixed interest rate loans, slightly lower than the 6.7% rate for the 2014-2015 academic year. Management recommends the 2015-2016 fixed interest rate of 6.25% be set for the Alaska Supplemental Education Loans, Alaska Consolidated Loans, Family Education Loans, Professional Student Exchange Loans, and the remaining Teacher Education Loans.

Mr. Andersen moved the approval of a 6.25% interest rate for fixed-rate Alaska Supplemental Education Loans, Alaska Consolidated Loans, Family Education Loans, Professional Student Exchange Loans, and Teacher Education Loans originated for the 2015-2016 academic year. The motion was seconded by Mr. Johnsen. By roll call vote, all members present voted Aye. The motion carried.

ASLC originated variable rate loans from 2002-2006. To the extent there are outstanding variable loans the Corporation annually resets the variable interest rates. The formula for setting variable rates is described in statute and regulation. The rate is based on the bond equivalent rate of the 91-day U.S. Treasury bill auctioned at the final auction prior to May 1 of the loan year, plus up to 2.8%. The current year's rate was nearly the same as the previous year's and therefore management proposes the same variable rate as the 2014-2015: 2.7% for in school, grace and repayment periods; and 2.8% in repayment.

Mr. Johnsen moved the approval of a 2.7% interest rate for variable-rate Alaska Supplemental Education Loans during the in-school and applicable grace and deferment periods for the year beginning July 1, 2015, and the approval of a 2.8% interest rate for variable-rate Alaska Supplemental Education Loans during the repayment and applicable forbearance periods for the year beginning July 1, 2015. The motion was seconded by Mr. Andersen. By roll call vote, all members present voted Aye. The motion carried.

2015-2016 BORROWER BENEFITS

Ms. Morrison presented the proposed Borrower Benefit Package for the 2015-2016 academic year. The Borrower Benefit Package is the method used by the Corporation to reward and incent positive borrower behaviors. Management sets interest rates, and rewards borrowers with benefits when their behavior warrants and the Corporation can afford it. Any changes must be approved by rating agencies that rate the bonds used to originate the loans and then are subsequently approved by the Corporation board. Management recommends the package remain unchanged. The package consists of a 0.50% reduction for Alaska presence, 0.25% reduction for recurring online automatic payments, and to continue honoring the Timely Payment Benefit for qualifying borrowers. The benefit package cost the Corporation slightly over $1 million in 2014. The benefits have cost the Corporation $906,000 to date in 2015, an amount that will increase slightly due to remaining monthly online autopay benefits. The cost for the proposed 2015-2016 benefit package is anticipated to be approximately $1 million.

Mr. Johnsen moved to approve the 2015-2016 Borrower Benefit Package as recommended by management, including the Alaska Presence Benefit of 0.50% on fixed rate Alaska Supplemental Education Loans (ASEL) during in-school, grace, deferment periods, and repayment periods, provided the borrower is current in repayment; during the repayment period on the Professional Student Exchange Program (PSEP) provided the borrower is current in repayment; and the Online Auto Pay Benefit of 0.25%, provided the borrower is current in repayment, during the repayment period, except in deferment or forbearance status, on fixed rate ASELs, Alternative Consolidation Loans, Teacher Education Loans, Alaska Student Loans, Family Education Loans, PSEP, and FFELP loans, and variable rate ASELs; and to continue to honor the Timely Payment Benefit for borrowers with qualifying loans. The motion was seconded by Mr. Andersen. Mr. Boucher declared a potential conflict and abstained from the vote on that basis. **By roll call vote, all other members voted Aye. The motion carried.**

ORIGINATION FEE RATE

In 2014 the board voted to set the origination fee at 0% for the 2014-2015 academic year. Management proposes the board approve the setting of a 0% origination fee to remain in place until a program modification warrants the board's future reconsideration, eliminating the need for annual consideration.

Mr. Johnsen moved to approve the setting of a 0% Origination Fee to remain in place until program modifications may warrant an increase in fee. The motion was seconded by Mr. Andersen. By roll call vote, all members present voted Aye. The motion carried.

ELECTION OF OFFICERS

Mr. Burnett nominated Mr. Weaver to continue serving as Chair and Mr. Johnsen to continue serving as Vice Chair. The motion was seconded by John Boucher. By roll call vote, all members voted Aye. The motion carried and nominations were closed.

PUBLIC COMMENT

No public comment was offered.

ADJOURN

Mr. Johnsen moved to adjourn. The motion was seconded by Mr. Andersen. There being no objection, and no further business to discuss, the meeting adjourned at approximately 11:44 a.m.

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Randy Weaver, Chair