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, 2019 to June 30, 2020

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 Jeff Plagge to conduct the review.

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

ISLLC provided audited financial statements dated June 30, 2020 (FY20) 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, 2020, total assets and deferred outflows of resources* were $1.31 billion. Total assets consisted primarily of net student loans receivable of $975.7 million and investments of $250.0 million. Total assets and deferred outflows decreased $24.8 million (1.86%) from June 30, 2019 (FY19). Cash and investments increased $137.3 million (119.70%) compared to FY19. Cash provided by student loan payment collection activities exceeded cash used for operations and loan funding. This was partially offset by net debt service expenditures exceeding proceeds from note and bond issuances. Total use of cash for debt pay down totaled $225.2 million. Note and bond proceeds totaled $185.3 million.

Net student loans receivable decreased $156.8 million (13.85%) to $975.7 million compared to $1,132.5 million in FY19. The decrease is primarily due to borrower cash receipts in excess of loan additions and capitalized borrower interest. ISLLC purchased or originated $70.8 million in student loans during FY20, a decrease from the $111.7 million during the same period in FY19. The in-school loan product was the biggest component of new volume at $43 million. Loan refinance and the purchase of outside student loan portfolios made up the rest of the new volume amount. Accrued interest receivable decreased $0.8 million (2.91%). A total decline in investments and student loan receivable balances along with a drop in interest rates contributed to the decline in accrued interest receivables. This was offset partially by a drop in collected interest towards year-end due to an increased use of deferments and forbearances on the student loan portfolio.

Government guaranteed loans made up 39.15% of the student loan portfolio with private loans being the remaining 60.85% at the end of FY20 compared to 37.71% government and 62.29% private at the end of FY19. 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 or greater. For defaulted loans, a 100% allowance is applied to the outstanding principal balance for the allowance calculation less a future recovery factor for certain loan types. For all other nondefaulted private loans a net allowance percentage based on historical experience is applied to the outstanding principal balance. A private loan is charged-off when the loan reaches 270 days delinquent without any principal or interest payment activity during the previous 12 months. ISLLC established a loan loss reserve of $0.41 million (0.11%) on the government portfolio of $386.63 million and $11.45 million (1.91%) on the private portfolio of $600.53 million) in FY20. At the end of FY19 the loan loss reserve for government loans was $0.44 million (0.10%) and $15.19 million (2.12%) for private loans.

On June 30, 2020, ISLLC had cash deposits of $1.99 million, which were covered by federal depository insurance or collateralized trust accounts. Investments and cash equivalents of $250.0 million included $8.1 million of corporate notes/bonds; $26.1 million U.S. government obligations and $215.8 million of money market mutual funds investing in United States government and agency obligations.

Total liabilities decreased $12.90 million (1.64%) as compared to FY19 with debt activity making up most of the change. Bond and note maturities totaled $195.9 million and were partially offset by the issuance of notes and bonds payable totaling $183.6 million.

Deferred inflows of resources*, which includes refundable origination fees and deferred gains on refunded debt activities, decreased $4.3 million (14.19%) compared to FY19. The refundable origination fee decrease was minimal and primarily due to normal amortization and changes due to early loan payoff activity. ISLLC does not charge a fee on newly originated loan volume. The decrease of $4.1 million in deferred gain on refunded debt activity 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 FY20 was $508.0 million, a $7.6 million (1.47%) decrease from FY19.

Total operating revenues for FY20 were $67.5 million, a decrease of $7.3 million (9.76%) from FY19. Investment income remained flat in FY20 compared to FY19. Student loan interest income decreased $9.0 million (13.85%) compared to FY19. ISLLC's average owned outstanding student loan portfolio decreased $134.3 million (9.97%) in FY20. Overall reduced student loan yields (an average decrease of 20 bps) contributed to a lower student loan income amount. Borrower interest allowance adjustments on defaulted private loans also reduced student loan interest income by $2.7 million in FY20.

Total operating expenses for FY20 were $75.1 million, an increase of $3.1 million (4.31%) from FY19 totals. Total interest expense on bonds and notes payable during FY20 decreased $8.7 million (23.08%) from FY19. Average debt outstanding decreased from FY19 to FY20 by $81.8 million (8.97%). A reduction in variable rate debt yields contributed to a reduced debt interest expense. Debt-related expenses increased in FY20 by $1.7 million compared with the FY19 amount. Most of this relates to increased cost of issuance expense incurred during FY20 compared to FY19 due to more new debt issuances.

With a $508.0 million total net position, loan loss reserves of $11.86 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 process including the functions of electronic data transmissions management, web reporting, loan information deliver, 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 FY20 were $42.9 million, total liabilities $4.7 million and a net position $38.2 million. For FY20 total operating revenues were $19.93 million and total operating expenses $18.63 million, resulting in a net income of $1.3 million.

In addition to $8.7 million in cash, ARI had $25.53 million invested in United States agency obligations and $1.9 million in money market mutual funds investing in United States government and agency obligations.

At the end of FY20, ARI was servicing 286,313 student loans with an outstanding principal balance of $2.15 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 offers private loans for students and parents or family members who want to borrow to help their student with college costs. In addition, refinance loans are available for people who are repaying one or more existing student loans. ISLLC has established procedures to inform borrowers about the advantages of loans for which the students may be eligible that are available under Title IV of the Federal Higher Education Act.

ISLLC's online application site contains the statement that "the suite of Partnership Loan products and College Family Loans are designed to supplement -not replace- other sources to fill funding gaps for students and parents. Students and parents should work with financial aid professionals at their respective colleges and universities to explore and exhaust all sources of student financial aid before seeking a private loan". In addition, the 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. The selected loan program is described as a supplement to, not replacement of, federal, state, or institutional sources of funding for education costs.

Verification of Compliance with Bond Issuing Requirements

ISLLC issued $143.74 million in bonds in October of the fiscal year under review. The bond issuance was comprised of $92.74 million tax-exempt bonds and $51 million taxable bonds. A verification review was conducted to ensure that ISLLC complied with Iowa Code Section 7C.13 and the open meeting and open records provisions of the Iowa Code. The findings are as follows.

As required, ISLLC submitted their annual report to the Governor, members of the general assembly and the auditor of the State of Iowa by January 15, 2020. The report was a comprehensive summary of the activities ISLLC undertook in fiscal year 2019 (FY19) to fulfill its nonprofit mission of providing the resources necessary for students and parents to succeed in postsecondary education.

To comply with procedures 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) to gather public input about ISLLC's planned use of tax-exempt bond proceeds. Minutes from the hearing indicated that it was called to order at 1:00 p.m. on September 24, 2019 by the Chair of the Board of Director's Tax-exempt Bond Issuance Committee (TEBI Chair). Official notice of the hearing for ISLLC's Student Loan Revenue

Bonds appeared on the front page of its website www.iowastudentloan.org on September 10, 2019.

The hearing presented information on the proposed issuance of tax-exempt Student Loan Revenue Bonds, Series 2019 B and C, in an aggregate principal amount not to exceed $110 million, all of which will use private activity cap allocation. The President and CEO of ISLLC provided a statement on the rational for additional financing along with a detailed commentary on 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. After verifying there were no other comments or written statements the TEBI Chair recapped the events of the hearing. The hearing was adjourned at 1:15 p.m.

It should be noted that the website posting mentioned above is a change from previous years due to a recent amendment to the law. ISLLC did provide an affidavit from the Chief Technology Officer of Page Vault Inc., certifying the technology company captured the official notice in a manner that preserves and accurately portrays it as of the date of the capture.

In compliance with Section 7C.13 the Tax-exempt Bond Issuance Committee of the ISLLC Board of Directors met via telephone on September 24, 2019 to summarize and seek approval of the bond issue. Minutes show the meeting was called to order at 1:16 p.m. and a roll call conducted. Six board members, seven corporate staff members, and two others were present. In summary, the $170 million proposed bond issue would include 3 series. One series will be a taxable issuance for $60 million and the other two will be tax-exempt issuances totaling $110 million. Following the summary, the TEBI Chair called for a motion on a resolution authorizing the issuance by ISLLC of Student Loan Revenue Bonds, in an Aggregate Principal Amount of not to exceed $170,000,000 (the "Series 2019 Bonds"), Approving a General Indenture, a First Supplemental Trust Indenture, a Preliminary Official Statement, an Official Statement, a Tax Agreement, a Bond Purchase Agreement, a Continuing Disclosure Agreement, the Series 2019 Bonds, and other matters. A motion and second was made for approval of the resolution and it passed unanimously. With no further business the committee meeting was adjourned at 1:25 p.m.

Complying with Section 7C.13, ISLLC provided minutes of the Board of Directors open meeting held via telephone on September 24, 2019. The Board Chair called the meeting to order at 1:32 p.m. and asked for a roll call. Eight board members, seven corporate staff members and one guest were present. The Board Chair opened the meeting by stating "Because today's agenda includes the subject of issuance of tax-exempt bonds, this meeting is subject to the open meeting and open records provisions of the Iowa Code, in accordance with Section 7C.13 of the Iowa Code. Staff will retain the minutes of this meeting in accordance with the board's policy and procedures to comply with this section of State law". A member of corporate staff was asked to describe how the meeting was noticed. It was stated the meeting agenda was distributed via email to past attendees, posted on the corporate website, www.iowastudentloan.org, and a paper copy posted to the front door of the Corporation. It was noted that nobody provided notice of attending, nobody else was in the board room and nobody was on the telephone.

The Chair of the TEBI Committee provided a brief review of the TEFRA Hearing and TEBI Committee calls held earlier in the day. The Board Chair called for a motion to approve the final bond resolution for Bond Series 2019, as recommended by the TEBI Committee earlier in the day. The Resolution authorized the issuance by ISLLC of Student Loan Revenue Bonds, in an Aggregate Principal Amount of not to exceed $170,000,000 (the "Series 2019 Bonds"), Approving a General Indenture, a First Supplemental Trust Indenture, a Preliminary Official Statement, an Official Statement, a Tax Agreement, a Bond Purchase Agreement, a Continuing Disclosure Agreement, the Series 2019 Bonds, and other matters. A motion to approve the resolution was made, seconded, and approved unanimously. The board meeting was adjourned at 1:37 p.m.

On September 25, 2019, the Governor of the State of Iowa approved the issuance of ISLLC's tax-exempt Student Loan Revenue Bonds 2019 B and C Series in an amount not to exceed $110,000,000.

Respectfully submitted,

Joseph T. Gordon

Joseph T. Gordon, Examiner-in-Charge

Jeff Plagge

Jeff Plagge, Iowa Superintendent of Banking

1-15-21

Date