Iowa Superintendent of Banking

Annual Review of the Qualified Student Loan Bond Issuer
Iowa Student Loan Liquidity Corporation
For the fiscal year July 1, 2022, to June 30, 2023

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 Ty Hubbell was appointed by former 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, 2023 (FY23) 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, 2023, total assets and deferred outflows of resources* were $1.74 billion. Total assets consisted primarily of net student loans receivable of $1.44 billion and investments of $188 million. Total assets and deferred outflows decreased $158.6 million (8.4%) from June 30, 2022 (FY22). Cash and investments decreased $7.7 million (3.91%) compared to FY22. Student loan payment collection receipts exceeded use of cash for operational and capital expenditures along with loan purchase and funding by $199.0 million. Use of cash for debt service exceeded proceeds from note and bond issuances by $212.1 million. Together these contributed to the overall decline in cash and investments.

Net student loans receivable decreased $153.2 million (9.61%) to $1.44 billion compared to $1.59 billion in FY22. Collected receipts of principal and interest on student loans exceeded the purchase or origination of student loans. ISL purchased or originated $142.1 million in student loans during FY23, a decrease of $780.1 million during the same period in FY22. The difference is due to a large one-time portfolio purchase in FY22 that was not repeated in FY23. Accrued interest receivable increased $5.1 million (9.94%) in FY23. A significantly larger average outstanding student loan portfolio and rising interest rates contributed to the overall increase.

Government guaranteed loans made up 52.94% of the student loan portfolio with private loans the remaining 47.06% at the end of FY23 compared to 60.06% government and 39.94% private at the end of FY22. 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 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 non-defaulted 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 $0.68 million (0.09%) on the government portfolio of $760.5 million and $8.4 million (1.24%) on the private portfolio of $676 million in FY23. At the end of FY22 the loan loss reserve for government loans was $0.36 million (0.04%) and $8.6 million (1.36%) for private loans.

On June 30, 2023, ISL had cash deposits of $0.99 million, which were covered by federal depository insurance or collateralized trust accounts. Investments and cash equivalents of $188 million included $4.69 million of corporate notes/bonds and $183.26 million of money market mutual funds investing in United States government and agency obligations.

Total liabilities were $1.24 billion, a decrease of $156.9 million (11.25%) as compared to FY22. Debt activity made up most of the change. Bond and note maturities totaled $750.2 million, which was above the issuance of notes and bonds payable, totaling $592.1 million. Additional debt was issued to fund student loan originations and portfolio purchases and refinance existing debt.

The change in deferred gain on refunded debt activity includes amortization totaling $3.3 million and is based on changes in applicable outstanding debt.

ISL's net position at the end of FY23 was $488.5 million, a $1.8 million (0.37%) increase from FY22.

Total operating revenues for FY23 were $101.9 million, an increase of $51.3 million (101.14%) from FY22. Investment income increased by $5.8 million in FY23 compared to FY22. Most of this increase was attributed to higher yields on invested balances during the year. Student loan interest income increased 97.87% compared to FY22. ISL's average owned outstanding student loan portfolio increased by $393.9 million (31.46%) in FY23. Student loan yields increased to 5.68% compared to 3.76% in FY22.

Total operating expenses for FY23 increased $39.3 million (64.54%) over FY22 totals. Total interest expense on bonds and notes payable during FY23 increased $32.4 million (170.68%) from FY22. Average debt outstanding increased in FY23 by $413.7 million (31.94%). Increases in variable debt yields contributed to the increase in debt interest expense. Debt-related expenses increased in FY23 by $2.0 million compared with the FY22 amount. Most of this relates to additional cost of issuance expense and letter-of-credit fees incurred during FY23 compared to

FY22. General and administrative expenses increased $3.3 million (8.66%) and is the result of a larger outstanding student loan portfolio, related servicing costs, and inflationary impacts.

With a $488.5 million net position, $9.1 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 ISL's nonprofit purpose. ARI has developed systems and procedures for loan origination and disbursement related processes including the functions of electronic data transmissions management, web reporting, loan information delivery, and centralized loan disbursement services. ARI also provides on-going portfolio servicing for student loan portfolios. ARI's board of directors is appointed by the board of 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 FY23 were $42.8 million, total liabilities $4.9 million and a net position $37.9 million. For FY23 total operating revenues were $18.9 million and total operating expenses $18.2 million, resulting in an increase in net position of $644,244.

In addition to $7.9 million in cash, ARI had $26.4 million invested in United States agency obligations and $1.2 million in money market mutual funds investing in United States government and agency obligations.

At the end of FY23, ARI was servicing 277,416 student loans with an outstanding principal balance of $2.275 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

ISL helps students and their families who need extra funds beyond financial aid, federal student loans and other sources by offering supplemental education loans. Once college is over, ISL can help with a collection of refinance loan programs for those who are seeking different repayment options.

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

Respectfully submitted,

Ty J Hubbell

Ty Hubbell, Examiner-in-Charge

James E. Johnson, Iowa Superintendent of Banking

1-11-24

Date