

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation For the fiscal year July 1, 2021 to June 30, 2022

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

Iowa Student Loan Liquidity Corporation (ISL) provided audited financial statements dated June 30, 2022 (FY22) which the independent auditors' report noted presented fairly, in all material respects, the financial position of ISL as of that date.

As of June 30, 2022, total assets and deferred outflows of resources* were \$1.90 billion. Total assets consisted primarily of net student loans receivable of \$1.59 billion and investments of \$145.5 million. Total assets and deferred outflows increased \$671.7 million (54.60%) from June 30, 2021 (FY21). Cash and investments decreased \$40.9 million (17.22%) compared to FY21. Cash for operational and capital expenditures along with loan purchase and funding exceeded cash provided by student loan payment collection activities by \$704.7 million. Proceeds from note and bond issuances exceeded debt service expenditures by \$663.7 million. Together these contributed to the overall decline in cash and investments.

Net student loans receivable increased \$690.3 million (76.38%) to \$1.59 billion compared to \$903.7 million in FY21. The purchase or funding of student loans exceeded loan collection receipts and payoffs from outside entities. ISL purchased or originated \$899.4 million in student loans during FY22, a significant increase over the \$102.4 million during the same period in FY21. ISL's in-school loan product totaled \$32.6 million. Private loan refinance totaled \$173.2 million. The purchase of an outside FFELP student loan portfolio totaled \$693.6 million. Accrued interest receivable increased \$20.6 million (67.10%). A significantly larger average outstanding student loan portfolio and rising interest rates contributed to this overall increase.

Government guaranteed loans made up 60.06% of the student loan portfolio with private loans the remaining 39.94% at the end of FY22 compared to 39% government and 61% private at the end of FY21. 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. ISL 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

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation For the fiscal year July 1, 2021 to June 30, 2022

on the federally insured loan portfolio is conducted separately from the private loan portfolio. ISL 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. ISL established a loan loss reserve of \$0.36 million (0.04%) on the government portfolio of \$952.7 million and \$8.6 million (1.36%) on the private portfolio of \$633.4 million in FY22. At the end of FY21 the loan loss reserve for government loans was \$0.39 million (0.11%) and \$9.09 million (1.63%) for private loans.

On June 30, 2022, ISL had cash deposits of \$51.2 million, which were covered by federal depository insurance or collateralized trust accounts. Investments and cash equivalents of \$145.5 million included \$5.9 million of corporate notes/bonds and \$139.6 million of money market mutual funds investing in United States government and agency obligations.

Total liabilities were \$1.39 billion, an increase of \$684.8 million (96.45%) as compared to FY21. Debt activity made up most of the change. Bond and note maturities totaled \$266.1 million which was below the issuance of notes and bonds payable totaling \$952.6 million. Additional debt was issued to fund student loan originations and portfolio purchases.

Deferred inflows of resources*, which includes deferred gains on refunded debt activities, decreased \$2.9 million (12.69%) compared to FY21. The decrease is based on changes in applicable outstanding debt.

ISL's net position at the end of FY22 was \$486.7 million, a \$10.2 million (2.05%) decrease from FY21.

Total operating revenues for FY22 were \$50.7 million, an increase of \$3.8 million (8.12%) from FY21. Investment income declined 27.31% in FY22 compared to FY21. Average outstanding investment balances and yields both declined during the period contributing to a decline in investment revenue. Student loan interest income increased \$5.2 million (12.87%) compared to FY21. ISL's average owned outstanding student loan portfolio increased by \$169.4 million (15.65%) in FY22. Student loan yields dropped to 3.76% compared to 3.91% in FY21, and partially offset some of the revenue gains from a larger outstanding portfolio.

Total operating expenses for FY22 were \$60.9 million, an increase of \$2.9 million (5.03%) from FY21 totals. Total interest expense on bonds and notes payable during FY22 increased \$2.3 million (13.42%) from FY21. Average debt outstanding increased in FY22 by \$154.6 million (21.27%). The impact of lower average variable rate debt yields partially offset the impact from the increase

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation For the fiscal year July 1, 2021 to June 30, 2022

in average debt outstanding balances. Debt-related expenses decreased in FY22 by \$1.3 million compared with the FY21 amount. Most of this relates to decreased cost of issuance expense incurred during FY22 compared to FY21. General and administrative expenses increased \$0.7 million (1.92%) and is the result of a larger outstanding student loan portfolio and related servicing costs.

ISL's strong net position has allowed the company to absorb COVID-19's impact on operations and the financial performance of the loan and investment portfolios over the past three fiscal years. With a \$486.7 million net position; \$9 million in loan loss reserves; and a conservative investment policy, it appears ISL has the reserves and liquidity to adequately protect the organization's assets from potential future losses.

Aspire Resources, Inc. (ARI), a wholly owned for profit subsidiary of ISL, was incorporated in 2001 to provide services not related to the ISL's 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 ISL but operates independently with members who are not members of ISL's board. ARI and ISL 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 ISL. Total assets for FY22 were \$43.3 million, total liabilities \$6.0 million and a net position \$37.3 million. For FY22 total operating revenues were \$17.2 million and total operating expenses \$17.1 million, resulting in an increase in net position of \$142,264.

In addition to \$11.5 million in cash, ARI had \$26.4 million invested in United States agency obligations and \$0.8 million in money market mutual funds investing in United States government and agency obligations.

At the end of FY22, ARI was servicing 332,802 student loans with an outstanding principal balance of \$2.5 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.

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation For the fiscal year July 1, 2021 to June 30, 2022

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

ISL 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. ISL 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.

ISL'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". The site also provides transparent terms and rates on each loan product for students and their families to review before beginning the application process.

The disclosures given at the time a student or parent applies for a private student loan also 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

ISL issued \$153 million in bonds in June of the fiscal year under review. The bond issuance was comprised of \$26.4 million tax-exempt bonds and \$126.6 million taxable bonds. A verification review was conducted to ensure that ISL 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, ISL issued their annual report to the Governor, members of the general assembly and the auditor of the State of Iowa on January 12, 2022. The report was a comprehensive summary of the activities ISL undertook in its fiscal year ending June 30, 2021, 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, ISL held a public hearing under the Tax Equity and Fiscal Responsibility Act (TEFRA) to gather public input about ISL's planned use of tax-exempt bond proceeds. Minutes from the hearing indicated that it was called to order at 2:33 p.m. on June 2, 2022 by the Board of Director's Chair of its Tax-exempt Bond Issuance Committee (TEBI Chair). Official notice of the hearing was posted on the front page of ISL's website www.iowastudentloan.org on May 25, 2022 and continued to be present on that website until the June 2nd meeting.

Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer Iowa Student Loan Liquidity Corporation For the fiscal year July 1, 2021 to June 30, 2022

The hearing presented information on the proposed issuance of tax-exempt Student Loan Revenue Bonds, Series 2022B, in an aggregate principal amount not to exceed \$35 million, all of which will use private activity cap allocation. The President and CEO of ISL provided a statement on the rationale for additional financing along with a detailed commentary on why ISL was pursuing the bond issuance along with the uses of the bond proceeds.

After verifying there were no other comments or written statements the TEBI Chair recapped the events of the hearing. The hearing was adjourned at 2:39 p.m.

Complying with Section 7C.13, ISL provided minutes of the Board of Directors open meeting held virtually on June 2, 2022. The Board Chair called the meeting to order at 3:01 p.m. and asked for a roll call. Nine board members, five 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". The Board Chair then asked a member of corporate staff to describe how the meeting was noticed and to call the roll and identify all in attendance so that it may be recorded in minutes of the meeting.

The corporate staff member stated the meeting agenda was posted on the corporate website, www.iowastudentloan.org. The staff member also stated they did not receive notice or request from anyone else to attend. There was no response when asked if anyone else was on Zoom or in the board room.

The Board Chair called for a motion to approve the bond resolution for Bond Series 2022 A and B, as recommended by the TEBI Committee earlier in the day, as follows:

"A Resolution Authorizing the issuance by Iowa Student Loan Liquidity Corporation of Student Loan Revenue Bonds, in an Aggregate Principal Amount of not to exceed \$175,000,000 (the "Series 2022 Bonds"), Approving a Second Supplemental Trust Indenture, a Preliminary Official Statement, an Official Statement, a Tax Agreement, a Bond Purchase Agreement, a Continuing Disclosure Agreement, the Series 2022 Bonds, and other matters."

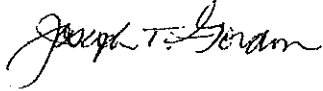
A motion to approve the resolution was made, seconded, and approved unanimously. The board meeting was adjourned at 3:05 p.m.

On June 3, 2022, the Governor of the State of Iowa approved the issuance of ISL's tax-exempt Student Loan Revenue Bonds 2022A and B Series in an amount not to exceed \$35,000,000.

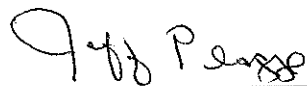
Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer
Iowa Student Loan Liquidity Corporation
For the fiscal year July 1, 2021 to June 30, 2022

Respectfully submitted,



Joseph T. Gordon, Examiner-in-Charge



Jeff Plagge, Iowa Superintendent of Banking

January 3, 2023

Date