



1200 North Seventh Street, Harrisburg, PA 17102

**Meeting of the Board of Directors
January 17, 2019 – 10:00 AM**

A meeting of the Board of Directors was held on January 17, 2019 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 Arthur Haywood **(via teleconference)**
Senator Vincent Hughes **(via teleconference)**
Honorable Roy Reinard **(via teleconference)**
Representative James Roebuck, Jr. **(via teleconference)**
Senator Mario Scavello **(via teleconference)**
Representative Curtis Sonney
Chancellor Timothy R. Thyreen **(via teleconference)**
Senator Robert M. Tomlinson **(via teleconference)**
Secretary Robin Wiessmann
James H. Steeley, Interim President and CEO
Jim White, General Counsel

Those absent were:

Secretary of Education Pedro Rivera

Also in attendance:

Liz Craig, Senator Hughes' office; Alycia Laureti, Representative Roebuck's office **(via teleconference)**; Stephanie Applegate, Senator Aument's office; Christine Zubeck, Senator Scavello's office; Mike Dotts, Secretary of Education's office; Patty Smith, Rock the Capitol; Carolyn Simpson and Elizabeth Bolden, PA Commission for Community Colleges (PACC); Christi Baker, PA Library Association; Ben Dannels, Greenlee Partners; Jan Murphy, PennLive; Tom Foley, Association of Independent Colleges and Universities (AICUP); Aaron Son, PA Department of Banking and Securities; and the following PHEAA staff: Judith Bines, Nathan Hench, Keith New, Mubashar Hameed, Todd Mosko, Stephanie Martella, Mike Garman, Linda Randby, Amanda Foster, LaWanda Morris, Andrew Mehalko, Kyle Lefever, Elizabeth McCloud, Will Lindsey, William Fisher, Lisa Gipe, Dana Hepner, Jodi Shomper, Bethany Coleman and Kiersten Corey.

Upon establishing the presence of a quorum, Chairman Peifer said the first item was not on the agenda. He welcomed Representative Curt Sonney as a new member of the PHEAA Board of Directors, replacing Representative David Hickernell. Representative Sonney is the

House Chair of the Education Committee, and his counterpart is Senator Fontana. He also noted that Senator Aument is Chairman of the Senate Education Committee.

Chairman Peifer then called up Agenda Item #1.

1. **Minutes**

On a motion made by Vice Chairman Fontana and seconded by Representative Carroll, the minutes of the November 15, 2018 meeting were unanimously approved.

Chairman Peifer called up Agenda Item #2.

2. **Nominating Committee Report**

Chairman Peifer called on Mr. Roy Reinard, who thanked the Chairman and reported that the Nominating Committee met on December 11, 2018 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.

By unanimous vote of the Nominating Committee, the Committee placed into nomination the following Board members:

Chairman, Board of Directors
Vice Chairman, Board of Directors

Representative Michael Peifer
Senator Wayne D. Fontana

Chairman, Executive Committee
Vice Chairman, Executive Committee
Committee Members:

Senator Robert M. Tomlinson
Representative James R. Roebuck, Jr.
Representative Sheryl Delozier
Senator Vincent J. Hughes
Honorable Roy Reinard
Chancellor Timothy R. Thyreen

Chairman Peifer requested a Motion to close nominations, noting that the election will occur at the February 21, 2019 Board meeting with the officers to start their new term March 1, 2019. Hearing no new nominations, Vice Chairman Fontana made the motion to close, seconded by Representative Delozier, and the nominations were unanimously approved.

Chairman Peifer called up Agenda Item #3.

3. **Committee Reports**

Chairman Peifer called on Senator Tomlinson to provide a report of the Executive Committee. Senator Tomlinson thanked the Chairman and reported that the Executive Committee met on December 20, 2018 and January 9, 2019 and once a quorum was established at these meetings, the Committee moved into Executive Session to discuss a personnel matter. Upon the return to Regular Session for the meeting on January 9, the Committee did review and adopt the minutes from the December 20, 2018 meeting.

The Executive Committee met again last evening, January 16, 2019, and once a quorum was established, the Committee adopted the minutes from the November 14, 2018 meeting. The Committee then moved into Executive Session to receive a litigation report from PHEAA's

General Counsel, consult with professional advisors regarding PHEAA finances, consult with external advisors and discuss a personnel matter. The purpose of this Executive Session is to discuss agency business, which if conducted in public, would lead to the disclosure of information and confidentiality that is protected by statute.

Upon the return to Regular Session, the Committee then reviewed and adopted a resolution recommending that the PHEAA Board of Directors appoint Mr. James Steeley to be PHEAA's permanent President and Chief Executive Officer (CEO), effective immediately.

Senator Tomlinson read the resolution and made the motion that the Board adopt, seconded by Vice Chairman Fontana, and the resolution was unanimously adopted and is attached to these minutes.

Chairman Peifer congratulated Mr. Steeley, who thanked the Chairman, the Executive Committee and the Board of Directors for his support as the Chief Operating Officer and as the Interim President and CEO over the past year. Mr. Steeley stated that he was humbled by the appointment to President and CEO and that it has been a great year and that PHEAA has a great executive team in place to continue pushing forward with transformation activities and new opportunities for growth.

Chairman Peifer stated that they interviewed some great candidates and he was grateful to Senator Tomlinson for leading the Executive Committee. He stated that Mr. Steeley has proven we have the right vision. Chairman Peifer thanked the Committee for the extensive search that was conducted. The Committee met on several dates, and it was a vigorous process. Chairman Peifer thanked the Committee again and extended congratulations to Mr. Steeley.

Senator Tomlinson agreed, stating that the Committee interviewed great candidates and he too appreciates the vision Mr. Steeley has for the organization; he wished Mr. Steeley well, and said he will do well. He also thanked Chairman Peifer for his leadership.

4. Interim President and Chief Executive Officer's Report

Chairman Peifer called on Mr. Steeley for the President and CEO Report. Mr. Steeley thanked the Chairman and began with a few general updates on Page 4 of his report. Mr. Steeley first recognized Ms. Amanda Foster as the Interim Chief Risk Officer for leading and standing up the function at PHEAA since August. He said that Ms. Foster's willingness to step in enabled us to move forward while we did the Chief Risk Officer search. Ms. Foster now continues as Chief Compliance Officer. Mr. Steeley then welcomed Ms. LaWanda Morris as the permanent Chief Risk Officer. Ms. Morris was previously employed with PwC, focusing on financial institutions; TD Bank, where she focused on risk management; and as a private consultant for not-for-profit boards on risk matters. Ms. Morris joined the team right before Christmas.

Mr. Steeley called on Mr. Nathan Hench to provide the Legislative Impact Report. Mr. Hench thanked Mr. Steeley, and began by turning the Board's attention to the individualized Legislative Impact Reports that PHEAA produces each year. These reports include 2018-19 data on PHEAA-administered grant and loan programs broken out by each legislative district. They also highlight the Agency's public service commitment through the State Grant Program supplement and program administration at no cost to taxpayers.

Mr. Hench continued by saying that while we provide each Board Member with the data for their districts first, this report is ultimately delivered to all PA House and Senate members, as well as Pennsylvania's U.S. Congressional delegation. The PA House Appropriation Committee members will be the next group to receive their reports as part of the appropriations materials we will provide for PHEAA's hearing next month.

The Legislative Impact Reports highlight the real grant dollars flowing to recipients in each legislative district and the loan volumes for the Members' constituents whose loans we service. For legislators who have constituents who work at PHEAA, it also lists how many are currently employed by the Agency.

In Board members' districts alone, PHEAA is currently providing State Grants, PA-TIP awards, and Ready to Succeed Scholarships to more than 27,000 constituents with an award volume of nearly \$9.5 million. In total \$70 million in PA State Grants and other programs were awarded to constituents who reside in the legislative members who sit on the PHEAA Board.

Hearing no questions, Mr. Steeley mentioned that PHEAA was asked to appear at the House Appropriations Committee Hearing, which is scheduled on February 12, 2019.

Mr. Steeley then called on Mr. Andy Mehalko to provide a Capital Markets update. Mr. Mehalko congratulated Mr. Steeley, and turned the Board's attention to Page 6 of the presentation. He began with the second bullet that the Department of Community and Economic Development approved PHEAA to carry forward \$50 million of the \$100 million of allocated tax-exempt funding, which will be used to fund the PA Forward loan program.

Mr. Mehalko continued and stated that on November 16, 2018, S&P Global Ratings lowered its issuer credit rating on PHEAA to "AA-" from "AA". Also, S&P Global Ratings lowered its rating on PHEAA's series 2012 capital acquisition refunding bonds to "AA-" from "AA" and the outlook is negative. S&P Global Ratings reasons for the downgrade include limited business diversity outside of the student loan industry; and the possibility of extended negative trends in profitability and leverage ratios, due to the continued renewed shift to services. S&P does not anticipate raising the rating in the two-year outlook period. They could revise the outlook to stable if profitability and leverage ratios stabilize or increase, demonstrating a steady state over several years. Also, they could lower the rating within our two-year outlook period if key financial ratios deteriorate further, or even if current results continue.

Mr. Mehalko stated that defeasement of the capital acquisition bonds would remove any noise down the road for PHEAA.

Hearing no questions, Mr. Steeley called on Ms. Stephanie Martella to provide a FedLoan Servicing and NextGen Solicitation update. Ms. Martella thanked Mr. Steeley and began her report on Page 8 of the presentation. She began with the FSA clearance update in which the modification was implemented on October 22, 2018 and significantly changed the process. The previous process access was granted upon submission of federal clearance paperwork. With the new process, access can only be granted upon receiving FSA written approval. We cannot follow up on submissions with FSA until Day 20.

Ms. Martella said our current status under the new process is that we have submitted 254 requests to date, for which we are still awaiting approval. We have 168 submissions that are 20 days or longer and only 39 clearances have been granted to date. She said that one

caveat to the process is that if a submission is returned due to missing information, the clock restarts once it is re-submitted.

The new process does have an impact on PHEAA operations. There is a lack of cleared employees combined with attrition, which is affecting Service Level Agreements. There are trained employees who are waiting to work up to 8 weeks. The digital technology projects are also being impacted. The strategy projects are moving, but the technical resources we need cannot work until they are cleared. We may see a possible increase in overtime. Finally, there is a financial impact, since we have employees who are hired and not working.

Ms. Martella further explained the increased risk of actual or perceived consumer harm from delayed processing/speed to answer, which could invite consumers to get the attention of State Attorney Generals, or CFPB action or other regulators.

Ms. Martella continued that PHEAA is working to minimize the impact. Departments are assessing financial implications to charge back to FSA by adjusting the pricing. We have created Federal vs Nonfederal job codes, so that employees can work in commercial operations. We have been working on IT System & Network Segregation and Data Masking. We have contacted former employees/annuitants with active clearances for rehire. In addition, we send a daily e-mail to FSA for clearance follow up, and we are working with the other TIVAs and non-profits to find solutions and share experiences, so that we are sending a unified, collective message/reporting/tracking. On December 6, 2018, we presented an alternative solution to the FSA Contract Office in writing, and followed up with FSA on January 7, 2019.

Mr. Steeley added that we are bringing this up the Board because it is another case where PHEAA is between a rock and a hard place. There is potential borrower impact with slow processing, and a slow speed of answer. This is a universal issue among all servicers, not just PHEAA. PHEAA is making daily contact with FSA and we have had more cleared employees than our peers. The issue has potential to create consumer noise. On a side note, in PHEAA's ten year history of the contract, we have submitted over 8,000 clearance requests to the Department of Education, and only two were denied. There is no reason to think that our background screening process is not good enough, which is why we asked the Department to use our process.

Mr. Steeley also noted that the Federal Government shut down has no direct impact on us - we got lucky in that the Department of Education is fully funded through September 30, 2019 and we continue to get paid for the servicing work we are doing.

Ms. Martella continued on Page 10 of the presentation to provide a NextGen Solicitation update. In October, several new solicitations were issued, which caused some protests and eventually resulted in the cancellation of some components. On January 15, 2019, new components were announced, including optimal processing – a future, modernized system for new loan volume; and a customer call center. There are several due dates for these components, and PHEAA plans to respond to all of the components.

Chairman Peifer asked what the timing is of the solicitation versus our contract. Mr. Steeley stated that the current contract was issued in 2009 and is set to expire in June 2019. April 2019 marks three (3) years that we have been responding to solicitations. We continue to request extensions, and we advocate for meaningful extensions. This latest is the seventh (7th) iteration of the solicitation. There are just shy of 40 million borrowers being serviced by nine (9)

different servicers on three (3) IT platforms – we probably have the most borrowers on our system. We continue to monitor, and to react to the solicitation.

Secretary Robin Wiessmann apologized for being late and asked Mr. Mehalko if we quantified the impact of the rating downgrade on the cost of borrowing and the capital needed to start loan origination.

Mr. Mehalko answered that the current bonds are fixed rates, so there should be no impact. We completed a FFELP securitization at the end of October 2018. There is no credit issuer rating impact regarding what we are doing on the municipal loans that are backed by the student loans.

Hearing no other questions or comments, Mr. Steeley welcomed Ms. Bethany Coleman and Ms. Kiersten Corey to provide an employee engagement update. He stated that Members may be wondering, “Why employee engagement?”, and said that we looked at how we benchmark against our peers – specifically, customer satisfaction scores and employee satisfaction scores. We noticed a big difference between us, Navient and GreatLakes, and determined if our employees are not happy, it will impact our customer base. Mr. Steeley said that Mss. Coleman and Corey have worked to improve employee engagement since early last year.

Ms. Corey introduced herself, stating that she works in Human Resources and has been with the agency for seven (7) years. Ms. Coleman also introduced herself, and said that she works in the Office of Public Information and has been with the agency for 15 years.

Ms. Coleman began by stating that she is so excited to be here today to share a little bit about the exciting employee engagement efforts that have kicked off at PHEAA over the past 6-7 months. The Employee Engagement Committee launched in May 2018 with 35 members. She said that we worked with PHEAA leadership to identify employees across the Agency to participate in the Committee.

Page 3 of the presentation outlines the Agency strategy that was rolled out in August of last year. Our employees have rallied around the Give, Grow, Transform idea. What was really exciting for us was that for the first time ever, employee engagement was included in our Agency strategy, right at the very foundation. The Executive Team here at PHEAA has truly embraced and acknowledged the importance of employee engagement. Engaged employees are happier, both at work and in their lives - and that ultimately leads to less staff turnover, improved productivity and efficiency, a better customer experience, and ultimately, a more profitable business.

Ms. Coleman continued to Page 5, to show what employee engagement looks like here at PHEAA. We now have amazing employee artwork on display in our North lobby; the Recognition Toolkit that we have launched to give our managers and supervisors tools and resources to recognize their employees; and a partnership we are developing with Big Brothers Big Sisters to mentor kids at the Ben Franklin Elementary School next door. She talked about a few examples of the engagement efforts PHEAA has accomplished so far, including the Cheers for Peers program which allows employees to share what a fellow colleague has done that deserves recognition. A drawing is held at the end of each month from those names submitted that month and 10 winners receive a parking space on the first level of the garage for an entire month.

Referring to Page 6, Ms. Coleman talked about the Lunchbox Series that included the following topics: Healthy Eating on a Budget, PP&L Energy Conservation, Department of Health Smoking Cessation, PA Forward Student Loans, 529 Plans and Stress Relief.

Ms. Coleman turned it over to Ms. Corey, who reviewed Page 7 and explained how we partnered with Theo's for Food Truck Fridays. The Employee Engagement Committee held two events in 2018 that were sold out and have been regularly scheduled in 2019. Ms. Corey explained that Food Truck Fridays have promoted bonding and a sense of community among employees.

Referring to Page 8, Ms. Corey reported that in keeping with our Public Service Mission, we created an opportunity for employees to drop off donations in Community Aid bins at our Headquarters and Westport facilities.

Ms. Corey continued on Page 9, stating that in addition, over the recent holiday season, we partnered with several charitable organizations, such as the Salvation Army, to donate gifts, school supplies and cold weather gear for organizations and families in need. We filled the lobby at Headquarters with over 250 gifts. Employees also donated 1,000 pet food items to support the Humane Society of Central PA in lieu of food bank donations. Food banks are traditionally better stocked during holidays and we have committed to have a food drive later in 2019 to help them in tougher months.

Turning to Page 10, Ms. Corey reported that many years ago, PHEAA had a very popular choir that conducted concerts on regular basis. The PHEAA Choir was recently resurrected and they entertained us with holiday classics. It has been so successful that the choir will continue to perform throughout the year.

While all of these activities have been a great start, engagement is more than food, fun and convenience. Employees need a sense of ownership and purpose. Ms. Corey reviewed the five (5) areas that our engagement strategy will focus on for the long term on Page 11. She said we are creating a more robust onboarding program to welcome and engage new employees from the point of job offer and throughout their first year. We are also revamping the performance management process to ensure employees are in the right position and have opportunities to learn and grow.

Ms. Corey continued by explaining how we will measure all these efforts to ensure that we are creating an environment for engagement. We just kicked off an Agency-wide engagement survey that is already at a 65% response rate. The survey includes the Gallup Q12 questions that have been established as the Engagement Index after 25 years of research to measure what really determines if employees are engaged. One of PHEAA's key metrics is the Employee Net Promoter Score, which is adapted from a standard measure of customer service, the Net Promoter Score. To measure customer service/brand loyalty, organizations ask customers how likely they would be willing to recommend the company/brand to their friends and family. Similarly, we are asking employees how likely they are to recommend PHEAA as a great place to work. A positive score is indicative of a positive environment for engagement. Opportunities to learn and grow, which is highly valued by a millennial workforce, is PHEAA's second key metric. Ms. Corey then concluded the update on Employee Engagement.

Hearing no questions, Mr. Steeley said this concluded the President's report.

5. **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. Representative Carroll made the motion, seconded by Representative Delozier, 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 there is Board Training at the end of the meeting today.

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

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Adopted January 17, 2019**

WHEREAS, the PHEAA Board of Directors appointed Mr. James H. Steeley as Interim President and Chief Executive Officer, until a permanent President and Chief Executive Officer could be selected; and

WHEREAS, the Executive Committee conducted a national search for the position of permanent President and Chief Executive Officer; and

WHEREAS, such search resulted in many candidates being screened and the Executive Committee conducting several thorough interviews; and

WHEREAS, the Executive Committee finally considered the remaining candidates; and

WHEREAS, the Executive Committee has recommended to the PHEAA's Board of Directors that the Board appoint Mr. James H. Steeley to be PHEAA's permanent President and Chief Executive Officer effective immediately.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors appoints Mr. James H. Steeley to be PHEAA's permanent President and Chief Executive Officer effective immediately.

**Resolution of the Board of Directors
Pennsylvania Higher Education Assistance Agency
Order of Defaults
Adopted January 17, 2019**

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 17, 2019; 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 17, 2019.