

## VSAC Board of Directors Meeting

April 18, 2016

1:00 p.m.

Board Room, VSAC  
10 East Allen Street  
Winooski, Vermont 05404

### *Attendance:*

**Present:** Dodie Mitchell (Chair), Dave Larsen, Martha Heath, Sarah Buxton, Pam Chisholm, Katharine Hutchinson, Dennis O'Brien, Mike Smith

**Absent:** Beth Pearce, David Coates, Ann Cummings

**Staff:** Scott Giles, Tom Little, Patrick Leduc, Mike Stuart, Marilyn Cargill, Kristi Rocheleau

**Others:** Robert Irvin, Kutak Rock, LLP

The meeting was called to order at 1:05 p.m. by Chair Mitchell.

### **I. Approval of Minutes**

*Upon a motion made by Martha Heath and seconded by Katharine Hutchinson, the Directors voted unanimously to approve the 2016 meeting minutes of February 8, 2016, as presented.*

### **II. Chair's Report**

Chair Dodie Mitchell welcomed Board Members, and having no new business, she transitioned Members to the President's Report.

### **III. President's Report**

President Giles briefed Board Members on the current state and federal landscape, and the strategic goal progress. Giles also thanked Board Members who were able to participate in the scholarships review process, noting the perseverance and grit showcased by students.

### **IV. Committee Reports**

#### **Finance Committee**

#### **2016 Education Loan Bond Issue**

The Board of Directors reviewed and discussed the presentation from Board member Mike Smith, who explained that there was no quorum of the Finance Committee at its meeting earlier in the day due to unavoidable circumstances involving members Coates and Pearce. Mike stated that the 2016 Private Loan Authorizing Resolution, as circulated, was being presented to the Board for action for purposes of raising capital to meet the demand for private education loans for the 2016-2017 school year. He then asked Tom Little and Mike Stuart, and Bond Counsel Robert Irvin (via conference call), to walk the Board through

the economics, purpose, and documentation for the proposed bonds and Authorizing Resolution. The review and discussion included these points:

- VSAC plans to issue fixed-rate bonds to fund fixed-rate private education loans, similar to the bond issued last year for private loans.
- The new bonds are expected to be issued out of the 2012 bond indenture, as we believe that will provide the most economical funding from combining the pool of loans from that indenture (which includes the 2013 bonds which also were issued out of the 2012 indenture).
- The bond sale is hoped to have approximately the same or a slightly lower cost than last year, as the relevant interest rates are flat or slightly lower compared to last year. This should translate to flat or slightly lower than the 2015 rates for students and compare favorably to the Advantage loan rates of the past four years. The final rates may vary from the projected rates based on final rating agency review of the cash flow projections and bond market conditions at the time of sale.
- The sole manager for these bonds will be Bank of America Merrill Lynch, replacing Morgan Stanley which exited this area of banking in late 2015. This engagement is for one year; the fees and costs, as presented in Tom Little's April 14 Memo distributed to the Board last week, are comparable to those of last year, adjusted for this year's somewhat larger par amount of bonds to be issued.
- The bonds are expected to be issued with a single A rating from S&P and Fitch. This will produce a bond interest rate that is price competitive.
- These will be revenue bonds – not a general obligation of VSAC, nor a general or moral obligation of the State of Vermont. Only the private student loans, and the revenues flowing from them, are pledged as collateral for the principal and interest payments due on the bonds.
- Management expects to have the required approval letter signed by the Governor next week.
- Also included in the documents sent to the Board are the Supplemental Indenture and the Preliminary Official Statement.
- The Authorizing Resolution authorizes the bonds, imposes a maximum interest rate and maximum underwriter fees, and identifies the individuals who complete and can sign the documents.
- The Bonds will be priced for sale in May, with a closing set for early June. In anticipation of the sale, and in order to initiate the critical marketing effort for the new loans, we expect to announce the loan rates next week or the week after.
- Mike Stuart explained that this financing would have something new compared to any prior VSAC private loan financing: A \$4 million borrowing from the State of Vermont. VSAC expects that the State Treasurer will lend \$4 million for use as over-collateralization in the bond trust estate, in order to achieve an "A" rating on the bonds and reduce the interest cost of the 2016 student loans. In the past VSAC has contributed its own unrestricted reserve funds for this purpose. As those funds are not unlimited, we are seeking funds from the State to be borrowed by VSAC with a term note back to the State to alleviate pressure on that source of funds. We expect that this note will bear interest at approximately 2.0%, making it an attractive source of capital and one that will lower interest rates to the student loan borrowers (15 basis points lower than would otherwise likely be the case). The note will be a general obligation of VSAC. The Authorizing Resolution contained permitted parameters with respect to, among other things, the principal amount of the note and the interest rate.

Mike Smith asked how bond owners are protected when owning bonds in one bond trust that is established out of a master indenture with other bonds outstanding under it. Mike Stuart explained the internal controls and the role of the bond trustee. Bond counsel Robert Irvin elaborated on this, explaining how the bond indenture and other closing documents establish a required flow of revenues and payments in and out of the indentures, with the bond trustee having control of deposits and expenditures to assure that the requirements of the bond indentures are adhered to.

Other Board members asked questions about the \$4 million note, the Authorizing Resolution provisions, and the timetable for the balance of the financing.

*Then, upon a motion made by Mike Smith and seconded by Martha Heath, the Board voted unanimously to approve the 2016 Private Education Loan Authorizing Resolution as distributed prior to the meeting and presented at the meeting, attached to these Minutes.*

Name	Vote	Name	Vote
Dodie Mitchell, Chair	Aye	Sen. Ann Cummings	Absent
Martha Heath	Aye	Katharine Hutchinson	Aye
David Larsen	Aye	Dennis O'Brien	Aye
Rep. Sarah Buxton	Aye	Michael Smith	Aye
Pam Chisholm	Aye	Beth Pearce	Absent
David Coates	Absent		

Robert Irvin, Kutak Rock, LLP, then exited the meeting.

### **Vermont Scholarship Fund**

As requested by Mike Smith, Tom Little provided background on the Endowment Investment Policy and Spending Policy for the Vermont Scholarship Fund, which the Finance Committee reviewed and approved on March 21, 2016. Mike Stuart then outlined the summary of the material changes previously distributed, noting that the changes are expected to increase the funds that can be made available to scholarships over time. Mike Smith shared the Finance Committee's review process, and given the size and purpose of the endowment, the Committee agrees with the conservative passive management approach. A discussion ensued as to the specificity of the policy, and whether or not the full Board needs to take action. A consensus was reached; the Board will continue review of this policy as a best practice.

*Upon a motion made by Mike Smith and seconded by Sarah Buxton, the Directors voted unanimously to accept the revised Vermont Scholarship Fund Endowment Investment and Spending Policy as presented.*

### **Governance Committee**

Dave Larsen provided highlights of the March 21, 2016 Governance Committee Meeting, emphasizing the Committee's continued review of the Board officer terms and the process for evaluating the Board Chair. The Committee also approved the designations of the risk categories assigned in May 19, 2015 version.

*Upon a motion made by Dave Larsen and seconded by Martha Heath, the Directors voted unanimously to accept the Risk Assignments, as presented in the May 19, 2016 version.*

In response to questions regarding where this document would be stored, Scott communicated the plans to create an online version in the Board portal. A presentation of the draft to the Audit Committee is slated for May.

### **Human Resources Committee**

Chair O'Brien reported on the March 21, 2016, Committee Meeting, noting the focus on the healthcare options and recommendations. Patrick Leduc then responded to rollout and exposure questions. The Committee will continue this discussion in May, when additional information is expected to become

available. As designated in the CEO evaluation timeline, the Committee continues its annual review process.

### **Programs & Services Committee**

Committee Chair Heath walked members through the March 21, 2016, meeting record. The Committee reviewed the proposed changes to the Basic Incentive Grant, taking into consideration how changes would affect students. Marilyn then reported that although the Committee had approved the recommendation to increase the Basic Incentive Grant from \$700 to \$1000, the projection models for the Vermont grant indicate that new Pell changes may make this large of a shift unrealistic in one year. Martha recommended leeway to provide an opportunity to phase in the increase over a two year period, up to \$1000. Marilyn responded to questions, and noted that VSAC staff will continue to review the models to determine an increase that considers the students' best interest. This conversation will continue at the upcoming April 21, 2016 Programs & Services Committee meeting to review and set grant levels for the upcoming fiscal year. After discussion, Martha then made the following motions.

***Upon a motion made by Martha Heath and seconded by Dennis O'Brien, the Directors voted unanimously to approve the increase of the Basic Incentive Grant from \$700 to an amount up to \$1000.***

Marilyn reiterated that there is still too much volatility in the projections model to set levels. She expects more accurate model data to be available by April 21. The Board agreed to empower the Committee to make the final decision and report back to the Board at the next meeting.

***Upon a motion by Martha Heath and seconded by Dennis O'Brien, the Directors voted unanimously to authorize the Programs & Services Committee to set and approve grant levels for the Fiscal Year 2017, with a requirement that the Committee report out to the full Board at the next meeting.***

Martha then directed the attention of the Directors to the ongoing grant policy review. The Income Cutoff, Parent/Student Contribution Cutoff, and VAST/Early College Program policies reviewed in March were approved and require Board approval. Martha then reviewed each policy background and changes, and led a discussion with Board Members.

***Upon a motion made by Martha Heath and seconded by Katharine Hutchinson, the VSAC Board of Directors voted unanimously to approve the Income Cutoff policy as presented.***

***Upon a motion made by Martha Heath and seconded by Katharine Hutchinson, the VSAC Board of Directors voted unanimously to approve the Parent/Student Contribution Cutoff policy as presented.***

***Upon a motion made by Martha Heath and seconded by Dennis O'Brien, the VSAC Board of Directors voted unanimously to approve the VAST/Early College Program policy as presented.***

### **V. Executive Session:**

***Upon a motion made by Martha Heath and seconded by Mike Smith, the Board voted unanimously to enter executive session at 3:22 p.m. in order to consider contractual matters***

*for which premature public knowledge would clearly place VSAC at a substantial disadvantage; and to obtain confidential and privileged advice from General Counsel. The members of the Executive Committee were requested to remain in the room, as they have information needed for the executive session: 1 V.S.A. sec. 313 (a).*

The Board exited the executive session at 4:18 p.m.

**VI. Other Business & Meeting Review**

There being no other business, the meeting adjourned at 4:19 p.m.

Respectfully submitted,

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David Larsen, Secretary

## AUTHORIZING RESOLUTION

### OF THE

### VERMONT STUDENT ASSISTANCE CORPORATION

BE IT RESOLVED BY the Board of Directors (the “Board”) of Vermont Student Assistance Corporation (the “Corporation”), this 18th day of April, 2016, as follows:

Section 1. Subject to Section 12 hereof, a supplemental indenture of trust (referred to herein as the “Series 2016A Supplemental Indenture of Trust”) supplementing and amending the Indenture of Trust, dated as of July 1, 2012 (the “2012 Base Indenture” and, together with the Series 2016A Supplemental Indenture of Trust and all other supplements and amendments to the 2012 Base Indenture, the “Indenture”), is hereby adopted in order to provide for the issuance of bonds, notes or other debt obligations (the “Bonds”), the proceeds of which are to be used for the purpose of any, all, or any combination of the following: (i) originating and acquiring education loans (and reimbursing the Corporation for any education loans it makes from its own funds prior to the issuance of the Bonds as may be set forth in a declaration of the Corporation’s official intent made by the Corporation’s Vice President and CFO), (ii) funding reserves and/or interest on the Bonds, (iii) paying costs of issuing the Bonds and (iv) for other purposes allowed by the Indenture, which Series 2016A Supplemental Indenture of Trust shall be substantially in the form presented to this meeting, subject to completion and subject to the parameters set forth in Section 2 hereof.

Section 2. The Bonds shall be issued as fixed rate bonds in one or more series on a tax exempt basis in an aggregate principal amount not to exceed \$40,000,000; the maximum yield on any series of Bonds (giving effect to any original issue discount or original issue premium) shall at no time exceed 6.00% per annum. The Bonds shall mature no later than December 31, 2040.

Section 3. The Treasurer of the State of Vermont (the “Treasurer”) has offered to provide funding to the Corporation in the form of a note to be executed by the Corporation (the “Note”) payable to the State of Vermont or the Treasurer or as otherwise specified by the Treasurer (the “Payee”), and the Corporation may determine to issue the Note in order to provide funds to further over-collateralize the Bonds as may be required by rating agencies or potential purchasers of the Bonds. The Note would be issued to the Payee within the parameters set forth below. The Corporation is hereby authorized to issue the Note pursuant to the terms of this Authorizing Resolution or, as later provided in this Section, any other resolution or indenture, which is hereby adopted. The Note, if issued, shall be issued by the Corporation to the Payee as one or more notes on a taxable basis in an aggregate principal amount not to exceed \$5,000,000; the interest rate on the Note shall at no time exceed 3.50% per annum; and the Note shall mature no later than December 31, 2022. The Note may be issued under the Indenture, under another indenture or resolution as provided in Section 12 hereof or pursuant to this Authorizing Resolution, and may be payable from assets held under such Indenture or other indenture or resolution, or may be issued as a general obligation of the Corporation, payable from all available funds, moneys and other sources available to the Corporation that are not subject to a pledge or lien to secure other debt or related payment obligations of the Corporation from time to time, or may be payable from a combination of sources as provided in Section 9 hereof.

Section 4. The Series 2016A Supplemental Indenture of Trust, the Bonds and the Note shall include details with respect to such other matters as the President or an Authorized Officer (as hereinafter defined), upon advice of counsel, shall approve, the execution and delivery thereof to constitute such person’s approval thereof.

Section 5. Each of the Chair, the Vice Chair, the President, the Secretary of the Corporation and each Assistant Secretary of the Corporation is designated an Authorized Officer of the Corporation (“Authorized Officer”) for the purposes of this Authorizing Resolution. Any action taken or document signed by a person constituting an Authorized Officer at the time of such action or signing of a document authorized by this Authorizing Resolution shall remain effective whether or not such person, at the time of the issuance of the Bonds and/or the Note, is the incumbent of such office when the Bonds and/or the Note are issued.

Section 6. Each Authorized Officer is authorized to execute and deliver to Merrill Lynch Pierce Fenner & Smith Incorporated (the “Underwriter”) a purchase contract or contracts for the Bonds (the “Bond Purchase Contract”) providing for the sale of the Bonds to the Underwriter at a price equal in the aggregate to par less an underwriting discount of not to exceed one percent (1.00%) of the aggregate principal amount of the Bonds (or such amount may be paid as a fee rather than as an underwriting discount), plus any original issue premium and less any original issue discount (provided that the yield on the Bonds, taking into account any such original issue discount and original issue premium, shall not exceed the maximum yield set forth in Section 2 above), plus costs and fees not to exceed those specified in the proposal of the Underwriter to the Corporation dated February 5, 2016.

Section 7. A Preliminary Official Statement and a final Official Statement, in substantially the form of the Preliminary Official Statement presented at this meeting, is hereby approved, with such changes and completions as shall be deemed by the President or one or more other Authorized Officer to be necessary or appropriate. The President of the Corporation is authorized to execute and deliver a final Official Statement. Use by the Underwriter of one or more Preliminary and final Official Statements in connection with the Bonds and the Note is hereby approved.

Section 8. The Bonds shall be special, limited obligations of the Corporation and shall only be payable out of the trust estate pledged therefor pursuant to the Indenture. The Bonds issued under the Indenture shall not constitute a debt, liability or obligation of the State of Vermont or any of its political subdivisions and none of the faith and credit, the taxing power or the moral obligation of the State of Vermont or any political subdivision thereof shall be pledged to the payment of the principal of and the interest on the Bonds. For the sake of clarity, the Bonds shall not be supported by a moral obligation of the State of Vermont under Title 16, Chapter 87, Section 2867 of the Vermont Statutes Annotated.

Section 9. The Note shall either be (i) a general obligation of the Corporation, (ii) a special, limited obligation of the Corporation payable from amounts released from the lien of the trust estate pledged pursuant to the Indenture or as permitted in Section 12 hereof, or (iii) payable from both such sources. The Note shall not constitute a debt, liability or obligation of the State of Vermont or any of its political subdivisions and none of the faith and credit, the taxing power or the moral obligation of the State of Vermont or any political subdivision thereof shall be pledged to the payment of the principal of and the interest on the Bonds and/or the Note. For the sake of clarity, the Note shall not be supported by a moral obligation of the State of Vermont under Title 16, Chapter 87, Section 2867 of the Vermont Statutes Annotated.

Section 10. Each Authorized Officer is authorized to execute and deliver such additional documents or certificates as counsel to the Corporation or Kutak Rock LLP, Bond Counsel, shall advise as necessary or desirable, including, without limitation, a tax certificate, a continuing disclosure agreement and other closing documents.

Section 11. Any document or certificate executed or delivered by an Authorized Officer, including the Indenture, the Bonds, the Note, the Bond Purchase Contract and the final Official Statement, shall be conclusive evidence of the approval of any modifications of terms submitted at this meeting of the Board

and of the due authorization, execution and approval by the Corporation of any such document or certificate, subject to the provisions of Sections 2, 3 and 6 hereof.

Section 12. While it is expected that the Bonds will be issued pursuant to the Indenture, including the Series 2016A Supplemental Indenture of Trust, and that the Note will be issued thereunder or as a separate Note authorized by this Authorizing Resolution, if it is determined by the President or one or more Authorized Officers after the adoption of this Authorizing Resolution that it is in the best interest of the Corporation to issue the Bonds and/or the Note pursuant to one or more new and separate trusts or pursuant to a supplement to any other previous indenture of the Corporation, the Board hereby authorizes the same, provided that all other provisions and limitations of this Authorizing Resolution are complied with, and provided further that (i) if the Bonds are issued under a new and separate indenture of trust and supplement thereto or pursuant to any other previous indenture of the Corporation, such documents are determined by the President or one or more Authorized Officers to be substantially similar to the 2012 Base Indenture and the Series 2016A Supplemental Indenture of Trust within the intent of this Authorizing Resolution (but with such changes as may be approved by the President or one or more other Authorized Officers executing or delivering such new and separate indenture of trust and supplement or such supplement to any other previous indenture of the Corporation, which execution or delivery shall be conclusive evidence of such determination and approval of any such new and separate indenture of trust and supplement or any such supplement to any other previous indenture of the Corporation), and (ii) if the Note is issued under a new and separate indenture of trust and supplement thereto or pursuant to any other previous indenture of the Corporation, such documents are determined by the President or one or more Authorized Officers to comply with all other provisions and limitations of this Authorizing Resolution with respect to the Note including the provisions of Section 3 hereof.

Section 13. This Authorizing Resolution shall take effect immediately upon its adoption, provided that the Indenture (or a new and separate indenture of trust and supplement or a supplement to any other previous indenture of the Corporation as referred to in Section 12 hereof) shall take effect immediately upon the delivery of a certified copy of the Indenture or such new and separate indenture of trust or supplement to any other previous indenture to the trustee designated therein.

Section 14. All prior acts and doings of the officers, agents and employees of the Corporation which are in conformity with the purposes and intent of this Authorizing Resolution, and in furtherance of the purposes of this Authorizing Resolution, shall be and the same hereby are in all respects ratified, approved and confirmed.