

MINUTES OF MEETING
STATE BOARD OF FINANCE

May 28, 2008

A 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., Wednesday, May 28, 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 Michael Wickline, reporter for the Arkansas Democrat-Gazette; Jack Williams, Tony Williams, and Mark Conine, representing the Arkansas Student Loan Authority (“ASLA”); Shelley Jordan, representing Williams & Anderson, PLC; Mac Dodson and Layne Anderson, representing Arkansas Development Finance Authority; Lisa White, of the Auditor’s Staff; and 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.

The first item on the agenda was the consideration of \$150,000,000.00 State Board of Finance CD maturing on July 2, 2008. Acting Chairman Weiss recognized Bank Commissioner Franks, who recommended the investment rate of 2.03%. State Auditor Jim Wood asked the Board if the recommended rate list rotated the banks used to compute the average.

Commissioner Franks stated that the same banks have been used during the past year. Chairman Weiss asked if there would be an issue with either using different banks, or rotating the banks (for example, one month on, and one month off) used for the list, and she stated that that would not be an issue. A motion was made by Secretary Martha Shoffner to accept the recommended rate of 2.03% and James Miller seconded the motion, which was passed unanimously by the Board.

The second order of business was the discussion and consideration of the Arkansas Student Loan Authority Secured Warehouse Line of Credit. Chairman Weiss recognized Mac Dodson, representative of the State Board of Finance, to give a brief overview of the current negotiations with the Arkansas Student Loan Authority. Mr. Dodson stated that the interest rate of the note would be set every six months, and would be based on the current rate set by the State Board of Finance. He added that the rate would be retroactive to the most recent meeting of the Board. He then outlined the details of the Line of Credit, which include setting up a trust with Regions Bank, that is, Regions Bank will be the Trustee. The Trustee will take draws on the Line of Credit to provide loans to students and all principal and interest will be submitted to the Trust. He explained that the loans are 97% federally secured, and since there is a standard 10% default rate of student loans, each draw will include an additional 10% of 3% to ensure the State Board of Finance is fully secured. He added that at the end of the agreed-upon 18-month period, there were several options, that is, student loans could be left in the trust or the loans could be sold. He stated that all parties have substantially agreed to the terms in principle, but that they were awaiting an Opinion by the State Attorney General to finalize the loan. General Sanson expressed a concern about how much the Board would have to deduct from the current \$150,000,000 CD to cover the line of credit. Referring to the Loan Agreement Expected Draw

Schedule, Chairman Weiss noted that there would be \$5,000,000 drawn in June, \$5,000,000 drawn in July, \$27,000,000 drawn in August, and a \$4,000,000 draw in September. Ms. Sanson asked if, based on those figures, \$40,000,000 would be a safe amount to take down at this time, and Chairman Weiss concurred. Chairman Weiss asked if there was further discussion on the issue of the loan and Tony Williams asked to be recognized by the Board. He stated that action was being taken by Congress that should provide a little more comfort to all concerned, which would allow student loans being originated this year to be sold to the federal government. This action would provide liquidity for the Arkansas Student Loan Authority to pay the State back. (H.R. 5715 – Ensuring Continued Access to Student Loans Act of 2008).

Chairman Weiss asked Board members if they agreed to accept, in principle, the resolution to establish the Secured Warehouse Line of Credit, upon receipt of the Attorney General's Opinion. State Auditor Wood moved to accept the resolution, Commissioner Franks seconded the motion, and the motion was unanimously passed.

Chairman Weiss asked if there was any other business and Commissioner Franks asked to be recognized. She brought before the Board the consideration of using 5- to 7-month CDs in determining the interest rate average. She explained that many banks are not offering their best rates on 6-month CDs, but rather, on the 5- to 7-month Certificates of Deposit. Chairman Weiss asked that a motion be made to give the Commissioner authority and flexibility to shop the rates, based on what she deems to be the most favorable offerings that banks have and to use her discretion to use a different mix of banks as she sees necessary and prudent. State Auditor Wood added that the motion include geographical integrity, that is, to include a mix of banks throughout Arkansas. Secretary Shoffner made a motion to accept these changes, Auditor Wood seconded the motion, and the motion was unanimously passed by the Board.

Minutes of the meeting of February 1, 2008, and of the emergency meeting held on April 24, 2008, were approved as distributed.

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.