

New Challenges, New Solutions

Helping Iowa Students and Families in Changing Times



2009 Year in Review



New Challenges, New Solutions

Gov. Culver, State Auditor Vaudt and members of the Iowa General Assembly:

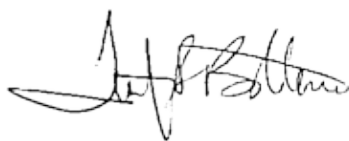
In 2009, Iowa Student Loan® experienced many transitions — from having several new board members appointed and implementing better ways of doing business to adapting to federal legislative changes. But one thing has remained constant, and that's the focus on our nonprofit mission to provide Iowa students and families with the resources necessary to succeed in postsecondary education. As part of that focus, we strive to provide Iowans access to competitive college financing options, student assistance programs and high-quality local customer service.

Oftentimes, with changes come challenges. This report details some of the challenges in 2009, but it also highlights a rewarding year marked by several accomplishments. The hard work of my fellow board members, the Iowa Student Loan staff and our external partners has resulted in successes that benefited Iowans on several fronts, including:

- ▶ **Welcoming new leadership.** In January, I and five others were appointed to the Iowa Student Loan board of directors. We immediately educated ourselves about the organization and held a strategic planning session with the organization's continuing board members. Ideas about how to best assist Iowans that came out of that session set the tone for the rest of the year.
- ▶ **Ensuring college access.** Despite ongoing financial market challenges, Iowa Student Loan ensured Iowans had access to federal student loans by utilizing available federal financing programs. Iowa Student Loan also became one of only a few state-based nonprofits across the nation to successfully issue bonds to restart a modest supplemental private student loan program — Partnership Advance Education LoanSM. The program offers private student loans with competitive, fixed-rate transparent terms to Iowans who need such funding to stay in college.
- ▶ **Promoting responsible borrowing.** Iowa Student Loan remained focused on providing Iowa students and families with the information they need to make responsible borrowing decisions. In 2009, Iowa Student Loan expanded upon its borrower disclosures, notifications and educational resources in an effort to further counsel students about their personal debt loads. Educating students and families about how to reduce their use of student loans through budgeting and using other sources, such as scholarships, grants and work-study, to pay for college has become an even greater need in this challenging economy.
- ▶ **Supporting college planning and work force initiatives.** Iowa Student Loan continued to provide needed funding for outreach and college planning services through the Iowa College Access Network® (ICAN), while implementing an independent governance structure for ICAN. The Iowa Student Loan Nursing and Teacher Education Loan Forgiveness Programs continued to support the state's workforce and economic development goals by surpassing more than \$1.5 million in student loan debt forgiven in 2009.
- ▶ **Offering outstanding customer service.** Iowa Student Loan staff takes great pride in the top-notch local customer service it provides to nearly 240,000 fellow Iowans. In 2009, we maintained competitive borrower benefits while helping to counsel borrowers through successful repayment and default aversion in these unprecedented economic times. As always, we continued to safeguard borrower information and provide training opportunities to college financial aid officers.
- ▶ **Guiding students toward success.** Early in 2009, the board charged task forces with reviewing and providing recommendations on two topics — student debt levels in Iowa and the organizational structure of ICAN. We completed recommendations regarding changes to ICAN's organizational structure, and we will work in 2010 to continue addressing student indebtedness in Iowa.

As we contemplate the future, it is clear more changes in student lending and student aid programs lie ahead and that ongoing economic and credit market challenges will persist. It is my expectation that we will adapt to those changes to make certain that Iowans continue to have the needed support to succeed in college for many years to come.

Sincerely,



Tim Bottaro
Board Chairman

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Mission

To help students and parents obtain the resources necessary to succeed in postsecondary education.

Nonprofit Purpose

Iowa Student Loan is a nonprofit corporation that has no shareholders and pays no dividends. Instead Iowa Student Loan reinvests excess revenues over expenses, beyond the funding of required reserves, to benefit Iowa students and the people of Iowa in ways consistent with its mission.

For tax purposes, Iowa Student Loan has a tax-exempt status as a not-for-profit educational organization under section 501(c)(3) of the federal Internal Revenue Code.

Welcoming New Leadership

Board Members Accept Mission to Help Students

Gov. Chet Culver's January 2009 appointment of six new directors brought new perspectives to the Iowa Student Loan board. The new members are leaders in their communities and have valuable experience in banking, consumer affairs, government and regulatory affairs, education, business or law. They worked with reappointed directors to guide the organization in setting new standards in the changing economy.

As of Dec. 31, 2009, the Iowa Student Loan board members were:

- ▶ Timothy Bottaro*, chairman of the board, attorney in general practice in Sioux City.
- ▶ J. Marc Ward*, vice chairman of the board, attorney in general practice in Des Moines.
- ▶ Catherine (Kay) E. Beyerink, chief executive officer of Telco Triad Community Credit Union in Sioux City.
- ▶ Laurie Hempen, director of human resources for the Burlington School District in Burlington.
- ▶ Christine Hensley*, vice president of regional community affairs at Bank of the West in Des Moines.
- ▶ Dr. Tahira K. Hira*, professor of personal finance and consumer economics at Iowa State University in Ames.
- ▶ Tony Kaska*, president and chief executive officer of Midwest Heritage Bank in West Des Moines.
- ▶ Dr. Patricia Keir, chancellor of Eastern Iowa Community College in Davenport.
- ▶ John O'Byrne, retired after 21 years as president of Cresco Union Savings Bank in Cresco.
- ▶ Robert Wilson "Bill" Sackett, attorney in general practice in Okoboji.
- ▶ Frank Thomas*, retired as senior counselor after 18 years with Grinnell College in Grinnell.

(* appointed in 2009)

The board immediately helped the organization continue to address challenges being faced by Iowa students and families in these turbulent economic times. For example, a few weeks after being appointed, board members held a two-day strategic planning session where they reaffirmed the nonprofit mission — to help Iowa students and families obtain the resources necessary to succeed in postsecondary education.

The board also adopted five priority goals:

1. Provide Access to College
2. Supply Affordable and Appropriate Student Loans
3. Help Borrowers Repay Their Loans
4. Keep Loan Customer Service Local
5. Reinvest Earnings in Iowans

Part of the board's responsibilities is to elect its own officers. The board fulfilled this obligation at the start of the 2010 fiscal year by conducting officer elections. Bottaro was elected to serve as the board's new chairman and Ward as the new vice chairman. As chairman, Bottaro then appointed committee chairs — Hensley was selected to chair the community relations committee, O'Byrne the finance committee, Beyerink the audit committee, Hempen the human resources committee and Keir the tax-exempt bond committee.

Other board members were tapped to help oversee discussion on particular issues of interest to the board. For example, Hira assumed the lead role on student indebtedness issues and Thomas agreed to lead discussion about the future organizational structure of the Iowa College Access Network® (ICAN).

Ensuring College Access

Overcoming Financial Factors to Provide Federal Student Loans

In 2009, as in the previous year, the turbulence in national financial credit markets greatly impacted the availability of resources to fund student loans. Traditional bond market financing for federally guaranteed loans — upon which student borrowers relied the most — remained unavailable. Fortunately, action by Congress in 2008 provided backup financing options through the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), the U.S. Department of Education (ED) Participation and Put programs, and other programs.



Iowa Student Loan fully utilized the ED Participation Program to ensure that federal loan access for Iowa students went uninterrupted in the 2008 – 2009 school year. By participating in the program, ED funded the federal loans while Iowa Student Loan retained the servicing rights. In fall 2009, as the federal deadline for refinancing approached and financial market struggles continued, the Iowa Student Loan board opted to participate in ED's Put Program. This meant Iowa Student Loan was required to sell the federal loans to ED and relinquish its servicing rights. The decision was difficult, but the board decided that rebuilding equity to fund new loans needed by students to stay in school in 2009 – 2010 was the higher priority for the immediate term. Iowa Student Loan again participated in the ECASLA funding program in fall 2009, which ensured that qualified Iowans were able to access the federal loans needed to pursue a college education in the 2009 – 2010 school year.

Working with Iowa Partners to Provide Supplemental Loans

For many students and families who need help financing college, federal loans are the primary source of student loan funding. However, students who do not qualify or apply for federal loans, or who are in need of funds beyond the individual federal loan limits, must turn to supplemental private student loans to stay in school.

Challenges presented themselves in 2009, making it difficult to fund supplemental private student loans for students who need funding beyond existing federal sources to pay for college. Iowa Student Loan and other organizations across the nation have traditionally relied on private credit markets to fund such supplemental private student loan programs. However, those funding sources became unavailable in early 2008 and remained closed throughout much of 2009.

Iowa banks helped fill this void by stepping up to create the Iowa Alliance Private Student Loan ProgramSM (Iowa Alliance Loan) with the assistance of Iowa Student Loan. Several credit unions also created their own private student loan programs to help students and credit union members in their communities. Again, Iowa Student Loan assisted by being the loan servicer for these credit union programs. The Iowa Alliance Loan and the credit union programs, as well as other financial aid initiatives, helped those students who needed additional loans to stay in school.

The Iowa Student Loan board of directors issued a resolution recognizing these lenders for their role in providing \$31 million in supplemental private loan funding for the 2009 – 2010 academic year. The board recognized 19 lenders who collaborate with Iowa Student Loan on the Iowa Alliance Loan, several credit unions that provide supplemental loans to their members and three colleges that provide supplemental loans to their students.

New Challenges, New Solutions

Iowa Alliance Loan Partnering Lending Institutions

The Iowa Alliance Loan was extended a second academic year in fall 2009 and expanded to all qualified students, with or without cosigners, attending eligible Iowa institutions. This unique loan program provided lenders the opportunity to help their customers and neighbors without creating a complete loan program on their own. Lenders pooled their funds to provide one source of loans for Iowa students.

The following outstanding Iowa lenders partnered with Iowa Student Loan on the Iowa Alliance Loan program:

- ▶ American State Bank (Osceola)
- ▶ American Trust & Savings Bank (Dubuque)
- ▶ Bankers Trust Co., N.A. (Des Moines)
- ▶ C US Bank (Cresco)
- ▶ Cedar Rapids Bank & Trust Co. (Cedar Rapids)
- ▶ Crawford County Trust and Savings Bank (Denison)
- ▶ Fairfax State Savings Bank (Fairfax)
- ▶ Great Southern Bank (Sioux City)
- ▶ Guthrie County State Bank (Panora)
- ▶ Heartland Bank (Somers)
- ▶ Manufacturers Bank & Trust Co. (Forest City)
- ▶ MidWestOne Bank (Iowa City)
- ▶ Modern Woodmen Bank (Rock Island)
- ▶ Northwest Bank (Spencer)
- ▶ Patriot Bank (Brooklyn)
- ▶ Shelby County State Bank (Harlan)
- ▶ Sibley State Bank (Sibley)
- ▶ Treynor State Bank (Treynor)
- ▶ West Bank (West Des Moines)

Credit Union Private Loan Programs

During 2009, five credit union private student loan programs across the state of Iowa provided supplemental funding to help credit union members obtain the funds necessary for higher education. Participating credit unions include:

- ▶ Alliant Credit Union and Health Services Credit Union (Dubuque)
- ▶ Ascentra Credit Union (Bettendorf)
- ▶ Dupaco Community Credit Union (Dubuque)
- ▶ Premier Credit Union (Des Moines)
- ▶ Veridian Credit Union (Waterloo)

Each credit union offered its own interest rate and origination fee combination with Iowa Student Loan providing expert advice and loan servicing. With a variety of membership qualifications ranging from residency to employer eligibility, these credit unions provided a significant percentage of Iowans with new supplemental private student loan choices in this difficult economy.

New College-Based Private Loan Programs

Three Iowa colleges started their own no-cosigner supplemental private student loan programs serviced by Iowa Student Loan. For the 2009 – 2010 academic year, the following schools will have offered about \$2.5 million in no-cosigner loans:

- ▶ Briar Cliff University (Sioux City)
- ▶ Buena Vista University (Storm Lake)
- ▶ Morningside College (Sioux City)

Through the Iowa Alliance Loan, credit union and other supplemental private loan programs, hundreds of Iowa students were helped during the 2009 – 2010 school year. However, funding for the programs was limited in both resource level and timing and the need for additional options was anticipated.

“With each year it has become increasingly difficult to help students find funding beyond federal, state and institutional funding to pay the balance. We are grateful at Wartburg College to Iowa Student Loan and the group of credit unions who have formed this partnership. It is a true testament of the understanding these organizations have about the importance of a college education. They have always been committed to our community and this is the ultimate sign of them fulfilling their mission.”

— Jennifer Sassman, director of financial aid, Wartburg College

Accessing Bond Markets to Fund Future Supplemental Loans

The ongoing credit crisis in 2009 forced many student loan providers to substantially tighten underwriting criteria, increase costs and terms for borrowers or exit the market altogether. Given these conditions and the limited resources available for Iowa Alliance Loan, credit union and college-based private student loans, Iowa Student Loan sought to find additional funding options.

In summer 2009, Iowa Student Loan saw a glimmer of hope in the credit market and set forth to issue a limited amount of bonds to serve as funding for supplemental student loans. A few months later, Iowa Student Loan was one of the few providers around the country able to issue bonds backed by student loans since the credit market disruptions began. As a result, Iowa Student Loan was able to restart its Partnership Loan Program® and \$35 million in new loan funds was made available to lowans for the second semester of the 2009 – 2010 school year.

Iowa Student Loan's new Partnership Advance Education LoanSM offers:

- ▶ Upfront rates, terms and expansive disclosures.
- ▶ Fixed rates over the life of the loan.
- ▶ Annual percentage rates competitive with other loan options available to lowans.
- ▶ Both deferred and interest-only payment options while students are in school.
- ▶ Acceptance rates that are potentially higher than many other options currently available in the marketplace.

The new Partnership Advance Education Loan features three fixed-rate loan options with 10-, 15- and 18-year terms. The loans that require interest-only payments while in school have fixed interest rates of 7.75% for 10 years with a 0% origination fee and 7.85% for 15 years with a 0% origination fee. The other loan option for students wanting to defer their payments while in school has a fixed interest rate of 7.90% for 18 years with a 4% origination fee.

Students and families were able to access loan applications within a month of the November 2009 bond sale, and funds began to disburse in January 2010.

Although market conditions were favorable enough to issue the bonds, investors were still only willing to finance private student loans that included cosigners or borrowers who meet the credit and underwriting criteria on their own merit. While the bonds may not allow for every applicant to be approved, Iowa Student Loan believes the Partnership Advance Education Loan criteria will result in a substantially higher acceptance rate than most other private student loans. Also, with this program, Iowa Student Loan continues its long-standing policy of using only one set of interest rates and fees for everyone who qualifies, rather than charging higher rates to families with lower credit scores. Borrowers and/or their cosigners who meet the standard underwriting criteria, which includes having a minimum FICO® score of 670, may choose the loan option most appropriate for their situation.

Due to continuing credit market difficulties and the increasing cost to perform such bond issues, it will be difficult to replicate these results in the future. While the immediate market forecast remains challenging, Iowa Student Loan is committed to continuing to find solutions that ensure students have the funds needed to stay in school.

“With increasing demand, limited available resources and credit criteria from some other lending programs getting more stringent, creation of a pool of additional funds and additional loan options for lowans is a very important need to fill right now. Having a quality fixed-rate option, such as the [Partnership Advance Education Loan], will provide needed funds. This will allow some, who might otherwise have to drop out, to continue their education and enter the work force.”

— Gary Steinke, president, Iowa Association of Independent Colleges and Universities

Promoting Responsible Borrowing

Iowa Student Loan seeks to educate students and families about how to reduce their use of student loans through budgeting and finding the means to pay for college from other sources, such as scholarships, grants and work-study. Iowa Student Loan is a leader among student loan providers in counseling students about their debt loads and what it will take to repay their loans.

These practices apply to loans owned by Iowa Student Loan.

- ▶ **Monthly statements.** Iowa Student Loan is one of few providers that send monthly private loan statements to students while they are in school so that they see the amount of debt they have incurred. Iowa Student Loan hopes that these monthly statements encourage students to make interest payments, if possible, to avoid interest accrual and capitalization.
- ▶ **Annual borrowing updates.** Iowa Student Loan is also one of few providers that send an annual statement to students while they are in school, informing them of their total borrowing to date, their projected payment amount and an estimate of the salary they will need to make after graduation for their repayment amount to be affordable. This letter is intended to remind students to minimize borrowing and is typically sent when students are considering whether to take out additional loans.
- ▶ **Budgeting requirement.** Iowa Student Loan is possibly the only loan provider that requires borrowers, as part of the private student loan application process, to complete a projection of their future budget upon graduation. This drives home the impact the student's borrowing will have on his or her standard of living in the future.
- ▶ **Providing borrowers with special warnings and disclosures.** On the face of all private student loan applications, Iowa Student Loan warns borrowers to use other sources of financial aid before applying for private student loans. The organization also encourages them to pay interest while in school to avoid interest capitalization. Working with the Iowa attorney general's office, Iowa Student Loan recently incorporated these warnings into a formal supplemental disclosure that will serve as a best practices model.
- ▶ **Requiring school certification of need for loans.** Iowa Student Loan requires colleges to certify borrower eligibility for all private loans owned or serviced by Iowa Student Loan. Iowa Student Loan then delivers the funds to the college to make certain that the money is needed and properly used and to ensure that students are first accessing all federal loans for which they are eligible.
- ▶ **Adding new real-time warnings about overborrowing.** This feature, which is part of online private loan applications, will be triggered if a student enters an amount to be borrowed that is greater than the median loan amount. Pop-up windows will advise the student of the consequences of overborrowing and ask if suggested alternatives for paying for college have been considered.
- ▶ **Creating new repayment options to combat the economic downturn.** Iowa Student Loan recently implemented new repayment plans for private loan borrowers in danger of default because of the economic downturn. These plans allow borrowers to forgo payments or make lower payments for a set period of time so they can work to improve their financial situation. During this time in which they forgo payments, Iowa Student Loan provides financial counseling to help borrowers figure out how to get back on their feet.



Supporting College Planning And Work Force Initiatives

Helping Iowa Students Apply for Aid

For more than a decade, the Iowa College Access Network® (ICAN) has been supporting students and their families who need help planning for, applying to, paying for and succeeding in college, with secondary school students being the primary audience. Annually, ICAN provides its free services to more than 30,000 Iowa students and parents. As a division of Iowa Student Loan, ICAN played an integral role in helping many Iowa students take the first step to receiving funding for college in 2009. ICAN received a grant from Lumina Foundation for Education to bring to Iowa the national College Goal SundaySM program, which helps students — especially low-income, minority and first-generation students — file for federal financial aid.

In its inaugural year, Iowa College Goal Sunday helped 162 students file the Free Application for Federal Student Aid (FAFSA) in six locations throughout Iowa in February. The event, which is sponsored by ICAN, the financial aid community and a variety of Iowa organizations, will expand to 14 Iowa locations in 2010 to help even more students.

In September 2009, the Iowa Student Loan board acted on advice from its ICAN Task Force (see page 15) and voted to incorporate ICAN as an independent nonprofit 501(c)(3) educational foundation. As its own entity with its own independent governing board, ICAN will continue to offer free services to help Iowa's students and families plan for and succeed in education.

The ICAN board of directors consists of nine members with experience in education, nonprofits and diversity relations. As of Dec. 31, 2009, the ICAN board members were:

- ▶ Dick Schwab (chairman) of Solon.
- ▶ DeLores Hawkins (secretary) of Ankeny.
- ▶ Tammie Schroeder (treasurer) of Altoona.
- ▶ Kevin Fangman of Des Moines.
- ▶ Steve McCullough of West Des Moines.
- ▶ Lew Montgomery of Cedar Rapids.
- ▶ Robert Piechota of Sioux City.
- ▶ Alfred Ramirez of the Quad Cities.
- ▶ Amy Ryan of Burlington.

ICAN's status as a nonprofit educational foundation should increase its access to and competitiveness for private and federal grants as ICAN continues to expand services to meet the growing need created by the economic downturn.

Iowans are increasingly turning to higher education to increase job skills and to become more employable, and many need help planning for, applying to, paying for and succeeding in their chosen educational paths. As a result, ICAN saw an escalation in the demand for the critical college planning and access services it provided in 2009.

“The Iowa College Access Network has done an outstanding job of breaking down barriers in the College Goal Sunday effort. In addition, the leadership shown in the College Goal Sunday Network for Hispanic Families will provide best practice resources to other College Goal Sunday state programs.”

— Marcia Weston, national director,
College Goal Sunday

New Challenges, New Solutions

During the first quarter of the 2009 – 2010 academic year, ICAN helped nearly 700 individuals through personal appointments at the two ICAN College Planning Centers in Cedar Rapids and West Des Moines, an increase of 57% from the previous year. In the first quarter, ICAN representatives made 388 presentations, which factored into a 38% increase in presentations, exhibits and college fairs ICAN participated in.

ICAN launched several successful outreach activities in the past year, including:

- ▶ **The Iowa School Counselor Webinar Series.** ICAN cosponsors this series, which provides online professional development opportunities for school counselors.
- ▶ **KnowHow2GOIowa grants.** ICAN received a \$140,000 grant from the national KnowHow2GO campaign sponsored by Lumina Foundation for Education and the American Council on Education. The funds will be redistributed to Iowa organizations committed to spreading the college access message to students across the state.
- ▶ **A partnership with Community Education Foundation (CEF) in Council Bluffs.** ICAN and CEF work together to provide a western Iowa location for in-office appointments to better serve Iowa's students and families.

Forgiving Loans for Iowa Nurses and Teachers

Encouraging Iowa nursing and education students to enter critical job shortage areas in Iowa is important to the economic development of the state. To aid in this effort, the Iowa Student Loan board of directors voted in summer 2009 to extend funding of the organization's loan forgiveness programs for the 2009 – 2010 school year to assist these students with their loan debt. Sustaining the Iowa Student Loan Nursing and Teacher Education Loan Forgiveness programs during these challenging economic times and ensuring they remain successful in the years to come is vital to Iowa's students as well as Iowa's communities.

Reaching Important Milestones

By the end of 2009, Iowa Student Loan had made awards to 875 nursing applicants and 626 teacher applicants. The organization also had forgiven more than \$1.5 million in student loans for Iowa nurses and teachers entering job shortage areas since the programs' inception in 2004 and 2006, respectively. The programs, which supplement loan forgiveness programs offered by state and federal agencies, are accomplishing their initial goal: helping to keep these important professionals in Iowa to serve Iowans.

"The Iowa Nurses Association commends Iowa Student Loan for continuing such a valuable program. The loan forgiveness program for nurses has helped Iowa nurses prepare for careers in nursing education and provided incentives for nurses to work in Iowa shortage areas. These programs are greatly needed as we face a shortage of registered nurses in the foreseeable future."

— Virginia Wangerin, president, Iowa Nurses Association



Offering Outstanding Customer Service

Maintaining Competitive Borrower Benefits

The continued nationwide financial market turmoil in 2009 greatly impacted students and their families. To assist borrowers during this difficult time, the Iowa Student Loan board of directors voted to maintain and expand financial benefits offered to federal student loan borrowers. For the 2009 – 2010 academic year, Iowa Student Loan continued to provide an allowance equivalent to 0.25% of the loan balance to most of its serviced lenders, who in turn applied that amount to Federal Stafford Loan origination fees. Reducing the origination fee in this way allowed students access to more of their funds from the beginning of the loan period.

Iowa Student Loan also added a benefit to Federal Stafford and PLUS (for both parents and graduate student borrowers) loans for the 2009 – 2010 year. Borrowers will receive a 0.25% interest rate reduction on their loans once they enter repayment if they enroll in Iowa Student Loan's automatic payment program, where loan payments are automatically deducted from checking or savings accounts each month. This allows borrowers to reduce the amount they will pay in interest over the life of the loan.

Counseling Borrowers Through Successful Repayment

Borrowers faced numerous financial challenges in 2009, and Iowa Student Loan's default prevention counselors increased their outreach efforts to help customers during this challenging time. After making contact with those delinquent on their payments, default prevention counselors explain deferment and forbearance options that provide temporary repayment relief as well as different repayment plan options that can lower repayment for a longer term.

Providing Early Awareness

This counseling approach provides Iowa Student Loan with a successful method of limiting the number of borrowers who default on their loans and in turn helps them maintain positive credit histories.

In 2009, Iowa Student Loan increased their outreach efforts by making more proactive calls to borrowers before they entered repayment. During those calls, loan counselors:

- ▶ Ensure that borrowers have the correct address, phone number and Web site for Iowa Student Loan.
- ▶ Review repayment amounts and the date when repayment begins.
- ▶ Explain alternative repayment plans, as well as deferment and forbearance options, in case borrowers have trouble making their payments in the future.

Helping Borrowers Avoid Default

Iowa Student Loan's collection process is based on a philosophy of working with customers to help them re-establish their delinquent loans to a current status and keep them current. In keeping with this philosophy, Iowa Student Loan employees who work in collections are not simply collectors but default prevention counselors. Staff use financial work sheets in discussions with customers to identify spending habits that can be eliminated or modified. The goal is to identify circumstances that cause the delinquency and help customers overcome those circumstances so they can make their payments on time — not just with Iowa Student Loan, but with all of their creditors. In 2009, Iowa Student Loan staff completed nearly 5,000 financial work sheets with customers, using this as a tool for customers to better understand their finances and find solutions.



In addition, Iowa Student Loan created a new plan this year to attempt to help some private student loan customers who are delinquent on their loans. The Iowa Student Loan Relief Repayment Plan was created to provide immediate payment relief for customers who are unable to make even minimum payments. Under the options for this unique repayment plan, Iowa Student Loan either makes one monthly payment for the delinquent borrower or, if the reduced payment doesn't cover the monthly interest, Iowa Student Loan covers the rest of the interest for six months.

The primary intended benefits of these options are that borrowers do not default on their student loans and that a lower monthly repayment amount provides immediate relief.

Protecting Borrower Information

Iowa Student Loan recognizes the importance of and follows processes for protecting customers' financial and personal information. This not only provides the highest quality of service to customers; it also preserves the company's reputation and meets legal requirements.

Sensitive data is protected through:

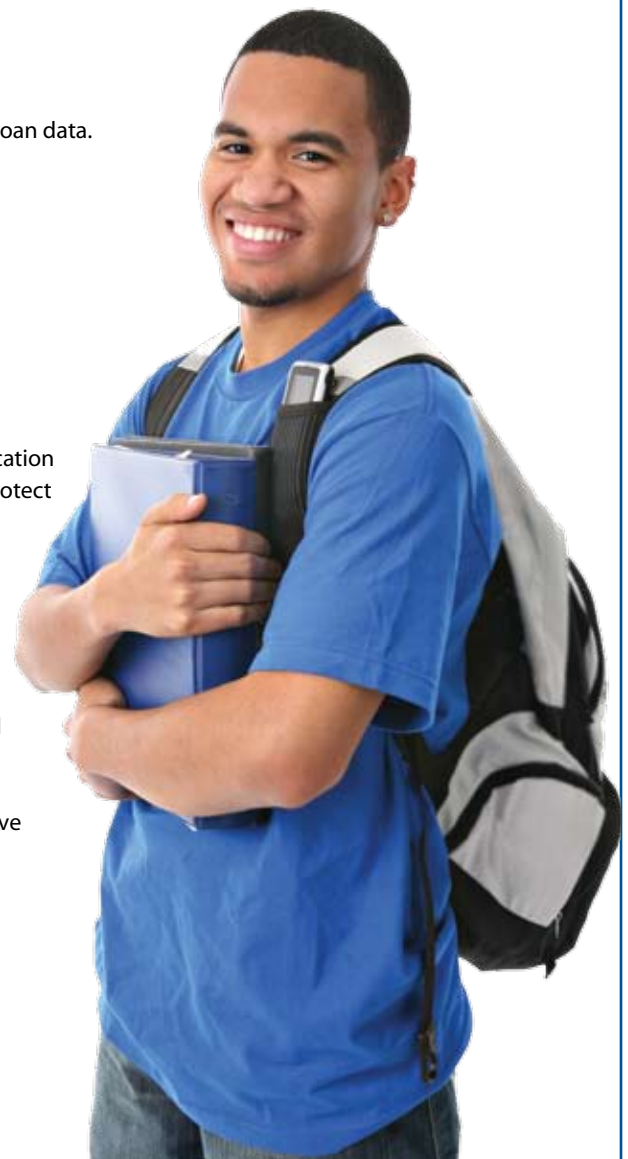
- ▶ Policies to limit nonpublic information in correspondence.
- ▶ A secure interactive voice response (IVR) system that limits caller access to loan data.
- ▶ Call center procedures to help validate the identity of callers.
- ▶ Dedicated and encrypted services for external data transmissions.
- ▶ Regularly tested security technology.
- ▶ Routine employee training about detecting fraudulent activities.
- ▶ Very strict standards that limit access to data.
- ▶ Confidentiality requirements for vendors performing necessary services.

Iowa Student Loan has invested a significant amount of resources into rapid application development and information security to produce high-quality products and to protect customer information. In 2009, Iowa Student Loan put in place a number of new systems, including:

- ▶ **Red Flags Rule.** The security of customers' personal information is one of the biggest concerns for borrowers, and Iowa Student Loan continuously works to safeguard account and private information. The Red Flags Rule — issued by the Federal Trade Commission and federal banking agencies — requires creditors such as Iowa Student Loan to take additional steps to verify a customer's identity before allowing financial transactions to be completed. Loans that require a credit check, such as Federal PLUS Loans for parents and Grad PLUS Loans, as well as private student loans, have additional checks for high-risk fraud alerts and address mismatches.

One Borrower's Story

A borrower received a message from Iowa Student Loan after his account became more than 30 days past due. His wife was experiencing ongoing medical issues and was hospitalized. With medical bills piling up, the borrower was having difficulty making his student loan payment. One return call to an Iowa Student Loan default prevention counselor helped him understand all the options available to him and allowed him to get his account back on track while easing his financial concerns during a difficult time.



- ▶ **Extenuating circumstances.** To ensure applicants for Federal PLUS Loans for parent borrowers and Grad PLUS Loans are not denied due to extenuating circumstances, Iowa Student Loan fully adopted new qualifying criteria contained in the Ensuring Continued Access to Student Loans Act of 2008. This legislation allows lenders to disregard mortgage and/or medical delinquencies that are less than 180 days delinquent during the time period Jan. 1, 2007, through Dec. 31, 2009.
- ▶ **New disclosure requirements.** Iowa Student Loan modified its automated billing and mailing systems to support new disclosure and timing requirements for federal loans included in the Higher Education Opportunity Act of 2008.

School and Lender Information Security

iLink® is a customer service and technical support unit that acts as a liaison between schools and loan participants. It allows schools and lenders to easily and effectively manage and exchange student loan data, which accelerates loan processing for students. The free service, offered in partnership with the Iowa College Student Aid Commission (ICSAC) simplifies student aid delivery of both Federal Family Education Loan Program (FFELP) and private student loans while providing outstanding service and support to colleges, universities, lenders and guarantors.

These customers rely on iLink for secure, neutral file transmission and for a high level of customer service, especially as current economic conditions and the changing federal loan environment have led to confusion and difficulties with schools processing loans.

The iLink Performance Review Board, administered by ICSAC and composed of lender and school representatives, helps ensure files are transmitted securely using industry-standard file format and encryption. In addition, the system is secure file transfer protocol (SFTP) and e-mail compatible.

Serving Education Partners Through Training Opportunities

Iowa Student Loan offers educational opportunities to college and university financial aid professionals about new regulations, products and student loan topics under the national discussion.

Private Loan Training Workshops

During summer 2009, industry experts from the National Council of Higher Education Loan Programs, Inc. (NCHELP), Wells Fargo and U.S. Bank teamed up with Iowa Student Loan representatives to conduct four regional training sessions for Iowa college and university financial aid officers. The workshops included sessions on:

- ▶ The current private student loan landscape.
- ▶ Proposed amendments to Regulation Z.
- ▶ The approval process for cosigner and no-cosigner loan options.
- ▶ A review of private loan pricing.
- ▶ Best practices for private student loan counseling.

In the fall, representatives from Iowa Student Loan provided Truth-in-Lending/Regulation Z disclosure trainings at regional locations to offer insight into new federal regulations required by the Higher Education Opportunity Act of 2008. The new requirements, which must be implemented by Feb. 14, 2010, affect both lenders and schools that are considered creditors making private student loans.

These sessions allowed financial aid officers and business officers from schools to:

- ▶ Learn about the new regulatory requirements.
- ▶ Understand what loans and services offered by schools — including tuition billing plans — may be considered private student loans.
- ▶ Discuss the required self-certification form borrowers must complete prior to obtaining a private student loan.
- ▶ Share strategies with colleagues for implementation.

Guiding Students Toward Success

Among other initiatives, the Iowa Student Loan board created two task forces following its strategic planning session in late January 2009. The task forces were charged with suggesting courses of action on two critical topics for Iowa students and families — student indebtedness and college planning services.

Student Indebtedness Task Force

The Student Indebtedness Task Force was charged with reviewing factors that contribute to increased student educational loan indebtedness levels at Iowa colleges and universities.

While formulating its recommendations, the task force identified a variety of environmental factors — such as increases in college costs, decreases in the purchasing power of federal and state financial aid programs, and lagging family incomes — that have been generally documented to contribute to student debt. The task force concluded that the individual contribution to student debt realized by these factors and their interaction is not well understood.

The board of directors subsequently ratified three recommendations that focus on the promotion of responsible borrowing behaviors and repayment experiences for student and parent borrowers in Iowa. Recognizing that Iowa Student Loan has resources and structures in place that could help achieve that goal, the recommendations went a step farther by encouraging the engagement of appropriate external partners who also want to help reduce student debt levels in Iowa.

The three recommendations are as follows:

- ▶ Commission a study by Iowa Student Loan that uses focus group methodologies to collect information regarding students' and parents' attitudes and perceptions about borrowing. The focus groups should be inclusive of both students and their parents and include individuals from various and appropriate educational levels.
 - An initial meeting with representatives from relevant higher education sectors that share an interest in understanding student indebtedness was held in October 2009 to begin formulating a plan for executing a study to understand student and parent perceptions of borrowing. The study will begin in 2010.
- ▶ Work collaboratively with relevant education partners to deliver improved educational materials and programs to students and parents that promote responsible borrowing. Supplement these efforts by developing and evaluating “life experience” money management pilot programs in at least two middle schools in Iowa.
 - Discussions have begun on how to implement this recommendation. The task force is working with Juan Garcia, executive director of the Iowa College Access Network® (ICAN), to facilitate relationships with middle schools.
- ▶ Iowa Student Loan should take a leadership role in the state of Iowa in bringing together a group of willing entities to review the work of the President's Advisory Council on Financial Literacy. This group could bring those best ideas to the state level by facilitating the creation of partnerships and dialogue with relevant private and public organizations — perhaps through a formal public-private council at the state level.
 - This recommendation will be addressed in 2010 after a thorough review of the report from the President's Advisory Council allows the task force to identify key stakeholders and relevant topics of discussion.



ICAN Task Force

The Iowa College Access Network® (ICAN) Task Force was created to examine options and make recommendations for the best organizational structure to ensure the sustainability of ICAN services.

The task force recommended that:

- ▶ ICAN be incorporated as a separate nonprofit, tax-exempt corporation, rather than a division of Iowa Student Loan.
- ▶ ICAN have its own governance board. Initial members would have experience in education and with nonprofit organizations.
- ▶ Iowa Student Loan make contributions (both cash and in-kind) of approximately \$2 million for the current fiscal year and provide interim administrative and support services on a transitional basis, subject to both ICAN and Iowa Student Loan entering into a professional services agreement to ensure the continuity of needed services and valued personnel across the state.

Iowa Student Loan board members adopted these recommendations in August 2009. Board members believed these steps would best position ICAN to provide vitally needed services to students and families across Iowa for the long term by providing access to additional sources of funding and support beyond Iowa Student Loan.

The transition in no way changed ICAN's mission or activities but rather created a new and more independent oversight and leadership process. ICAN's articles of incorporation were filed in early September. Shortly thereafter, its new, independent ICAN board of directors (see page 9) began operation and the transfer of assets to the new nonprofit tax-exempt corporation took place.



Meeting High Standards

Iowa Student Loan is a highly regulated organization. Primary oversight is the responsibility of the Iowa Student Loan board of directors, who are appointed by the governor.

Federal oversight is exercised by the following agencies (in addition to others not mentioned):

- ▶ U.S. Department of Education (ED), which delegates some functions to the Iowa College Student Aid Commission (ICSAC)
- ▶ Federal Trade Commission
- ▶ Internal Revenue Service



State oversight is exercised by the following officials (in addition to others not mentioned):

- ▶ Governor
- ▶ State auditor
- ▶ Iowa superintendent of banking
- ▶ Attorney general

Audits and Reviews

The following audits and reviews are periodically performed at Iowa Student Loan:

- ▶ Financial statement audit by an independent accountant.
- ▶ Creditor Agreed-upon Engagement by an independent accountant.
- ▶ FFEL Program Audit by an independent accountant.
- ▶ ECASLA Agreed-upon Engagement by an independent accountant.
- ▶ ED review by ED and FFELP loan guarantor organizations (including ICSAC).
- ▶ SAS 70 audit by an independent accountant.
- ▶ Annual examination by the Iowa Division of Banking.
- ▶ Network assessment by an independent accountant.
- ▶ ICSAC review of federal loans on which it holds the guaranty.
- ▶ Additional examination by bond rating agencies, bond insurers and credit providers.

U.S. Department of Education Responses

In fall 2009, Iowa Student Loan received two responses from ED about past practices it ceased several years ago.

In November, Iowa Student Loan formally appealed ED's first response, which addressed a former consolidation loan program agreement between the organization and the Iowa State University Alumni Association. The agreement related to consolidating existing education loans of alumni at Iowa State University between 2005 and early 2008. Iowa Student Loan disagrees with ED's claim that the agreement violated the Higher Education Act of 1965 (HEA) and also disagrees with the calculation of an alleged liability amount. Tim Bottaro, Iowa Student Loan board chairman, said, "It is our hope that after the department reviews the additional information provided in our appeal, the original finding will not be upheld."

The second ED response related to the department's final review of Iowa Student Loan billings for federally guaranteed loans made between 2004 and 2006. Iowa Student Loan has agreed to refund approximately 2% of the amounts it billed ED for those loans during that time period. A payment plan of quarterly installments over the next two years has been agreed upon and payments are now being made. Vital services — such as loan counseling, college planning, loan forgiveness programs and others — that Iowa Student Loan funds and that lowans need during these challenging economic times will be maintained. In 2006, Iowa Student Loan changed its method of calculation as the department instructed, so there have been no additional billing issues of this kind.

Addressing Recommended Improvements

In 2007 and 2008, state officials made recommendations for the improvement of Iowa Student Loan practices and policies. With the adoption of the board's Iowa College Access Network® (ICAN) Task Force recommendations, Iowa Student Loan addressed all 24 recommendations.

Some of the key actions taken include:

- ▶ Increased efforts to improve Iowa Student Loan disclosures promoting federal loans before private loans and to seek certification that federal loan eligibility is exhausted before borrowers receive private loan funds.
- ▶ Subject Iowa Student Loan board deliberations relating to issuance of tax-exempt bonds and allocation of state ceiling to open meetings and public records. Also, adopted board policies detailing open meeting and public record guidelines.
- ▶ Adopted a strict model code of conduct.
- ▶ Removed overlapping representation from the Iowa Student Loan board and the ICSAC board to avoid any potential conflicts of interest.
- ▶ File an annual audit and annual report with state officials and submit to an annual review by the state superintendent of banking. (*This Year in Review* is one of these annual reports.)



Customers Served by Iowa Student Loan

Iowa Student Loan serves nearly 240,000 borrowers. While the amount of outstanding loans owned by Iowa Student Loan decreased slightly this year, the outstanding loans serviced for other lenders increased. Net student loans outstanding decreased 1.67% (\$61 million) to \$3.6 billion at the end of fiscal year 2009 compared to fiscal year 2008. Iowa Student Loan purchased or originated more than \$178 million in student loans during 2009. This was down 75.61% (\$553 million) from the previous year. In addition to owned portfolio activity, Iowa Student Loan also originates and services student loan portfolios for other lenders. Serviced student loans outstanding increased 24.34% (\$163 million) to \$831 million at the end of 2009 compared to 2008. Serviced originated volume was \$362 million during 2009. This was down 10.54% (\$43 million) from the previous year.

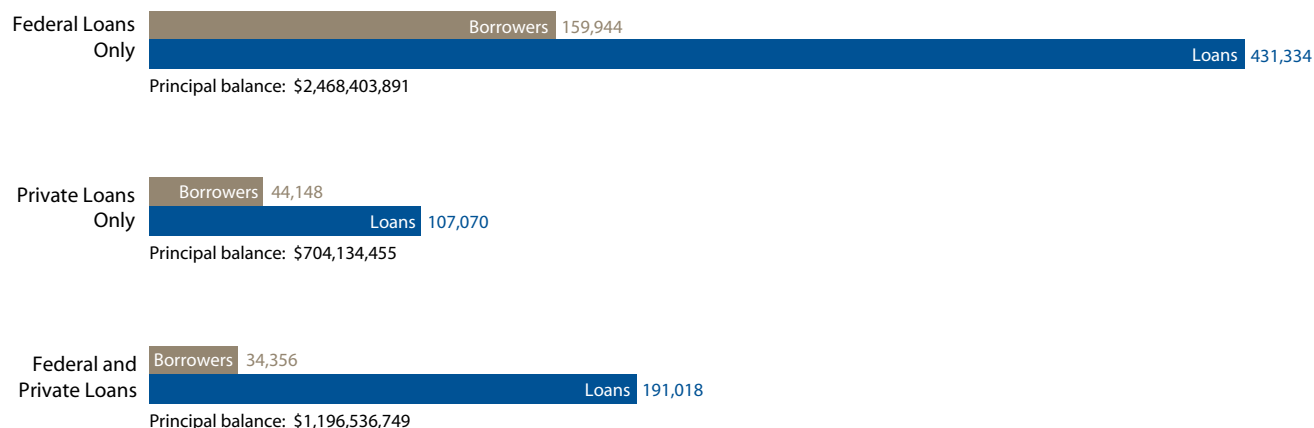


Total originated and purchased volume included the following categories:

- ▶ Originated (on behalf of Iowa Student Loan – serviced lenders) Federal Family Education Loan Program (FFELP) Stafford and PLUS loans (for parent and graduate student borrowers): \$151 million (23,803 borrowers)
- ▶ Originated FFELP Consolidation Loans: \$14 million (341 borrowers)
- ▶ Purchased FFELP Loans: \$11 million (1,263 borrowers)
- ▶ Originated private loans: \$4 million (427 borrowers)
- ▶ Originated FFELP Loans (for serviced lenders): \$361 million (43,975 borrowers)
- ▶ Originated private loans (for serviced lenders): \$1 million (631 borrowers)

Iowa Students and Families Served

as of November 30, 2009
238,448 Borrowers and 729,422 Loans



Planning for the Future

What Lies Ahead for Iowa Students and Families

At the close of 2009, it appeared that state and national economic conditions would continue to pose obstacles for Iowa students and families trying to access a quality postsecondary education in the coming year. Iowa Student Loan fully anticipates these challenges and remains totally committed to helping Iowans overcome them.

In looking to the immediate future, most knowledgeable observers conclude that 2010 will see only gradual or modest improvements in the economy with persistently high unemployment. If this proves to be true, family budgets will remain tight. And those likely to experience the hardest pinch will be middle-class families and independent students who may not qualify for some student aid programs designed to assist those in lower income brackets.

An equally important concern is that the cost of higher education for families will likely rise due to state budget cuts. This may result in a combination of higher tuition and fees at many public institutions, plus a reduction in a number of state financial aid programs, such as the Iowa Tuition Grant.

For all these reasons, Iowa Student Loan will continue to do everything possible to provide the widest array of products and services to help Iowans prepare and pay for college in 2010.

Meanwhile, Congress is expected to take action in 2010 on pending legislation that would end the Federal Family Education Loan Program (FFELP) — which many Iowans rely upon for access to federally guaranteed student loans — in favor of the William D. Ford Federal Direct Loan Program (Direct Loan). The U.S. House of Representatives has passed pending legislation HR 3221, which would include such a transition and increase a number of federal student aid programs like the Pell Grant program. As approved by the U.S. House, the bill also contains provisions that would allow nonprofits such as Iowa Student Loan to provide local customer service for Direct Loans. As a result, Iowans could continue working with local customer service representatives and benefit from local student assistance programs, and Iowa-based jobs and economic development could be maintained in these difficult times.

Helping students, their families and Iowa educational institutions navigate successfully through all these changes will be Iowa Student Loan's focus in 2010. This nonprofit organization is committed to working with federal officials and local partners to ensure that anticipated changes are implemented in a manner that best serves Iowans.

Iowa Student Loan understands that these challenging economic times will continue to affect everyone in 2010. That's why the organization will continue its local customer service efforts to counsel and assist borrowers as they pay back their student loans and increase targeted educational programs to help Iowans maintain healthy credit. Iowa Student Loan intends to make progress on all these fronts while maintaining fiscal soundness without any state appropriations support, providing highly transparent disclosures to borrowers and adhering to a strong organizational code of conduct.

In the end, Iowa Student Loan intends to carry on its nonprofit mission to help Iowans plan and prepare for college; seek the best funding sources for their situation; provide competitive financing options with transparent terms; and provide the highest level of local customer service in 2010.



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