STAFF SUMMARY RECOMMENDATION

Saint Mary's College of California

Resolution Number 2011-04

December 1, 2011

ISSUE: Saint Mary's College of California ("Saint Mary's") seeks Authority approval for a Cancellation Agreement relating to a financial guaranty insurance policy from MBIA Insurance Corporation ("MBIA") for the Saint Mary's College, Series 2007 Bond (the "Bonds") issuance. Concurrently with the request to approve the Cancellation Agreement, Saint Mary's is requesting to amend provisions of the First Amended and Restated Indenture and the First Amended and Restated Loan Agreement to remove certain covenants, implement certain changes consistent with the cancellation of the Policy and to provide for a remarketing of the Bonds following a mandatory tender, as described further below. As of October 31, 2011, $66,300,000 remains outstanding on the Bonds.

BACKGROUND: At the July 26, 2007 CEFA board meeting, the Authority approved Resolution No. 247, authorizing the issuance of tax-exempt revenue bonds in an amount not to exceed $75,000,000. The Bonds were issued as Auction Rate Securities insured by MBIA. Proceeds were used to fund several capital projects and to refund CEFA Series 2001A, Series 2001B and Series 2003 Bonds. On July 10, 2008, CEFA and Saint Mary's amended and restated the original Loan Agreement to effect a mode conversion and remarketing in response to interest rate increases caused by dramatic changes in the auction rate bond markets. At the time of the conversion, Saint Mary's entered into a Letter of Credit with Bank of America, N.A. The Authority approved Resolution No. 259 authorizing Saint Mary's to remarket the insured Bonds in the outstanding amount of $70,275,000.

In July of 2009, Saint Mary's requested amendments to the First Supplemental Amended and Restated Loan Agreement for the Bonds due to changes in the Uniform Prudent Management of Institutional Funds Act, which required Saint Mary's to modify classified unrestricted assets.

Saint Mary's is now requesting additional amendments to certain Bond documents to terminate the existing insurance policy with MBIA and eliminate the Unrestricted Net Assets Ratio covenant, which was required by MBIA as a condition of insuring the Bonds. These changes will require CEFA to amend the Indenture and the Loan Agreement and to enter into a Cancellation Agreement with respect to the MBIA policy. The amendments will not change the rating on the Bonds since the Bonds will continue to be enhanced by the direct pay Letter of Credit from Bank of America, N.A.

Pursuant to advice from the Attorney General's Office, the proposed amendments to the Indenture and Loan Agreement may be executed under the authority of the master delegation resolution pursuant to the terms of those documents. However, the master delegation resolution does not authorize the Executive Director to execute the Cancellation Agreement.

RECOMMENDATION: Staff recommends the Authority approve Resolution No. 2011-04 authorizing the execution of a Cancellation Agreement by and among CEFA, the National Public Finance Guarantee Corporation in its capacity as Administrator for MBIA, Saint Mary's College of California, Bank of America, N.A., as letter of credit bank, and Union Bank, N.A. as bond trustee relating to a financial guaranty bond insurance policy for the CEFA (Saint Mary's College) Series 2007 Bond issuance.