

MINUTES OF MEETING  
STATE BOARD OF FINANCE

October 8, 2009

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, October 8, 2009, 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 Tony Williams and Mark Conine representing the Arkansas Student Loan Authority (“ASLA”); Jack Williams and Michele Allgood, of Williams & Anderson PLC; Carey Smith, representing Stephens, Inc.; Lisa White, of the Auditor’s staff; and Karla Shepard, Autumn Sanson, and Celeste Gladden 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, director of the Student Loan Authority, to discuss the item on the agenda, which is the consideration of a Resolution for consent to the ASLA’s Plan for Restructuring, 2009, all of its existing bond indebtedness. Mr. Williams began by providing an update on the state line of credit provided to the ASLA to help fund student loans. Mr. Williams explained that the loan has worked out as hoped, the ASLA was able fund 69 million dollars in student loans, and thanked the board for help.

He further noted that the federal government passed legislation providing liquidity for the loans that were made last year. Last fiscal year, 54 million dollars in loans were sold back to the U.S. Department of Education, and that amount has been paid back and those funds are being drawn on again for the current academic year. Mr. Williams told the Board members that the loans made during this academic year will be sold during the Spring and Summer of 2010, which will enable the ASLA to pay back the line of credit. He stated that there are 15 to 20 million dollars in loans that are not eligible to be sold to the federal government, and those are the loans that the ASLA wishes to refinance in the Plan of Restructuring, 2009, that is being proposed.

Mr. Williams explained the restructuring is not only necessary in order to pay back the state line of credit, but also to restructure the auction rate bonds. The auction rate bond market collapsed last year and is not expected to return. He went on to explain that the bonds are still good investments for the bond holders but the ASLA needs to restructure the debt to get into a more active market and to protect against interest rate spikes. He also stated that the old bonds are still under the old usury rules, which causes a problem because the bonds would be locked into a 5.5% interest rate. In 10 years, when the bonds are still outstanding, the market rate may need to be 7 or 8% and the investors would be stuck at 5.5%. Mr. Williams told the board members what the ASLA proposed to do with the restructuring of the debt, which is approximately 550 million dollars in auction rate bonds, is to refinance half into variable rate demand bonds and the other half would be put into the federal conduit, Straight-A Funding. Straight-A Funding was created by the federal government for exact instances like these, where student loan organizations need liquidity for their loans.

Chairman Weiss asked Mr. Williams, "What is the ALSA doing in regard to the loan from the State Board of Finance?"

Mr. Williams responded, “at the end of FY 2009, we had 23 million dollars outstanding in the line of credit. Of that amount, 15 to 20 million dollars is not eligible to be sold to the US Department of Education, and that is the amount we are including in the refinancing to take place at the end of this calendar year, or first quarter of 2010. All other loans within that line of credit will be sold, and those sales will take place in the Spring of Summer of 2010. At that time, we will be able to repay the state and totally close the line of credit.”

Martha Shoffner asked Mr. Williams, “When do you expect the legislation of Washington to affect us or not affect us?”

Mr. Williams responded, “We expect it very soon. We believe the legislation will mean that we will no longer be a lender in the secondary market but simply a loan servicer for the State. The current legislation states that the federal government will take over by July 1<sup>st</sup> of 2010, but I think they will delay implementation until 2011. We are now able to access funds from the federal government. Once we pay back the state line of credit, we will access funds from the federal government to fund us for one more year.”

The Chairman recognizes Karla Shepard who asked, “If I understand correctly, what you are proposing to do will allow the ASLA to pay back the State Board of Finance earlier than expected?”

Mr. Williams responded, “Yes, there is no reason why we shouldn’t be able to pay the loan back by July 2010.”

Chairman Weiss recognized Mr. Jack Williams, council for the ASLA, to give a brief overview of the Resolution and Plan for Restructuring, 2009. The Resolution reads, 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 to acquire and sale student loans.

WHEREAS, the Authority proposes a Plan of Restructuring, 2009 of its outstanding bonds for the reasons set forth in the Plan of Restructuring, 2009. The restructuring is expected to involve a total of \$544,000,000 of auction rate bonds by (1) converting its current issues to variable rate demand bonds through the issuance of refunding bonds (the "Refunding Bonds") and (2) transferring eligible student loans to Straight-A Funding, a conduit warehousing facility sponsored by the U.S. Department of Education. The Refunding 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 bank assembled for that purpose. A copy of the Plan of Restructuring, 2009 is attached hereto and made a part hereof; 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 of or interest on the bonds; the bonds will not be secured by a mortgage or lien of 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, the Authority Board of Directors in its Resolution of September 10, 2009 approved the concept of the Plan of Restructuring and authorized its staff and professionals to go forward with plans in furtherance of such Plan, including securing all necessary statutory approvals; 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 Board of Finance has reviewed the proposed Plan of Restructuring, 2009, 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 issuance of the Refunding Bonds by the Authority, and the transfer of student loans to Straight-A funding, all as set forth in the Plan of Restructuring.

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: October 8, 2009

**/s/ Richard Weiss**

Chairman

ATTEST:

**/s/ Martha Shoffner**

Secretary

**ARKANSAS STUDENT LOAN AUTHORITY**  
**(“ASLA”)**  
**Plan of Restructuring**  
**2009**

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**Purposes of  
Restructuring:**

The purpose of the Restructuring is to respond to the collapse of the auction rate bond market and mitigating the risk associated with the auction rate bond market. Most of the ASLA’s bonds have been issued in auction rate mode, which was the favored mode for the student loan industry for many years.

The auction rate bond collapsed in early 2008 and shows no signs of recovery. The auction rate bond market experienced this collapse due to a lack of demand from investors for auction rate bonds. The primary reason for the troubled auction rate market was crisis experienced in the sub-prime mortgage lending business. There is not a direct relationship between the sub-prime mortgage lending business and the student loan industry; however, since much of the sub-prime mortgage lending was also issued in auction rate paper the difference in loan quality has largely been ignored by investors. Consequently, ASLA has experienced declining liquidity for its bonds with consequent risk of increase in interest cost to maintain its bonds in the current auction rate mode.

Therefore, ASLA contemplates: (1) converting its current issues to variable rate demand bonds and (2) transferring eligible student loans to Straight-A Funding, a conduit warehousing facility sponsored by the U.S. Department of Education. No increased debt in the Plan of Restructuring is contemplated nor any extension of maturity of existing indebtedness.

Proceeds for the Refunding Bonds and the Straight-A Funding loan transfer will retire all outstanding auction rate bonds and a portion of the line of credit extended to ASLA by the State Board of Finance.

**Amount of Bonds  
to be Restructured:** \$549,000,000

**Restructuring  
Elements:**

The Restructuring is expected to involve \$607,500,000 of outstanding auction rate bonds and approximately \$15,000,000 of the line of credit extended by the State Board of Finance, by:

(1) calling for payment prior to maturity of the outstanding Series 1996A Bonds in the current principle amount of \$42,900,000 due June 1, 2010, and the outstanding Series 1997A Bonds in the current principle amount of \$31,150,000 due June 1, 2014; and

(2) refinancing approximately \$534,000,000 of auction rate bonds and approximately \$15,000,000 of the outstanding line of credit extended by the State Board of Finance with a combination of the issuance of variable rate demand bonds and the transfer of eligible student loans to Straight-A Funding.

The Plan of Restructuring anticipates the proceeds of the Refunding Bonds and Straight-A Funding loan transfer to be used (i) to refund certain prior outstanding obligations of the Authority, (ii) if necessary, to fund a debt service reserve and/or capitalized interest account, and (iii) to pay the costs of issuance associated with the Refunding Bonds and the loan transfer.

**Estimated  
Timing:**

The Restructuring is anticipated to be completed by December 31, 2009.

**Security for the  
Refunding Bonds:**

The Refunding Bonds will be secured by and payable solely from the financed student loans and moneys in the accounts held under the bond indenture. Neither the faith and credit of the State nor any of its revenues will be pledged to or used for repayment of the Refunding Bonds.

**Security  
Documents:**

The Refunding Bonds will be issued under a new Indenture of Trust as supplemented by a contemplated First Supplemental Indenture of Trust.

Ms. Shoffner asked if there were anything that could happen to counter this, as far as selling the bonds. Mr. Jack Williams answered that the bond market would improve, and that the bonds are highly marketable. He stated that the bond liquidity is provided by letter of credit from the Royal Bank of Canada which is substantial liquidity in investors eyes. Mr. Cary Smith added that the variable rate demand market is still a very viable market.

Commissioner Franks made a motion to accept the Resolution presented by the Arkansas Student Loan Authority as presented. Martha Shoffner seconded the motion and the motion was unanimously passed and the Resolution was signed by Chairman Weiss and Secretary Shoffner.

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

ATTEST:

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

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

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