

MINUTES OF MEETING  
STATE BOARD OF FINANCE

December 6, 2007

The State Board of Finance of the State of Arkansas met in the Conference Room, Office of the Treasurer of State, Suite 275, Victory Building, Little Rock, Arkansas, at 10:00 a.m., Thursday, December 6, 2007, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

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

Others present were Michael Wickline, reporter for the Arkansas Democrat-Gazette; Lisa White, of the Auditor's Staff; Tony Williams, Jack Williams, and Mark McBride, representing the Arkansas Student Loan Authority; 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.

Minutes of the meeting of August 7, 2007, were approved as distributed.

The first item on the agenda was the consideration of the new rates of investment for the following: (1) \$150 million State Board of Finance Certificate of Deposit maturing on January 4, 2008; (2) \$30 million Healthy Century Certificate of Deposit maturing on January 7, 2008; and (3) \$60 million Healthy Century Certificate of Deposit maturing on January 22, 2008. Brent

Taylor, representing Bank Commissioner Franks, was called upon by Chairman Weiss to discuss the Commissioner's memorandum dated November 27, 2007, in which she proposed that the Board once again include the Federal Reserve's primary rate (discount rate) in the formula for calculating interest under the State Board of Finance Certificate of Deposit Program. Based on this formula, she was recommending a 4.1% rate for reinvestment. Mr. Taylor further explained the Commissioner's recommendation, stating that due to the changes in the financial markets, such as mergers and acquisitions, the Board might be presented with much lower rates from some of the banks (for example, by their offerings of incentive rates). Using the Federal Reserve discount rate would tend to balance out those abnormally low rates. Mr. Taylor presented to the Board the formula for calculating interest which did *not* include the discount rate; this rate was 3.8%. A motion to set the rate at 4.1% as recommended by Commissioner Franks was made by Ms. Shoffner, seconded by Jim Wood, and unanimously passed by the Board. However, the Chairman advised that no permanent changes be made to the method of calculating interest until the next meeting, when Bank Commissioner Franks could be present to discuss the issue.

The Chairman recognized Tony Williams, Counsel for the Arkansas Student Loan Authority, who presented a Resolution by the Authority proposing to sell and issue its Student Loan Revenue Bonds, Series 2006, in the principal amount not to exceed \$280,000,000. Mr. Williams presented the Authority's proposal in the form of a resolution, stating the resolution was subject to the consent of the State Board of Finance and the written approval of the Governor. The members reviewed the Resolution and discussed Section 2., specifically: "The consent given by this resolution does not extend to any swap agreement or other derivative agreement, and the Authority shall obtain the specific approval of the State Board of Finance

before entering into any interest rate swap agreement or other derivative agreement.” The Resolution is, in words and figures, as follows:

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, as Arkansas Code Annotated §§ 6-81-101 through 6-81-131 (the "Act"), which describes the Authority's responsibilities and authorizes it to issue revenue bonds to provide funds to accomplish the purposes for which it was created and established; and

WHEREAS, the Authority now proposes, subject to the consent of the State Board of Finance, to sell and issue its Student Loan Revenue Bonds, Series 2006 (the "Bonds"), in a principal amount not to exceed \$280,000,000, under a Plan of Finance which is described in the memo attached hereto and made a part of this Resolution; and

WHEREAS, the proceeds of the Bonds will be used to originate and acquire loans made to Arkansas residents or students attending post-secondary institutions in Arkansas for the purpose of funding the costs of post-secondary education and, if necessary, to refund outstanding bonds; and

WHEREAS, Act 762 of 1981 requires the Authority to receive the written approval of the Governor of the sale of its bonds after he has received the advice of the Legislative Council; and

WHEREAS, the Legislative Council favorably reviewed this proposed financing at its meeting of December 15, 2006, and the Governor's written approval will be received by the Authority as a condition to any current or advance refunding or other issuance of bonds and the sale of the Bonds to the underwriters; and

WHEREAS, the Bonds shall be obligations 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 Bonds; the Bonds will not be secured by a mortgage or lien on any lands or buildings belonging to the State of Arkansas; and the Bonds shall not constitute an indebtedness of the State of Arkansas within the meaning of any constitutional or statutory limitations; and

WHEREAS, Section 6 of the Act, Arkansas Code Annotated § 6-81-107, requires that, prior to the issuance of any of its obligations by the Authority, the State Board of Finance shall first give its consent by Resolution to the issuance of such obligations; and

WHEREAS, the State Board of Finance is charged with the responsibility of maintaining and improving the credit standing of the State of Arkansas;

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

Section 1. The State Board of Finance has reviewed the proposed issuance of the Bonds, and based upon such review the consent required by Section 6 of the Act, Arkansas Code Annotated § 6-81-107, is hereby given to the Authority for the issuance of its Student Loan Revenue Bonds in a principal amount not to exceed \$280,000,000, subject to the condition set forth in Section 2 hereof.

Section 2. The Amended and Restated Indenture of Trust, dated as of September 1, 2000 (the “General Indenture”), and that certain supplemental indenture under which the Bonds will be issued, (the General Indenture, together with the supplemental indenture, the “Indenture”), between the Authority and Regions Bank, as trustee, which secures the Bonds, allows the Authority to enter into an interest rate swap agreement in certain circumstances. The consent given by this resolution does not extend to any swap agreement or other derivative agreement, and the Authority shall obtain the specific approval of the State Board of Finance before entering into any interest rate swap agreement or other derivative agreement.

ADOPTED: December 6, 2007.

/s/ Mike Beebe  
Chairman

ATTEST:

/s/ Martha Shoffner  
Secretary

A motion was made by Jim Wood to approve the Resolution as presented. The motion was seconded by Martha Shoffner and unanimously passed.

Tony Williams then presented to the Board a second Resolution, along with an attached Plan of Restructuring and Bond Restructuring Worksheet. He described the Resolution as “not part of [the] normal course of business,” but due to a crisis in the sub-prime lending market (mortgage-backed assets). He stated that the goal of the Arkansas Student Loan Authority was to provide many students with a lower interest rate than was mandated, but that [the ASLA] would have to

offer the Congressionally-set interest rate unless costs could be reduced. This Resolution is in words and figures as follows:

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 revenue bonds to provide funds to accomplish the purposes for which it was created and established; and

WHEREAS, the Authority proposes a Plan of Restructuring of its outstanding bonds for the reasons set forth in the Plan of Restructuring. The restructuring is expected to involve a total of \$7366,200,000 of auction rate bonds by converting \$287,650,000 of bonds to variable rate demand bonds, by converting \$15,000,000 of bonds to fixed rate bonds (collectively, the “Converted Bonds”) and, unless further consent is obtained as set forth in the Plan of Restructuring, by issuing refunding bonds in an amount not to exceed \$433,550,000 (the “Refunding Bonds”). The Refunding Bonds and most of the Converted Bonds will be structured in a variable rate demand mode secured by a liquidity facility provided by a major U.S. or international bank, or a combination of banks assembled for that purpose. Copies of the Plan of Restructuring and Bond Restructuring Worksheet are attached hereto and made a part hereof. The Bond Restructuring Worksheet indicates which series of bonds are proposed to be either converted or refunded; and

WHEREAS, the bonds involved in this restructuring shall be obligations 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 or interest on the bonds; the bonds will not be secured by a mortgage or lien on any lands or buildings belonging to the State of Arkansas; and the bonds shall not constitute an indebtedness of the State of Arkansas within the meaning of any constitutional or statutory limitations; and

WHEREAS, Section 6 of the Act, Arkansas Code Annotated § 6-81-107, requires that prior to the issuance of any obligations by the Authority, the State Board of Finance shall first give its consent by Resolution to the issuance of such obligations; and

WHEREAS, the State Board of Finance is charged with the responsibility of maintaining and improving the credit standing of the State of Arkansas;

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

Section 1. The State Board of Finance has reviewed the proposed Plan of Restructuring and the Restructuring Worksheet, and based upon such review the consent required by Section 6 of the Act, Arkansas Code Annotated § 6-81-107, is hereby given to the Authority, this current authority carrying with it the conversion of existing bonds, the issuance of the Refunding Bonds by the Authority, all as set forth in the Plan of Restructuring and the Restructuring Worksheet.

Section 2. The consent given by this Resolution does not extend to any swap agreement or other derivative agreement, and the Authority shall obtain the specific approval of the State Board of Finance before entering into any interest rate swap agreement or other derivative agreement.

ADOPTED: December 6, 2007.

/s/ Mike Beebe  
Chairman

ATTEST:

/s/ Martha Shoffner  
Secretary