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, 2020 to June 30, 2021

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 T. 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, 2021 (FY21) 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, 2021, total assets and deferred outflows of resources* were $1.23 billion. Total assets consisted primarily of net student loans receivable of $903.7 million and investments of $235.5 million. Total assets and deferred outflows decreased $77.5 million (5.92%) from June 30, 2020 (FY20). Cash and investments decreased $14.4 million (5.71%) compared to FY20. Cash provided by student loan payment collection activities exceeded cash used for operations and loan funding by $79.6 million. Debt service expenditures exceeded proceeds from note and bond issuances by $94.1 million. Together these contributed to the overall decline in cash and investments.

Net student loans receivable decreased $72.0 million (7.38%) to $903.7 million compared to $975.7 million in FY20. The decrease is primarily due to borrower payments exceeding loan additions and capitalized borrower interest. ISLLC purchased or originated $102.4 million in student loans during FY21, an increase over the $70.8 million during the same period in FY20. The in-school loan product totaled $41.5 million with loan refinance and the purchase of outside student loan portfolios making up the rest of the new volume amount at $60.9 million. Accrued interest receivable decreased $3 million (10.87%). A total decline in investments and student loan receivable balances along with lower interest rates were offset by a decline in collected interest on the student loan portfolio due to an increased use of deferments and forbearances on the student loan portfolio resulting primarily from COVID-19 impacts.

Government guaranteed loans made up 39% of the student loan portfolio with private loans being the remaining 61% at the end of FY21 compared to 39.15% government and 60.85% private at the end of FY20. 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 $0.39 million (0.11%) on the government portfolio of $356.10 million and $9.09 million (1.63%) on the private portfolio of $557.10 million in FY21. At the end of FY20 the loan loss reserve for government loans was $0.41 million (0.11%) and $11.45 million (1.91%) for private loans.

On June 30, 2021, ISLLC had cash deposits of $2.19 million, which were covered by federal depository insurance or collateralized trust accounts. Investments and cash equivalents of $235.5 million included $7.3 million of corporate notes/bonds; $25.8 million U.S. government obligations and $202.4 million of money market mutual funds investing in United States government and agency obligations.

Total liabilities were $710.0 million, a decrease of $63.5 million (1.64%) as compared to FY20. Debt activity made up most of the change. Bond and note maturities totaled $744.2 million and were partially offset by the issuance of notes and bonds payable totaling $674.8 6 million.

Deferred inflows of resources*, which includes refundable origination fees and deferred gains on refunded debt activities, decreased $2.7 million (10.77%) compared to FY20. 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 $2.7 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 FY21 was $496.9 million, a $11.1 million (2.19%) decrease from FY20.

Total operating revenues for FY21 were $46.8 million, a decrease of $20.7 million (30.67%) from FY20. Investment income declined $2.26 million (86.66%) compared to FY20. While average investment balances decreased during FY21 the decline in investment revenue was significantly impacted by lower investment yields. Student loan interest income decreased $15.67 million (27.98%) compared to FY20. ISLLC's average owned outstanding student loan portfolio decreased $129.6 million (10.69%) in FY21. In addition, reduced student loan yields (an average decrease of 96 bps) contributed to a lower student loan income amount.

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Total operating expenses for FY21 were $57.97 million, a decrease of $17.14 million (22.82%) from FY20 totals. Total interest expense on bonds and notes payable during FY21 decreased $12.28 million (42.29%) from FY20. Average debt outstanding decreased from FY20 to FY21 by $102.5 million (12.36%). A reduction in variable rate debt yields contributed to a reduced debt interest expense. Debt-related expenses increased in FY21 by $1.6 million compared with the FY20 amount. Most of this relates to increased cost of issuance expense incurred during FY21 compared to FY20 due to additional debt issuances. General and administrative expenses decreased $4.2 million (10.03%) due to adjustments made to operational and systems setup.

With a $496.9 million total net position, loan loss reserves of $9.48 million and an investment policy requiring cash deposits to be backed 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 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 FY21 were $42.1 million, total liabilities $4.96 million and a net position $37.1 million. For FY21 total operating revenues were $17.7 million and total operating expenses $16.8 million, resulting in an increase in net position of $853,264.

In addition to $7.3 million in cash, ARI had $27.7 million invested in United States agency obligations and $93,630 in money market mutual funds investing in United States government and agency obligations.

At the end of FY21, ARI was servicing 255,067 student loans with an outstanding principal balance of $2.0 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.

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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 did not issue any tax-exempt bonds in the period under review.

Respectfully submitted,

Joseph T. Gordon
Joseph T. Gordon, Examiner-in-Charge

Jeff Plagge
Jeff Plagge, Iowa Superintendent of Banking

January 13, 2022
Date