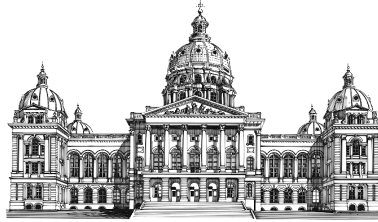

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State Capitol
Des Moines, IA 50319
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Iowa Student Loan Liquidity Corporation

ISSUE

This **Issue Review** provides information about the Iowa Student Loan Liquidity Corporation (Iowa Student Loan) and examines recent issues regarding the agency. Throughout this document, Iowa Student Loan (ISL) will be used to refer to the Corporation.

AFFECTED AGENCIES

Iowa Student Loan
College Student Aid Commission

CODE AUTHORITY

Sections 7C.4A(3), 261.1(5), and 261.38(5), Code of Iowa

BACKGROUND

In the late 1970s, Congress authorized states to designate a single state-based secondary market for student loans. Some states chose a state agency for this function, and others, including Iowa, chose to designate a private, nonprofit corporation for this purpose.

Iowa Student Loan (ISL) was established in 1979 by proclamation of Governor Ray. Iowa Student Loan is not a State agency and does not receive State funds. Iowa Student Loan is classified as an educational nonprofit corporation under the federal Internal Revenue Service (IRS).

While ISL is not a State agency, it does have ties to the State. The corporation bylaws require all 11 ISL board members to be appointed by the Governor. A listing of ISL Board members and who they represent is included as **Attachment A**. Board members receive a per diem and compensation for travel expenses that totals approximately \$6,000 per member annually. The Chairperson receives approximately \$13,625 annually.

Iowa Student Loan also has ties to the State through references in the Code of Iowa as follows:

- Section 7C.4A(3) – Permits 16.0% of the total State tax exempt bonds issued annually to be allocated for qualified student loan bonds issued by the Iowa Student Loan Liquidity Corporation (ISLLC). This allocation is for private activity bonds. These bonds are not considered a debt or liability to the State.
- Section 261.1(5) – Requires one of the members of the College Student Aid Commission to be a representative of the Iowa Student Loan Liquidity Corporation.

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- Section 261.38(5) – Permits the College Student Aid Commission to enter into agreements with ISL for the purpose of increasing access for students to education loan programs. Also, allows for the establishment, funding, and operation of alternative education loan programs. These alternative loans are typically referred to as “partnership” and “plus” loans. The language permits the ISLLC to issue bonds for funding the loans, but makes it clear that the bonds are not an obligation of the State.

The ISL main corporate office is located in West Des Moines and currently has approximately 375 employees. Iowa Student Loan also operates two College Planning Centers in separate smaller offices near the Jordan Creek Town Center in West Des Moines and near Lindale Mall in Cedar Rapids. The primary functions of ISL are loan servicing, processing, counseling, collections, and information technology.

ISL FINANCES

Iowa Student Loan currently has approximately \$3.0 billion in student loan receivables and a similar amount of long-term bonds outstanding. Copies of the ISL audited financial statements for the period ending June 30, 2006, are located on the web site at:

<http://www.studentloan.org/pdf/investors/2006-audited-financial-statement.pdf>.

Iowa Student Loan generates income from owning and servicing loans, mainly from interest earned on outstanding loans and from origination fees charged when loans are disbursed. Revenue, expenditure, and asset growth history for the last four years is illustrated in **Table 1** below.

Table 1

Iowa Student Loan Liquidity Corporation				
Years ended June 30				
(Dollars in Millions)				
	2006	2005	2004	2003
Operating revenues				
Investment income	\$ 31.1	\$ 9.8	\$ 6.2	\$ 4.7
Student loan interest income	181.0	127.0	91.7	84.4
Other student loan revenue	5.9	5.1	3.0	2.0
Other income	3.7	3.4	2.1	1.2
Total operating revenues	<u>\$ 221.7</u>	<u>\$ 145.3</u>	<u>\$ 103.0</u>	<u>\$ 92.3</u>
Operating expenses				
Interest on bonds & notes payable	\$ 130.5	\$ 57.9	\$ 27.6	\$ 28.2
Debt-related expenses	10.4	9.7	8.6	6.2
Loss on bond redemption	0.0	0.0	0.1	0.9
General and administrative	45.8	35.0	28.8	24.9
Provision for loan losses	12.7	6.5	4.1	3.2
Total operating expenses	<u>199.4</u>	<u>109.1</u>	<u>69.2</u>	<u>63.4</u>
Change in net assets	22.3	36.2	33.8	28.9
Net assets, beginning of year	223.5	187.3	153.5	124.6
Net assets, end of year	<u>\$ 245.8</u>	<u>\$ 223.5</u>	<u>\$ 187.3</u>	<u>\$ 153.5</u>

In FY 2006, ISL had revenues totaling \$221.7 million, with \$181.0 million (81.6%) from interest. Operating expenses for FY 2006 were \$199.4 million, resulting in operating income of \$22.3 million. Net assets have grown significantly, by 60.1% from FY 2003 to FY 2006.

Income received in excess of operating expenses is used to create reserves. A significant portion of ISL’s loan portfolio consists of alternative loans that are not guaranteed by the federal government. This requires a larger reserve because of the default risk for those loans.

Since ISL is not a government agency, the salaries of employees are not public information. However, as a private nonprofit corporation under IRS statute, the ISL corporation tax forms are

public information. The IRS forms require reporting of names and salaries of the highest paid staff. Management staff and salaries for the most recently completed tax year (2004-2005) include:

- Steve McCullough, President/Chief Executive Officer - \$207,000
- Walter Witthoff, Vice President/Compliance - \$128,000
- Mary Kay DeBolt, Vice President for Operations/Secretary - \$120,000
- Ron Foresman, Vice President for Finance/Treasurer - \$117,000

LOAN FORGIVENESS PROGRAMS

Since ISL is a nonprofit entity, one of the ways the Board has chosen to assist Iowa students is through loan forgiveness programs, specifically for teachers and nurses. These programs are not to be confused with similar State-funded programs offered by the College Student Aid Commission. The ISL loan forgiveness programs are intended to supplement the programs offered by College Aid. The ISL programs receive no State funds, and are funded from ISL's reserves. In both ISL programs, the benefit occurs through forgiveness of student loan principal once the borrowers have completed their degree and a specific period of work commitment in the affected shortage area. To take advantage of either of these forgiveness programs, the applicant's loans must be held by ISL. This means that graduates that attended direct loan schools (such as the Board of Regents universities) must consolidate their loans with ISL upon graduation to be eligible for the loan forgiveness.

Iowa Student Loan announced a multi-year commitment of \$10.0 million for teacher shortage loan forgiveness in September 2006. Details are available on the website:

<http://www.studentloan.org/special-programs/teacher/index.asp>.

The ISL multi-year commitment of \$8.0 million for nursing shortage loan forgiveness was announced in March of 2005. Details are available on the website:

<http://www.studentloan.org/special-programs/nursing/index.asp>.

MATCHING FUNDS FOR STATE-FUNDED TEACHER SHORTAGE LOANS

During the 2006 Legislative Session, HF 2527 (FY 2007 Education Appropriations Act) required the College Student Aid Commission to seek matching funds for the General Fund appropriation of \$285,000 for the Teacher Shortage Forgivable Loan Program. Legislators and the Commission anticipated these funds would be provided, as offered, by ISL. After the 2006 Session, it became apparent that ISL did not intend to provide a cash match, but rather a soft match, through loan forgiveness. However, the language in HF 2527 and the Department of Management required cash matching funds to be obtained prior to allocation of the General Fund appropriation. After some discussion, an agreement was reached between ISL and the Commission to provide the needed matching funds. The agreement involved ISL repurchasing \$500,000 of defaulted partnership loans that the Commission had previously purchased from ISL as an investment. The Commission then used \$285,000 of the funds received as a result of this transaction to provide the match needed to draw the General Fund appropriation for the Teacher Shortage Forgivable Loan Program.

RECENT ISSUES – OBSERVATIONS AND ALTERNATIVES

Public versus Private – Organization Issue

Some tension currently exists between ISL and the College Student Aid Commission (see **Attachment B** for a list of Commission members). This tension was apparent during a series of public telephonic and regular meetings of the Commission that occurred during the negotiation of the repurchase transaction that resulted in matching funds for the State-funded Teacher Shortage Loan Program. The underlying reasons for the tension seem to be twofold; public/private conflict issues and shared board members. Iowa Student Loan and the Commission have several joint

ventures and business dealings. However, Iowa Student Loan is a private non-profit corporation and therefore is not subject to the State open meetings law. In contrast, the Commission is a State agency subject to the open meetings law. The ISL Board and the Commission currently have three shared members (one is required by statute). However, the public/private aspect has recently caused some strain in communication between the two entities, particularly because the Commission must provide whatever information is requested, while ISL can choose what information will be shared.

Since ISL and the Commission collaborate on several endeavors through 28E agreements, the General Assembly may wish to review the organizational structure of both entities to determine if a conflict of interest exists and if action is required. If the General Assembly wishes to have more oversight of ISL, a clarification could be added to Chapter 8F, Code of Iowa, or this issue could be referred to the Legislature's joint Government Oversight Committee for further review.

Funding of Forgivable Loan Programs

Since ISL has indicated willingness to provide a significant amount of loan forgiveness for teachers and nurses, the General Assembly may wish to review the necessity of State funding for similar programs administered by the Commission. However, the General Assembly may also wish to direct the Commission and ISL to provide adequate promotion and information to assure that access to the ISL loan forgiveness programs is available to students that attend direct lending institutions.

ISL Profits

Iowa Student Loan has significant annual profits and net asset growth. The General Assembly may wish to consider requesting an independent review of the audited financial statements of ISL to determine if the nonprofit mission is being achieved. It may be possible that ISL could devote more retained earnings to Iowa students in the form of reduced fees and/or interest rates.

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Iowa Student Loan Board of Directors

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Waukee
Representing Iowa Savings Banks

Victoria Payseur, Vice Chair
West Des Moines
Representing Iowa Independent Colleges and Universities

Mary Ellen Becker
Oskaloosa
Representing Board of Regents

Catherine Beyerink
Sioux City
Representing Iowa Credit Unions

Tom Gronstal
Carroll
Representing Iowa Division of Banking

John Hartung
Indianola
Representing Iowa College Student Aid Commission

Laurie Hempen
New London
Representing the General Public

Patricia Keir
Davenport
Representing Iowa Community Colleges

Dolph Leytze
Independence
Representing Iowa Banks

John O-Byrne
Cresco
Representing Iowa Banks

Robert Sackett
Milford
Representing the General Public

Iowa College Student Aid Commission Members

Janet Adams, Chairperson
General Public
Webster City

Phillip Hall, Vice Chair
General Public
West Des Moines

Mary Ellen Becker
State Board of Regents
Ottumwa

Kay Beyerink
Iowa Student Loan
Sioux City

Royd Chambers
Iowa House of Representatives
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Tim Cole
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