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, 2014, to June 30, 2015

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 it's 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 Ronald L. Hansen to conduct the review.

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

ISLLC provided audited financial statements dated June 30, 2015 (FY15) which the independent auditors' report noted presented fairly, in all material respects, the financial position of ISLLC as of that date.

As of June 30, 2015, total assets of $1.80 billion consisted primarily of net student loans receivable of $1.54 billion, investments of $219.07 million, and cash of $4.42 million. Total assets declined $174.8 million (8.84%) from June 30, 2014 (FY14). A $190.12 million (11.02%) decrease in net student loans receivable and a $19.21 million (9.40%) increase in cash and investments contributed to the change. The decrease in net student loans receivable is primarily due to borrower cash receipts being in excess of loan additions and capitalized borrower interest. ISLLC purchased or originated $14.8 million in student loans during FY15, which was a slight increase from the $12.4 million during FY14.

Net student loans receivable decreased for the fifth year in a row. FY15 net loans receivable totaled $1.54 billion; FY14 totaled $1.73 billion; FY13 totaled $1.90 billion; FY12 totaled $2.11 billion and FY11 was $2.96 billion.

Government guaranteed loans made up 47.16% of the student loans receivable with private loans being the remaining 52.84%. 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 its allowance for loan loss reserve (ALL). The ALL evaluation on the federally insured loan portfolio is conducted separately from the private loan portfolio. ISLLC established a loan loss reserve of 0.14% on the government portfolio and 3.52% for private loans in FY15. At June 30, 2015 the loan loss reserve for government loans was $1.05 million and $29.14 million for private loans.

The cash deposits of $4.42 million were covered by federal depository insurance or collateralized trust accounts. The investments of $219.07 million included $148.63 million of money market mutual funds investing in U.S. agency obligations. The remaining $70.43 million included U.S. agency obligations and corporate notes/bonds, rated "A-1+" by S & P at the time of purchase.

Total liabilities decreased $157.56 million (11.60%) 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 $154 million. Other accounts payable and accrued expenses dropped $3.5 million with most of this decrease coming from a $3.0 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, 2015 was $496.84 million, a $5.35 million (1.09%) increase over the previous year.

Total operating revenues for FY15 totaled $71.88 million, a decrease of $16.90 million (19.04%) from FY14. Student loan interest income decreased $5.91 million (9.06%) compared to FY14. ISLLC's average owned outstanding student loan portfolio dropped 9.08% in FY15. Normal pay downs during the year impacted the average student loan outstanding balances. Borrower interest allowance adjustments on defaulted private loans reduced student loan interest income by $4.6 million in FY15. Net decrease in fair value of investments reduced revenue $6.0 million. This is a $9.8 million decrease from the FY14 amount.

Total operating expenses for FY15 increased $11.06 million (19.94%) over FY14. Total interest expense on bonds and notes payable deceased $3.78 million (10.92%) due primarily to a decrease in average debt outstanding from FY14 to FY15. Debt related expenses increased in FY15 by $0.84 million (105.37%) over FY14 due to the additional cost of the new debt issuance. The FY15 amortization of deferred gain on refunded debt was $19.2 million, a decrease of $12.5 million (39.45%). This change comes from the amortization of deferred gains on short-term debt that ended during FY14. The provision for loan losses, primarily private loans, increased $3.22 million in FY15 over FY14. General default trends and additional loans maturing into a repayment status contributed to this increase.

With the $496.84 million net position, loan loss reserves of $30.19 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.

Subsequent to June 30, 2015, Aspire Resources Inc. (Aspire), a wholly owned for-profit subsidiary of ISLLC, received approval from the U.S. Department of Education to implement an agreement to transfer responsibilities for servicing federal student loans within the William D. Ford Federal Direct Loan Program (Direct Loan) currently serviced by Aspire to the Missouri

Higher Education Loan Authority. As of June 30, 2015 Aspire serviced 398,748 Direct Loan accounts with an outstanding principal balance totaling $9.2 billion. Loan transfers began in August 2015 and were completed in September 2015. The loan servicing contract with the U.S Department of Education will terminate in 2016.

The decision to terminate the contract was based on making Aspire a more efficient and viable company into the future.

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 issued $37.80 million in tax-exempt bonds on May 13, 2015 of the fiscal year under review. A verification review was conducted to ensure that ISLLC complied with Iowa Code Section 7C.13 requirements with the findings as follows.

As required by Iowa Code Section 7C.13, subsection 2, ISLLC's annual report, dated January 15, 2015, was provided to Governor Branstad, members of the general assembly and state officials. The report was a comprehensive summary of the activities ISLLC undertook in 2014 to fulfill its nonprofit mission of providing the resources necessary for students to succeed in postsecondary education.

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The Board of Directors held a telephonic meeting on March 10, 2015, to review and discuss initial information regarding a proposal to issue approximately $50 million in Iowa Student Loan Liquidity Corporation Tax Exempt Student Loan Revenue Bonds. Minutes from the meeting indicated that it was called to order at 3:47 p.m. Discussion concluded with a call from the Chairman for motions to approve a resolution to proceed with the issuance of the tax-exempt bonds and providing for a public hearing. A motion and second was made for approval of the resolution and it passed unanimously. The Chairman also called for approval of the Tax-exempt Bond Issuance Committee Charter (Charter). A motion and second was made for approval of the Charter, which passed unanimously. The meeting was adjourned at 3:52 p.m.

As mandated by Section 7C.13 of the Code of Iowa and Section 147(f) of the Internal Revenue Code, ISLLC held a public hearing under the Tax Equity and Fiscal Responsibility Act (TEFRA) on March 25, 2015. Official notice of this meeting was published in the Des Moines Register on March 10, 2015. The hearing was to present information regarding the issuance of tax-exempt Student Loan Revenue Bonds, 2015-A Series in an aggregate principal amount not to exceed $50,000,000 all of which will use private activity cap allocation. Information included key reasons why ISLLC was pursuing the bond issuance along with the uses of the bond proceeds. This public hearing complied with the State and Federal Code Sections mentioned above.

Iowa Code Section 7C.13, subsection 5, requires ISLLC to maintain open records for consideration of tax-exempt bonds. The records must be available to the public and consist of a) minutes of the meetings conducted in accordance to the issuance of tax exempt bonds; b) the data and written views or arguments submitted in accordance with the public hearing related to the tax exempt bond issuance; c) the letters seeking approval from the governor for issuance of tax-exempt bonds; and d) the published official statement of the tax-exempt bond issue.

In compliance with Section 7C.13, subsection 5, ISLLC has provided minutes of the March 25, 2015 TEFRA hearing, which included a statement from the President of ISLLC along with a written endorsement and two testimonials which were entered into record by the Corporate Secretary and Open Records Administrator. The Chairman of the Bond Issuance Committee recapped the hearing and it was adjourned at 1:24 p.m.

ISLLC's Board of Directors approved the public hearing minutes and the submission to the Governor's office a request for approval of the Student Loan Revenue Bonds 2015-A Series (Bonds).

The Governor of the State of Iowa approved the issuance of the Bonds on March 30, 2015.

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Respectfully submitted,

Joseph T. Gordon

Joseph T. Gordon, Examiner-in-Charge

Ronald L. Hansen

Ronald L. Hansen, Iowa Superintendent of Banking

January 12, 2016

Date