

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, 2013, to June 30, 2014

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, Total Liabilities, Loan Volume, and Reserves

ISLLC provided audited financial statements dated June 30, 2014 (FY14) which the independent auditors' report noted presented fairly, in all material respects, the financial position of ISLLC.

As of June 30, 2014, total assets of \$1.98 billion consisted primarily of net student loans receivable of \$1.73 billion, investments of \$194.94 million, and cash of \$9.34 million. Total assets declined \$199.61 million (9.17%) from the previous year with a \$170.31 million (8.98%) decrease in net student loans receivable and a \$22.92 million (10.09%) reduction in cash and investments. The decrease in net student loans receivable is primarily due to borrower cash receipts being in excess of loan additions and capitalized borrower interest. The cash receipts exceeding new loan additions were partially offset by the allowance for loan losses (ALL) decreasing approximately \$102.7 million. The decrease in the ALL is due to a change in ISLLC's write-off policy for private loans. Prior to FY14, ISLLC would reserve for, but not write-off, loans that had been identified as in default. During FY14, ISLLC implemented a policy to write-off the principal balance and related accrued interest receivable on private loans that were 270 or more days past due with no principal or interest payment activity in the most recent 12 month period. The change in policy resulted in an insignificant impact to operating income as all write-offs were recorded as a reduction to the ALL.

The decrease in cash and investments was primarily due to cash use for normal on-going operating expenditures, debt service, and origination loan funding which exceeded student loan payment collection accumulations, servicing fees receipts and debt draws.

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, 2013, to June 30, 2014

Net student loans receivable decreased for the fourth year in a row. At FY14 net loans receivable totaled \$1.73 billion, a decrease of \$170.3 million (8.98%) from June 30, 2013 (FY13). The FY13 net student loans receivable was \$1.90 billion, a decrease of \$214.59 million (10.17%) from the June 30, 2012 (FY12) amount of \$2.11 billion. The FY12 net student loans were down 28.69% from the June 30, 2011 amount which decreased 12.57% from June 30, 2010.

While net student loans have decreased \$1.66 billion over the last four years, the student loan portfolio serviced through Aspire Resources, Inc., ISLLC's wholly owned for-profit subsidiary has increased \$12.72 billion (3629.17%) since June 30, 2011. Aspire Resources, Inc. services student loans not owned by ISLLC.

Government guaranteed loans made up approximately 48.13% of the student loans receivable with private loans being the remaining 51.87%. 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. The ALL evaluation on the federally insured loan portfolio is conducted separately from the private loan portfolio. ISLLC established a loan loss reserve of 0.16% on the government portfolio and 6.35% for private loans. At June 30, 2014 the loan loss reserve for government loans was \$1.41 million and \$58.81 million for private loans.

The cash deposits of \$9.34 million were covered by federal depository insurance or collateralized trust accounts. The investments of \$194.94 million included \$93.70 million of money market mutual funds investing in U.S. government and agency obligations. The remaining \$101.24 million included U.S. agency obligations and corporate notes/bonds, rated "A-1+" by S & P at the time of purchase.

Total liabilities decreased \$197.67 million (12.71%) from the previous year with debt activity making up most of the change. Bond and note maturities exceeded new debt issuances during the year resulting in a net decrease in debt outstanding of \$193.14 million. Other accounts payable and accrued expenses dropped \$4.20 million with most of this decrease coming from a \$3.1 million decrease in the accumulated fair value of a hedging derivative.

ISLLC's net position (similar to the net worth of a for-profit company) on June 30, 2014 was \$491.49 million, a \$33.31 million (7.27%) increase over the previous year. Positive net interest margins, increased servicing fee income, amortization of deferred gains, and lower provisions for loan losses all contributed to the improved position.

Total operating revenues during FY14 totaled \$88.78 million, a decrease of \$34.47 million (27.97%) from FY13. Student loan interest income decreased \$13.57 million (17.23%) compared to FY13. While net increase in fair value of investments added \$3.78 million to investment income, it was a \$12.55 million (76.86%) drop from FY13.

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, 2013, to June 30, 2014

Total operating expenses for FY14 decreased \$11.36 million (16.99%) from FY13. Total interest expense on bonds and notes payable decreased \$5.62 million (13.97%) due primarily to a decrease in average debt outstanding from FY13 to FY14. Debt related expenses decreased \$4.46 million (84.90%) because FY14 did not have the significant new debt issuance costs that were incurred in FY13. The provision for loan losses (primarily private loans) decreased \$7.70 million (82%) due to a more seasoned repayment portfolio and effective management of delinquent loans.

With the \$491.49 million net position, loan loss reserves of \$60.22 million, a policy of covering cash deposits with federal depository insurance or collateralized trust account, and investing in U.S. government and agencies obligations, it appears ISLLC has adequately protected the organization's assets from potential future losses.

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.

Iowa Superintendent of Banking

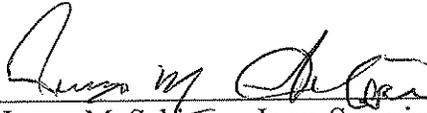
Annual Review of the Qualified Student Loan Bond Issuer
Iowa Student Loan Liquidity Corporation (ISLLC)
For the fiscal year July 1, 2013, to June 30, 2014

Verification of Compliance with Tax-exempt Bond Issuing Requirements

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



Joseph T. Gordon, Examiner-in-Charge



James M. Schipper, Iowa Superintendent of Banking

Date

12-23-14