

MINUTES OF MEETING
STATE BOARD OF FINANCE

April 24, 2008

An emergency meeting of the State Board of Finance of the State of Arkansas was held in the Conference Room, Office of the Treasurer of State, Suite 275, Victory Building, Little Rock, Arkansas, at 10:00 a.m., Thursday, April 24, 2008, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

Richard Weiss, Director, Department of Finance
And Administration
Martha Shoffner, Treasurer of State
Candace Franks, Arkansas State Bank Commissioner
Jim Wood, Auditor of State
James Miller, representing Governor Mike Beebe

Others present were Andrew DeMillo, reporter for Associated Press; Michael Wickline, reporter for the Arkansas Democrat-Gazette; Tony Williams and Mark Conine, representing the Arkansas Student Loan Authority (“ASLA”); Michele Simmons Allgood and Shelley Jordan, representing Williams & Anderson, PLC; Carey Smith, representing Stephens, Inc.; Lisa White, of the Auditor’s Staff; and Karla Wise, Wes Goodner, Autumn Sanson, and Patti Lah of the Treasurer’s staff.

Richard Weiss served as acting Chairman in the absence of Governor Beebe and called the meeting to order with recognition of a quorum.

Acting Chairman Weiss began the meeting by recognizing Tony Williams of the Student Loan Authority, to address the issue for which the emergency meeting was held. Mr. Williams distributed a memorandum which he stated would synopsize the issues surrounding the request for the supplemental financing. The memorandum is, in words and figures, as follows:

Memorandum

Date: April 24, 2008
To: Arkansas State Board of Finance
From: Arkansas Student Loan Authority

The Arkansas Student Loan Authority (ASLA) exists to ensure access to affordable student loan funding for the citizens of Arkansas.

Current Market's Impact on Prior Expectations

ASLA and state-based student loan organizations throughout the country are experiencing significant challenges in 2008. Two events occurred in the fall of 2007, which have served as catalysts for the student loan liquidity and potential funding crisis. Congress reduced student loan interest rate yields to lenders through the College Cost Reduction and Access Act (CCRAA) of 2007. This began the process of lenders analyzing their ability to continue providing student loans. The second event was the collapse of the subprime mortgage lending market. Investors became fearful of asset-backed securities when they experienced losses with AAA-rated bonds backed by subprime mortgages. There is no relationship between the subprime lending business and the student loan business; however, this fact has been largely ignored by investors. ASLA and state-based student loan organizations across the country have experienced tremendous increases in bond interest expense, while also finding great difficulty in accessing additional capital to fund student loans.

During the past thirty years, ASLA has enjoyed ready access to the capital markets to generate the funds it uses to finance student loans. The primary vehicle used to accomplish this has been the auction rate bond market. In the fall of 2007, it became apparent that ASLA would have to find a different vehicle through which to access the capital markets. The auction rate bond market deteriorated, and has yet to recover. Asset-back securities underwriters are not sure when, if ever, the auction rate bond market will return to normalcy. In December 2007, ASLA first approached the State Board of Finance to inform the Board of our intent to restructure outstanding auction rate bonds and to issue new variable rate demand bonds to fund ongoing student loan programs. At that time we could not anticipate the severity of the impact on the capital markets caused by the subprime mortgage crisis.

Purpose of Requested Funds

A line of credit facility will enable our organization to meet student loan demand where lending voids may exist. It will also encourage current lending institutions such as Arkansas banks to continue participating in the Federal Family Education Loan Program due to the increased liquidity which would result from the credit line. The line

of credit permits ASLA to be a lending source for students who otherwise may be denied access to student loans. The credit line would be secured by student loans funded by the credit line. These loans are 97% guaranteed by the federal government. In addition, ASLA covenants to service and administer the student loans in the same manner as its existing student loan portfolio.

Over 50 lending institutions nationwide have ceased to offer student loans since October 2007. Additional lenders may choose to discontinue participation in the Federal Family Education Loan Program in the coming months. However, we are hopeful this attrition will subside during the next year and not impact the availability of student loans to Arkansas students. A number of Arkansas financial institutions have pledged their commitment to continue participation in the federal student loan program for the 2008-2009 academic year. The line of credit may be used by ASLA to provide liquidity to the Arkansas student loan market in support of these lenders.

Student loans funded with the line of credit would be pledged as security. ASLA would covenant to service and administer the student loans in the same manner as its other student loans are serviced and administered.

Federal Student Loan Legislation

It should be noted that Congress has introduced a variety of bills to address the student loan liquidity crisis and the potential student loan access problem. The following is a list of recently introduced federal legislation:

S.2815 – Strengthening Student Aid for All –

April 3, 2008 – Introduced by Senator Kennedy

H.R. 5715 – Ensuring Continued Access to Student Loans Act of 2008 –

April 9, 2008 – Approved by the House Committee on Education and Labor

H.R. 5723 – Emergency Student Loan Market Liquidity Act –

April 9, 2008 – Introduced by Representative Paul Kanjorski (D-PA)

S. 2847 – Emergency Student Loan Market Liquidity Act –

April 15, 2008 – Introduced by Senator John Kerry (D-MA)

S. 2895 – PLUS Loan Borrower Protection Act of 2008 –

April 21, 2008 – Introduced by Senator Dodd (D-CT)

Unfortunately, we cannot predict when federal legislation will be adopted or its effectiveness upon adoption. It is also impossible to predict when capital markets will stabilize in order to enable student loan providers to access affordable capital through the issuance of bonds. However, please be assured that ASLA is pursuing several avenues, in addition to funding from the State, to provide long-term stability for Arkansas students.

Summary

Although ASLA remains financially stable, it presently cannot access the capital markets in order to raise funding for additional student loans. With this being the case, ASLA is unable to fulfill its primary purpose of ensuring affordable student loan funding for Arkansans. We believe this proposal will benefit both the State and ASLA by providing the State with a competitive rate of interest on an investment secured by 97% federally guaranteed student loans, and providing ASLA with funds needed to ensure continued access to affordable education funding for our citizens.

Contact Information

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Mr. Williams reminded the Board members of the Arkansas Student Loan Authority Resolution which was brought before the Board in December 2007. This Resolution was an attempt to respond to the deterioration in the auction bond market, but that, he added, the market had collapsed before ASLA could act. He further noted that during 2007, one-third of the top 100 lenders had temporarily suspended investing in bonds due both to lower yield and because of the sub-prime crisis. Mr. Williams told the Board members that he believes there is still strong access to student loans in Arkansas, but that the \$80,000,000.00 loan to ASLA should be viewed as a safety net, meant to show there is funding in the market, to encourage banks to invest, and to reassure them that there is liquidity. Mr. Williams then thanked Governor Beebe and the State Board of Finance for the proactive stance (i.e., of considering the loan), and mentioned that several states had either scaled back or suspended their student loan programs.

Martha Shoffner asked Mr. Williams, “Are you connecting this with...sub-prime? How is it connected with not being able to sell the auction bonds?”

Mr. Williams responded, “Now investors are looking at *all* bonds. The auction rate bonds are AAA, 97% backed by the federal government, but investors have ignored those facts.”

Martha Shoffner: “So you expect it to turn around in a matter of time?”

Mr. Williams: “We believe it has to turn around. It may get worse before it gets better; we anticipate it will take 6 to 9 months for the market to stabilize.”

Richard Weiss stated that he viewed the loan as a bridge, time for the market to stabilize, and that he believed that a 12- to 18-month period of time would be appropriate for the loan to be effective, setting the interest rate at the same rate established by the State Board of Finance at its next quarterly meeting. He added that he had great confidence in Mac Dodson, President of the Arkansas Development Finance Authority, who would be negotiating final terms for the State Board of Finance. Mr. Weiss expressed an initial concern about how the state banking community would

react to the loan to ASLA, but stated that he had been reassured by Bank Commissioner Franks that the loan would not have a significant impact on the liquidity of the banks, and that she did not foresee this as being a major issue.

Jim Wood asked for a reconfirmation of the loan period, which Mr. Williams reiterated would be for a 12- to 18-month period. Mr. Wood then asked Mr. Williams about the timeline for the line of credit. Mr. Williams stated that it was difficult to speculate, but that from June through the end of the calendar year, the Arkansas Student Loan Authority anticipates borrowing \$50,000,000.00, and, depending on the market, perhaps another \$30,000,000.00 at the beginning of Calendar Year 2009.

Mr. Wood made a motion to accept the Resolution presented by the Arkansas Student Loan Authority. Martha Shoffner seconded the motion and the motion was unanimously passed. Prior to ending the meeting, Acting Chairman Weiss reminded the Board members that the final terms of the loan, as well as the official rate as provided by Bank Commissioner Franks, would be discussed at the next quarterly board meeting.

The Arkansas Student Loan Authority Resolution and the State Board of Finance Resolution are, in words and figures, as follow:

ARKANSAS STUDENT LOAN AUTHORITY

RESOLUTION

A RESOLUTION APPROVING THE ARKANSAS STUDENT LOAN AUTHORITY'S INTENT TO ENTER INTO AN EDUCATION LOAN SECURED WAREHOUSE LINE OF CREDIT WITH THE STATE BOARD OF FINANCE AND PRESCRIBING OTHER MATTERS PERTAINING THERETO.

WHEREAS, the Arkansas Student Loan Authority, a body corporate and politic and an instrumentality of the State of Arkansas (the "Authority"), has been created by and exists pursuant to Arkansas Code Annotated Sections 6-81-101 through 6-81-131 (the "Act"), which prescribes its responsibilities and authorizes it to issue obligations to provide funds to accomplish the purposes for which it was created and established; and

WHEREAS, the Authority has engaged its preliminary negotiations with the State Board of Finance of the State of Arkansas ("Board of Finance") relating to an education loan-secured warehouse line of credit (the "Facility") in an amount not to exceed \$80,000,000; and

WHEREAS, the proceeds of the Facility will be used to originate and/or acquire eligible federally guaranteed student loans and, if necessary, to pay for the servicing of such loans; and

WHEREAS, the Facility shall be an obligation only of the Authority; neither the faith and credit nor the taxing power of the State of Arkansas, or any political subdivision thereof, will be pledged to the repayment of the principal of or interest on the Facility; the Facility will not be secured by a mortgage or lien on any lands or buildings belonging to the State of Arkansas; the Facility shall not constitute an indebtedness of the State of Arkansas within the meaning of any constitutional or statutory limitations; and

WHEREAS, final authority to enter into the Facility and execution of the documents related thereto shall be delivered by subsequent action of the Authority's Board of Directors.

NOW, THEREFORE, BE IT RESOLVED by the Arkansas Student Loan Authority:

Section 1. The Authority hereby expresses its intent to enter into the Facility in an amount not to exceed \$80,000,000. The rate of interest shall be the State Board of Finance CD Rate determined at the next regularly scheduled meeting of the Board of Finance. The proceeds of the Facility will be used to originate and/or acquire eligible federally guaranteed student loans and, if necessary, to pay for the servicing of such loans. It is anticipated that the Facility will be closed the last week of May or the beginning of June.

Section 2. The Authority hereby authorizes and directs each of the officers and employees of the Authority, its counsel, and financial advisors, to carry out or cause to be carried out, and to perform, such obligations of the Authority and such other actions as they, in consultation with counsel and financial advisors to the Authority, shall consider necessary or advisable in connection with this Resolution and the Facility.

Section 3. The Authority hereby authorizes and directs the President and Chief Financial Officer of the Authority to negotiate the terms of the Facility, consistent with this Resolution, with the designated representative of the Board of Finance and to direct the preparation of necessary, desirable and appropriate documentation.

Section 4. Final authority relating to the ratification and approval of the terms of the Facility and the execution of the documents related thereto shall be delivered by subsequent action of the Authority.

Section 5. If any one or more provisions of this Resolution should be determined by a court of competent jurisdiction to be contrary to law, any such provision shall be deemed separable from the remaining provisions hereof, and the invalidity thereof shall in no way affect the validity of the other provisions of this Resolution.

Section 6. This Resolution shall be effective from and after its date of adoption.

Date of Adoption of Resolution: April 23, 2008.

/s/Mike Beebe
Chairman

/s/ Martha Shoffner
Secretary

STATE OF ARKANSAS

STATE BOARD OF FINANCE

RESOLUTION

WHEREAS, the Arkansas Student Loan Authority (the "Authority") was created by Act 873 of the Acts of Arkansas of 1977, codified, as amended, at Arkansas Code Annotated §§ 6-81-101 through 6-81-131 (the "Act"), which describes the Authority's responsibilities and authorizes it to issue obligations to provide funds to accomplish the purposes for which it was created and established; and

WHEREAS, the Authority and the State Board of Finance of the State of Arkansas ("Board of Finance") have engaged in preliminary negotiations relating to an education loan-secured warehouse line of credit (the "Facility") in an amount not to exceed \$80,000,000 that will be provided to the Authority by the Board of Finance: and

WHEREAS, the proceeds of the Facility will be used to originate and/or acquire eligible federally guaranteed student loans and, if necessary, to pay for the servicing of such loans; and

WHEREAS, the Facility shall be an obligation only of the Authority, neither the faith and credit nor the taxing power of the State of Arkansas, or any political subdivision thereof, will be pledged to the repayment of the principal of or interest on the Facility; the Facility will not be secured by a mortgage or lien on any lands or buildings belonging to the State of Arkansas; the Facility shall not constitute an indebtedness of the State of Arkansas within the meaning of any constitutional or statutory limitations; and

WHEREAS, final authority to enter into the Facility and execution of the documents related thereto shall be delivered by subsequent action of the Board of Finance.

NOW, THEREFORE, BE IT RESOLVED by the State Board of Finance of the State of Arkansas that:

Section 1. The Board of Finance hereby expresses its intent to provide an education loan-secured warehouse line of credit to the Authority in an amount not to exceed \$80,000,000. The rate of interest shall be the State Board of Finance CD Rate determined at the next regularly scheduled meeting of the Board of Finance. The proceeds of the Facility will be used by the Authority to originate and/or acquire eligible federally guaranteed student loans and, if necessary, to pay for the servicing of such loans. It is anticipated that the Facility will be closed the last week of May or the beginning of June.

Section 2. The Authority hereby authorizes and directs Mac Dodson, President of the Arkansas Development Finance Authority, to negotiate the terms of the Facility on behalf of the Board of Finance, consistent with this Resolution, with the designated

representatives of the Authority and to direct the preparation of necessary, desirable, and appropriate documentation. The Board of Finance hereby authorizes and directs each of its members to carry out or cause to be carried out, and to perform such actions as they, in consultation with one another, shall consider necessary or advisable in connection with this Resolution and the Facility.

Section 3. Final authority relating to the ratification and approval of the terms of the Facility and the execution of the documents related thereto shall be delivered by subsequent action of the Board of Finance.

Section 4. If any or more provisions of this Resolution should be determined by a court of competent jurisdiction to be contrary to law, any such provision shall be deemed separable from the remaining provisions hereof, and the invalidity thereof shall in no way affect the validity of the other provisions of this Resolution.

Section 5. This Resolution shall be effective from and after its date of adoption.

ADOPTED: April 24, 2008.

/s/ Mike Beebe
Chairman

ATTEST:

/s/ Martha Shoffner
Secretary

There being no further business, the Acting Chairman declared the meeting adjourned.

ATTEST:

Secretary of the State Board
of Finance of the State of Arkansas

Acting Chairman of the State Board
of Finance of the State of Arkansas

Secretary's Note: All documents pertaining to the issues considered are filed in the permanent records of the State Board of Finance.