



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors  
January 16, 2020 – 10:00 AM**

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A meeting of the Board of Directors was held on January 16, 2020, at 10:00 a.m. in the Boardroom.

***Those in attendance were:***

Representative Michael Peifer, Chairman  
Senator Wayne D. Fontana, Vice Chairman  
Senator Ryan Aument  
Senator John P. Blake  
Representative Mike Carroll  
Representative Sheryl Delozier  
Senator Vincent Hughes **(via teleconference)**  
Representative Steven Mentzer  
Senator Kristin Phillips-Hill  
Honorable Roy Reinard **(via teleconference)**  
Representative James Roebuck, Jr. **(via teleconference)**  
Senator Mario Scavello  
Chancellor Timothy R. Thyreen **(via teleconference)**  
James H. Steeley, President and CEO  
Jim White, Board Counsel

***Those absent were:***

Representative Angel Cruz  
Senator Arthur Haywood  
Representative Anita Kulik  
Representative Curtis Sonney  
Secretary Robin Wiessmann  
Secretary of Education Pedro Rivera  
Noe Ortega, Dep. Sec. for Postsecondary and Higher Ed.

***Also in attendance:***

Liz Craig, Senator Hughes' office **(via teleconference)**; Alycia Lauretti, Representative Roebuck's Office **(via teleconference)**; Michael Dotts, Office of the Deputy Secretary for Postsecondary & Higher Education **(via teleconference)**; Stephanie Applegate, Senator Aument's Office; Carolyn Simpson, PACC; Nichole Duffy, AICUP; Eric Epstein, Rock the Capital; Elizabeth Hardison, Capital-Star; Doug King, PwC; and the following PHEAA staff: Judith Bines, Bethany Coleman, Mike Garman, William Fisher, Amanda Foster, Nathan Hench, William Lindsey, Steph Martella, Andy Mehalko, LaWanda Morris, Keith New, Tara Patterson, Jodi Shomper, Kathleen Smith, Jean Svoboda, Doug King, Terry Goodjohn and Jessica Sergotick.

Ms. Jean Svoboda, Board Secretary read the name of each board member in attendance in person or via teleconference. After establishing the presence of a quorum, Chairman Peifer called the meeting to order and called up Agenda Item #1.

1. **Minutes**

On a motion made by Senator Scavello and seconded by Representative Carroll, the minutes of the November 21, 2019 meeting were unanimously approved.

Chairman Peifer called on Mr. Roy Reinard, for Agenda Item #2.

## 2. **Nominating Committee Report**

Mr. Reinard thanked Chairman Peifer and reported that the Nominating Committee met on January 9, 2020 for the purpose of developing its nominees for the offices of Chairman and Vice Chairman of the Board, and the members of the Executive Committee, including its Chairman and Vice Chairman.

A slate was proposed and by unanimous vote of the Nominating Committee, the Committee placed the following accepting Board members into nomination:

Chairman, Board of Directors	Representative Michael Peifer
Vice Chairman, Board of Directors	Senator Wayne D. Fontana
Chairman, Executive Committee	Representative James R. Roebuck, Jr.
Vice Chairman, Executive Committee	Representative Sheryl Delozier
Committee Members:	Senator Vincent J. Hughes
	Roy Reinard
	Chancellor Timothy R. Thyreen
	And one vacant position

He stated following Senator Tomlinson's resignation from the Board last year, a vacancy has existed on the Executive Committee. Pursuant to Section 8 of the Bylaws, the Executive Committee shall be comprised of six members, consisting of one member from each caucus in the House and Senate and two non-legislative members of the Board. Further, the Bylaws state that the members of the Executive Committee shall be nominated by the Nominating Committee at a meeting held in January or from the floor at the January Board meeting. As there is an open seat on the Executive Committee to replace Senator Tomlinson, a Senate Republican should be nominated to fill this open position. Mr. Reinard asked for a motion from the floor to nominate a Senate Republican to the Executive Committee slate.

Representative Delozier made a motion to nominate Senator Ryan Aument as a member of the Executive Committee. Senator Fontana seconded the nomination of Senator Aument as a member of the Executive Committee and made a motion to close nominations. Senator Aument accepted the nomination to Executive Committee and Representative Delozier seconded Senator Fontana's motion to close nominations. The motion to nominate Senator Aument to Executive Committee and to close nominations was unanimously approved. The nomination will be included with the slate to be presented for election at the February 20, 2020 Board meeting. Hearing no questions, Mr. Reinard concluded his report of the Nominating Committee.

Chairman Peifer thanked Mr. Reinard and the Committee and called up Agenda Item #3.

## 3. **Committee Reports**

Chairman Peifer called on Representative Roebuck, Representative Roebuck reported that the Executive Committee met last evening and once a quorum was established, the Committee reviewed and adopted the meeting minutes from the December 18, 2019 meeting.

He reported the Committee went into executive session and received an update on PHEAA's loan product an update on PHEAA financials, a technology update and an enterprise risk management update, and to discuss Agency business, which if conducted in public, could lead to the disclosure of confidential information that is protected by statute. Following the return to regular session, the Committee adjourned.

Representative Roebuck concluded his report and hearing no questions Chairman Peifer called up Agenda Item #4.

#### **4. Agency Strategy Update**

Chairman Peifer called on Mr. Steeley. Mr. Steeley thanked the Chairman and provided historical context around the evolution of the Agency's approach to strategy. He stated that PHEAA adopted a new strategic plan two years ago which was the first time holistic look at strategy in over a decade. In 2008, PHEAA wrestled with the financial crisis which limited PHEAA's ability to lend to Pennsylvanians as well as the end of the FFELP program in 2010, the program PHEAA used for its first fifty years to lend under. With the abrupt end to these programs, PHEAA became focused on being a large federal servicer for Federal Student Aid (FSA). In the early years of servicing for the federal government, PHEAA performed well. PHEAA was very good at servicing its own FFELP loans and built out expertise at doing third party servicing for others, mostly banks, credit unions and other state agencies. However, as the federal contract progressed, many of the processes were used for FFELP were not scalable to Direct Loan volume. This was especially true as the federal program became increasingly complex with numerous income driven repayment plans. In addition to our processes not being scalable, neither was our legacy technology which led to an ever increasing growth in IT costs.

PHEAA's performance under the federal contract went from slightly profitable in the early years to losses. PHEAA's public metrics deteriorated and moved from near the top early on to last place in 2017. PHEAA took on two specialty programs (PSLF and TEACH) in 2012 and 2013. PHEAA's performance deteriorated, customer survey scores declined and PHEAA's reputation suffered for servicing these programs for the Department of Education that became very unpopular due to policies set by the Department of Education and laws passed by Congress. Finally, as PHEAA's legacy business ran off, the business mix became increasingly centered on the federal business, and our operating income declined dramatically. Operating income is important as it drives PHEAA's ability to supplement the state grant program.

In 2017, Representative Peifer was elected Chairman of the Board and tasked senior management with developing a new strategy, improving operations and investing in technology. Mr. Steeley said PHEAA has aggressively improved operational processes, invested in people, prioritized customer service and is well into a multi-year technology transformation. He stated that two years ago PHEAA ranked ninth in the overall federal ranking surveys and has recently improved to fifth place having passed Nelnet. Mr. Steeley stated that PHEAA is making tremendous improvements, and when he became CEO January 2019, he expanded Mr. Hench's role to include strategy. Mr. Hench has worked to refresh the Agency strategic plan over the last year and will review it with the members.

Mr. Hench thanked Mr. Steeley and asked the members to turn their attention to Slide 2 in BoardEffect which shows the strategic changes PHEAA has made for 2020. The adjustments are tracked in red and have been communicated to all levels of PHEAA. Mr. Hench began at the top of the Give-Grow-Transform blocks. The "Give" part of the strategy is to move revenue into PHEAA's public service mission and the PA State Grant Program, to the PA School Services group to educate students on financial literacy and assisting families with navigating the financial aid process.

Mr. Hench discussed the second level of PHEAA's strategy map, "Grow." The first part is to improve the customer experience across all lines of business and to invest in digital channels and interactions that are consistent and increase borrower self-service. The second part is to invest in lines of business, to expand software-as-a-service business and to introduce new private loan products like the PA Forward Student Loan program, expand existing student loan inventory and pursue new servicing and white labeling opportunities with our IT platforms as a saleable product.

The third level on the strategy map is "Transform" - people, processes and technology. This includes enhancing training and career opportunities for employees to provide a clear path for growth, and developing and communicating Agency core values to define an enterprise culture of civility and continuous improvement. Mr. Hench referred to Slide 3 which is the clean version of the 2020 Strategy with the proposed adjustments.

Mr. Hench reviewed Slide 4 with the members. He explained the four work streams and Strategic Goals listed on the Slide. The first goal listed is capital markets and to increase PHEAA's balance sheet. This goal was achieved by disbursing \$60 million of PA Forward Student Loans. The second goal is the work stream for Software-as-a-Service and increasing PHEAA's white label opportunities and the number of new clients. The third strategic goal is expanding existing student loan inventory as a third party servicer with commercial clients. The fourth strategic goal is to reduce overhead expenses as PHEAA increases its digital space. A fifth goal was recently added to the strategic plan around Customer Experience. He stated that Mr. Mike Garman has been named the executive sponsor. Work streams will be defined around two components: (1) providing soft skills to PHEAA's customer service representative across all lines of business, and (2) reviewing the processes around customer communications and sending the right tone from each avenue of communication from each line of business.

Mr. Hench reviewed Slides 4 through 7 and brought attention to the early signs of success of PHEAA's Mobile App. The app was built internally and through modernization efforts enhanced the design. The app is gaining momentum and has reached one million sign-ins each month. PHEAA's proudest sign of success is the 4.8 star rating in the App Store. PHEAA's rating is outperforming our competitors who have 2 star ratings.

After Mr. Hench concluded his report, Representative Mentzer had inquired about the marketing team behind PHEAA's Software-as-a-Service. Mr. Hench stated that at present there is no dedicated marketing team for this initiative but that as it matures, PHEAA will explore redeploying staff to this effort. Mr. Steeley added that several state agencies across the country. MOHELA, UHEAA, Iowa, and New Mexico have been using PHEAA's system to service loans for years. New Mexico uses PHEAA's system as a guarantor. He explained that PHEAA generates half the revenue when other clients use our system to service for the federal government than we do when we directly service, yet PHEAA does better compared to servicing loans. Mr. Steeley stated PHEAA will continue to try to grow Software-as-a-Service as a line of business.

Chairman Peifer stated that he challenged PHEAA's executive team, senior staff, and employees to generate more revenue and to provide better customer service. He said he is pleased with the changes PHEAA is making and the team is doing a better job and continues to work hard to do a better job. Hearing no other questions or comments, Chairman Peifer called up Agenda Item #5.

## 5. **President and Chief Executive Officer's Report**

Chairman Peifer called on Mr. Steeley, who thanked the Chairman and stated he had two topics to cover before deferring to Ms. Kathleen Smith for a federal update.

Mr. Steeley provided a brief history around the expiration of the federal contract and reiterated how PHEAA tried to engage the Department of Education (DOE) as the expiration date approached. The contract expired on December 15, 2019; DOE began to engage with PHEAA and the other servicers regarding contract extension negotiations the week of November 24, 2019 into the week of December 2, 2019. The contract extension was signed on December 6, 2019 and was achieved through negotiations but without price adjustments. PHEAA and the other servicers are operating on two year contract extensions with Federal Student Aid with two optional six month extensions beyond the base period.

Mr. Steeley stated that through the negotiation process with FSA and conversations with Major General Brown, Chief Operating Officer (COO) of FSA, meaningful progress is being made with the specialty programs PHEAA services. FSA has agreed to make substantive enhancements to the Public Service Loan Forgiveness (PSLF) Program that will benefit borrowers. A PSLF Task Force was created with PHEAA and FSA staff to begin working on improvements that are expected to reduce borrower confusion and streamline the process to qualify for loan forgiveness. PHEAA received a firm commitment from DOE to review and complete the security assessment for the data center move to Iron Mountain. PHEAA also received an agreement for FSA to pay a minimum of \$4.7 million and potentially up to \$9 million that has been under dispute under the original contract. Payment for postage related to the Student Loan Bill of Rights was received on December 31, 2019. He stated that while PHEAA did not receive the economic adjustments as we had hoped for, the negotiation resulted in positive improvements for student borrowers as well as allowing PHEAA to continue with IT transformation projects and give PHEAA the time needed to become more flexible.

Mr. Steeley reviewed the FSA NextGen solicitation on Slide 3. PHEAA received a modification in January for the System of Today (Enhanced Processing Solution #5) and a response is due on February 4, 2020. He stated the modification is related to the requirement to sub-contract a certain percentage of work with third parties. He reported there has been no update on the System of Tomorrow (Optimal Solution #7). The Call Center/Processing Activity (BPO # 8) modification was relaunched on January 10, 2020 and a revised response is due January 31, 2020.

Senator Blake commented that he is encouraged by Mr. Steeley's report and with the flexibility of the IT enhancements PHEAA is making.

Hearing no other questions or further discussion, Mr. Steeley concluded his report and Chairman Peifer introduced Ms. Kathleen Smith, Director of Federal Relations. Ms. Smith thanked the Chairman and provided a federal update to the Board. She reported the U.S. Senate received the articles of impeachment from the House this week. This item is relative to

PHEAA because it will impact the Senate's schedule of activity including reauthorizing the Higher Education Act which PHEAA is monitoring closely. She reported meeting with the PA Delegation members through the end of 2019 and one clear consistent theme was that the member briefing with the executive team on October 22, 2019 was well received. Ms. Smith is working with staff members of PA delegates to schedule tour of PHEAA and continue to expand the understanding of PHEAA's work and mission with federal legislators and their staff.

Ms. Smith reported the federal government got through the appropriation process by the deadline. Student aid received an increase and Account Maintenance Fees (AMF) have been extended another year. The FUTURE Act, through a compromise reached by Senators Alexander and Murray, agreed to in the House, was passed by both chambers and signed by the President which permanently funds an expiring program in title III of the HEA for historically Black Colleges and Universities, as well as simplifies the Free Application for Federal Student Aid (FAFSA) form and implements what we refer to as "6103." This will provide for a direct share of income data for students in applications for federal aid and Income Driven Repayment plans. This process should reduce improper payments within Pell, provide a more secure and efficient transfer of data and simplify the processes for students and institutions of higher education. The legislation would allow the Internal Revenue Service to share applicants' tax information directly with the U.S. Department of Education. It would also automate income recertification for federal student loan borrowers who use income-based repayment plans.

Ms. Smith highlighted a few topics from the FSA conference that was held in early December. She said FSA is releasing a new informed borrower tool which will be required for borrowers before loan funds are disbursed. The tool is set to be released for the 2020-21 academic year. FSA, as it moves forward with the NextGen process has merged multiple websites into one portal to make it easier for students and borrowers to manage and understand their federal aid.

Ms. Smith concluded her report and hearing no questions, Chairman Peifer called up Agenda Item #6.

#### 6. **Entry of Additional Orders of Default**

Chairman Peifer called on Mr. Steeley, who reported that there are several orders of default that require Board action. The borrowers outlined on the attached spreadsheet have been notified several times by PHEAA that they need to repay certain obligations to the Agency. In all of these cases, recipients received a grant for college but did not fulfill their obligations for receiving the grant. Board action is necessary in order for PHEAA staff to continue to attempt to collect on these grants - now converted to loans – as required by the program's statute.

Mr. Steeley suggested to Chairman Peifer that the Board adopt the attached resolution in order to authorize PHEAA staff to continue to collect on the loans.

Hearing no questions, Chairman Peifer called for a motion to adopt the Order of Default Resolution, as presented. Senator Fontana made the motion, seconded by Representative Carroll, and the resolution was unanimously adopted and is attached to these minutes.

#### 7. **Other Business**

Hearing no other business, Senator Scavello made a motion to adjourn, seconded by Representative Carroll, and Chairman Peifer thanked the members and adjourned the meeting.

Chairman Peifer announced a five minute break until the Board Compliance training would begin and those members on the phone should stay on the phone to receive the training.

**Resolution of the Board of Directors  
Pennsylvania Higher Education Assistance Agency  
Order of Defaults  
Adopted January 16, 2020**

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*WHEREAS, Act 102 of 1982 authorized an Administrative Loan Collection Process for the Pennsylvania Higher Education Assistance Agency, including use of a Statement of Claim; and*

*WHEREAS, this legislation provides that the Agency "may initiate action against borrowers whom it deems to be indebted to it by filing a statement of claim in the records maintained by the Agency"; and*

*WHEREAS, a Statement of Claim has been filed against each of the borrowers whose names appear on the List of Recommended Cases for Entry of an Order of Default dated January 16, 2020; and*

*WHEREAS, a summary of the Statement of Claim has been served on each such borrower by first-class mail in compliance with the requirements of Act 102; and*

*WHEREAS, 30 days from the date of service have elapsed and none of these borrowers has filed a response to the Statement of Claim as required by Act 102; and*

*WHEREAS, the President and Chief Executive Officer has recommended to the Board of Directors of the Agency that an Order of Default against these borrowers be entered by the Board to be lodged in Agency records;*

*NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Pennsylvania Higher Education Assistance Agency enters an Order of Default to be lodged in Agency records against each borrower whose name appears on the List of Recommended Cases for Entry of an Order of Default dated January 16, 2020.*