

Montana Family Education Savings Program (MFESP)

March 14, 2011

GSL Conference Room 201C - Helena, MT

9:00 - 11:00 a.m.

In Attendance:

Committee members: Jon Satre (Chair), Lynne Egan, Todd Buchanan (on phone), Robert Minto (on phone)

Public: Dan Davenport, College Savings Bank (CSB)

GSL/OCHE Staff: Bruce Marks, Robin Graham, Amy Berry, Sheila Newlun

1. Welcome and Introductions:

Jon welcomed everyone and determined a quorum was present.

Robert Minto **Motioned:** to approve the minutes from the last meeting, Lynne Egan seconded.

Vote: all in favor, none-opposed.

2. College Savings Bank update (see presentation handouts):

- Dan Davenport presented the update
 - The deposit base experienced a slight run-off, are currently at a break-even point compared to the date of transfer
 - Good feedback regarding customer service at CSB during the transfer especially, representatives are very knowledgeable and helpful
 - Lynne is no longer receiving the increased call volume, investor concern has quieted down substantially
 - CSB's financial statements (overview and thoughts)
 - Jon suggested MGSLP staff could do an analysis examining CSB financial statements; committee members felt this would be helpful information going forward, MGSLP agreed this could be compiled for future discussion
 - Contract with CSB expires in 2013, at which time an RFP will be issued.
 - Some concern regarding CSB securities and its investment strategies
 - Consensus that CSB is a very conservative company and is more stable and rated higher than the majority of banks (their risk capital is rated in the top 1/3 of banks)

3. InvestorSure CD:

- Montanans have invested in this product more than other states and hold the largest shares overall at CSB
- Other states that offered similar products (neither offered FDIC insurance) North Carolina and Oregon, both have cancelled their products primarily due to market volatility.
- CSB has issued 13 CD's within MFESP with a minimum participation rate of 85%, but as high as 100%
- Market conditions have changed drastically since the inception of the InvestorSure CD in 2007
- More than 300 InvestorSure account holders are currently enrolled in an automatic deposit program
- February originations were the highest in history, despite depositors being notified in January of the possible change to 70% Minimum Participation Rate (MPR), thus far, this does not appear to be a deterrent
 - Investors were notified by mail and it is posted on the website that the participation rate may be changing to 70% MPR.
- There was much discussion regarding the rate the bank purchases the Call option for the CD. If the participation rate is 85%, the bank purchases the Call option at 85%, they do not make a profit from purchasing at a lower rate. If they are able to purchase at 70% MPR, this will allow them to consistently break-even, which is in line with the strategies of CSB for this product
- Concern expressed by the committee members;
 - This product has been presented to investors as a safe investment by the Board of Regents (BOR), even some concern that it is pushed as the "preferred product"
 - Investors may be disappointed in the value once the CD matures especially if they don't fully understand how the value is determined, may need to prepare them prior to maturity
 - Would like to schedule an all-day retreat with all committee members present to discuss this product and others going forward (marketing etc...) and get feedback of what new products the members would like to explore, summer would probably work best

- Consensus that committee members are not pleased about recommending the BOR reduce the MPR. However, given the unusual economic times, the committee understands that InvestorSure must either be reduced to 70% or the product will be withdrawn by CSB (causing many other repercussions that would be detrimental to investors and would be very difficult to rebuild in the future)

Jon Motioned: to recommend the BOR lower the Minimum Participation Rate of the InvestorSure CD to 70%. The motion died for lack of a second.

Discussion: Committee is uncomfortable with simply adjusting the current program, would like to discontinue offering the InvestorSure at 85% MPR and then introduce the new InvestorSure at 70% MPR.

Bob Motioned: to recommend the BOR discontinue offering the InvestorSure CD at 85% MPR and reintroduce the InvestorSure CD at 70% MPR, Todd seconded.

Vote: all in favor, none-opposed.

- On a side note, Bob has investigated the Guaranteed Tuition Plan further, it does not appear to be a productive option especially in today's economy, with imminent increasing tuition costs, etc...

4. Legislature updates:

- HB582, a bill that would extend the Montana tax benefit to deposits made in any state, has been introduced, CSB will oppose the bill.
- The committee would like CSB to have written testimony as to the repercussions this bill would have on Montana investors and the program as a whole, Dan will compose
- MGSLP will update the committee at the next meeting (or before if the Bill is passed)

5. Next meeting:

- Legislature update
- InvestorSure CD discussion
- Amy will schedule late June or early July

Adjourned 11:00