BOARD OF DIRECTORS MEETING
OF THE
ALASKA STUDENT LOAN CORPORATION

November 6, 2019

A meeting of the Board of Directors of the Alaska Student Loan Corporation was held Wednesday, November 6, 2019, from the offices of the Corporation at 3030 Vintage Boulevard, Juneau, Alaska.

CONVENE

Chair Randy Weaver called the meeting to order at 11:00 a.m.

ROLL CALL

Members of the Board attending all or part of the meeting were Chair Randy Weaver, Deven Mitchell, Amy Demboski and Dave Donley. Patricia Jacobson was absent.

Staff present for all or part of the meeting were Stephanie Butler, Executive Officer; Charlene Morrison, Chief Finance Officer; Rob Schmidt, Assistant Attorney General; Patricia Nickell-Zimmerman, Executive Secretary.

Others present were Karen Tarver, CPA and Partner at Elgee Rehfeld, and Gina Ritacco, State of Alaska Boards and Commissions, Director

ADOPTION OF AGENDA

Ms. Demboski moved to adopt the agenda of the November 6, 2019, Board meeting. Mr. Donley seconded the motion. By roll call vote, all members present voted aye. The motion carried.

APPROVAL OF MINUTES

Mr. Donley moved to adopt the minutes of the July 10, 2019, Board meeting. Ms. Demboski seconded the motion. By roll call vote, all members present voted aye. The motion carried.

PUBLIC COMMENT

Chair Weaver opened the public comment period to accept public testimony. Ms. Malan Paquette provided public testimony. There being no other members of the public wishing to speak, Chair Weaver closed the public testimony period.

AUDITED FINANCIAL STATEMENTS

Ms. Morrison introduced Karen Tarver, CPA and Partner with Elgee Rehfeld, LLC, who are the external auditors for the Corporation's financial statements. Ms. Morrison referenced her written memorandum and outlined the three reports that would be reviewed:

1. Management's Discussion and Analysis and Financial Statements (Financial Statements);
2. Expenditures of Federal Awards Reports; and,
3. External Auditor's Letter to the Board.

Financial Statements – Ms. Morrison referenced the Statements of Revenue, Expense and Changes in Net Position found on page 13 of the Financial Statements. These statements reflect the Corporation's loss (change in net positon) of $2.4 million compared to a loss of $973,000 for the prior year. She noted that the reason for this loss was reflected in the operating revenue section of this statement. Interest on loans has declined about $1.3 million due to the loan portfolio being in decline. The provision increased $2.7 million. The provision is the change in four estimates. The estimate for loan losses we expect to occur in the future based on loans at year-end, interest accrued on those loan that we expect to lose in the future, as well as principle and interest we expect to forgive in the future. The most significant piece resulting in this increase is the allowance on the loan loss for the Alaska Supplemental Education Loan Program loans originated beginning in 2010. These are the loans that required a borrower to have a certain credit score in order to qualify for the loan. There is limited repayment history on these loans. In attempting to estimate losses on these loans, we used available data. In April of this year, it became apparent that the allowance was too low. These loans are starting to reach the point where we can use specific historical data to help develop a specific allowance, which will help avoid this issue going forward. The increase in the provision is due to the adjustment we had to make to the allowance for these loans.

Investment income increased significantly in fiscal year 2019 when compared to fiscal year 2018, due to the investment market and the increase in invested assets. The average gross return on the portfolio increased from 0.8% in fiscal year 2018 to 3.4% in fiscal year 2019.

Ms. Morrison next highlighted the Statements of Net Position (balance sheet). She noted that current and noncurrent assets are in decline. This is due to the decline in the loan portfolio. There is a decrease in both current and noncurrent liabilities as a result of the decline of debt outstanding. The Corporation will be able to meet loan demand and operating costs with existing cash until about 2025. In 2019, the unrestricted net position increased and restricted net position decreased. This is unusual and a result of paying off the 2012 bonds, allowing loans pledged to those bonds to be reclassified from restricted to unrestricted. She also pointed out a new footnote disclosure. Footnote 2(m) discloses the fact that Governmental Accounting Standards Board Statement Number 88 was implemented. This resulted in a new section to Footnote 6 Bonds Payable, at the bottom of the first table. It also resulted in the addition of a few sentences at the end of Footnote 6(e).

Discussion: Mr. Mitchell asked about historic declines and projected future trends. Ms. Morrison responded that with the decline in the loan portfolio, it is likely we will continue to report net losses on the Corporation's Statements of Revenue, Expenses and Changes in Net Position, but hopes it will level out in 2023-2024 when we expect the loan portfolio to level out.

Expenditures of Federal Awards Reports - Ms. Morrison noted that this report is required to be prepared and audited because the Corporation's Federal Family Education Loan Program portfolio is guaranteed by the federal government. She referenced page 6 of the report that indicates that, at the beginning of the fiscal year, the Corporation had $58 million in guaranteed loans and collected $105,000 in special allowance from the federal government. Special allowance payments occur, on a small portion of the guaranteed loans, when the market yield is higher than the rate paid by the borrower. The majority of the Corporation's guaranteed loans fall into the other category requiring "excess" interest payments to the federal government when the market yield is less than the rate paid by the borrower. In 2019, the Corporation paid $980,495 in excess interest to the federal government. Federal interest benefits represent subsidized interest the federal government paid to the Corporation -- interest not charged to the borrower. On page 7 of the report, Ms. Morrison pointed out that the Corporation received $4.1 million in claim payments from the federal government and had $47.4 million in guaranteed loans at year-end.

External Auditor - Ms. Karen Tarver provided the Independent Auditor's Report and outlined the requirements, responsibilities, work performed and opinions issued in her firm's role as an independent auditor. She summarized that the independent auditor's opinion is that the financial statement are presented fairly and in accordance with generally acceptable accounting principles.

Discussion: Ms. Demboski asked Ms. Morrison about the parameters for state loan forgiveness. Ms. Morrison responded that the parameters are in statute and Alaska loans with this provision were originated many years ago.

DIVIDEND

Ms. Morrison explained that AS 14.42.295 allows the Corporation to pay a dividend to the State of Alaska, if net income is equal to or in excess of $2 million. Since that was not the case this fiscal year, there is no dividend to be considered by the Board.

Mr. Donley moved that since the Corporation saw a financial loss this fiscal year, no dividend will be paid to the State of Alaska, in accordance with AS 14.42.295. The motion was seconded by Ms. Demboski. By roll call vote, all members present voted Aye. The motion carried.

INVESTMENT POLICY

Ms. Morrison reported that the Investment Policy requires an annual review by the Board and highlighted the minor proposed revisions. As written, no significant changes are being proposed to the policy this year. The primary change is the removal of reference to the 2012 indenture because the bonds under that indenture were paid off on June 1, 2019.

Mr. Donley moved to adopt the investment policy revisions as written. The motion was seconded by Ms. Demboski. By roll call vote, all members present voted Aye. The motion carried.

CHIEF FINANCE OFFICER REPORT

Ms. Morrison referenced her report, dated October 21, 2019, included in the Board member meeting packet. She reported a 12% increase in loan originations in fiscal year 2019 and a 4% decline so far this fiscal year compared to the same point in time last year. Refinance loans related to external debt were down 3% in fiscal year 2019, and volume is down 50% so far this fiscal year compared to this same point in time last fiscal year. Based on a cash flow analysis, and barring no change in the loan program, the Corporation will be able to originate loans with cash generated from the loan portfolio until early in 2025.

Pennsylvania Higher Education Assistance Agency (PHEAA) has been awarded the servicing agreement for the Federal Family Education Loan Program portfolio. The Corporation had an existing relationship with PHEAA and chose to invoke the backup serving agreement with PHEAA, rather than entering into a new servicing agreement and supplemental indenture. This will save $10,000 a year in fees because there was no requirement in the 2013 Indenture to name a new back-up servicer. The transition of the portfolio to PHEAA's servicing system is expected to be complete this winter.

Discussion: Ms. Demoski asked about the cause of the loan origination decline. Executive Officer Butler relayed that it was likely related to reduced enrollments at the University of Alaska. Mr. Weaver asked about the cause of the reduction in refinances from last year to this year. Executive Officer Butler stated that the bulk of the borrowers eligible have refinanced.

EXECUTIVE OFFICER REPORT

Executive Officer Butler noted her written report in the meeting packet. In addition to that report, she wanted to commend the staff for their work during this extremely busy and changing environment.

ADJOURN

Mr. Donley moved to adjourn. Ms. Demboski seconded the motion. There being no objection, and no further business to discuss by roll call vote, all members voted aye. The motion carried.

Approved by:

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Randy Weaver, Chair