

**IOWA DIVISION OF BANKING  
DEPARTMENT OF COMMERCE**

**REPORT OF EXAMINATION**

**Iowa Student Loan Liquidity Corporation**

6805 Vista Drive, Ashford I Building  
West Des Moines, Iowa

Iowa License #1741

*AS OF THE CLOSE OF BUSINESS*

September 30, 2024

**"TO THE DIRECTORS"**

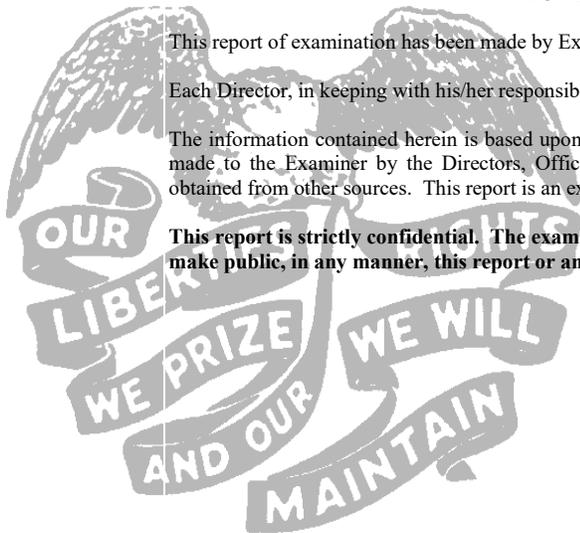
This report of examination has been made by Examiners appointed by the Superintendent of Banking.

Each Director, in keeping with his/her responsibilities, should review this report in complete detail.

The information contained herein is based upon the records and the books of the licensee; upon statements made to the Examiner by the Directors, Officers, and Employees of the licensee and upon information obtained from other sources. This report is an examination, not an audit.

**This report is strictly confidential. The examined licensee or any of its employees shall not publish, or make public, in any manner, this report or any portion of it.**

SUPERINTENDENT OF BANKING  
James E. Johnson



# STATE EXAMINATION REPORT OF SUPERVISED LENDERS

REGULATED LICENSE NUMBER:	1741	NMLS MASTER ID:	209643
REGULATED LICENSEE NAME:	Iowa Student Loan Liquidity Corporation	NMLS BRANCH ID:	218734
LICENSEES' ADDRESS:	6805 Vista Drive, Ashford I Building	PHONE:	515-243-5626
	West Des Moines, Iowa 50266	FAX:	515-223-9535

NAME	TITLE	HIRE DATE
Steven W. McCullough	President and Chief Executive Officer	April 1993
Erin Lacey	Executive Vice President and Corporate Treasurer	May 1992
Cindy Bartz	VP of Project Management and Chief Information Officer	November 1990

## SCOPE OF EXAMINATION

Pursuant to paragraph b, subsection 6, of Iowa Code Section 7C.13, the Superintendent of Banking is required to annually review the total assets, loan volume, and reserves of the qualified student loan bond issuer, Iowa Student Loan Liquidity Corporation (ISL). This year's examination commenced November 4, 2024, at the office of the Iowa Division of Banking (IDOB) and was concluded on December 31, 2024. The examination period was from October 1, 2023 through September 30, 2024. During this time the licensee originated and closed 3,254 student loans, of which 60 (1.84% of the loans originated during the period) were reviewed. In addition to the total assets, loan volume, and reserves, this examination also included a review of the licensee's procedures to inform students of the advantages of loans available under Title IV of the Federal Higher Education Act of 1965, conformance with Iowa Code Chapter 7C regarding the issuance of student loan bonds, and compliance with state and federal lending regulations.

## COMPANY OPERATIONS

ISL was incorporated on August 17, 1979 as a private nonprofit corporation for the purpose of providing funds for the acquisition of student loan notes incurred under the United States Higher Education Act of 1965 (Act), as amended, and to provide procedures for servicing such notes. Pursuant to the action of the Legislature of the State of Iowa, ISL has been empowered to finance and originate alternative education loans in addition to those permitted under the Act. On November 29, 1995, the IDOB issued ISL a Regulated Loan License to conduct such activities. Under a resolution adopted on February 25, 2021, ISL filed a fictitious name resolution with the Iowa Secretary of State on March 8, 2021, to operate under the name ISL Education Lending.

ISL's board of directors is appointed by the Governor of the State of Iowa. The State of Iowa's accountability does not extend beyond the appointment of the board of directors, and, therefore, ISL is not a component unit of the State of Iowa.

Pursuant to Section 7C.4A (3) of the Code of Iowa, ISL has the ability to directly issue debt that pays interest, which is exempt from federal taxation. The bonds and notes issued by ISL do not constitute a debt, liability of, obligation of, or a pledge of the faith and credit of the State of Iowa or any agency or political subdivision thereof.

## EXAMINATION SUMMARY

Examination results and company operations were discussed with Ron Foresman, Vice President of Accounting and Risk Management and Nicole Ulrey, during an exit call conducted via Microsoft Teams on December 30, 2024. No violations were noted, and the licensee is deemed to be in compliance with the requirements and regulations under which it is governed. Details of the examination can be found on page four through nine of this report.

Mr. Foresman indicated with federal rate dropping causing an interest rates dip, their revenues dropped given the majority of the loans are on a variable rate program. With a new administration, they will continue to watch interest rates but don't have any concerns for large drop in rates. Defaults are increasing mainly due to the mandatory forbearance programs that have expired. Defaults are not yet a concern as they are still below their historic levels. Aspire signed up a new client in Minnesota, adding \$600 million to their portfolio.



Examiner (Signature):

Ty Hubbell

DATE EXAM COMMENCED: November 4, 2024 DATE EXAM COMPLETED: December 30, 2024 DATE LAST EXAM: December 29, 2023

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## OPERATIONS

### LOAN PROGRAMS:

Private student loans are supplemental funding sources to help students, and their families fund the gap left after federal, state, or institutional sources of funding have been exhausted. ISL has different private education loan programs for undergraduate and graduate students; upperclassmen undergraduates and graduate students without a cosigner; and families or parents of undergraduate and graduate students.

In addition, ISL also offers a suite of refinancing loans for borrowers with education loans who are seeking different options for repaying that debt. They include programs for student and parent loan borrowers; medical and dental professionals; and students in college and their parents.

The refinance loan program was created to help students and the parents of college students' structure existing loans to better fit their budget.

### FINANCIAL EDUCATION:

ISL offers free online college and career planning tools designed to help students and families learn the importance of career planning, appropriate borrowing levels and how to achieve educational goals. ISL's website also provides a description of scholarships and award programs for high school seniors along with informational articles and videos for anyone preparing for college.

According to their 2023 Annual Report, ISL has provided more than \$1 million to Iowa high school students and parents since 2013. Programs like the Iowa Financial Know-How Challenge: Senior Scholarship and the Save Now, Save Later: College Savings Plan Parent Giveaway provided valuable opportunities for education on how to plan and pay for education after high school, as well as monetary awards.

### STUDENT LOAN ASSISTANCE:

ISL and its servicing staff at Aspire Servicing Center strive to provide high-quality customer service to borrowers repaying their student loans.

### INTERNAL CONTROLS:

ISL has internal controls in place to monitor operations throughout the company. Relevant areas include, but are not limited to management control, board of directors' oversight responsibilities, human resources, compliance risk, financial statement controls, information technology, loan origination, and loan servicing due diligence to ensure government guaranteed requirements are being followed.

In addition to annual third-party control audits, ISL performs internal tests throughout the year to check the effectiveness of the operational controls in place.

## FINANCIAL REVIEW

ISL's most recent audited financial statement for the fiscal year ending June 30, 2024 (FY24) was reviewed along with internally prepared financial statements dated June 30, 2024 and September 30, 2024.

### ASSETS:

As of June 30, 2024, total assets and deferred outflows of resources were \$1.630 billion. Total assets consisted primarily of net student loans receivable of \$1,301.8 billion and investments of \$216.7 million. Total assets and deferred outflows decreased \$113.1 million (6.49%) from June 30, 2023 (FY23). Cash and investments increased 15.38% (\$29.1 million), while student loan payment collection receipts and interest received on investments exceeded use of cash for operational, capital expenditures, and loan purchase and funding by \$199.2 million. Use of cash for debt service exceeded proceeds from notes and bond issuances by \$181.5 million. Together these contributed to the overall increase in cash and investments.

Net student loans receivable decreased \$139 million (9.65%) to \$1.302 billion compared to \$1.441 billion in FY23. Collected receipts of principal and interest on student loans exceeded the purchase or origination of student loans. ISL purchased or originated \$112.9

# STATE EXAMINATION REPORT OF SUPERVISED LENDERS

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million in student loans during FY24, a decrease of \$29.2 million during the same period in FY23. Continued rising interest rates during FY24 contributed to the overall increase in accrued interest receivables of \$2.7 million (4.79%).

Government guaranteed loans made up 46.53% of the student loan portfolio with private loans the remaining 46.53% at the end of FY24 compared to 52.94% government and 47.06% private at the end of FY23. 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.

For previously defaulted private loans ISL will consider modifications to certain loan terms in a troubled debt restructuring (TDR). TDR modifications include a reduced interest rate and adjustments to the minimum monthly payment amount to improve the likelihood of collection of the outstanding principal and accrued interest. These adjusted future payments equate to the TDR loan carrying value at the time of the restructuring and only impact future interest revenue. For allowance purposes, TDR loans are current at the time of the restructuring. For TDR loans (post restructuring) less than 120 days delinquent, a net allowance percentage is applied to the outstanding principal balance based on the Corporation's historical experience. TDR loans that reach 120 days or more delinquency is considered defaulted, and a 100% gross default factor is applied to the outstanding principal balance.

Student loans are charged off in the event of a borrower's death, permanent disability, or under certain state-based statute of limitations requirements. 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 \$1.07 million (0.18%) on the government portfolio of \$605.4 million and \$10.03 million (1.44%) on the private portfolio of \$695.9 million in FY24. At the end of FY23 the loan loss reserve for government loans was \$0.68 million (0.09%) and \$8.4 million (1.24%) for private loans.

On June 30, 2024, ISL had cash deposits of \$1.23 million, which were covered by federal depository insurance or collateralized trust accounts. Investments and cash equivalents of \$216.7 million included \$4.44 million of corporate notes/bonds and \$204.89 million of money market mutual funds investing in United States government and agency obligations.

## **LIABILITIES & NET POSITION:**

At the end of FY24 total liabilities were \$1.12 billion, a decrease of \$121.5 million (9.82%) as compared to FY23. Debt activity made up most of the change. Bond and note maturities totaled \$301.3 million, which was above the issuance of notes and bonds payable, totaling \$183.4 million. Additional debt was issued to fund student loan originations and portfolio purchases and refinance existing debt.

ISL's net position at the end of FY24 was \$500 million, a \$11.5 million (2.35%) increase from FY23.

## **REVENUES & EXPENSES:**

Total operating revenues for FY24 were \$116.4 million, an increase of \$14.5 million (14.23%) from FY23. Investment income increased by \$5.6 million in FY24 compared to FY23. Most of this increase was attributed to higher yields on invested balances during FY24. Student loan interest income increased 8.43% compared to FY23. ISL's average owned outstanding student loan portfolio decreased by \$132 million (8.69%) in FY24. Student loan yields increased to 6.69% compared to 5.68% in FY23.

Total operating expenses for FY24 increased \$4.7 million (4.69%) over FY23 totals. Total interest expense on bonds and notes payable during FY24 increased \$4.6 million (8.93%) from FY23. The average debt outstanding decreased in FY24 by \$91.8 million (7.09%). Increases in variable debt yields contributed to the increase in debt interest expense. Debt-related expenses increased in FY24 by \$1.0 million compared with the FY23 amount. Most of this relates to the additional cost of issuance expense and letter-of-credit fees incurred during FY24 compared to FY23. General and administrative expenses decreased \$1.20 million (2.89%) and is the primary due to less loan fees on a smaller outstanding student loan portfolio.

## **INVESTMENT POLICY:**

## STATE EXAMINATION REPORT OF SUPERVISED LENDERS

Investment portfolio management is the responsibility of ISL’s management and staff. ISL’s board of directors has established a general investment policy and specific bond indentures direct investment policy for assets restricted under those bond indentures. Qualified investments under the general investment policy includes investments in; 1) U.S. Treasury, agency, and instrumentality obligations; interest-bearing time or demand deposits, certificates of deposits, and repurchase agreements and reverse repurchase agreements with any financial institution provided that such funds are fully insured by an agency of the federal government or collateralized at 100% with securities unconditionally and fully guaranteed by the U.S. government or collateralized with 102% of nongovernmental securities in the policy; 2) Commercial paper rated, at the time of purchase, at least “P1” by Moody’s, “A1” by S & P, and “F-1+” by Fitch; 3) Money market funds and corporate notes rated, at the time of purchase, at least in the top two tiers of one of the nationally recognized rating agencies; 4) Investment agreements or guarantee investment contracts, secured by collateral securities that may be entered into with any bank, bank holding company, corporation, or any other financial institution whose outstanding commercial paper and unsecured long-term debt meet certain requirements.

All investment purchase orders must be authorized by a Corporate Officer, the Board Chairman, or the Board Vice Chairman under concentration limits and special considerations.

### **FINANCIAL SOUNDNESS:**

ISL’s net position has allowed the company to absorb the economic impacts and market fluctuations on operations that have occurred over the last several fiscal years. With a \$499.9 million net position; \$11.1 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.

### **INTERIM FINANCIAL REVIEW:**

As of the examination date of September 30, 2024, ISLs unaudited interim financial statements showed total assets of \$1,678.8 million; total liabilities of \$1,170 million and a total net position of \$501 million. Net student loans receivable totaled \$1,279.7 million. Included in the loan receivable total were 90,198 private student loans funded by ISL totaling \$836.2 million that were made to students who have or are attending any nonprofit, Title IV eligible, degree-granting, regionally accredited Iowa college or university or nonprofit school of nursing in Iowa. These loans were made to Iowa residents (56.5%) and non-Iowa residents (43.5%), to supplement their financing needs so they could continue their post-secondary education in Iowa. Table 1 provides a comparison for the private alternative loans funded by ISL as of September 30, 2024 and September 30, 2023.

Total operating revenue for the three months ending September 30, 2024 was \$26.4 million, an 11.1% decrease from the same period in 2023. Total operating expenses were \$25.1 million, an increase of 9.6% from 2023.

**Table 1**

Iowa Student Loan Liquidity Corp. Private Student Loan Portfolio	9/30/2024					
	Number	% Portfolio	% Chg. Prev. Yr.	Principal O/S	% Portfolio	% Chg. Prev. Yr.
<b>Loans by Residence</b>						
Iowa Residents	50,922	56.46%		\$321,598,508	38.46%	
Non-Iowa Residents	39,276	43.54%		\$514,685,533	61.54%	
<b>Total Portfolio</b>	<b>92,6198</b>		<b>-2.81%</b>	<b>\$814,191,976</b>		<b>2.71%</b>
<b>Delinquent Loans</b>						
Iowa 30-59 days delinquent	516			\$2,703,016		-14.02%
Iowa 60-89 days delinquent	348			\$1,821,029		19.05%
Iowa 90-120 days delinquent	155			\$962,983		-5.26%
Iowa 121 or more days delinquent	7,933			\$48,002,915		-2.38%
Iowa Delinquency	9,012	9.99%		\$53,489,943	6.40%	-2.51%
Non-Iowa 30-59 days delinquent	433			\$3,983,412		11.79%
Non-Iowa 60-89 days delinquent	233			\$3,194,418		-3.22%
Non-Iowa 90-120 days delinquent	182			\$2,031,886		19.06%
Non-Iowa 121 or more days delinquent	7,346			\$56,283,652		1.51%
Non-Iowa Delinquency	8,194	9.08%		\$65,493,368	8.04%	2.45%
<b>Total Delinquency</b>	<b>17,206</b>	<b>19.08%</b>	<b>-2.56%</b>	<b>\$120,358,905</b>	<b>14.78%</b>	<b>0.19%</b>

**Table 1**

## STATE EXAMINATION REPORT OF SUPERVISED LENDERS

Iowa Student Loan Liquidity Corp. Private Student Loan Portfolio	9/30/2023					
	Number	% Portfolio	% Chg. Prev. Yr.	Principal O/S	% Portfolio	% Chg. Prev. Yr.
<b>Loans by Residence</b>						
Iowa Residents	52,916	57.13%		\$324,196,412	39.82%	
Non-Iowa Residents	39,704	42.87%		\$489,995,564	60.18%	
<b>Total Portfolio</b>	<b>92,620</b>		<b>-3.87%</b>	<b>\$814,191,976</b>		<b>3.58%</b>
<b>Delinquent Loans</b>						
Iowa 30-59 days delinquent	602			\$3,143,772		-17.95%
Iowa 60-89 days delinquent	260			\$1,529,575		-34.09%
Iowa 90-120 days delinquent	197			\$1,016,469		-28.50%
Iowa 121 or more days delinquent	8,202			\$49,175,721		-1.68%
Iowa Delinquency	9,261	10.00%		\$54,865,537	6.74%	-4.73%
Non-Iowa 30-59 days delinquent	395			\$3,983,412		-4.32%
Non-Iowa 60-89 days delinquent	231			\$3,194,418		0.12%
Non-Iowa 90-120 days delinquent	196			\$2,031,886		-10.75%
Non-Iowa 121 or more days delinquent	7,441			\$56,283,652		3.45%
Non-Iowa Delinquency	8,263	8.92%		\$65,493,368	8.04%	2.27%
<b>Total Delinquency</b>	<b>17,524</b>	<b>18.92%</b>	<b>-2.56%</b>	<b>\$120,358,905</b>	<b>14.78%</b>	<b>-1.04%</b>

### REVIEW OF STUDENT INFORMATION PROCEDURES

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.

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

#### TAX EXEMPT BONDS ISSUANCE:

ISL did not issue any tax-exempt bonds during FY23 but did during the review period of this examination. ISL issued \$87.36 million in bonds with the issuance being comprised of \$3.84 million tax-exempt bonds and \$43.52 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.

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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 11, 2024. The report was a comprehensive summary of the activities ISL undertook in its fiscal year ending June 30, 2023, 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 (IRC), 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 1:30 p.m. on August 6, 2024 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](http://www.iowastudentloan.org).

The hearing presented information on the proposed issuance of tax-exempt Student Loan Revenue Bonds, Series 2024 B&C, in an aggregate principal amount not to exceed \$45 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 2:11 p.m.

In addition to holding the TEFRA public hearing, Section 147(f) of the IRC also requires that ISL receives approval of the tax-exempt bond issuance from the Governor. On August 6, 2024, the Governor of the State of Iowa approved the issuance of ISL's Student Loan Revenue Bonds 2024 B&C Series in an amount not to exceed \$45,000,000.

## **TRUTH-IN-LENDING DISCLOSURE:**

Sixty active and five paid in full student loan files were reviewed for compliance with state and federal disclosure regulations. No violations were noted.

## **RELATED PARTIES**

### **ASPIRE RESOURCES, INC.**

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 along with supporting the functions of electronic data transmissions management, web reporting, loan information delivery, and centralized loan disbursement services. ARI also provides on-going portfolio servicing of 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 is reported as a discretely presented component unit of ISL and is reported under the accounting standards established by the Financial Accounting Standard Board (FASB). ISL contracts ARI to disburse and service its student loan portfolio. ARI and ISL share operating costs with interfund payables/receivables reflecting the net activity associated with the shared services.

As of June 30, 2024, ARI had total assets of \$43.7 million, an increase of \$0.92 million (2.14%) from FY23. Total assets consisted mainly of cash (\$8.47 million), cash equivalents (\$1.62 million) and investments of (\$26.4 million). ARI had \$26.4 million invested in United States agency obligations and \$1.6 million in money market mutual funds investing in United States government and agency obligations.

FY24 total liabilities were \$5.24 million compared to \$4.93 million in FY23. Total net position was \$35.5 million, an increase of \$0.61 million (1.61%) from FY23.

The increase in net position for FY24 was \$610,014 on total operating revenues of \$18.97 million as compared to FY23's increase in net position of \$644,244 on total revenues of \$18.23 million. Total operating revenues came mainly from servicing student loans.

For the three months ending September 30, 2023 (unaudited) ARI had total assets of \$40.9 million and a total net position of \$37.8 million compared to total assets of \$41.9 million and a total net position of \$38.2 million for the same period in 2023. For the three months ending September 30, 2023, the decrease in net position was \$363,158 on total operating revenues of \$3.8 million.

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As of September 30, 2024, ARI was servicing 295,686 student loans with an outstanding principal balance of \$2.42 billion compared to 270,935 student loans with a \$2.28 billion outstanding principal balance on September 30, 2023.

### **IOWA COLLEGE ACCESS NETWORK:**

The Iowa College Access Network (ICAN) was previously operated as a division of ISL but was spun off into a separate unrelated organization in 2010. ISL's President/CEO and a Corporate board member are members of ICAN's board of directors. During the year, ICAN's operations were supported through contributions from ISL.

ISL and ICAN have entered into a contractual administrative services agreement where ISL provides support services to ICAN. ISL will charge a fee for those services based on actual cost plus an overhead factor.

Contributions and administrative support services from ISL to ICAN during FY24 were \$701,611 compared to \$701,693 in FY23.