



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
November 15, 2018 – 10:00 AM**

A meeting of the Board of Directors was held on November 15, 2018 at 10:00 a.m. in the Boardroom.

Those in attendance were:

Representative Michael Peifer, Chairman **(via teleconference)**
Senator Wayne D. Fontana, Vice Chairman **(via teleconference)**
Senator Ryan Aument **(via teleconference)**
Representative Matthew D. Bradford
Representative Mike Carroll **(via teleconference)**
Representative Paul Costa
Senator John Eichelberger, Jr.
Representative David Hickernell **(via teleconference)**
Chancellor Timothy R. Thyreen **(via teleconference)**
James H. Steeley, Interim President and CEO
Jim White, General Counsel

Those absent were:

Senator John P. Blake
Representative Sheryl DeLozier
Senator Arthur Haywood
Senator Vincent Hughes
Representative Bernie O'Neill
Honorable Roy Reinard
Representative James Roebuck, Jr.
Senator Mario Scavello
Senator Robert M. Tomlinson
Secretary Robin Wiessmann
Secretary of Education Pedro Rivera

Also in attendance:

Liz Craig (via teleconference), Senator Hughes' office; Jen Smeltz (via teleconference), Senator Tomlinson's office; Alycia Laureti (via teleconference), Representative Roebuck's office; Liana Walters and Maisha Jackson (via teleconference), Senator Haywood's office; and the following PHEAA staff: Judith Bines (via teleconference), Nathan Hench, Keith New, Mubashar Hameed, Todd Mosko, Stephanie Martella, Mike Garman, Linda Randby, Amanda Foster, Andrew Mehalko, Kyle Lefever, Elizabeth McCloud, John Kilheffer, Will Lindsey, William Fisher, Isaac Greene, 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 and seconded by Representative Carroll, the minutes of the October 18, 2018 meeting were unanimously approved.

Chairman Peifer called up Agenda Item #2.

2. **Quarterly Financial Report – September 30, 2018 –**

Chairman Peifer called on Mr. Andrew Mehalko, who thanked the Chairman and directed the Board members' attention to two documents in their materials: 1) the first is a PowerPoint presentation, summarizing our results for the quarter ended September 30, 2018; and, 2) a draft of the Unaudited Financial Statements for the quarter ended September 30, 2018.

Mr. Mehalko started with the first attachment, the PowerPoint presentation, which he said would be the focus of his comments.

Mr. Mehalko began on Page 4 which shows PHEAA's Actuals to Budget results for the quarter ended September 30, 2018. Operating revenues were \$118.9 million for the quarter; \$6.1 million lower than budget. Operating expenses were \$127.8 million for the quarter; \$17.4 million lower than budget. PHEAA's unrestricted operating loss for the quarter was \$8.8 million, or \$11.3 million higher than the projected budget loss of \$20.1 million. Mr. Mehalko stated that at the bottom of the page, Members will note that after adding in PHEAA's restricted operating Income of \$12.4 million, our consolidated operating income for the quarter was \$3.5 million, which came in \$14.2 million higher than budget.

Mr. Mehalko moved onto Page 5, which is the waterfall chart showing a visual representation of PHEAA's budget to actuals performance for the quarter. Moving from left to right through the chart, the second column shows our unrestricted revenue came in \$6.1 million lower than budget - this was mostly due to lower than projected revenue on servicing fees and retention of collections on defaulted loans. The third and fourth columns from the left show positive results compared to budget for personnel and professional services expenses as a result of lower than budgeted collection costs, personnel costs and change in leave accrual methodology. The sixth column, net interest revenue, came in \$2.3 million higher than budget and for the quarter in total; actual net income was \$3.5 million.

Mr. Mehalko continued to Page 6, where Members could see PHEAA's actual results for the quarters ended September 30, 2018 and June 30, 2018. PHEAA's total operating revenues were \$118.9 million for the September quarter, compared to \$124.1 million in the June quarter, a \$5.2 million decrease. Total operating expenses for the current quarter were \$127.8 million, compared to the prior quarter at \$133.4 million, a \$5.7 million decrease. The unrestricted operating loss for the quarter was \$8.8 million, compared to a loss of \$9.3 million for the June quarter, a slight improvement. At the bottom of the page, Members could see that our consolidated operating income was \$3.5 million for the September quarter, compared to \$2.8 million in the prior quarter, a \$760 thousand increase.

Mr. Mehalko said that Page 7 is a waterfall chart showing the changes in operating income for various categories between June 30, 2018 and September 30, 2018. Moving from left to right, Column 2 shows PHEAA's unrestricted revenue for the quarter was \$5.2 million less than the June quarter due to lower servicing fee revenues of \$3 million and retention of collections on defaulted loans of \$3.1 million. Moving to Column 3, personnel expenses, we

show a positive effect on income of \$1.4 million due to lower personnel expenses and change in leave accrual methodology. Other operating expenses, in Column 4, show a positive effect on net income of \$4.3 million compared to the June quarter. These other expenses include professional services (a \$1.4 million decrease); IT costs (a \$1.6 million decrease). The result of these changes is a slight increase in net income for the September quarter of \$3.5 million compared to \$2.8 million for the June 2018 quarter.

Page 8 is PHEAA's rolling 5 quarters of performance for the Members' reference.

Page 9 is PHEAA's Condensed Balance Sheet. Mr. Mehalko stated that at September 30, 2018, our total assets were \$5.5 billion, compared to \$5.6 billion at Fiscal Year End June 30, 2018 - a decrease of \$93 million. This was due to the continued runoff of our student loan portfolio of \$161 million, offset by an increase in cash and investments of \$54 million from the receipt of Grant appropriation funds from the Commonwealth of Pa. Total liabilities at September 30 were \$5.2 billion, compared to \$5.4 billion at June 30 - a decrease of \$177 million, mostly due to pay-downs on our student loan trust bonds payable from student loan repayments. Under net position, Members will see that our total net position increased to \$313.8 million at September 30 from \$221.2 million at June 30. This was mostly a result of the timing of Grant funds received from the Commonwealth of Pennsylvania for the State Grant Program. PHEAA's unrestricted net position decreased \$9.6 million to a negative \$254 million from a negative \$244.4 million at June 30. Most of this decrease was due to an unrestricted net operating loss of \$8.9 million for the quarter ended September 30, 2018.

Mr. Mehalko then moved onto the quarterly financial statements. Yesterday, during the Audit Review Committee, key areas of accounting and financial reporting judgement were reviewed, with no significant accounting developments or changes to key estimates from what was reviewed with the Audit Review Committee in prior quarters. Ernst & Young has completed their review of the quarterly report with no comments, and we plan to finalize the unaudited financial statements today and post them to the investor relations section of our web site today.

Representative Costa asked about declining revenue. Mr. Mehalko explained the business lines that are on the decline. The lines are decreasing slightly. Representative Costa asked if we are okay. Mr. Steeley said that we have seen a decline over the last four to five years. The existing profitable lines of business are on the decline and the federal contract has not been able to offset this. FFELP ended in 2010 causing the decline in the AES servicing portfolio revenues, net interest income and revenues from our Guaranty functions. These declines will continue into the future. We have been working to develop and grow profitable business lines, such as our new loan program. We are two or three years away from some growth. And during that time we need to do some of the transformation program, to make servicing more profitable or breakeven as revenue declines, focus on software as a service and private loan servicing.

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

3. Federal Student Loan Death Benefit / Forgiveness

Chairman Peifer called on Mr. Todd Mosko, Senior Vice President of Loan Assets Management, who thanked the Chairman and referred to the flow chart in the packet of materials. Mr. Mosko reminded the Members that as a function as a guarantor under the Federal Family Education Loan Program, PHEAA still holds or guarantees \$3.8 billion or 120,00

accounts. Mr. Mosko explained that when we receive notification of a borrower's death, a certified death certificate is required to process. If it is for an account we hold, we will request a copy of the death certificate, or we will engage with the referring state agencies to get a copy of the certificate, but the ultimate goal is to discharge the loans once the death claim is substantiated. Mr. Mosko said that sympathy letters to the family of the deceased are printed and hand signed by him. He noted that if the student borrower was killed in military service, a more personal letter is written, recognizing the borrower's sacrifice in service to our country.

Chairman Peifer reminded the Members that at the last Board meeting, a letter was shared from a family thanking the Board of Directors for forgiving the loans for a borrower who had passed. The information on the statistics and the number of Death Claims paid by PHEAA and on the process is great information.

4. **Committee Reports**

Chairman Peifer called on Representative Carroll, 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 for the meeting held on September 19, 2018.

Management presented the September 2018 quarterly financial statements results and Ernst and Young presented their review of PHEAA's quarterly financial results. Ernest and Young noted no issues and there were no findings with no significant transactions other than reviewing the new trust that was recently created.

As our second order of business, the Committee entered Executive Session to discuss Internal Audit, Legal, Risk matters and compliance matters.

The Committee then returned to Regular Session and having no other business, the meeting was adjourned.

Representative Carroll said he would be glad to respond to questions.

Hearing no questions, Chairman Peifer called on Senator Fontana, who thanked the Chairman and said that the Executive Committee met yesterday afternoon. The Committee immediately moved into Executive Session to receive a security, privacy, compliance and litigation report from PHEAA's management, 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.

When the Committee returned to Regular Session, the Committee reviewed and adopted the meeting minutes from the October 17, 2018 meeting.

The Committee then reviewed and adopted a resolution that would provide a 2.25% general pay increase for non-union management employees. The adjustment would be effective for the payroll disbursed on January 25, 2019.

Finally, the Committee also reviewed and adopted a resolution that appointed an independent director, Kristin Moore, to PHEAA's Student Loan Foundation. For the information of the Board members, the Student Loan Foundation is used for the purpose of carrying out student loan securitization transactions.

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

Hearing no questions, Chairman Peifer called on Mr. James Steeley for Agenda Item #5.

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

Mr. Steeley thanked the Chairman and called for an 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.

The Board then returned to Regular Session to discuss Agenda Items #6, #7 and #8.

6. **Board Member Recognition**

Chairman Peifer called on Mr. Nathan Hench. Mr. Hench thanked Senator Eichelberger for his service on the PHEAA Board. Senator John Eichelberger was first elected to the Pennsylvania Senate in 2006.

Senator Eichelberger serves as the Chair of the Senate Education Committee, Vice Chair of the Banking and Insurance Committee, and serves as a member of the Senate Appropriations, Finance, Judiciary, and Local Government Committees.

Senator Eichelberger was appointed to the PHEAA Board of Directors in March of 2017.

Senator Eichelberger received the "Guardian of Small Business Award" from the National Federation of Independent Business for each of the past five legislative sessions; and

Mr. Hench said that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere thanks to Senator Eichelberger for his years of service to the Agency and the Commonwealth on the occasion of his leaving the Board.

Senator Eichelberger thanked the Chairman.

Mr. Hench thanked Representative O'Neill for his service on the PHEAA Board. Representative Bernie O'Neill has served in the Pennsylvania House of Representatives, representing the 29th Legislative District since his election in 2002 and was appointed to the PHEAA Board of Directors in January of 2017 as a member of the Audit Review Committee, and the Outreach Services Committee. Representative O'Neill served as Majority Chairman of the House Finance Committee and as a senior member of the House Education Committee.

Representative O'Neill further served as a member of the Bucks County Community College Board of Trustees, the Council for Exceptional Children, the Bucks County Special Needs Foundation, the Centennial Education Association, the Pennsylvania State Education Association, the National Education Association, and the Shriners Association.

Mr. Hench said that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere thanks to Representative O'Neill for his service to the Agency and the Commonwealth on the occasion of his leaving the Board.

Representative O'Neill thanked the Chairman.

Mr. Hench thanked Representative Costa for his service on the PHEAA Board. Representative Paul Costa has served in the Pennsylvania House of Representatives, representing the 34th Legislative District since his election in 1998.

Representative Costa was appointed to the PHEAA Board of Directors in January of 2017. Representative Costa serves as the Democratic Chairman of the House Liquor Control Committee and also serves on the Point Park University Board of Trustees, the University of Pittsburgh Board of Fellows, and the Eastern Area Adult Services Board of Directors.

Mr. Hench said that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere appreciation to Representative Costa for his many years of service to the Agency and to the Commonwealth on the occasion of his leaving the Board.

Representative Costa thanked the Chairman. Chairman Peifer said the Members will be missed. On a motion made by Senator Fontana, seconded by Representative Carroll, the Resolutions were unanimously accepted.

7. **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 statutes.

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 Costa, and the Resolution was unanimously adopted and is attached to these minutes.

Chairman Peifer called up Agenda Item #8.

8. **Other Business**

Hearing no other business, Representative Carroll made the motion, seconded by Senator Fontana, and Chairman Peifer adjourned the meeting.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Order of Defaults
Adopted November 15, 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 November 15, 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 November 15, 2018.

**A RESOLUTION of
THE PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY
November 15, 2018**

WHEREAS, Senator John Eichelberger was first elected to the Pennsylvania Senate in 2006, having since represented and championed the residents of the 30th Senatorial District; and

WHEREAS, Senator Eichelberger serves as the Chair of the Senate Education Committee, Vice Chair of the Banking and Insurance Committee, and serves as a member of the Senate Appropriations, Finance, Judiciary, and Local Government Committees; and

WHEREAS, Senator Eichelberger was appointed to the PHEAA Board of Directors in March of 2017 and has since had a positive impact on the work of the Board as a member of the Committee on Need Analysis and Aid Coordination and the Committee on Appeals; and

WHEREAS, Senator Eichelberger has been widely recognized for his work on behalf of local governments by numerous local government organizations; and

WHEREAS, Senator Eichelberger received the “Guardian of Small Business Award” from the National Federation of Independent Business for each of the past five legislative sessions; and

WHEREAS, Senator Eichelberger remains actively engaged in many community and religious organizations; and

WHEREAS, Senator Eichelberger earned his bachelor’s degree in political science from Penn State University in 1985;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere thanks to Senator Eichelberger for his years of service to the Agency and the Commonwealth on the occasion of his leaving the Board.

**A RESOLUTION of
THE PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY
November 15, 2018**

WHEREAS, Representative Bernie O'Neill has served in the Pennsylvania House of Representatives, representing the 29th Legislative District since his election in 2002; and

WHEREAS, Representative O'Neill was appointed to the PHEAA Board of Directors in January of 2017 and has since made major contributions to the Board as a member of the Audit Review Committee, and the Outreach Services Committee; and

WHEREAS, Representative O'Neill serves as Majority Chairman of the House Finance Committee and as a senior member of the House Education Committee; and

WHEREAS, prior to his election to the Pennsylvania House of Representatives, Representative O'Neill was a special education teacher at William Tennent High School in the Centennial School District for more than 25 years; and

WHEREAS, Representative O'Neill established a long history of dedication to his community, serving as a member of the Bucks County Association of Township Officials, the Warminster Park and Recreation Conservation Board, Federal Lands Reuse Authority, and Associated Humane Society; and

WHEREAS, Representative O'Neill further served as a member of the Bucks County Community College Board of Trustees, the Council for Exceptional Children, the Bucks County Special Needs Foundation, the Centennial Education Association, the Pennsylvania State Education Association, the National Education Association, and the Shriners Association; and

WHEREAS, Representative O'Neill earned an associate degree from Bucks County Community College, a bachelor's degree from Penn State University, and a master's degree in education from Temple University; and

WHEREAS, Representative O'Neill's depth of higher education experience in Pennsylvania includes graduate work at Penn State University, East Stroudsburg University, Wilkes College, Bloomsburg University, Marywood College, the Philadelphia College of Performing Arts, and Temple University;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere thanks to Representative O'Neill for his service to the Agency and the Commonwealth on the occasion of his leaving the Board.

**A RESOLUTION of
THE PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY
November 15, 2018**

WHEREAS, Representative Paul Costa has served in the Pennsylvania House of Representatives, representing the 34th Legislative District since his election in 1998; and

WHEREAS, Representative Costa was appointed to the PHEAA Board of Directors in January of 2017 and has since made significant contributions to the work of the Board as a member of the Committee on Appeals and Outreach Services Committee; and

WHEREAS, Representative Costa serves as the Democratic Chairman of the House Liquor Control Committee; and

WHEREAS, Representative Costa also serves on the Point Park University Board of Trustees, the University of Pittsburgh Board of Fellows, and the Eastern Area Adult Services Board of Directors; and

WHEREAS, Representative Costa has been tirelessly dedicated to his community, having served on the Wilkins Township Board of Commissioners, including one year as Board President, and served for more than 20 years in the Allegheny County Prothonotary's Office, ending his service as Deputy in Charge of the Family Division; and

WHEREAS, Representative Costa served as Vice Chairman of the Wilkins Township Democratic Committee and was elected by his peers to be the Chairman of the Allegheny County Democratic Delegation from 2011 to 2013; and

WHEREAS, Representative Costa earned an Associate Degree from the Community College of Allegheny County, graduated with honors in Accounting from Point Park College, and attended the Allegheny County Local Government Academy;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Pennsylvania Higher Education Assistance Agency extends its sincere appreciation to Representative Costa for his many years of service to the Agency and to the Commonwealth on the occasion of his leaving the Board.