
**MINUTES OF A MEETING OF
THE AUDIT COMMITTEE OF
THE MEMBERS OF THE HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI
ON MAY 23, 2008**

The Audit Committee of the Higher Education Loan Authority of the State of Missouri, a public instrumentality and body politic and corporate under the laws of the State of Missouri (the "Authority"), held a meeting on Friday, May 23, 2008 at 11:00 a.m. at the office of the Authority, located at 633 Spirit Drive in Chesterfield, Missouri. Proper notice of the meeting was forwarded to the State for publication, mailed and otherwise provided to the Audit Committee, posted at the office of the Authority and on the Authority's website in advance of and during the meeting and provided to certain other individuals. On a roll call of the meeting, the following members of the Audit Committee were found to be present in person unless otherwise stated:

Present

Dr. Robert Stein (by telephone)
Ms. Jennifer L. Kneib (by telephone)
Mr. W. Thomas Reeves

Absent

None

A quorum of the members of the Audit Committee was present for the purposes of conducting business. Present in person and representing the staff of the Authority were Mr. Raymond H. Bayer, Jr., Executive Director, Chief Executive Officer and Assistant Secretary; Mr. Scott D. Giles, Director of Finance/Chief Financial Officer; Mr. William C. Shaffner, Director of Business Development; Ms. Mary J. Stewart, Director of Loan Origination and Servicing; Ms. Susan B. Crump, Assistant Director of Administration; Ms. Jennifer Farmer, Assistant Director of Loan Servicing; Mr. Harry W. Lohse, Assistant Director of Information Systems and Information Security Officer; Mr. Andrew Helton, Assistant Controller; Ms. Jennifer DiGiacomo, Policy & Compliance Officer; Ms. Lisa Adams, Senior Manager of System Design and Support; Mr. Barry Usry, Senior Manager of Product Development; Ms. Janet Saulich, Internal Auditor; Dr. James L. Matchefts, General Counsel; Ms. Cheryl Stevens, Executive Assistant; and Ms. Joan Conway, Paralegal. Also present in person were Mr. Michael F. Lause of Thompson Coburn LLP, Special Counsel to the Authority; Mr. Dustin Allison of the Missouri Attorney General's Office; Mr. Harold Walton of Buckingham Asset Management; Mr. Al Sears of Buckingham Asset Management; Mr. John Noce of Bi-State Development Agency; and Mr. Steven Crump of Commerce Bank. Mr. Reeves acted as Chair of the meeting and Mr. Bayer acted as Assistant Secretary. Ms. Conway and Ms. Stevens of the Authority staff assisted Mr. Bayer in taking minutes of the meeting.

Call to Order and Approval of Minutes

The Chair called the meeting to order at approximately 11:00 a.m. and asked if there were any public comments. Visitors stated that they were present for the Board meeting to follow. The Chair stated that the next item was the discussion, consideration and vote on approval of the minutes of the Audit Committee (the "Committee") meeting of October 4, 2007. The Chair asked if there were any corrections or discussion. There being none, he called for a motion to approve the minutes. Dr. Stein moved, and Ms. Kneib seconded, a motion to approve the minutes of the Committee meeting of October 4, 2007 as drafted and presented. The Chair asked if there was any further discussion on the motion. There being none, he called for a voice vote on said motion and it was unanimously approved.

Audit Committee Charter

The Chair stated that the next item on the agenda was the discussion, consideration, and possible vote relative to expanding the Committee's Charter to include all of the Authority's finance matters and a change in name to the "Audit and Finance Committee".

Mr. Bayer stated that the original intent was for the Committee to take on responsibility for financial and audit issues; however the original charter was drafted too narrowly. He stated that the Committee currently reviews and makes recommendations for approval of the budget and other financial matters to the Members, which is essentially what the Committee was established to accomplish. Mr. Bayer stated that legal counsel has recommended that the charter be officially expanded to incorporate all functions.

Dr. Matchefts stated that the name change could be done by motion or by submitting to the Committee who would recommend to the Members at the next scheduled meeting. Dr. Stein moved to recommend approval to the Authority Members for formalizing the Committee's duties to include financial issues and to expand the name. Ms. Kneib seconded the motion. The Chair asked if there was any further discussion on the motion. There being none, he called for a voice vote on said motion and it was unanimously approved.

Deloitte & Touche Engagement Letter

The Chair stated that the next item on the agenda was the discussion, consideration and possible vote relative to the 2009 Deloitte & Touche LLP Audit Engagement Letter. Mr. Bayer stated the letter had not been forwarded to the Committee Members, as it had just been received 1.5 hours prior to the meeting. He stated that the Authority Members had previously expressed to management their expectation of maintaining a relationship with the Auditors, and that the Deloitte & Touche Audit Engagement Letter is to be signed by the Treasurer. Mr. Bayer stated that legal counsel would be reviewing the letter within the next two weeks, and would then provide recommendations regarding signing to the Treasurer for the upcoming audit in September, 2008.

Ms. Kneib questioned the length of time the current Auditors have been used by the Authority. Mr. Bayer stated that Deloitte & Touche LLP have been retained for approximately 10 years. Ms. Kneib questioned whether the Authority obtains several bids each year, and Mr. Bayer stated that bids are obtained every several years however; the Members had previously decided to maintain Deloitte & Touche LLP through this fiscal year. He stated that the Committee could at any time recommend to the full Board to direct management to proceed with a Request For Proposal (“RFP”). Mr. Giles stated the last RFP was done approximately three years ago with the intent that the Authority would maintain the selected firm for approximately three years. Mr. Bayer stated that service is important and that a firm should not be picked based on fees. Mr. Reeves stated that the management letter is pretty standard, and that it outlines management’s responsibilities and the auditor’s responsibilities and the scope of the audit. He stated it takes time for a firm to get up to speed with the responsibilities and scope of the audit.

Dr. Stein stated that it is a good standard practice to re-bid the process every few years. Mr. Bayer stated that management could put the bid process item on the agenda for the September meeting so the Members could instruct management on how to proceed. Dr. Stein questioned whether there is any downside of acknowledging at the June meeting that there is Committee agreement to recommend to the Members that consideration be given to an RFP process for the next year. Mr. Bayer stated that would be fine as management can proceed with an RFP, however only the Members can make a decision to change the auditors. The Chair stated the two issues are the engagement letter which is subject to legal review, and the clarification of the RFP process for the next rolling year. Mr. Lause stated that if the engagement letter is going to be signed before the next board meeting there should be a general approval subject to legal review. Dr. Stein stated that it is awkward for him and Ms. Kneib to participate without having the letter in front of them. The Chair stated that the letter would be forwarded to both Dr. Stein and Ms. Kneib today. The Chair called for a motion on the engagement letter. Dr. Stein moved, and Ms. Kneib seconded, a motion recommending that the Audit Committee Treasurer sign the engagement letter for this fiscal year, subject to legal review. The Chair asked if there was any further discussion on the motion. There being none, he called for a voice vote on said motion and it was unanimously approved.

Discussion Relative to Fiscal Year 2008 Year-to-Date Financial Statements

The Chair stated the next agenda item was the discussion and review regarding Fiscal Year 2008 year-to-date financial statements. Mr. Bayer stated that starting next year management will discuss the financial statements quarterly as there are numerous changes month to month which cause the monthly statements to be misleading. He stated that with the April 30th financials over the course of the month they are improving, and given the state of the industry the Authority is minimizing the damages. He stated that the Authority has year to date losses through April 1st of approximately \$5.2 million before one time items, and \$11.5 million after one time items. He stated the one time items are borrower benefits and some loan loss reserves that the Authority had taken aggressively early in the fiscal year. He stated the year to date loss is approximately

\$11.5 million. Mr. Bayer stated that the Authority is likely to break even for the fiscal year. He stated that the Authority will recoup some special allowance that the Department of Education was not previously billed for which will be a one time gain of approximately \$1 million. He stated that there is currently approximately \$20 million in arbitrage rebate liability, and that calculations are being done that will possibly offset half of the losses incurred over the last nine months by reversing the arbitrage rebate liability.

Ms. Kneib questioned whether management had heard any news regarding the situation with Sallie Mae. Mr. Bayer stated that he had participated in a nationwide conference call on Wednesday, May 21st and their CEO and chair spoke and discussed that Sallie Mae would continue to originate loans. He stated that Sallie Mae discussed at the meeting that they had intended to announce that they would discontinue making new student loans, however the Department of Education stepped in and offered to provide short term warehousing lines. The Chair asked if there was any further discussion on the current year to date financials. There being none, he stated we would move to the next agenda item.

Fiscal Year 2009 General & Administrative and Fixed Asset Budgets

The Chair stated that the next item on the agenda was the discussion, consideration and possible vote relative to the Fiscal Year 2009 Budget. Mr. Bayer stated that there are three budgets that presumably the Committee will review and recommend to the full board at the June 13th meeting. The Chair stated that this is an overview and that the 2009 Budget will show profit of approximately \$15 million. Dr. Smith questioned why the Lewis & Clark Discovery Initiative is not reflected in the budget. Mr. Bayer stated that it is in fact more of a distribution than a budget item.

Mr. Bayer stated that the Members had approved a budget of \$37.9 million last year; however, because of the dramatic changes management is presenting a proposed budget of \$29.7 million for Fiscal Year 2009. Mr. Bayer stated that he is pleased with the proposed budget because although it is reduced, management is cutting things that are non material, and the budget includes items that are investments into the future. He stated that at the end of the current fiscal year, and next fiscal year the Authority will invest approximately \$1 million into its disaster recovery center. He stated that the Authority should take possession of the back-up data center July 1st. The Chair stated that the investment in technology has proven to be one of the Authority's most competitive advantages.

The Chair asked for a motion to recess. Dr. Stein moved, and Mr. Reeves seconded, a motion recommending that the Audit Committee meeting go into recess. The Chair asked if there was any further discussion on the motion. There being none, he called for a voice vote on said motion and it was unanimously approved.

The Chair resumed the meeting at approximately 1:20 p.m. He confirmed that Ms. Kneib was no longer present at the meeting.

Dr Stein and Mr. Reeves agreed that the Committee is in agreement that the budget is ready to send to the full Board on June 13, 2008 for approval.

Bank of America Commercial Paper Conduit Resolution

The Chair stated that the next item on the agenda was the discussion, consideration and possible vote relative to renewing the \$500 million commercial paper conduit with Bank of America. Mr. Bayer stated that the Authority currently has this line of credit with Bank of America, however it expires July 24th. He stated that the Authority is currently in negotiations to renew the line of credit, and that it is critical that the Authority keep it open. He stated that last year this issue was proposed to the Members in June, and that management was advised to bring the issue to the Members earlier. He stated that the issue is being proposed to the Committee so that the Committee can consider it and make a recommendation to the Members at the June 13th meeting. Mr. Bayer stated that there really are not any other options in terms of lenders extending new lines of credit to entities such as the Authority. He stated that this resolution creates a new conduit, the existing conduit must be paid off, and that the cost will increase for the line of credit.

Mr. Giles stated that management has some preliminary negotiating figures from the Bank of America conduit which total 65 basis points compared to the current 25 basis points. He stated that Bank of America would structure the new line of credit as AAA rated as opposed to the current A rating, which is another reason the price is increasing. Mr. Giles stated that Bank of America would remove the ability for the Authority to finance 10% of the drawing with private alternative loans, but the Authority would be allowed to finance with post 10/01/07 loans which the Authority currently does not have. Mr. Giles restated that lenders are only working with existing clients and are not issuing new credit lines.

Dr Stein and Mr. Reeves agreed that the Conduit should be renewed. Dr. Stein moved and Mr. Reeves seconded a motion to approve the renewal of the conduit. The motion passed unanimously on a voice vote.

Bank of America \$300 Million Line of Credit Resolution


The Chair stated that the next item on the agenda was the discussion, consideration and possible vote relative to renewing the \$300 million line of credit with Bank of America. Mr. Bayer stated that this line of credit with Bank of America expires September 30th. He stated that the Authority does not have the funds to pay off this line of credit and that it needs to be renewed. He stated that management has been in discussions with Bank of America and has verbal commitments that they will renew it but, no pricing has been obtained. He stated that management will have pricing by the June 13th meeting and that it is currently at Libor + 33.

Mr. Reeves moved and Dr. Stein seconded a motion to approve the renewal of the conduit. The motion passed unanimously on a voice vote.

Other Matters and Adjournment

The Chair asked if there were any additional items and, hearing none, he asked if the Members or management had any reason to close the meeting and, hearing none, he called for a motion to adjourn. Dr. Stein moved and Mr. Reeves seconded a motion to adjourn which was unanimously approved by voice-vote. The meeting adjourned at approximately 2:00 p.m.

Approved:


Raymond H. Bayer, Jr.
Assistant Secretary