



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
April 19, 2018 – 10:00 AM**

A meeting of the Board of Directors was held on April 19, 2018 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 **(via teleconference)**
Representative Matthew D. Bradford **(via teleconference)**
Representative Mike Carroll **(via teleconference)**
Representative Paul Costa **(via teleconference)**
Senator John Eichelberger, Jr. **(via teleconference)**
Representative David Hickernell **(via teleconference)**
Senator Vincent Hughes **(via teleconference)**
Honorable Roy Reinard
Representative James Roebuck, Jr. **(via teleconference)**
Senator Mario Scavello **(via teleconference)**
Chancellor Timothy R. Thyreen
Senator Robert M. Tomlinson **(via teleconference)**
Secretary Robin Wiessmann **(via teleconference)**
Mr. Noe Ortega, Deputy Secretary for Postsecondary and Higher Education
James L. Preston, President and CEO
Jim White, General Counsel

Those absent were:

Senator John P. Blake
Representative Sheryl DeLozier
Senator Arthur Haywood
Representative Bernie O'Neill
Secretary of Education Pedro Rivera

Also in attendance:

Liz Craig, Senator Hughes' Office; Steph Applegate, Senator Aument's Office; Alycia Laureti, Rep. Roebuck's Office (teleconference), Jen Smeltz, Senator Tomlinson's office; Andrew Armagost, Senator Eichelberger's Office; Allan Flannigan, Secretary Wiessmann's Office (teleconference); Don Francis, AICUP; Patty Smith, Rock the Capitol; Jan Murphy, PA Media Group; Remonde Brangman, CBIZ; and the following PHEAA staff: Nathan Hench, Stephanie Martella, Keith New, James Steeley, Mubashar Hameed, Todd Mosko, Scott Miller, Elizabeth McCloud, Isaac Greene, Bethany Coleman, Mike Garman, Dan Weigle, Lee Koller, Linda Randby, Kyle Lefever, Will Lindsey, Kristen Smeltz, Stephanie Suran, Dave Kerbaugh, Joel Correll, William Fisher, Lisa Gipe, Dana Hepner and Karen Garbacik



Chairman Peifer welcomed Mr. Don Francis, President of the Association of Independent Colleges and Universities of PA (AICUP), to the Board Meeting, and thanked him for his service to the Commonwealth. Chairman Peifer congratulated Mr. Francis on his upcoming retirement. Upon establishing the presence of a quorum, Chairman Peifer called up Agenda Item #1.

1. **Minutes**

On a motion by Mr. Reinard, seconded by Vice Chairman Fontana, the minutes of the March 22, 2018 meeting were unanimously approved.

Chairman Peifer called up Agenda Item #2.

2. **Committee Reports**

Chairman Peifer called on Senator Tomlinson, who thanked the Chairman and reported that the Executive Committee met last evening and the first order of business was to adopt the minutes from the March 21, 2018 meeting. The Committee then moved into Executive Session to discuss the following: to consult with PHEAA's Legal Counsel on matters of litigation that have been filed; in particular, the Declaratory Judgement that has been filed by PHEAA in federal court in Washington D.C. involving the State of Connecticut and the U.S. Department of Education. In addition, the Executive Committee consulted Legal Counsel on the Agency's regulatory oversight involving the Consumer Financial Protection Bureau, and consulted with the Agency's accountants on finance and accounting matters including the adoption of GASB 75, Accounting & Financial Reporting for Post-retirement Benefits Other Than Pensions. Finally, the Committee reviewed a personnel compensation matter in Executive Session. Following the Executive Session, the Committee returned to Regular Session and adopted a limited Incentive Plan for key information technology positions needed to be recruited. The Incentive Plan will not include any more than 10 individuals.

Senator Tomlinson said that concluded his report and would be happy to answer any questions that the Board Members may have.

Hearing no questions, Chairman Peifer called up Agenda Item #3.

3. **Washington D.C. Higher Education Update**

Chairman Peifer called on Jim Preston, who thanked the Chairman and introduced Scott Miller, our representative in Washington, D.C. Mr. Miller thanked Mr. Preston and said that PHEAA continues to be well received by the PA Congressional delegation. Mr. Miller said that it is his goal to keep them updated and informed of the work PHEAA is doing in Pennsylvania. PHEAA also is a trusted source for Congressional Education Committees, for other influential members of Congress, and for federal agencies and regulators on policy matters. It is important to keep lines of communications open, even when there are differences of opinion. Mr. Preston said that he heads down to Washington whenever he is needed and Dan Weigle is also in Washington D.C. for federal issues.

Mr. Miller thanked the Board for letting him represent PHEAA in Washington D.C. for the last 20 years. Mr. Miller said that he would like to update the Members on the current issues in

Washington. Mr. Miller is educating PA Delegation and Committee staff on issues in general and on the Massachusetts and Connecticut cases. [REDACTED]

Mr. Miller said that there were increased appropriations for student aid: Pell Grant increased by \$175 to \$6,095 for the first time in 2018-19; the Supplemental Educational Opportunity Grant (SEOG) increased by more than \$65 million to \$840 million; and Federal Work Study (FWS) increased by approximately \$140 million to \$1.13 billion. There were no extensions for the Perkins Loan Program. Mr. Miller noted that there were increases for TRIO and GearUp. TRIO is now funded at \$1.01 billion and GearUp is funded at \$350 billion.

Mr. Miller noted that for the Public Service Loan Forgiveness (PSLF) Program there are concerns in Congress that borrowers do not fully understand the program rules. First borrowers were eligible for forgiveness this past fall. Congressional offices are hearing from borrowers who find they were in wrong repayment plans or had ineligible types of loans. PSLF is complex and there has been little active outreach.

Mr. Miller updated the Members on the NextGen Servicing solicitation. Congress is trying to understand what it means. Will it improve service for borrowers? Will there be sufficient accountability?

Mr. Miller noted that the House of Representatives Committee on Education and the Workforce approved a bill – the Prosper Act – in December. We are still awaiting action on the House floor. There are some items to like and others to question are in the bill. The Senate still has not formally started the process. There must be a bipartisan agreement between Senators Alexander and Murray before the bill will move.

Mr. Miller noted that changes are coming to the PA Congressional Delegation. Seven Members are definitely leaving Congress: Dent, Brady, Shuster, Barletta, Meehan, Costello and Tim Murphy. There will be a loss of institutional knowledge of PHEAA, but some of the older staff will remain and will carry the institutional knowledge with them.

Mr. Miller said that concluded his report and he would be happy to answer any questions. Vice Chairman Fontana asked if there is anything the PHEAA Board Members could do to help the new Congressional Members know about PHEAA. Mr. Miller said that we are pushing our message to Congress. It is always to our benefit if we remind them of the good PHEAA story. Mr. Miller said that the last time PHEAA's Chairman and Vice Chairman visited Washington was in 2007 and the Delegation paid attention.

Hearing no other questions, Chairman Peifer called up Agenda item #4.

4. **Pennsylvania State Grant Program and Matching Funds Program**

Chairman Peifer called on Chancellor Thyreen, who thanked the Chairman and said that the Committee on Need Analysis and Aid Coordination met yesterday afternoon, with five of the Committee members in attendance. A Quorum was not met, so therefore, no formal action was taken; however, the Committee did review all of the information presented and arrived at a general consensus, which the Chancellor will walk the Board through.

Chairman Thyreen noted that the Committee spent significant time reviewing recommendations made to the Committee from the State Grant Advisory group. For the benefit of the new members, Chancellor Thyreen noted that one of the key functions of the PHEAA Board, from a public service perspective, is to adopt a formula that drives out the state-appropriated dollars and PHEAA-supplemented dollars to the PA State Grant Program. Each year, the Committee on Need Analysis receives recommendations from the State Grant Advisory Committee, which is comprised of financial aid officers and key stakeholders representing a cross section of higher education institutions and associations, including a high school guidance counselor. This advisory Committee meets several times a year to 1) review the prior year's performance of the State Grant program; 2) review policies that may need updating; and 3) make recommendations to the Committee on Need Analysis regarding policy changes and a formula for the ensuing academic year. Chancellor Thyreen said that he can say for certainty that he, along with the rest of the Committee members, appreciates the work of the Advisory Committee.

With that backdrop, Chancellor Thyreen turned the Board Members' attention to the materials under Agenda item #4 – a memo from Mr. Preston, entitled 2018-2019 Pennsylvania State Grant Program and Matching Funds Program, and two charts providing historic State Grant funding data. The memo provides a summary of the recommendations made by the State Grant Advisory Committee to the Committee on Need Analysis for the 2018-2019 PA State Grant Program. Without a quorum present, the general consensus of the Committee members present yesterday was to agree and move the recommended formula forward to the Board for consideration today. The proposed formula is based on level funding from the State (\$272.9 million) and a reduced supplement from PHEAA of (\$50 million). Chancellor Thyreen asked the Board members to turn their attention to the bottom of page one of Mr. Preston's memo, where there are five policy recommendations being made as part of the 2018-2019 formula – as presented by the Committee. Those policy changes include 1) full integration of Distance Education – consistent with Act 5 of 2018, as passed by the Legislature; 2) Eliminating Out of State Institutions from State Grant eligibility; 3) increasing the minimum award from \$500 to \$650; 4) eliminating the 6th Expected Family Contribution (EFC) tier; and 5) limiting the summer grant program to schools whose primary mode of operation is year round programs of study. These policy changes are being made by the advisory group as a way to scale back on the number of recipients, while maintaining awards to the most financially needy. While there is some overlap of impacted students, these policy changes in the aggregate eliminate 24,360 recipients and reduce program costs by \$11.5 million.

Chancellor Thyreen said that the Committee also reviewed a formula option that would reduce EFC tiers 5 and 6. However, the consensus of the members was NOT to eliminate the 5th tier as it starts to cut into a population of students that are deemed financially needy. Based on this formula recommendation, it is estimated that the recommended formula would fund approximately 140,106 recipients for the Fall and Spring Semesters for the 2018-19 academic year. Chancellor Thyreen asked the Board to turn to the bottom of page two of the memo to a

resolution that is being presented; and on page three, the minimum and maximum awards by cost tier are listed, and he noted that the maximum award is decreasing by \$705 dollars or a 17% decrease from the 2017-2018 maximum award of \$4,123.

Chancellor Thyreen stated that in addition to this formula recommendation, the Committee also reviewed the Matching Funds allocations for 2018-2019, which can be found at the bottom of page three of the memo. There are no significant changes to the allocation methodology, other than adjustments that are attributed reduced carryforward from the previous years. The Members will also see two charts that are attached to the memo that provide a historic perspective to the State Grant funding, PHEAA supplement, maximum awards, recipient headcount, and the Agency's profitability.

Chancellor Thyreen paused here to hear any questions that the Board members may have; however, in doing so, Chancellor Thyreen recommended that the Board, at the conclusion of the discussion, adopt a formula ratifying the 2018-2019 PA State Grant Program formula and the allocations for the Matching Funds program as presented in the memo. He noted that Mr. Nathan Hench and Ms. Elizabeth McCloud are also present to help answer any questions that the Board may have.

Senator Hughes said that yesterday hundreds of Pennsylvania students rallied at the Capitol for State Grant funding. The landscape is changing and the loss of grant dollars add a lot of pressure on students. Many are homeless and not eating. The idea of reducing the amount of the award really seems to be inconsistent with the reality that a number of our students are dealing with. Senator Hughes suggested going back to the drawing board to look for other resources – this is a path we do not want to go down. Senator Hughes said we should consider taking another month to make a decision. Senator Scavello suggested finding a way to delay the proposed reduction in the maximum grant and give students a chance to prepare their financial package. Senator Scavello said this would be a very big surprise for them.

Mr. Preston said that the federal regulators get concerned when we keep pulling money out of reserves and the banks need to see that PHEAA has the proper assets needed for operating income. Mr. Preston said we cannot keep pulling out of the reserves. Senator Scavello asked if we supplement what kind of hit would we receive. Mr. Preston said if we pull out more money this year – next year we will shoot through the reserves. Senator Hughes made a motion, seconded by Vice Chairman Fontana, which was followed by a unanimous vote by the Board to hold off on a decision until May. Representative Carroll said this is why he did not fully commit to Distance Education because of challenges we face. Mr. Hench said when the Board passed the pilot program after the 5th year for Distance Education, it did allow for flexibility to monitor the cost of Distance Education.

Chairman Peifer thanked Chancellor Thyreen and the Committee on Need Analysis and the Advisory Committee for all their hard work and institutional knowledge. He noted that for many years, the stars have aligned for us in the Commonwealth and the students whereby we have been able to maintain the maximum grant award to students. Unfortunately, the stars are not aligning this year. Chairman Peifer said that we will review again at the May Board Meeting and set the parameters for the State Grant Formula, as it will give us more time to work the numbers.

Chairman Peifer called up Agenda Item #5.

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

Chairman Peifer called on Mr. Preston, who thanked the Chairman and said that one week ago we asked the federal courts to bring the federal government and the State of Connecticut together to help solve a conflict. We have cooperated with Connecticut - they wanted private data that we service for DOE, and although we asked DOE for permission to release, we received guidance that we were not to since it is private data. Connecticut said they would pull our license to service their loans. So we have asked the federal courts to decide.

Mr. Preston said that we are pushing ahead with the NextGen Solicitation – there were nine (9) different components to the most recent one that we responded to and we are working on a new robust system and all of our IT efforts are aligned. We should hear something by the end of May or first week of June. Mr. Preston said that he will keep the Board Members updated.

On the return to Regular Session, Chairman Peifer called up Agenda Item #6.

5. **Entry Orders of Default**

Chairman Peifer called on Mr. Preston, 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 statutes.

Mr. Preston 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. Vice Chairman Fontana made the motion, seconded by Mr. Reinard, and the Resolution was unanimously adopted and is attached to these minutes.

Chairman Peifer called up Agenda Item #6.

6. **Other Business**

Hearing no other business from the Board Members, Chairman Peifer adjourned the meeting.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Order of Defaults
Adopted April 19, 2018**

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 April 19, 2018; 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 April 19, 2018.