



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors  
June 21, 2018 – 9:00 AM**

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A meeting of the Board of Directors was held on June 21, 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  
Senator John P. Blake  
Representative Mike Carroll  
Representative Sheryl Delozier **(via teleconference)**  
Senator John Eichelberger, Jr.  
Representative David Hickernell **(via teleconference)**  
Representative Bernie O'Neill  
Honorable Roy Reinard  
Representative James Roebuck, Jr. **(via teleconference)**  
Senator Mario Scavello **(via teleconference)**  
Chancellor Timothy R. Thyreen **(via teleconference)**  
Secretary Robin Wiessmann  
Mr. Noe Ortega, Deputy Secretary for Postsecondary and Higher Education **(via teleconference)**  
James L. Preston, President and CEO  
Jim White, General Counsel

***Those absent were:***

Representative Matthew D. Bradford  
Representative Paul Costa  
Senator Arthur Haywood  
Senator Vincent Hughes  
Senator Robert M. Tomlinson  
Secretary of Education Pedro Rivera

***Also in attendance:***

Liz Craig, Senator Hughes' Office **(via teleconference)**; Steph Applegate, Senator Aument's Office; Jen Smeltz, Senator Tomlinson's office; Leo Pandeladis, Secretary Wiessmann's Office; Patty Smith, Rock the Capital; and the following PHEAA staff: Nathan Hench, Keith New, James Steeley, Mubashar Hameed, Todd Mosko, Stephanie Martella, Mike Garman, Scott Miller, Dan Weigle, Judith Bines, Kristen Smeltz, Elizabeth McCloud, Isaac Greene, Bethany Coleman, Linda Randby, Will Lindsey, 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 Mr. Roy Reinard, seconded by Vice Chairman Fontana, the minutes of the May 24, 2018 meeting were unanimously approved.

Chairman Peifer called up Agenda Item #2.

2. **Committee Reports**

Chairman Peifer called on Representative Roebuck, who thanked the Chairman and said the Executive Committee met last evening and after establishing a quorum, the first order of business was to adopt the minutes from the May 23, 2018 meeting. Following the adoption of the minutes, the committee reviewed a resolution that was presented by Mr. Preston that would appoint an independent director to the Student Loan Foundation. For the information of the Board, the Student Loan Foundation is used by PHEAA to carry out certain financings. After the committee reviewed the resolution, it was unanimously adopted.

The committee then moved into Executive Session to consult with professional advisors and internal auditors regarding PHEAA finances and to discuss Agency business, which if conducted in public, would lead to the disclosure of confidential information that is protected by statute.

Following the return to regular session, the committee immediately adjourned.

That concludes my report and would be happy to answer any questions that the Board may have.

Chairman Peifer then called up Agenda item #3.

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

Chairman Peifer called on Mr. Preston, who thanked the Chairman and called for an Executive Session to consult with legal counsel to discuss 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, as well as the Oberg case that has been filed in the Fourth Circuit; and to consult with professional advisors regarding PHEAA finances.

The Committee then returned to Regular Session to discuss Agenda Items #4, #5 and #6.

4. **2018-2019 Budget**

Chairman Peifer then called on Mr. James Steeley to review and adopt the 2018-2019 budget. Mr. Steeley thanked the Chairman and indicated that since the budget materials have been provided in advance of today's meeting, he would provide the highlights on the assumptions and answer any questions the members may have.

Mr. Steeley said that PHEAA assumed no impact (positive or negative) from the current solicitation issued by FSA, due to the uncertainty surrounding possible outcomes of the

solicitation. If we are appointed as a component winner in the solicitation, the budget may change and we may need to come back to the board for additional authorization.

Further the proposed budget contemplates that the PHEAA owned loan portfolio will decrease by 10.3%, coupled with continued net interest margin compression due to rising rates. The FedLoan Servicing borrower volume is expected to decrease by 2.0%, but this should be offset by additional revenue on PSLF calls, emails and processing. The Commercial Loan Portfolio we service for others (AES Line of Business) will decrease by approximately 7.1%. Guaranty Rehab volume is expected to decrease by 9.0%; this would lower collection revenue. The sales price of rehab loans has increased; this would increase collection revenue.

PHEAA further assumes two securitizations and the related fees in the 2018-19 budget compared to none completed in the current year. The budget also includes the impact of adopting GASB 75, Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions. We estimate the total expense for 2018-19 to stay flat from the estimated \$20 million in expense anticipated in the current fiscal year. We estimate the total pension expense for 2018-19 to stay flat from the estimated \$66 million in expense anticipated in the current fiscal year. Investment income on unrestricted investments was based on historically returns of 2.5% annually.

Mr. Steeley said that, that concludes his planned remarks, but he would be happy to answer any questions the members may have.

On a motion by made by Representative Carroll, and seconded by Mr. Reinard, the 2018-2019 budget was adopted.

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

5. **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. Senator Fontana 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 #6.

6. **Other Business**

Chairman Peifer noted that this is Mr. Preston's last meeting and he thanked Mr. Preston for his years of service at the Agency. Chairman Peifer then called on Mr. Hench to read a

resolution recognizing Mr. Preston's service. Chairman Peifer asked that the Board adopt the resolution as presented, by recognizing Mr. Preston with applause, and the resolution was unanimously adopted and is attached to these minutes.

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

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**Resolution of the Board of Directors  
Pennsylvania Higher Education Assistance Agency  
Order of Defaults  
Adopted June 21, 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 June 21, 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 June 21, 2018.*

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**Resolution of the  
Pennsylvania Higher Education Assistance Agency  
Adopted June 21, 2018**

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**WHEREAS**, James Preston has provided invaluable leadership and guidance to the Pennsylvania Higher Education Assistance Agency (PHEAA) as President and Chief Executive Officer (CEO) since his permanent appointment to the position in March 2008, and

**WHEREAS**, Mr. Preston joined PHEAA in 2003 as Executive Vice President of Client Relations and Loan Operations and served as interim President and CEO from October 2007 until his permanent appointment in March 2008, and

**WHEREAS**, at the time of Mr. Preston assuming leadership, the student loan industry was experiencing historic instability and uncertainty due to major disruptions in the nation's financial markets, and

**WHEREAS**, upon recognizing an impending student loan liquidity crises, Mr. Preston, accompanied by PHEAA Board leaders, led a successful effort to alert Pennsylvania's Congressional Delegation and the U.S. Treasury and continued to play a pivotal role in assuring that Congress took action by enacting a law known as ECASLA (Ensuring Continued Access to Student Loans Act), which provided students with uninterrupted access to student loans, and

**WHEREAS**, an ensuing transformation of the nation's federal student loan programs resulted in a shift away from the Federal Family Education Loan (FFEL) Program to the federal Direct Loan Program, effectively eliminating one of PHEAA's most successful business line, and

**WHEREAS**, PHEAA experienced monumental financial, operational and regulatory challenges at a time when many of the nation's lending and student loan organizations were forced to cease operations, and

**WHEREAS**, Mr. Preston successfully navigated PHEAA through this historic financial crisis and unprecedented convergence of negative market influences, and

**WHEREAS**, Mr. Preston's thoughtful leadership and steady hand stabilized the Agency's operations and finances and oversaw a restructuring that protected thousands of jobs while ensuring the delivery of student aid programs and public services for millions of Pennsylvania families, and

**WHEREAS**, under Mr. Preston's leadership, the Agency successfully secured a new federal contract in 2009 to service the nation's growing Direct student loan portfolio, creating a new business line - Fedloan Servicing, and

**WHEREAS** FedLoan Servicing began operations managing a federal loan portfolio of about \$4 billion and under Mr. Preston's leadership today manages nearly \$320 billion in federal loans , and

**WHEREAS**, to successfully manage the Agency's growing federal loan portfolio, Mr. Preston directed the establishment of additional customer service call centers in Delaware County, Allegheny County and Tampa, Florida, and

**WHEREAS**, during Mr. Preston's tenure as President and CEO, total assets under PHEAA's management increased from \$121.4 billion to \$447.8 billion, total loan servicing increased from \$67.8 billion to \$419.6 billion, and total student loan borrowers serviced increased from 2.8 million to 12.7 million, and

**WHEREAS**, under Mr. Preston's leadership, PHEAA experienced an increase in total employees from 2,528 to 3,335 while assets managed grew by nearly \$350 billion, and

**WHEREAS**, Mr. Preston's student aid and financial services experience led to several high-level appointments to various Boards and Commissions, including Governor Corbett's Advisory Commission on Postsecondary Education, and

**WHEREAS**, under Mr. Preston's direction, PHEAA launched a 5-year, \$10 million, self-funded Distance Education Pilot Program in 2013 allowing otherwise eligible students to take 100 percent of their coursework online and receive a PA State Grant award, and

**WHEREAS**, due to the success of the Distance Education Pilot Program and upon its conclusion, the Pennsylvania General Assembly, through Act 5 of 2018, permanently made distance education programs eligible for the PA State Grant Program, allowing an additional 16,000 students to receive Grant Awards in 2018-19, and

**WHEREAS**, under the guidance of Mr. Preston, the Agency delivered nearly \$1 billion in total public service benefits to the Commonwealth, including \$600 million in direct funding to the PA State Grant Program and nearly \$150 million in administrative support for student aid programs, and

**WHEREAS**, Mr. Preston has earned the great respect and sincere gratitude of his peers, and has become a most trusted and valuable asset to the Agency's governing Board of Directors, and

**NOW, THEREFORE, BE IT RESOLVED**, that the PHEAA Board of Directors, expresses its appreciation to Mr. Preston for his many years of public service and confident leadership, and

**NOW, THEREFORE, BE IT FURTHER RESOLVED**, that the PHEAA Board of Directors, extends to Mr. Preston and his family its best wishes for continued success, professional growth and personal fulfillment in the years to come.