Subject: Regental Action Required Under the State of Michigan Conflict of Interest Statute

Action Requested: Authorization for the University to enter into an Agreement with the University of Michigan Credit Union (University of Michigan Employees Terry K. Adams, M. Robert Fraser, Karen L. Gibbons, Paul S. Kirsch and James W. Middlemas, Board Members)

Background:

The University of Michigan Ross School of Business seeks approval to enter into a program agreement for the University of Michigan Credit Union ("UMCU") to offer private educational loans to international MBA students. UMCU was selected over another competitive bid due to lower fees, financing rate and experience in student financing.

The proposed agreement falls under the State of Michigan Conflict of Interest Statute as Terry K. Adams, M. Robert Fraser, Karen L. Gibbons, Paul S. Kirsch and James W. Middlemas are University employees and would be party to the contract as board members of UMCU wherein Mr. Fraser, Ms. Gibbons and Mr. Middlemas are executive board members as Chair, Secretary and Treasurer, respectively. The Statute allows the University to enter into such contracts if the following conditions are met:

a) The public servant promptly discloses any pecuniary interest in the contract to the official body which has power to approve the purchase, which disclosure shall be a matter of record in its official proceedings.

b) The purchase is approved by a vote of not less than 2/3 of the full membership of the approving body in open session without the vote of the public servant making the disclosure.

c) The official body discloses the following summary information in its official minutes:

   i) The name of each party involved in the contract.

   ii) The terms of the purchase, including duration, financial consideration between the parties, facilities or services of the public entity included in the purchase, and the nature and degree of assignment of employees of the public entity for fulfillment of the purchase.

   iii) The nature of any pecuniary interest.

The following information is provided in compliance with the statutory requirements contained in Section (c) above:

i) The parties to the contract are the Regents of the University of Michigan and its Stephen M. Ross School of Business ("RSB") and the University of Michigan Credit Union ("UMCU").
ii) The one year agreement is for the UMCU to issue private educational loans to 1st and 2nd year international MBA students for the 2009-2010 academic year, and for the RSB to guarantee each student loan up to 85% of the loan amount. Line of credit limits will be $65,000 per student per academic year and may be adjusted as determined by the Financial Aid Office. The draw period will range from one to two years in order for 1st year students to complete the two-year program. The student loans will have a variable interest rate ranging from 4.5% to 18%, no origination nor prepayment fees and repayment terms of 20 years.

iii) The pecuniary interest arises from the fact that University of Michigan employees Terry K. Adams, Senior Research Associate in the ISR Survey Research Center, M. Robert Fraser, Assistant Director of the Mardigian Library in Dearborn, Karen L. Gibbons, Chief of Staff in the Office of the Provost, Paul S. Kirsch, Program Manager of the Zell Lurie Institute for Entrepreneurial Studies and James W. Middlemas, Senior Financial Manager in Student Financial Services, are board members of UMCU wherein Mr. Fraser, Ms. Gibbons and Mr. Middlemas are executive board members as Chair, Secretary and Treasurer, respectively.

Terry K. Adams, M. Robert Fraser, Karen L. Gibbons, Paul S. Kirsch and James W. Middlemas have met state law requirements with the disclosure of their pecuniary interests and formal appointment arrangements with the University of Michigan. Requirements, if any, that may be applicable under the Medical School’s or OVPR’s Conflict of Interest Committee’s procedures are separately analyzed and managed.

We recommend that the Board of Regents approve the agreement between the University of Michigan and the University of Michigan Credit Union, subject to requirements, if any, that either the Medical School’s or OVPR’s Conflict of Interest Committee may impose.

Respectfully submitted,

Timothy P. Slottow
Executive Vice President
and Chief Financial Officer

June 2009