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, 2015, to June 30, 2016

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, 2016 (FY16) 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, 2016, total assets were $1.61 billion and consisted primarily of net student loans receivable of $1.36 billion and investments of $132.92 million. Total assets declined $191.37 million (10.61%) from June 30, 2015 (FY15). Contributing to the change was a $172.44 million (11.23%) decrease in net student loans receivable and an $83.50 million (37.70%) decrease 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. ISLLC purchased or originated $15.3 million in student loans during FY16, which was a slight increase from the $14.8 million during the same period in FY15.

Net student loans receivable decreased for the sixth year in a row. FY16 net loans receivable totaled $1.36 billion; FY15 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 46.17% of the student loans receivable with private loans being the remaining 53.83%. 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. 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 and both are based several factors. ISLLC established a loan loss reserve of 0.16% on the government portfolio and 2.87% for private loans in FY16. At June 30, 2016 the loan loss reserve for government loans was $1.05 million and $21.43 million for private loans.

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The cash deposits of $5.04 million are covered by federal depository insurance or collateralized trust accounts. Investments of $138.98 million included $95.87 million of money market mutual funds investing in U.S. government and agency obligations. The remaining $43.11 million included U.S. agency obligations and corporate notes/bonds.

Total liabilities decreased $186.1 (15.51%) 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 $186.2 million. Other accounts payable and accrued expenses dropped $0.79 million.

ISLLC's net position (similar to the net worth of a for-profit company) on June 30, 2016 was $506.51 million, a $9.68 million (1.95%) increase over the previous year.

Total operating revenues for FY16 totaled $67.56 million, an increase of $4.90 million (7.81%) from FY15. Investment income increased $4.19 million (1117.67%) over the amount in FY15. Most of this increase is attributable to investment gains. Investment fair value adjustments improved $5.61 million over the FY15 amount. Student loan interest income decreased $2.51 million (4.23%) compared to FY15. ISLLC's average owned outstanding student loan portfolio dropped by $180.1 million (10.06%) in FY16.

Total operating expenses for FY16 increased $0.5 million (0.87%) over FY15. Total interest expense on bonds and notes payable deceased $1.42 million (4.62%) due primarily to a decrease in average debt outstanding from FY15 to FY16 of $162.1 million. Debt related expenses decreased in FY16 by $0.82 million (50.25%) compared to FY15 mainly because of the bond issuance expense that was incurred in FY15. The FY16 amortization of deferred gain on refunded debt was $17.97 million, a decrease of $1.29 million (6.71%). Most of this change is due to differences in debt maturities that changed the annual amortization amounts. The provision for loan losses, primarily private loans, increased $3.47 million in FY16 over FY15. General default trends and additional loans maturing into a repayment status contributed to this increase.

With a $506.51 million net position, loan loss reserves of $22.49 million and an investment policy requiring cash deposits to be backed by federal depository insurance or collateralized trust accounts, investments only in U.S. government/agency obligations, highly rated corporate notes and commercial paper, it appears ISLLC has adequately protected the organization's assets from potential future losses.

Aspire Resources Inc. (Aspire), a wholly owned for-profit subsidiary of ISLLC, provides services not related to ISLLC's nonprofit purpose, which includes the servicing of student loan portfolios. As of June 30, 2016 Aspire was servicing 372,254 student loans with an outstanding principal balance totaling $9.31 billion.

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In 2016 ISLLC obtained a majority interest (65.0%) in Link Capital Partners LLC (Link) along with three board seats on the five member board of directors. Link is a financial services company that offers loan refinancing and consolidation programs for medical professionals.

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.

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.

Respectfully submitted,

Joseph T. Gordon

Joseph T. Gordon, Examiner-in-Charge

Ronald L. Hansen

Ronald L. Hansen, Iowa Superintendent of Banking

January 12, 2017

Date