



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors  
May 24, 2018 – 9:00 AM**

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A meeting of the Board of Directors was held on May 24, 2018 at 9:00 a.m. in the Boardroom.

***Those in attendance were:***

Representative Michael Peifer, Chairman  
Senator Wayne D. Fontana, Vice Chairman  
Senator Ryan Aument **(via teleconference)**  
Senator John P. Blake  
Representative Mike Carroll  
Representative Paul Costa  
Senator Arthur Haywood **(via teleconference)**  
Representative David Hickernell **(via teleconference)**  
Senator Vincent Hughes **(via teleconference)**  
Representative Bernie O'Neill  
Honorable Roy Reinard  
Representative James Roebuck, Jr. **(via teleconference)**  
Chancellor Timothy R. Thyreen  
Senator Robert M. Tomlinson **(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:***

Representative Matthew D. Bradford  
Representative Sheryl DeLozier  
Senator John Eichelberger, Jr.  
Senator Mario Scavello  
Secretary Robin Wiessmann  
Secretary of Education Pedro Rivera

***Also in attendance:***

Liz Craig, Senator Hughes' Office; Steph Applegate, Senator Aument's Office; Jen Smeltz, Senator Tomlinson's office; Leo Pandeladis, Secretary Wiessmann's Office; Don Francis, AICUP; Patty Smith, Rock the Capital; Eric Epstein, Rock the Capital; Jonathan Derr, PA Commission for Community Colleges; Elizabeth Bolden, PA Commission for Community Colleges; Evan Martin, PA Treasury; Geoffrey Roche, Lebanon Valley College; and the following PHEAA staff: Nathan Hench, Keith New, James Steeley, Mubashar Hameed, Todd Mosko, Elizabeth McCloud, Isaac Greene, Bethany Coleman, Linda Randby, Will Lindsey, Stephanie Suran, Dave Kerbaugh, Joel Correll, William Fisher, Lisa Gipe, Dana Hepner and Jodi Shomper

Upon establishing the presence of a quorum, Chairman Peifer called up Agenda Item #1.

1. **Minutes**

On a motion made by Vice Chairman Fontana, seconded by Representative Costa, the minutes of the April 19, 2018 meeting were unanimously approved.

Chairman Peifer called up Agenda Item #2.

2. **2018-2019 Meeting Schedule**

On a motion made by Representative Carroll and seconded by Senator Blake, the Board meeting schedule for 2018-2019 was unanimously approved.

Chairman Peifer then called up Agenda Item #3.

3. **PHEAA's Quarterly Financial Statements – March 31, 2018**

Chairman Peifer called on Mr. James Steeley. Mr. Steeley thanked the Chairman and called the Members' attention to Slide 4 of the presentation. He noted that total consolidated revenue was \$18.6 million at March 31, 2018, which was slightly behind budget of \$23.7 million and \$47.9 million for the prior year.

Mr. Steeley said that for the first nine months of the fiscal year, there was a \$26.1 million unrestricted loss vs. a \$13.3 million pro-rata budget loss. He noted that the big drivers include a \$25.5 million decrease in revenue; while there was a \$5.9 million decrease in expenses, it was not enough to offset the revenue loss. He commented that another driver is our guaranty business, where we make money by curing defaulted loans – however, our default inventory is declining.

Mr. Steeley turned to Slide 9, which is a summary of our balance sheet. He said that student loan receivables did decline by \$609.8 million, or 11.6%, due to revenue from FFELP loans being decreased, since the program ended in 2010.

Mr. Steeley said that Slide 10 will look a little different as we are doing trending over five (5) years – this will show our benefit costs. He stated that we need a Plan B for benefit costs as we do not have the ability to control, and noted that the increase has gone from \$46.9 million in 2014 to \$148.0 million today.

Slide 12 represents our public service benefits. Mr. Steeley said that PHEAA funded just under \$100.0 million in public service. Total year to date amount of public service funded by PHEAA is \$114.5 million; over 10 years, the total is \$846.2 million.

Hearing no questions, Chairman Peifer thanked Mr. Steeley and called up Agenda Item #4.

4. **Committee Reports**

Chairman Peifer called on Mr. Reinard, who thanked the Chairman and reported that the Audit Review Committee met last evening and the first order of business was to adopt the minutes from the February 14, 2018 meeting and accept the schedule of 2018-2019 meetings.

As the second order of business, the Committee then moved into Executive Session to discuss the following: accounting matters related to the draft of our Q3 financial statements with our internal account staff; receive an update from our independent auditors, Ernst & Young, concerning the quarterly review they performed on our Q3 financial statements; review legal contingencies as they related to finalizing our quarterly financial statements, most notably the disclosure related to Dr. John Oberg vs. PHEAA filed in the United States Court of Appeals – 4<sup>th</sup> Circuit; receive updates on other litigation filed against PHEAA; and review reports provided by PHEAA's Internal Audit Department and the Internal Audit Plan.

Following the Executive Session, the Committee then reviewed and accepted a motion to adopt revisions to the Internal Audit Plan, moving two IT audits to the next audit cycle due to the impact of IT resources involved in the Digital Transformation initiative. In addition, a motion was reviewed and accepted to approve the 2018-2019 Internal Audit Plan. Finally, a motion was made to accept the resolution to extend audit and non-audit related services.

The Committee then returned to Regular Session, and having no other business, the meeting was adjourned. Mr. Reinard concluded the report and said he would be happy to respond to questions.

Hearing no questions, Chairman Peifer called on Senator Tomlinson, who thanked the Chairman and reported that the Executive Committee met last evening and reported that the first order of business was the adoption of the minutes from the April 18, 2018 meeting, and the acceptance of the 2018-2019 meeting schedule.

Following those two actions, the Executive Committee moved into Executive Session to cover the following topics: consult with PHEAA's internal accountants to discuss financial matters; review legal contingencies as they relate to the Declaratory Judgement than has been filed by PHEAA in federal court in Washington, D.C. involving the state of Connecticut and the U.S. Department of Education; consult with Legal Counsel on the PHEAA's regulatory oversight involving the Consumer Financial Protection Bureau.

Upon the return to Regular Session, the Committee then received an update and report regarding the 2018-2019 PA State Grant Program Awarding Formula and 2018-2019 Matching Funds Allocations, which the Board will review today.

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

Hearing no questions, Chairman Peifer called up Agenda Item #5.

5. **2018-2019 PA State Program Awarding Formula and 2018-2019 Matching Funds Allocations**

Chairman Peifer called on Jim Preston, who thanked the Chairman and commented that the state grant awarding process becomes more complicated every year. Mr. Preston called on Mr. Nathan Hench, who called the Members' attention to the memo addressed to the Board from Mr. Preston. At the April meeting, the Board was asked to consider a State Grant formula for the 2018-2019 award year that would fund approximately 140,000 students with a maximum award of \$3,418.

The Board challenged Management to go back and review the formula. After having conversations with all stakeholders, PHEAA decided to pull \$56 million from 2019-2020 and add it to the 2018-2019 supplement of \$56 million – thereby doubling our total supplement, for a total of \$112 million in 2018-2019. This would maintain the maximum state grant award of \$4,123 consistent with 2017-2018.

Mr. Hench said that today's memo outlines conditions for students and holds them harmless. He stated that under the provision in Act 5 of 2018, PHEAA can limit the exposure of distance education (DE); therefore, it is proposed that PHEAA will fully integrate distance education across the 257 DE schools, but will suppress DE awards to a lower amount, not to exceed \$14 million. The amount would be \$28 million if we fully awarded DE schools. Regarding Matching Funds allocations, the President and CEO would have the authority to make preliminary allocations in anticipation of our state appropriation.

Mr. Hench pointed out the memo is silent with regard to the Cheyney Keystone Academy allocation of \$500,000 and the Primary Healthcare Program allocation of \$4.55 million, both of which Governor Wolf recommends be funded by PHEAA.

Mr. Hench then asked the Board to vote on the following considerations:

- Carry forward the 2017-2018 PA State Grant Award to the 2018-2019 award year
- Authorize Matching Funds preliminary allocations
- Approve PHEAA funds to supplement up to \$101 million for the 2018-2019 PA State Grant Program; and up to \$6 million for the PA-TIP Program for the 2018-2019 award year.

Chairman Peifer thanked PHEAA staff for the work in reviewing the grant formula and then asked if the Board should vote on one motion or two. Mr. Hench said one motion would suffice.

Senator Blake also expressed his appreciation for the effort put forth – he said that the other legislators in the room know that they have all heard from families about the potential reduction in the state grant award, so this decision was important.

Mr. Preston advised that we contacted Appropriations Committee staff and communicated to them that PHEAA has pulled from our reserves to supplement – so they are aware there will be a “cliff” at some point in the future where we will no longer be able to supplement the state grant program. We are trying to get ahead of the issue.

On a motion made by Senator Fontana and seconded by Chancellor Thyreen, the Board unanimously voted to accept the recommended supplements for the 2018-2019 award year, as outlined below:

*That the President and Chief Executive Officer be given the authority to allocate up to \$101,364,000 to supplement the General Assembly's 2018-19 appropriation for the PA State Grant Program.*

***[Note: the 2017-18 allocation was \$87 million.]***

*That the President and Chief Executive Officer be given authority to allocate up to \$6 million to the Pennsylvania Targeted Industry Program for the 2018-19 awarding year.*

**[Note: the 2017-18 allocation was \$6 million.]**

Chairman Peifer said that we are trying to do the right thing. Families ask for consistency and said that we need to let the General Assembly know this. Families need to know what they can afford, and a reduction in a state grant award, especially for juniors and seniors, can be devastating; in some cases, they cannot finish school.

Mr. Hench asked if the Board would also adopt the state grant awarding formula as outlined below:

*That, effective with the 2018-2019 award year, the Pennsylvania State Grant Program establish the following parameters for students evaluated under the State Grant formula:*

*Set the cost tiers and minimum and maximum awards at Pennsylvania approved institutions to:*

<i>Cost Tiers</i>	<i>Minimum Award</i>	<i>Maximum Award</i>
<i>\$ 0 to \$12,000</i>	<i>\$500</i>	<i>\$2,500</i>
<i>\$12,001 to \$19,000</i>	<i>\$500</i>	<i>\$4,000</i>
<i>\$19,001 to \$29,000</i>	<i>\$500</i>	<i>\$4,300</i>
<i>\$29,001 to \$32,000</i>	<i>\$500</i>	<i>\$4,700</i>

*Cap college costs at \$32,000. Allowable costs are calculated using tuition, fees, a book allowance of \$1,000, and an educational expense allowance of \$4,000 for all applicants.*

*Limit awards to students enrolled more than 50 percent online in a given term or enrolled in a program of study that is structured to be at least 50 percent online at an otherwise-eligible institution headquartered and domiciled in Pennsylvania, so that 2018-2019 expenditures to this population do not exceed the demand experienced in 2017-2018, the final year of the State Grant Distance Education Pilot Program.*

*[Note: It is estimated that the Distance Education Award will be approximately one-half of the traditional student's award.]*

*Make \$600 the maximum award for non-veterans at eligible out-of-state schools in reciprocal states, and \$800 for veterans at eligible out-of-state schools in reciprocal states.*

*Set the percent of need met based on an Expected Family Contribution (EFC) calculated in accordance with the Federal Need Analysis Methodology and PHEAA policies to:*

	<i>EFC Range</i>	<i>Percent of Need Met</i>
<i>(1)</i>	<i>0 to 4,000</i>	<i>50%</i>
<i>(2)</i>	<i>4,001 to 6,000</i>	<i>38%</i>
<i>(3)</i>	<i>6,001 to 8,000</i>	<i>32%</i>
<i>(4)</i>	<i>8,001 to 10,000</i>	<i>27%</i>
<i>(5)</i>	<i>10,001 to 12,000</i>	<i>14%</i>
<i>(6)</i>	<i>12,001 and above</i>	<i>3%</i>

Apply an award adjustment factor of 0.8772 across all awards to keep expenditures within resources. This would set actual maximum awards for 2018-2019 as follows:

Cost Tiers	Minimum Award	Maximum Award
\$ 0 to \$12,000	\$500	\$2,193
\$12,001 to \$19,000	\$500	\$3,509
\$19,001 to \$29,000	\$500	\$3,772
\$29,001 to \$32,000	\$500	\$4,123

However, if this calculation causes the student's award to go below the minimum award, the student will instead receive the minimum award. All awards are equalized across terms.

If the available resources change at a later date, the President and Chief Executive Officer is authorized to reset the formula and award adjustment factor to keep the projected year-end expenditures for student awards within available resources.

Chairman Peifer asked Mr. Hench to read the motion as outlined on pages 2 and 3 of the memo, which is outlined below:

*That the Committee on Need Analysis and Aid Coordination recommends to the Board of Directors that staff be authorized to make 2018-2019 allocations among the individual Matching Funds Programs as provided, based on the recommended appropriation of \$12,496,000, and that the President and Chief Executive Officer be given authority to adjust the Matching Funds Program allocations from time to time if demands within the program change throughout the year.*

*Once the Commonwealth budget is passed, final allocations within these programs can be established.*

Senator Fontana made a motion, seconded by Representative Costa, and the Board unanimously adopted the state grant formula.

Chairman Peifer then called up Agenda item #6.

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

Chairman Peifer called on Mr. Preston, who thanked the Chairman and said he wanted to provide an update on FSA's solicitation. He said that we have not yet heard from FSA, but we know they are working on the solicitation since our references have told us they have been contacted by FSA. Mr. Preston said that we are unsure of next steps, but we are looking forward to it and will be prepared.

Chairman Peifer called up Agenda Item #7.

#### 7. **Entry of Additional 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. Representative O’Neill made the motion, seconded by Representative Carroll, and the Resolution was unanimously adopted and is attached to these minutes.

Chairman Peifer called up Agenda Item #8.

8. **Other Business**

Chairman Peifer said that it was his understanding that Mr. Eric Epstein, from Rock the Capital, had asked for a few minutes to address the Board. He welcomed Mr. Epstein, who thanked the Board for the opportunity to speak and said he was hopeful that by the end of the year, he would be permitted 30 minutes to speak instead of 3 minutes.

Mr. Epstein thanked PHEAA for providing information regarding scams, and then requested that Board meeting material be shown on the screen since it is hard to follow along. He also thanked the Board for increasing the maximum state grant award and said that as a school board member, he understands the financial pressure of families; he listed a number of expenses that have increased for the average person in Pennsylvania (Comcast increased \$7.50, electric rates are up 5%, a 5.9% property tax increase, water and sewer has increased, and turnpike fees are up an additional 6%) and commented that people are not receiving additional services for the increases.

Mr. Epstein applauded PHEAA for trying to give families a break, and made a plea that the affordability of public education should not be given to the elite. He also commented that junior colleges and technical schools are great options.

Chairman Peifer thanked Mr. Epstein for his comments and referred him to a document recently made public by the Agriculture and Rural Affairs Committee that analyzes the cost of living.

Hearing no other business from the Board Members, Chairman Peifer asked for a motion to adjourn the meeting. The motion was made by Vice Chairman Fontana, seconded by Chancellor Thyreen, and the meeting adjourned.

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**Resolution of the Board of Directors  
Pennsylvania Higher Education Assistance Agency  
Order of Defaults  
Adopted May 24, 2018**

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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 May 24, 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 May 24, 2018.*