

# 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, 2012, to June 30, 2013

### 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 Gordon was appointed by Superintendent James Schipper to conduct the review.

### Report of Total Assets, Loan Volume, and Reserves

ISLLC provided audited financial statements dated June 30, 2013 (FYE 13). The accompanying Independent Auditors' Report expressed the opinion that the financial statements present fairly, in all material respects, the financial position of ISLLC.

As of June 30, 2013, total assets of \$2.19 billion consisted primarily of net student loans receivable of \$1.91 billion, investments of \$217.31 million, and cash of \$9.9 million. Total assets declined \$208 million (8.68%) from the previous year with a \$203.97 million (9.67%) decrease in net student loans receivable and a \$3.59 million (1.56%) reduction in cash and investments. The decrease in net student loans receivable is primarily due to borrower repayment exceeding loan additions and capitalized borrower interest. The decrease in cash and investments was primarily due to cash use for unusual items (capital asset purchase and arbitrage settlement) along with normal on-going operating expenditures, debt service, and origination loan funding, which exceeded student loan payment collection and servicing fee revenue.

Net student loans receivable decreased for the third year in a row. At FYE 13, net loans receivable totaled \$1.91 billion, compared to \$2.11 billion, \$2.96 billion, and \$3.38 billion for the last three fiscal years, respectively. The annual decreases in loans receivable were \$203.97 million (9.67%) in FY13, \$848.82 million (28.69%) in FY12, and \$420 million (12.43%) in FY11.

While loans owned by ISLLC has decreased \$1.47 billion over the last three years, the student loan portfolio serviced through Aspire Resources, Inc., ISLLC's wholly owned for-profit subsidiary, has increased \$11.94 billion (3408.61%) since June 30, 2011. Aspire Resources, Inc. services student loans not owned by ISLLC.

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Government guaranteed loans made up approximately 46% of the student loans receivable with private loans being the remaining 54%. Government student loans carry a 97% guaranty while there is no government guaranty for private loans. ISLLC management periodically reviews the student loan portfolio performance and evaluates the probability of losses to determine a loan loss reserve. According to management, historically there has been about a 2-2.5% default rate on government guaranteed loans. Using this data, ISLLC has established a loan loss reserve of 2.5% on their 3% exposure for these loans. For private loans, ISLLC reviews the type of loan pool and repayment period in determining the loan loss reserve for this portion of the portfolio. At June 30, 2013 the loan loss reserve for both loan types was \$162.88 million.

The cash deposits of \$9.9 million were covered by federal depository insurance or collateralized trust accounts. The investments of \$217.31 million included \$181.78 million of money market mutual funds investing in U.S. government and agency obligations; \$12.15 million of United States agency obligations and \$23.38 million of corporate notes and bonds, rated "A-1+" by S & P at the time of purchase.

Total liabilities decreased \$246.0 million (12.62%) from the previous year with debt activity making up most of the change. Bond and note maturities exceeded new debt issuances during the year, plus ISLLC paid tax-exempt arbitrage liabilities which resulted in a liability reduction of \$20.9 million.

ISLLC's net position (similar to the net worth of a for-profit company) on June 30, 2013 was \$495.16 million, a \$50.07 million (11.25%) increase over the previous year. Positive net interest margins, increased servicing fee income, amortization of deferred gains on early redemption of debt, and lower provisions for loan losses contributed to the improved position.

Total operating revenues during FY13 totaled \$123.1 million, a decrease of \$109.2 million (52.99%) from FY12. While student loan interest income decreased \$11.73 million (12.96%) compared to FY12, other income rose significantly to \$21.61 million in FY13 due to a full year of direct loan servicing activity.

Total operating expenses for FY13 decreased \$19.72 million (21.26%). A major component in the decrease was a reduction in the provision for loan losses (primarily to private loans) of \$16.58 million (63.86%) from FY12. A more seasoned portfolio and a reduction in overall delinquencies allowed for the decrease in loan loss provisions.

With the \$495.16 million net position, loan loss reserves of \$162.88 million and a policy of covering investment assets with federal depository insurance, U.S. government and agencies obligations, it appears ISLLC has adequately protected the organization's assets from potential future losses.

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

ISLLC has established adequate procedures to inform students about the advantages of loans for which the students may be eligible that are available under Title IV of the Federal Higher Education Act.

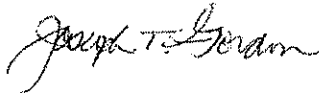
Materials given to students and schools note that forms of financial aid other than borrowing should be exhausted before considering borrowing. Further, the materials note that if the student needs to borrow, federal student loans should be exhausted before private loans are considered.

Both online and paper applications for private loans note in their opening paragraphs that all other sources of financial aid and loans should be exhausted before considering a private loan.

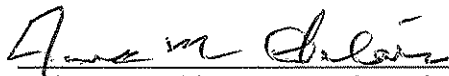
Disclosures given at the time a student or parent applies for a private student loan include extensive information about the cost of guaranteed student loans versus private student loans. In addition, the loan programs are described as supplements to – not replacement of – federal, state, or institutional sources of funding for education costs.

## Verification of Compliance with Tax-exempt Bond Issuing Requirements

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



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Joseph T. Gordon, Examiner-in-Charge



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James M. Schipper, Iowa Superintendent of Banking

1-14-2014  
Date