

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation (ISLLC) For the fiscal year July 1, 2017 to June 30, 2018

Introduction

Pursuant to paragraph b, subsection 6, of Iowa Code Section 7C.13, the superintendent of banking is required to annually review the qualified student loan bond issuer's total assets, loan volume, and reserves, and its procedures to inform students about the advantages of loans available under Title IV of the federal Higher Education Act of 1965, as amended, for which the students may be eligible. The review shall also verify that the qualified student loan bond issuer issued bonds in accordance with Iowa Code Chapter 7C in conformance to the letter requesting approval of the governor as set forth in subsection 5, of Iowa Code Section 7C.13. Examiner Joseph Gordon was appointed by Superintendent Ronald L. Hansen to conduct the review.

Report of Total Assets, Total Liabilities, Loan Volume, Reserves and Affiliates

ISLLC provided audited financial statements dated June 30, 2018 (FY18) which the independent auditors' report noted presented fairly, in all material respects, the financial position of ISLLC as of that date.

As of June 30, 2018, total assets and total deferred outflows of resources* were \$1.55 billion. Total assets consisted primarily of net student loans receivable of \$1.25 billion and investments of \$198.52 million. Total assets and deferred outflows decreased \$86.87 million (5.32%) from June 30, 2017 (FY17). Cash and investments decreased \$44.10 million (18.08%) compared to FY17. Cash used for on-going operating expenditures, debt service, and loan funding exceeded student loan repayments, but that was offset by proceeds received through the issuance of new bonds and notes payable. Net student loans receivable decreased \$49.50 million (3.82%) compared to FY17. The decrease is primarily due to borrower cash receipts being in excess of loan additions and capitalized borrower interest. ISLLC purchased or originated \$104.2 million in student loans during FY18, which was a decrease from the \$125.8 million during the same period in FY17.

Government guaranteed loans made up 38.77% of the student loan portfolio with private loans being the remaining 61.23% at the end of FY18 compared to 42.18% government loans and 57.82% private at the end of FY17. Federally insured student loans currently carry a 97% guaranty of the principal and interest on loans disbursed after July 1, 2006, while there is no guaranty for private loans. ISLLC management periodically reviews the student loan portfolio performance and evaluates the probability of losses to determine its allowance for loan loss reserve (ALL). The ALL evaluation on the federally insured loan portfolio is conducted separately from the private loan portfolio. ISLLC considers a private loan to be in a default status when it reaches 120 days delinquent. For defaulted loans, a 100% allowance is applied to the outstanding principal balance for the allowance calculation. A private loan is charged-off when the loan reaches 270 days delinquent without any principal or interest payment activity during

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer

Iowa Student Loan Liquidity Corporation (ISLLC)

For the fiscal year July 1, 2017 to June 30, 2018

the previous 12 months. ISLLC established a loan loss reserve of 0.09% on the government portfolio (\$0.45 million) and 2.04% on the private portfolio (\$15.76 million) in FY18. At the end of FY17 the loan loss reserve for government loans was \$0.83 million (0.15%) and \$17.51 million (2.30%) for private loans.

ISLLC had cash deposits of \$1.31 million, which were covered by federal depository insurance or collateralized trust accounts. Investments of \$198.52 million included \$11.53 million of corporate notes/bonds and \$186.99 million of money market mutual funds investing in United States government and agency obligations.

Total liabilities decreased \$71.70 million (6.77%) as compared to FY17 with debt activity making up most of the change. Bond and note maturities totaled \$232.3 million and were offset by the issuance of bonds and notes payable totaling \$156.2 million resulting in a net debt decrease totaling \$75.4 million.

Deferred inflows of resources*, which includes refundable origination fees and deferred gains on refunded debt activities, decreased \$18.10 million (28.22%) compared to FY17. The refundable origination fee decrease of \$0.2 million is primarily due to normal amortization. The decrease of \$17.9 million in deferred gain on refunded debt activity includes amortization and is based on changes in applicable outstanding debt.

ISLLC's net position (similar to the net worth of a for-profit company) at the end of FY18 was \$512.83 million, a \$2.93 million (0.57%) increase from FY17.

Total operating revenues for FY18 totaled \$72.51 million, an increase of \$7.03 million (10.69%) from FY17. Investment income increased \$0.64 million (30%) compared to FY17. Most of the increase is attributable to improved investment yields. Student loan interest income increased \$5.72 million (9.95%) compared to FY17. ISLLC's average owned outstanding student loan portfolio decreased \$79.2 million (5.23%) in FY18. This outstanding balance decline and impacts to student loan interest income was offset by better yields (an average increase of 57 bps). Borrower interest allowance adjustments on defaulted private loans reduced student loan interest income by \$3.1 million in FY18.

Total operating expenses for FY18 increased \$7.49 million (12.06%) over FY17 totals. Total interest expense on bonds and notes payable during FY18 increased \$3.55 million (10.83%) from FY17. Average debt outstanding decreased from FY17 to FY18 by \$60.0 million (5.52%). This was offset by increased debt yields during FY18 of 53 bps and contributed to increased debt interest expense. Debt-related expenses decreased by \$1.1 million in FY18 compared to FY17 amount. Most of this decrease relates to lower cost of issuance expense incurred during FY18 compared to FY17 due to new debt. The provision for loan losses, related primarily to private loans, increased \$0.3 million in FY18 when compared to FY17.

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation (ISLLC) For the fiscal year July 1, 2017 to June 30, 2018

With a \$512.83 million total net position, loan loss reserves of \$16.22 million and an investment policy requiring cash deposits to be back by federal depository insurance or collateralized trust accounts, investments only in U.S. government/agency obligations, highly rated corporate notes and commercial paper, it appears ISLLC has adequately protected the organization's assets from potential future losses.

Aspire Resources, Inc. (ARI), a wholly owned for profit subsidiary of ISLLC, was incorporated in 2001 to provide services not related to ISLLC nonprofit purpose. ARI has developed systems and procedures for loan origination and disbursement related processes including the functions of electronic data transmissions management, Web reporting, loan information delivery, and centralized loan disbursement services. ARI also provides on-going portfolio servicing for student loan portfolios. ARI's board of directors is appointed by the board of ISLLC but operates independently with members who are not members of ISLLC's board. ARI and ISLLC share operating costs with interfund payables/receivables reflecting the net activity associated with the shared services.

ARI is reported as a discretely presented component unit of ISLLC. Total assets for FY18 were \$44.58 million, total liabilities \$8.66 million and net position \$35.92 million. For FY18 total operating revenues were \$19.59 million and total operating expenses \$18.99 million, which resulted in a net income of \$603,557.

Aspire Resources Inc. (ARI), a discretely presented component unit, had \$25.56 million invested in United States agency obligations and \$184,480 in money market mutual funds investing in United States government and agency obligations.

At the end of FY18 ARI was servicing 385,906 student loans with an outstanding principal balance of \$2.69 billion.

* The Governmental Accounting Standards Board (GASB) defines deferred outflows of resources as a consumption of net assets that is applicable to a future reporting period and deferred inflows of resources as an acquisition of net assets that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position that is similar to assets, but are not assets, and likewise deferred inflows of resources have a negative effect on net position, but are not liabilities. Thus, the GASB requires them to be identified separately from the assets and liabilities.

Review of Procedures to Inform Students of Advantages of Title IV Loans

ISLLC has established adequate procedures to inform students about the advantages of loans for which the students may be eligible that are available under Title IV of the Federal Higher Education Act.

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation (ISLLC) For the fiscal year July 1, 2017 to June 30, 2018

ISLLC's online applications for private loans provide information on different federal loan programs that should be considered before applying. To determine eligibility applicants are directed to contact their school's financial aid office or the Department of Education at www.federalstudentaid.ed.gov. Students and parents are encouraged to exhaust all available federal financial aid before seeking a private loan.

Disclosures given at the time a student or parent applies for a private student loan include extensive information about the cost of guaranteed student loans versus private student loans. In addition, the loan programs are described as supplements to – not replacement of – federal, state, or institutional sources of funding for education costs.

Verification of Compliance with Tax-exempt Bond Issuing Requirements

ISLLC issued \$75.71 million in tax-exempt bonds on May 2, 2018 of the fiscal year under review. The total issuance was conducted in two segments because of an initial 2017 year-end tax reform concern, which did not materialize. A verification review was conducted to ensure that ISLLC complied with Iowa Code Section 7C.13 requirements with the findings as follows.

As required by Iowa Code Section 7C.13, subsection 2, ISLLC submitted an annual report to Governor Reynolds, members of the general assembly and the auditor of state by January 15, 2018. The report was a comprehensive summary of the activities ISLLC undertook in fiscal year 2017 (FY17) to fulfill its nonprofit mission of providing the resources necessary for students to succeed in postsecondary education.

Iowa Code Section 7C.13, subsection 5, requires ISLLC to maintain open records for consideration of tax-exempt bonds. The records must be available to the public and consist of a) minutes of the meetings conducted in accordance to the issuance of tax exempt bonds; b) the data and written views or arguments submitted in accordance with the public hearing related to the tax exempt bond issuance; c) the letters seeking approval from the governor for issuance of tax-exempt bonds; and d) the published official statement of the tax-exempt bond issue.

The Tax-exempt Bond Issuance Committee (TEBI) of the Board of Directors met via telephone on December 4, 2017, to review and discuss initial information regarding a proposal to issue approximately \$49.71 million in Iowa Student Loan Liquidity Corporation Tax Exempt Student Loan Revenue Bonds and provide for a public hearing. Minutes from the meeting indicated that it was called to order at 4:00 p.m. Discussion concluded with a call from the Chairman for a motion to approve a resolution to proceed with the issuance of the tax-exempt bonds and a direction to hold a public hearing. A motion and second was made for approval of the resolution and it passed unanimously. The meeting was adjourned at 4:14 p.m.

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer

Iowa Student Loan Liquidity Corporation (ISLLC)

For the fiscal year July 1, 2017 to June 30, 2018

In compliance with Section 7C.13, subsection 3, ISLLC provided minutes of the Board of Directors open meeting held via telephone on December 21, 2017. Minutes from the meeting indicated that it was called to order at 10:32 a.m. Because the sole agenda item of the meeting was the issuance of tax-exempt bonds, it is subject to the open meeting and open records provisions of the Iowa Code and in accordance with Section 7C.13 of the Iowa Code, the staff was directed to retain said minutes to comply with State law. The meeting agenda was distributed via email to past attendees, posted on the corporate website, and a paper copy was posted to the front door of the Corporation. The bond issuance was described and the TEBI Committee recommendation for Series 2017-C Bonds was reviewed. A motion to approve the Committee's ratification was seconded and unanimously approved. The Chairman then called for a motion to approve the final bond resolution. The Resolution was authorizing the issuance by ISLLC of Student Loan Revenue Bonds, in one or more series, in an Aggregate Principal Amount of not to exceed \$49,710,000 (the "Series 2017-C Bonds"). A motion to approve the resolution was made, seconded and approved unanimously. The board meeting call was adjourned at 10:43 a.m.

As mandated by Section 7C.13 of the Code of Iowa and Section 147(f) of the Internal Revenue Code, ISLLC held a public hearing under the Tax Equity and Fiscal Responsibility Act (TEFRA) on December 27, 2017. Minutes from the meeting indicated that it was called to order by the Chair of the Board of Director's TEBI Committee at 10:03 a.m. Official notice of the hearing was published in the Des Moines Register on December 13, 2017. The hearing was to present information regarding the issuance of tax-exempt Student Loan Revenue Bonds, 2017-C Series in an aggregate principal amount not to exceed \$49,710,000 all of which will use private activity cap allocation. A statement from the President included key reasons why ISLLC was pursuing the bond issuance along with the uses of the bond proceeds. A written endorsement from the President of the Iowa Association of Independent Colleges and Universities was also entered into record by the Corporate Secretary and Open Records Administrator. It was verified that no other member of the public had arrived and that no other public comments had been submitted in writing before, during or after the hearing. The hearing was adjourned at 10:11 a.m.

As mandated by Section 7C.13 of the Code of Iowa and Section 147(f) of the Internal Revenue Code, ISLLC held a public hearing under the Tax Equity and Fiscal Responsibility Act (TEFRA) on May 2, 2018. Minutes from the meeting indicated that it was called to order by the Chair of the Board of Director's TEBI Committee at 10:32 a.m. Official notice of the hearing was published in the Des Moines Register on April 17, 2018. The hearing was to present information regarding the issuance of tax-exempt Student Loan Revenue Bonds, 2018A Series in an aggregate principal amount not to exceed \$26,000,000 all of which will use private activity cap allocation. A statement from the President included key reasons why ISLLC was pursuing the bond issuance along with the uses of the bond proceeds. A written endorsement from the President of the Iowa Association of Independent Colleges and Universities was also entered into record by the Corporate Secretary and Open Records Administrator. The Chair recapped the

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation (ISLLC) For the fiscal year July 1, 2017 to June 30, 2018

hearing and it was verified that no other member of the public had arrived and that no other public comments had been submitted in writing before, during or after the hearing. The hearing was adjourned at 10:41 a.m.

In compliance with Section 7C.13, subsection 3, ISLLC provided minutes of the Board of Directors open meeting held via telephone on May 2, 2018. Minutes from the meeting indicated that it was called to order at 11:01 a.m. Because the sole agenda of the meeting was the issuance of tax-exempt bonds, it is subject to the open meeting and open records provisions of the Iowa Code and in accordance with Section 7C.13 of the Iowa Code, the staff was directed to retain said minutes to comply with State law. The meeting agenda was distributed via email to past attendees, posted on the corporate website, and a paper copy was posted to the front door of the Corporation. It was noted that nobody provided notice of attending, nobody was in the board room and nobody was on the phone. The Chair of the TEBI Committee called for a motion to approve the final bond resolution for Bond Series 2018A, as recommended by the Committee. The Resolution was authorizing the issuance by ISLLC of Student Loan Revenue Bonds, in an Aggregate Principal Amount of not to exceed \$75,710,000 (the "Series 2018A Bonds"), which is the total from the December 27, 2017 (\$49.71 million) and May 2, 2018 (\$26.00 million) TEFRA hearings. A motion to approve the resolution was made, seconded and approved unanimously. The board meeting call was adjourned at 11:06 a.m.

The Governor of the State of Iowa approved the issuance of the Bonds on May 2, 2018.

Respectfully submitted,



Joseph T. Gordon, Examiner-in-Charge



Ronald L. Hansen, Iowa Superintendent of Banking

January 7, 2019
Date