

**RESPONSE TO  
BOARD OF REGENTS TASK FORCE  
ON STUDENT LOAN ISSUES  
March 2008**

**SUBMITTED BY  
MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
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## **INTRODUCTION**

The Board of Regents Task Force on Student Loan Issues was created in November 2007 by the Board of Regents (BOR) of the state of Montana. According to the Report, the Task Force was directed to make recommendations on the following specific topics:

1. MHESAC governance and Accountability issues relative to MHESAC bond activity;
2. A process for monitoring and making policy adjustments relative to changes in student loan programs and financing issues at the federal level, in accordance with revised federal laws and the Montana Attorney General's report on student loans; and
3. Improvements in communications between the Regents, the Montana executive and legislative branches, and the SAF and MHESAC boards of directors.

*The Montana Higher Education Student Assistance Corporation strongly supports access to post-secondary education for all Montanans who desire the pursuit of such. MHESAC also strongly supports the strong public-private partnership that has worked very well for 25 years to ensure Montanans access to federal student loans in order to pursue those desires. MHESAC believes the strength of that partnership has been a mutually shared desire to make sure Montana students have the opportunity to succeed. MHESAC is very appreciative and supportive of the work of the Task Force. MHESAC looks forward to doing its part to successfully implement the recommendations of the Task Force as they are adopted in their final form and all parties move forward in a cooperative fashion.*

## **REFERENCED TERMINOLOGY AND ACRONYMS:**

**Federal Family Education Loan Program (FFELP):** A public-private partnership established by the United States Congress through the Higher Education Act (HEA) of 1965. The FFELP was created to allow private capital to be used for student loans through a guarantee provided by the federal government to “insure” the loan, and establish reasonable returns for lender participants through Special Allowance Payments (SAP). FFELP currently provides for 84% of the annual volume of student lending in the United States and 100% in Montana.

**Montana Higher Education Student Assistance Corporation (MHESAC):** MHESAC is a private Montana nonprofit 501(c)(3) corporation organized in July, 1980. MHESAC is organized to comply with Section 150(d) of the Internal Revenue Code. Thus, its Articles of Incorporation provide, among other things, that MHESAC is organized solely for the purpose of lending and providing funds for the acquisition of student loan notes originated under the Higher Education Act, and to devote any income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or it must be paid to the United States government. MHESAC is governed by a seven voting and one ex-officio non-voting member Board of Directors. Governor Judge designated MHESAC as an eligible lender under the Higher Education Act by Governor Judge in 1980. MHESAC has received a designation by Governor Schwinden in 1983 as the sole and exclusive nonprofit corporation in the State to provide a statewide student loan acquisition program in connection with the guaranteed student loan program provided for by the Higher Education Act (currently the FFELP) and former Section 103(e) (currently Section 150(d)) of the Internal Revenue Code.

Since MHESAC commenced operations in 1983, MHESAC has raised and provided over \$2.4 billion in low-cost capital for FFELP loans for Montanans and \$650 million in capital for FFELP loans for non-Montanans through various financing vehicles. MHESAC currently owns approximately \$1.4 billion outstanding principal amount of FFELP loans to more than 78,000 borrowers. MHESAC has delivered more than \$38.2 million, and has earned the funds for, and has committed to an additional \$11.6 million in borrower benefits (in the form of principal reductions, interest rate reductions, fee payments on behalf of borrowers and loan forgiveness) to Montana students and families. MHESAC does not receive any funds or taxpayer dollars from the State of Montana. MHESAC finances its investment in FFELP loans through the issuance of non-recourse bonds that are payable solely from certain of MHESAC’s assets (including FFELP loans financed with the proceeds of such bonds) pledged to the payment of such bonds. As such, MHESAC’s bonds do not constitute an obligation payable from the General Fund Assets or other unpledged assets of MHESAC. Under no circumstances do MHESAC’s bonds constitute a debt, a liability or a legal or moral obligation of the State of Montana or any agency or political subdivision thereof.

MHESAC’s mission is to provide capital to allow students to finance their pursuit of post-secondary education and to help lower the cost of such financing. MHESAC’s sole business is the purchase and origination of FFELP loans, the capital for which is raised through the issuance of its bonds. MHESAC’s core service area focus has been Montana citizens and residents. In an effort to gain enhanced cost efficiency and to generate additional monies for Montana borrower benefits, MHESAC has purchased FFELP loans made to non-Montanans from 2000-2006 (mostly through the warehousing facility provided by SAF through its subsidiary, MSLF).

Additional information about MHESAC is available at [www.mhesac.org](http://www.mhesac.org)

**Student Assistance Foundation of Montana (SAF):** SAF is a private Montana nonprofit 501(c)(3) corporation organized in July, 1999 to provide support services to MHESAC and other FFELP industry participants, as well as to provide education and access oriented services to Montana citizens. SAF is governed by a nine voting and one ex-officio non-voting member Board of Directors. SAF was founded in the belief that a better education leads to better opportunities for Montana citizens and that effective operations and a national presence could lead to even more Montana benefits (viz., grants, scholarships and good paying jobs for Montanans). As a result of these efforts, to date, SAF has delivered over \$13 million in public benefits (in the form of scholarships, assistance grants and outreach services to Montana students and families) to directly benefit Montana citizens. Furthermore, SAF provides 195 living wage, competitive benefit, jobs to Montana citizens in accomplishing its mission; jobs that would otherwise be housed out-of-state with no benefit to Montana. SAF's annual payroll is over \$9 million, and Montana payroll tax, pension and health benefit contributions are approximately \$2.2 million.

Operationally, SAF (1) provides management services to MHESAC, (2) services FFELP loans (i.e. processes payments, handles regulation compliance and provides personal customer service) for MHESAC and a number of other FFELP participants, (3) provides services in connection with the origination of student loans by MHESAC and other FFELP participants, (4) provides support services to the MGSLP and (5) provides public benefits to Montana citizens. During the existence of the Exceptional Performer Program, SAF was designated as an "Exceptional Performer" by the United States Department of Education for adherence by SAF to Higher Education Act regulations in its servicing of FFELP loans. It should be noted that a minority of FFELP servicers received this designation and, for a time, it entitled SAF to 100% loan default reimbursement. Congress eliminated the Exceptional Performer classification in July, 2007 as part of the College Cost Reduction Act (CCRA).

SAF's student loan ownership and financing is done through its wholly-owned, subsidiary, MSLF. MSLF was created to provide a vehicle for the temporary financing of non-Montana FFELP loans pending their sale to MHESAC. MSLF has entered into the Warehousing Indenture and other related agreements pursuant to which it borrows moneys to purchase or originate FFELP loans.

MSLF has no substantial assets other than those pledged under the Warehousing Indenture to secure repayment of its borrowings thereunder. MSLF has no full-time employees. Certain responsibilities of MSLF are performed by SAF pursuant to an agreement between SAF and MSLF.

Additional information about SAF is available at [www.safmt.org](http://www.safmt.org).

**Office of the Commissioner of Higher Education (OCHE):** The OCHE reports to the Board of Regents and, in concert with the Board of Regents, provides direction and oversight for the Montana University System.

**Montana Guaranteed Student Loan Program (MGSLP):** Title 20, Chapter 26, Part 11 of the Montana Code Annotated (the GSLP Act) provides for the establishment of the MGSLP and the administration and operation thereof by the Board of Regents in accordance with applicable federal law. It is the role of MGSLP to act as a guarantor for eligible FFELP loans. As such, it is tasked by the Higher Education Act to: (1) act as an agent of the federal government in providing the federal guarantee for FFELP loans and ensure that program participants comply with all federal regulations; (2) approve lenders as eligible lenders under the FFELP; and (3) incur and

discharge debts, including defaulted loans. MGSLP does not rely on the State of Montana for any of its revenues or expenses and none of the loans guaranteed by MGSLP are the obligation of the State of Montana.

**Volume Cap:** Volume cap is a limit set by the federal government on the amount of “private activity” tax-exempt bonds that can be issued in each state. Volume cap is NOT tax dollars or the promise of tax dollars, and can only be used by issuers of debt that qualifies as “private activity” bonds. MHESAC’s tax-exempt student loan revenue bonds are “private activity” bonds under federal regulations.

## **TASK FORCE RECOMMENDATIONS AND MHESAC RESPONSE**

The following are MHESAC's specific response to each recommendation in the Task Force Report dated March, 2008 provided to Fred Flanders, MHESAC Chair in a letter dated March 20, 2008.

### **A. Accountability:**

The Taskforce Report recommended that the BOR expand its oversight of student financial aid and student loan issues in the following ways:

1. Ensure consistent review, analysis and oversight by making student financial aid issues part of the regent's Administrative, Budget and Audit Committee agenda for attention at every BOR meeting.
  - MHESAC concurs with and supports this recommendation. MHESAC is prepared to continue and expand its current practice of making presentations and providing information to the Regents and participating in discussions at the Committee meetings.
2. Adopt appropriate policies on program issues like lender lists and lender relationships with schools.
  - MHESAC concurs with and supports this recommendation. As one of many FFELP lenders in the state of Montana, MHESAC currently complies with all policies and practices of participating schools, and FFELP law and regulations.
3. Annually review capital availability for both Federal Family Education Loan (FFELs) and private loans for Montana students.
  - MHESAC concurs with and supports this recommendation. As one of many FFELP lenders in the state of Montana, MHESAC focuses on raising capital to provide access for Montana students through Stafford and PLUS FFELP loans. Montana will be served well by an annual review relative to overall FFELP capital availability.

MHESAC believes that the level of private student lending activity is growing in Montana and is not thoroughly understood. It is MHESAC's belief that an annual review of private loan activity in Montana will enhance education policy development.

4. Annually review the level of public benefits for Montana students provided by SAF, MHESAC and other student loan industry participants.
  - MHESAC concurs with and supports this recommendation. As a direct originator of FFELP loans in Montana and as a secondary market in support of numerous lenders in the state of Montana, MHESAC has provided \$2.4 billion in low cost capital for FFELP student loans to Montana citizens since 1983. MHESAC has also provided more than \$38 million in borrower benefits (principal reductions, interest reductions, and principal forgiveness) to Montanans since 1995. Other FFELP lenders in Montana have also provided public benefit in FFELP lending activity and borrower benefits for Montanans. SAF has provided more than \$13 million in the form of public benefits to Montanans including grants and outreach services. The state of Montana will benefit from a better understanding of the numerous efforts of parties across the state working to enhance access to post-secondary education.
5. Receive annual business overview reports from MHESAC and other significant Montana student loan lenders.
  - MHESAC concurs with this recommendation. MHESAC currently provides audited financial statements and numerous program review and compliance reviews to the Board of Regents. This practice will continue. Additionally, MHESAC management staff meets frequently with the management of MGSLP and OCHE to discuss MHESAC's business plans and issues. This practice will continue. Management also appears before the Regents when requested to provide information and periodically makes a presentation about its business plan and its business accomplishments. This practice is expected to continue and to become more frequent and more formal. MHESAC also expects to provide an overview of its business plan to the BOR on a periodic basis and solicit comment and input from the Regents on such plan.
6. Provide input annually on MHESAC's financing and business plans.
  - MHESAC concurs with this recommendation. MHESAC will solicit comment and input from the Regents on such plan. MHESAC gladly receives input from the BOR on its plans and the items the BOR believe would make FFELP lending more effective for Montana students.

7. Support financing efforts to provide sufficient capital to allow Montana students to finance their education as necessary.
  - MHESAC concurs with and supports this recommendation. MHESAC applauds this effort to support access for Montana students.
8. [Being that the BOR is designated as ~~As~~] a guarantor of loans made under the FFELP program and the agency charged with oversight of Montana lender and school participation in FFELP: [the BOR should] (1) exercise that oversight responsibility, and (2) utilize the statutory Student Loan Advisory Council, to the extent allowed by law, to advise the board on policies related to the FFELP and to monitor the FFELP.
  - MHESAC concurs with and supports this recommendation. As one of many lenders in Montana, MHESAC welcomes the continued oversight of the BOR in the student loan program and will continue to comply with all federal laws and regulations governing FFELP. Expanded utilization of the statutory Student Loan Advisory Council by the BOR should enhance education policy development
9. Given the importance of the MHESAC mission and the close relationship between the regents and MHESAC, the Commissioner of Higher Education (CHE) continue as the president of MHESAC and a CHE staff member continue as vice president. As is authorized by BOR policy 505.2
  - MHESAC concurs with and supports this recommendation. The MHESAC board has been mission-focused since its inception and MHESAC values the input and contribution of OCHE staff as president and vice-president in support of access for Montana students. This practice will continue.
10. MHESAC be requested to adopt the following processes: “Future financing issuance activity will require a signed written certification from the Chairman of the BOR that (1) a communication of intent about the financing was provided by MHESAC to the BOR, the Governor’s Office, and members of CFAC prior to the MHESAC board’s meeting at which the issuance of such financing was approved, (2) a properly noticed public meeting was held to discuss the financing; (3) the financing was approved at a properly noticed public MHESAC board meeting; (4) the BOR, Governor’s Office, and CFAC have been notified of the MHESAC approval of the impending financing; and (5) the president or vice president of MHESAC has approved the transaction.
  - MHESAC generally concurs with this recommendation based upon its current understanding of its intent. As was indicated in Cathy Swift’s-mail report dated April 8, 2008 to Commissioner Stearns concerning discussions of the MHESAC Board about the Task Force report,

Regent Barrett gave a comprehensive introduction to MHESAC Board “on the subject and noted that the board of regents accepted the report with the understanding that some provisions may need revision and pending the suggestions of the MHESAC board. He noted particularly the provision about which the Chair Flanders had written the board of regents and noted that it was not meant to affect the independence or authority of the MHESAC board.”

As this recommendation is currently worded, MHESAC is concerned that wording of this recommendation inadvertently suggests the President or Vice-President has full authority beyond the authority of the MHESAC Board. We understand this was not the intent of this recommendation. MHESAC is prepared to adopt this concept, upon clarification and correction of the wording in item 5. as follows: *(5) the president or vice president of MHESAC has been fully informed and has executed all necessary documents associated with the financing and has approved any specific terms and conditions that the Board has delegated its authority for to the President or Vice-President.*”

MHESAC already follows much of the remainder of this recommendation including applying its current tax-exempt debt issuance public participation practices to any taxable debt issuances. Additions to our standard procedures such as notifying CFAC members of the Boards approval of financings will be implemented.

11. MHESAC be requested to limit its pre-October 1 national student loan activity to growth rate levels that are acceptable to its finance and credit providers, rating agencies, and can be accomplished at economic return levels that justify the additional risk of MHESAC issuing bonds to support its non-Montana activity.
  - MHESAC concurs with and supports this recommendation. MHESAC has and continues to utilize prudent business practices in the growth of its pre-October 1 national student loan activity including, but not limited to, undertaking extensive analysis of risks and returns associated with both its taxable and tax-exempt financings, use of student loan industry and finance experts, such as Dorsey-Whitney (bond counsel); Liscarnan Solutions (financial advisor); Citi, Bank of America Securities LLC and RBC Capital Markets (investment bankers); and satisfying rating criteria of Standard & Poor’s, Moody’s Investor Service, Inc. and Fitch Ratings (rating agencies); and DePfa, and Citi (credit providers) and, applying established return thresholds and sensitivity models. MHESAC plans to continue these rigorous processes.

12. MHESAC be requested to limit its post-October 1 national student loan activity to growth rate levels that are acceptable to its finance and credit providers, rating agencies, and can be accomplished at economic return levels that justify the additional risk of MHESAC issuing bonds to support its non-Montana activity.

- MHESAC concurs with and supports this recommendation. MHESAC has undertaken extensive analysis of risks and returns of post-October 1 national student loan activity. As a result MHESAC is not currently engaged in post-October 1 national student loan activity.

13. MHESAC be requested to limit its overall level of taxably-financed loans to levels that do not have a negative impact on its ability to provide tax-exempt funding for Montana loans.

MHESAC concurs with and supports this recommendation. MHESAC has and continues to utilize prudent business practices in managing its level of taxably-financed loans including, but not limited to, undertaking extensive analysis of risks and returns associated with both its taxable and tax-exempt financings. To date, MHESAC has obtained AAA ratings on its senior bonds (the highest possible rating). MHESAC plans to continue these rigorous processes and has always taken that responsibility seriously. The taxably-financed portfolio to date has worked to diversify MHESAC's financing types and produced lower operating expenses and therefore, more benefits for Montana students. While difficult to quantify precisely, it is estimated that the expansion into the national market has allowed MHESAC to already extend an additional \$7.2 million in benefits to Montana students as a result of cost efficiencies gained by a larger portfolio, while increasing MHESAC's surplus by an additional \$7.1 million (which can be available for future benefits). Even in the current challenging market environment, MHESAC's national loans—funded with taxable bonds—are currently generating a positive spread.

14. MHESAC be requested to evaluate the merits of the creation of a for-profit entity removed from MHESAC and the State of Montana to perform non-Montana student loan services.

- MHESAC concurs with and supports this recommendation. MHESAC recommends that MHESAC perform an evaluation relative to national student loan generation and holding activities and that SAF perform an evaluation relative to non-Montana student loan servicing activity.

## **B. Governance:**

The Taskforce Report expressed general support for MHESAC's role and purpose and recognized that it is not an inherent conflict of interest for regents to serve on the board of directors of MHESAC. The taskforce considered a number of MHESAC and SAF board appointment changes and made the following recommendations:

1. Regents continue to serve on the MHESAC board.
  - MHESAC concurs with and supports this recommendation. MHESAC welcomes the continuation of regents on the board of directors in support of effective access to post-secondary education in Montana.
2. The level of regent participation on the MHESAC board continues at three voting members.
  - MHESAC concurs with and supports this recommendation. MHESAC welcomes the continuation of regents on its board of directors in support of effective access in Montana.
3. The BOR chair continues to appoint the members of the board of directors of MHESAC, including three regent members, in accordance with the current MHESAC Articles of Incorporation.
  - MHESAC concurs with and supports this recommendation. MHESAC welcomes the continuation of the BOR chair continuing to appoint the members of the board of directors of MHESAC, including three regent members, in accordance with the current MHESAC Articles of Incorporation.
4. The BOR recommend that MHESAC continue its practice of having the CHE serve as an ex-officio non-voting member of MHESAC's board and as president of MHESAC.
  - MHESAC concurs with and supports this recommendation. MHESAC welcomes the continued participation of the CHE as an ex-officio non-voting member of MHESAC's board and as president of MHESAC.

5. The BOR recommend that the MHESAC board member selection process for the non-regent members involve a MHESAC nominating committee that provides a slate of qualified candidates for the appointing authority's use.
  - MHESAC concurs with and supports this recommendation as a necessary tool in having the most effective board possible. The MHESAC Board successfully followed this process for its December 2007 Board member selection and plans to permanently implement this recommendation in its Board policies.
6. The BOR recommend that a student member on the MHESAC board be retained but be selected from nominations provided by a designated Montana student organization in lieu of appointment of the student regent.
  - MHESAC has always welcomed and valued student participation as voting member of its board of directors. MHESAC believes that its Board should have a student member. Following input from the current student Regent member, MHESAC believes that it's Board and the students of Montana are best served if the student member on the MHESAC Board remains the student member of the Regents, with a student selected from Montana Associated Students or other student governing boards serving on the SAF board. MHESAC intends to continue to follow its Articles of Incorporation relative to the student regent serving on the MHESAC Board.

### **C. Volume Cap:**

The Taskforce Report discussed that the use of volume cap to acquire Montana Student Loans is an appropriate and beneficial use of that resource and concluded that MHESAC needs stability and predictability with regard to Montana volume cap allocations.

1. The BOR request that MHESAC continue working with the Board of Housing and the Governor's Office collaboratively to (1) allocate scarce resources fairly, and (2) comply with all guidelines for requesting volume cap.
  - MHESAC concurs with and supports this recommendation. MHESAC takes pride in its participatory record with the Board of Housing and the Governor's Office, and welcomes the continuation of that effort towards better communication. In addition, MHESAC, will, continue to comply with all federal and state laws and guidelines for requesting volume cap.

2. Since Montana's volume cap is a scarce resource, the BOR request that MHESAC work with the executive branch and other users of volume cap to develop a plan for updating the allocation of available volume cap and an overall review of Montana volume cap laws.
  - MHESAC concurs with and supports this recommendation. MHESAC takes pride in its participatory record with the Board of Housing and the Governor's Office, and welcomes the continuation of that effort towards better communication with all issuers of volume cap. In addition, MHESAC will gladly participate in developing a plan with the executive branch and other issuers on available allocations and share its experience related to volume cap law and regulations.
3. The BOR work cooperatively with MHESAC, the executive branch, and other users of volume cap to develop a plan for updating the allocation of available volume cap to ensure adequate volume cap for Montana student loan programs.
  - MHESAC concurs with and supports this recommendation. The BOR is the party with responsibility for the Montana Guaranteed Student Loan Program. The voice and input of the Regents is essential to efforts to ensure the allocation of available volume cap for Montana student loan programs in order to provide a strong and well functioning FFELP market for Montana students.
4. The BOR work in concert with MHESAC to affect an increase in the amount of volume cap available in Montana by approaching and discussing the issue with the Montana congressional delegation.
  - MHESAC concurs with and supports this recommendation. MHESAC has had numerous conversations with the congressional delegation in support of needed increases in the cap limits by state to support Montana student loans. We applaud and welcome the support of the BOR in this effort.
5. The BOR and MHESAC jointly request the following of CFAC: (1) To provide recommendations on "conduct and reporting" expectations of Montana volume cap users, and (2) To serve as the active repository for information sharing on all "state issuers" bonding plans.
  - MHESAC concurs with and supports this recommendation. MHESAC believes it will enhance communication among "state issuers".

6. Request MHESAC work with the executive branch and other volume cap users to develop a plan for updating the allocation of available volume cap.
  - This appears to be a duplicate of Item C2. See Response to Item C2.
7. MHESAC and the BOR work with the executive branch to expand the membership of the CFAC to include a representative of MHESAC.
  - MHESAC concurs with and supports this recommendation. As one of the largest issuers of tax-exempt debt in Montana MHESAC applauds and supports this effort.

#### **D. Communications:**

1. The Governor, the CHE, and the MHESAC board designate a person with responsibility for communications on student loan matters.
  - MHESAC concurs with and supports this recommendation. MHESAC has always supported open multi-way communication and we believe that this will further that cause. MHESAC would further suggest that these representatives commit to meet on a regularly scheduled quarterly basis.
2. The BOR discuss student financial aid issues as part of the standing agenda of the Administration, Budget and Audit Committee of the BOR.
  - MHESAC concurs with and supports this recommendation. As a major proponent of low-cost education funding and access and given the significance of student financial aid issues, MHESAC strongly applauds this recommendation. MHESAC is prepared to continue and expand its current practice of making presentations and providing information to the Regents and to participating in discussions at the Committee meetings.
3. The BOR explore the need for; and potential SAF funding for; a position in the OCHE's office with responsibility to follow and understand the student loan industry in general and MHESAC's and the Montana Guaranteed Student Loan Program (MGSLP's) (a state agency within the OCHE, [which handles the administration of the responsibilities of the BOR as a] ~~and~~ designated guarantor for FFELP loans ~~the state of Montana~~) businesses in particular, for the purpose of providing guidance and council to the CHE.
  - MHESAC concurs with and supports this recommendation. MHESAC supports the OCHE's furthered commitment to understanding student loan industry issues. Understanding of the industry in total, and

Montana specifically, requires specific knowledge and focused time. It is expected that such knowledge and focus will enhance OCHE's ability to provide direction to the BOR as it will better understand industry issues, MHESAC, MGSLP and other FFELP lenders (such as US Bank, Wells Fargo) that originate a large volume of student loans in Montana and guarantee those loans through MGSLP as the designated Montana guarantor.

#### **E. Communication of Risk Management:**

1. The BOR request a current report from MHESAC on the steps it takes to manage the risks involved in MHESAC's business.
  - MHESAC concurs with and supports this recommendation. MHESAC will gladly provide copies of the thirteen (13) annual audits and performance reviews that we receive from independent parties. In addition, we would be happy to further provide to the BOR the responses provided to the Governor's office in late 2006 in regard to the fourteen (14) points of interest in regard to risks and risk management. Furthermore, on an ongoing basis MHESAC evaluates market, industry, financial, and operational risks through periodic internal reports. We will furnish written copies of these reports to the BOR.
2. The BOR request that MHESAC report at least annually to the BOR and the Governor's office on the risks associated with its business and the steps it is undertaking to manage such risks.
  - MHESAC concurs with and supports this recommendation. MHESAC is proud of its record of performance, clean audit history and AAA bond rating on its Senior Bonds (the highest possible bond rating). MHESAC invests only in guaranteed investment contracts and federal student loans that are at least 97% guaranteed by the federal government and only issues bonds that have sole recourse to the loans held in their associated indentures (e.g., no recourse to MHESAC or MHESAC's general fund assets). ). Furthermore, as noted above, we are regularly engaged in risk evaluation and risk management activities, and we will be happy to share reports of those activities with the full BOR. This should serve to increase the knowledge and comfort level of those members of the BOR who do not serve on MHESAC's board.

We welcome the opportunity to expand upon the sharing of information for the benefit of the BOR and the Governor's office. This should include not only our internal processes, but also the independently developed work of the many third parties we use in our business. MHESAC utilizes the services and expertise of nationally recognized bond counsel, industry experts, financial advisors, investment bankers, accountants, consultants, auditors, three (3) rating agencies and credit providers in accomplishing the rigorous analysis, development, and review processes in the financing of its student loans and in developing and monitoring its operating practices. MHESAC, like all student loan organizations, is subject to market changes that impact our business, and offers to share additional market information and facilitate market-related discussions with the MHESAC Board,

#### **F. Conflict of Interest:**

Montana law prohibits personal and financial conflicts of interest by persons acting in the public interest. The Task Force Report states that there is no inherent illegality or impropriety in regents sitting on the boards of directors of MHESAC or SAF where there is no personal financial interest which conflicts with that service.

1. Regents continue to serve on the boards of directors of MHESAC and SAF. Concerns about conflicting fiduciary responsibilities to more than one board may be managed through board orientation and written guidelines, as necessary.
  - MHESAC concurs with and supports this recommendation. MHESAC applauds the Regents past and continuing service on its board of directors and has always believed that the participation of leaders in the higher education community on the boards is beneficial. Having knowledgeable, passionate, committed Board members is believed to be critical to accomplishing MHESAC's mission.
2. To satisfy recommendations of the Montana Attorney General regarding the appearance of perceived conflicts of interest due to overlapping membership by members of the boards of MHESAC and SAF, and to alleviate the workload of regents, the BOR consider whether it would be beneficial to ask the SAF board to consider limiting the number of regents serving on its board to one or two.
  - This recommendation does not directly apply to MHESAC.

3. The BOR recommend that MHESAC and SAF adopt as policy their practice of fully complying with Montana’s conflict of interest law.
  - MHESAC concurs with and supports this recommendation. Montana’s conflict of interest law for nonprofit entities is stated @ MCA 35-2-418. It defines relationships and interests that Board members of nonprofits must declare and necessary practices that nonprofit Boards must follow when potential conflicts exist. MHESAC’s current conflict of interest policy requires these same practices. MHESAC’s policy will be reviewed by the MHESAC Board to determine if it needs to be modified or enhanced in any way. Montana conflict of interest statute and MHESAC’s conflict of interest policy will be provided to and reviewed with all MHESAC Board members.

### **G. Transparency:**

The Taskforce Report noted that MHESAC follows open meeting and public participation procedures that provide transparency and the opportunity for public participation. It also noted that MHESAC makes its board meeting summaries available to the public, provides public notice of its board meetings and uses its website to inform the public and interested government agencies of information related to its program, including its annual report, annual audits, and tax returns. These recommendations, including recommendation #10 under “Accountability”, would provide clear incentive for the MHESAC board to follow its public participation policies. The Report also stated that two members of the Taskforce believe that state law should require MHESAC to comply with open meeting law.

1. MHESAC be requested to provide annual business overview reports to the BOR and the Governor’s office.
  - MHESAC concurs with and supports this recommendation. MHESAC will gladly provide this information to the BOR and the Governor’s office as it has offered to do in the past.
2. MHESAC be requested to communicate with members of the legislature concerning its service to Montana citizens.
  - MHESAC concurs with and supports this recommendation. MHESAC will gladly continue its ongoing communication with members of the Montana legislature and views that as a necessary and important relationship. MHESAC sent information packets to all members of the legislature during the 2007 session and looks forward to continuing that dialogue.

3. MHESAC be requested to inform CFAC, the BOR, and the Governor's Office of its financing plans including both taxable and tax exempt issuances.
  - MHESAC concurs with and supports this recommendation. MHESAC will gladly continue its ongoing communication with the BOR, Governor's Office and CFAC on its financing plans and looks forward to positive dialogue that supports access to low-cost capital for Montana students and families.
4. MHESAC be requested to continue to make its program and operation reviews and audits, audited financial statements, tax returns, offering documents, and disclosure statements to the Legislative Auditor.
  - MHESAC concurs with and supports this recommendation. MHESAC will gladly continue this ongoing practice.
5. MHESAC be requested to continue to operate in as open a manner as possible and encourage public participation.
  - MHESAC concurs with and supports this recommendation. MHESAC will gladly continue its ongoing practice of public participation and values the input and its support of the MHESAC mission. MHESAC by-laws require that its meetings be open to the public. MHESAC follows open meeting and practices and public participation procedures that provide transparency and the opportunity for public participation. MHESAC makes its board meeting summaries available to the public, provides public notice of its board meetings and uses its website to inform the public, investors and interested government agencies of information related to its program and its financings, including its annual report, annual audits, tax returns and financing performance data. MHESAC provides copies of all of its audits to the Legislative Auditor. MHESAC holds publicly noticed public meetings to discuss its financing plans and also publishes a disclosure document that describes its business and financing in detail that is publicly available for all of its public offerings.

## **H. Other Student and Lender Issues:**

1. Federal student aid programs:

Changes to the Higher Education Act (HEA), effective October 1, 2007, which affects the Federal Family Education Loan Program (FFELP) and new federal regulations, effective July 1, 2008, which address lender practices, are being reviewed and analyzed by Montana Guaranteed Student Loan Program (MGSLP) and the Commissioner's Office. Resulting changes to the policy and procedure are

expected to be in place before the July 1 deadline. The Board of Regents will be apprised of these changes and will be slated to act on any matters requiring board action.

- MHESAC concurs with and supports this recommendation. As one of many FFELP lenders in the state of Montana, MHESAC currently complies with all policies and practices of participating schools, federal and, state law and will continue to do so.

2. Attorney General Recommendations:

a. Recommendation 1: Conflict of Interest

*AG Report: Although the blatant conflicts of interest occurring elsewhere were not found in Montana, the potential for conflict is quite high due to these close and sometimes overlapping relationships. To avoid any potential for or appearance of conflict of interest, Montana's institutions of higher education need to build appropriate safeguards into the school loan system.*

Response: This issue is addressed in Section 4, Conflict of Interest. The FFELP is subject to federal law, which does not prohibit the board governance structures found in Montana. Conflict of interest among lenders and educational institutions are addressed in federal regulations and the Montana Guaranteed Student Loan Program (MGSLP) and Commissioner of Higher Education, serving as the FFELP administrator for the State of Montana, monitors and audit program participants for compliance on an ongoing basis.

b. Recommendation 2: Preferred Lender Lists

*AG Report: We recommend that each institution of higher education develop comprehensive guidelines explaining the criteria used to select lenders for inclusion on or removal from its preferred lender lists, as well as a clear, well-publicized disclosure that students can borrow from lenders that are not on the list.*

Response: The campuses are developing guidelines governing preferred lender lists and taking steps to ensure disclosure to students that they may obtain student loans from lenders who are not on the list. The requirements for a school to use preferred lender lists are detailed in federal regulations and the Commissioner of Higher Education monitors compliance with these regulations for all industry participants through MGSLP.

- MHESAC concurs with and supports these recommendations.