NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2020 and 2019

NorthStar Education Finance, Inc. and Subsidiary

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NorthStar Education Finance, Inc.
Eagan, Minnesota

We have audited the accompanying consolidated financial statements of NorthStar Education Finance, Inc. and its subsidiary, which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthStar Education Finance, Inc. and its subsidiary as of September 30, 2020 and 2019 and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Minneapolis, Minnesota
December 15, 2020

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2020 and 2019
(in thousands)

ASSETS

	2020	2019
ASSETS		
Cash and cash equivalents (Note 2)	$ 30,667	$ 19,818
Interest-bearing deposits (Note 2)	6,900	11,100
Unrestricted investments (Notes 2,3)	6,900	10,950
Student loans, net (Notes 2, 4, and 5)	1,668,064	1,914,438
Interest receivable	35,278	32,136
Servicer receivable (Note 2)	2,214	2,596
Government receivable (Note 2)	-	4,143
Restricted cash and cash equivalents (Note 2)	78,187	117,948
Restricted Investments (Notes 2,3)	4,443	13,736
Prepaid expenses and other assets	56	55
TOTAL ASSETS	$ 1,832,709	$ 2,126,920

LIABILITIES AND NET ASSETS

	2020	2019
LIABILITIES		
Accounts payable and accrued liabilities	$ 3,389	$ 7,668
T.H.E. repayment bonus liability (Note 2)	1,057	6,624
Government payable (Note 2)	2,313	-
Long-term debt (Note 6)		
Principal	1,662,308	1,951,670
Less: unamortized debt issuance costs and original issue discount (Note 2)	(6,194)	(7,668)
Long-term debt, net	1,656,114	1,944,002
Total Liabilities	1,662,873	1,958,294
NET ASSETS		
Net assets without donor restrictions	169,836	168,626
TOTAL LIABILITIES AND NET ASSETS	$ 1,832,709	$ 2,126,920

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2020 and 2019
(in thousands)

	2020	2019
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 67,503	$ 103,367
T.H.E. repayment bonus commitment (Note 2)	(4,407)	(4,784)
Loan premium amortization (Note 2)	(1,354)	(8,252)
Total Operating Revenue	61,742	90,331
OPERATING EXPENSES		
Interest expense	37,443	69,864
Financing expense	558	554
Loan servicing fees	1,107	1,376
Loan consolidation fees	14,806	16,630
(Recovery of) provision for loan losses (Note 5)	(608)	592
Federal loan default expense	209	433
Legal expenses	442	189
Professional services	3,781	4,025
Grants and other donations	3,795	3,161
Other	87	59
Total Operating Expenses	61,620	96,883
OTHER INCOME		
Sub-servicing fees	87	113
Interest income	1,001	1,794
Total Other Income	1,088	1,907
CHANGE IN NET ASSETS	1,210	(4,645)
NET ASSETS, BEGINNING OF PERIOD	168,626	173,271
NET ASSETS, END OF PERIOD	$ 169,836	$ 168,626

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2020 and 2019
(in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,210	$ (4,645)
Adjustments to reconcile change in net assets to cash flows used in operating activities		
Amortization of loan premium costs	1,354	8,252
Other amortization	1,474	1,150
(Recovery of) provision for loan losses	(608)	592
(Increase) decrease in assets		
Interest receivable	(3,142)	(1,113)
Servicer receivable	382	(395)
Government receivable	4,143	37
Prepaid expenses and other assets	(1)	-
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(4.279)	(1,392)
T.H.E. repayment bonus commitment	(5,567)	(10,860)
Government payable	2,313	-
Net Cash Flows Used In Operating Activities	(2,721)	(8,374)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	245,628	299,776
Purchases of interest-bearing deposits	(12,000)	(6,000)
Proceeds from maturities of interest-bearing deposits	16,200	3,200
Purchases of unrestricted investments	-	(6,000)
Proceeds from maturities of unrestricted investments	4,050	4,400
Proceeds from maturities of restricted investments	9,293	2,469
Net change in restricted cash	39,761	32,495
Net Cash Flows Provided By Investing Activities	302,932	330,340
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(289,362)	(322,403)
Net Cash Flows Used in Financing Activities	(289,362)	(322,403)
Net Increase (Decrease) in Cash and Cash Equivalents	10,849	(437)
CASH AND CASH EQUIVALENTS - Beginning of Year	19,818	20,255
CASH AND CASH EQUIVALENTS - End of Year	30,667	19,818
CASH PAID FOR INTEREST	$ 41,773	$ 71,596

See accompanying notes to consolidated financial statements.

NOTE 1 - Business Operations

NorthStar Education Finance, Inc. ("NEF" or the "Company") is a Delaware non-stock nonprofit corporation that was incorporated in January 2000 and was formed to administer the student loan programs started by NorthStar Guarantee, Inc. Shortly after receiving a favorable determination from the Internal Revenue Service in March of 2003 that NEF was an organization described in Section 501(c)(3) of the Internal Revenue Code, NorthStar Guarantee, Inc. transferred beneficial ownership of all remaining assets (including all student loans) to NEF, and NEF assumed all associated liabilities. Effective July 1, 2010, federal legislation eliminated the authority to provide new loans under The Federal Family Education Loan Program ("FFELP") and required that all new federal loans be made through the Direct Student Loan Program ("DSLP"). Because of this and disruptions in the credit markets, the Company is no longer in the business of originating federal or private student loans, but continues to manage its historic loan portfolio.

The Company is dedicated to supporting its charitable purpose, which is to foster, aid, encourage and assist the pursuit of higher education. Supporting its mission, the Company provides students who have existing loans which were issued under NEF's T.H.E. Loan Program, the lowest possible cost on their loans. In particular, the Company returns excess revenues to eligible student borrowers in the form of the T.H.E. Repayment Bonus ("T.H.E. Bonus"). NEF's primary charitable goals are to (a) continue servicing its outstanding student loans; (b) manage its financings as necessary to maximize the T.H.E. Bonus paid to student borrowers; and (c) make grants to other organizations in furtherance of its educational mission.

The Company has financed its student loan portfolio through a series of student loan asset-backed note issues, beginning with the first issue in the year 2000. As a result, most of the Company's student loans have been pledged under indentures and are held by trusts specific to the respective securities issues.

NEF's Board of Directors provides oversight to the Company, but as NEF has no employees, management and administrative operations are performed by Nelnet through an administrative agreement between NEF and Nelnet, including activities required to support NEF's role as Master Servicer and Administrator for each of its financings (see Note 6).

The Company uses Nelnet as its third-party loan servicer to perform certain activities for supporting the administration of its outstanding student loan portfolio. These activities include collecting and processing borrower payments, responding to borrower and lender inquiries and requests, as well as processing changes to repayment plans, deferments and forbearances and other default prevention activities.

The Company uses a third-party collection agency to perform collections on private student loans which have defaulted due to delinquency.

All T.H.E Loan Program loans, related financial assets and associated liabilities are assets or liabilities of NEF, either directly or through its wholly-owned limited liability company subsidiary, NorthStar Education Funding I, LLC. Any potential claims against or liabilities of the subsidiary would be payable only out of the assets of that subsidiary.

NOTE 2 – Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of a checking, demand deposit and savings accounts. The amounts may exceed federally insured limits. Cash pledged as collateral for securities included in long-term debt is excluded from cash and cash equivalents and presented in these consolidated financial statements as restricted cash and cash equivalents.

Interest Bearing Deposits

Interest bearing deposits are certificate of deposit investments of unrestricted cash made by the Company with a financial institution that are carried at cost with original maturities greater than three months. Balances over $250 in that institution are not insured by the FDIC and therefore pose a potential risk in the event the respective institution was to fail. As of September 30, 2020 and 2019, there were $6,650 and $10,850 in uninsured certificates of deposits, respectively.

Unrestricted investments

Unrestricted investments represent unrestricted cash which has been invested in United States Treasury Notes with original maturities greater than three months. As the Company has the ability and intent to hold these investments until their respective maturity dates, these are considered as held-to-maturity securities and are recorded at amortized cost (see Note 3).

Student loans and allowance for loan losses

The Company’s portfolio of student loans consists of federal and private student loans. The Company's federal loans were originated under the Federal Family Education Loan Program (FFELP). Federal loans include consolidation, Stafford, PLUS and GradPLUS loans. Stafford, PLUS and GradPLUS loans have original terms of ten years and consolidation loans have terms ranging from ten to twenty-five years. The Company’s private loans have original terms of fifteen or twenty years. Federal loans are recorded at cost and are presented net of unamortized premium costs on the Consolidated Statements of Financial Position. The Company utilizes the interest method to amortize these costs, which takes into consideration actual loan prepayments.

The Company’s federal loans are guaranteed by the United States Department of Education (“DOE”), with reimbursement rates ranging from 97% to 100% of principal and related accrued interest balances. Pursuant to federal regulations, the Company is required to repurchase (from the respective guarantor) a loan that was reimbursed under a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or, as a result of the hearing, the loan is considered non-dischargeable and the borrower is responsible for repayment of the loan. Due to management’s historical experience with its portfolio of federal loans and the guarantee and taking into consideration the impact of COVID-19 pandemic (see Note 5), no provision for federal student loan losses has been provided by management in the consolidated financial statements.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Private student loans are recorded at cost and reported net of the allowance for loan losses ("allowance") on the Consolidated Statements of Financial Position. The Company's allowance represents a reserve for the probable and inherent losses on the Company's private student loans. Following the guidance under Accounting Standard Codification (ASC) 450-20, management evaluates the allowance quarterly on an aggregate basis to ensure the reserve is adequate. As all private student loans are considered as having similar risk characteristics (the majority were originated under the same underwriting guidelines, to students attending similar high quality schools, etc.-see Note 4), the evaluation and analysis is performed on the entire pool of private student loans. The evaluation includes a review of historical losses and any new trends and/or conditions, including the impact of the COVID-19 pandemic on the economic environment (see Note 5), that may impact the Company's ability to collect on its portfolio of private student loans. The evaluation and analysis resulting from these reviews are used in management's determination of the amount of the allowance.

Defaulted loans are generally charged off to the allowance when a loan is greater than 180 days delinquent. Beginning in April 2020, as part of the Company's COVID-19 relief assistance programs to borrowers (see Note 5), the process of defaulting delinquent private loans was suspended through November 2020, which was consistent with common practice amongst other lenders with student loans serviced by Nelnet. Subsequent recoveries of accounts previously charged off are recorded to the allowance.

Management believes the allowance for loan losses is adequate as of September 30, 2020 and 2019. While management used available information to estimate losses on private loans, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, including the impact of the COVID-19 pandemic.

Servicer receivable

Servicer receivable represents student loan principal and interest payments collected and applied to borrower balances by the Company's third-party loan servicer that have not yet been remitted to the Company. No allowance was deemed necessary as of September 30, 2020 and 2019.

Government receivable/payable

Government receivable represents an amount due from the DOE for borrower interest earned on federal student loans which is less than the floating rates as derived from the DOE's Special Allowance Payments ("SAP") formula, as established under The Higher Education Act of 1965 (the "Act"). Government payable represents an amount due to the DOE for borrower interest earned on federal student loans which is more than the floating rates as derived from the DOE's SAP formula.

The SAP formulas are based on type of loan and disbursement date, as well as (for Stafford loans only), repayment status. The rates derived from the DOE's SAP formula, which pertain to the Company's federal loans, are based on 1-month LIBOR or 91-day Treasury Notes.

During the prior fiscal year, both LIBOR and the 91-day Treasury rates increased, which resulted in an amount due from the DOE as of September 30, 2019. During the current fiscal year, both LIBOR and the 91-day Treasury rates began to decrease, resulting in an amount due to the DOE as of September 30, 2020. See Student loan interest income - Federal loans below.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Restricted cash and cash equivalents

The Company's restricted cash and cash equivalents include cash pledged as collateral for securities included in long-term debt. Cash pledged as collateral is held by a trustee in various accounts subject to use restrictions imposed by trust indentures specific to each of the Company's security issues. Pursuant to stipulations in these indentures, cash held in trust funds must be used for distributions as required under the specific indenture obligations. Restricted cash and cash equivalents consist of accounts invested in highly liquid financial instruments with stated maturities of three months or less. The amounts may exceed federally insured limits.

The Company's restricted cash and cash equivalents also includes cash that has been released from two of the Company's trusts (which allow such releases) and which the Company has an obligation under a certain settlement agreement to use this cash to fund T.H.E. Bonus payments.

Restricted investments

Restricted investments represent restricted cash which has been invested in United States Treasury Notes with original maturities greater than three months. As the Company has the ability and intent to hold these investments until their respective maturity dates, they are considered as held-to-maturity securities and are recorded at amortized cost (see Note 3).

Debt issuance costs and original issue discount ("OID")

The Company's debt issuance costs related to a recognized debt liability are presented in the Statement of Financial Position as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of a debt discount. Amortization of debt issuance costs is reported as interest expense.

The Company's OID, which is associated with its Series 2016A debt issue (see Note 6), is amortized and presented in the same manner as the Company's debt issuance costs, as described above.

Income taxes

The Company is a tax-exempt organization described under the provisions of Internal Revenue Code Section 501(c)(3), and therefore has made no provision for income taxes.

Net assets

Net assets and revenues are classified based on the existence or absence of restrictions. Accordingly, net assets of the Company are classified and reported as follows:

Net assets without donor restrictions include net assets which are not subject to any restrictions.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Student loan interest income

Federal loans

The Company's federal loans earn interest at the greater of the borrower's rate or a floating rate which is determined by the DOE's Special Allowance Payments ("SAP") formula pursuant to the Act. The rates derived from the DOE's SAP formula, which pertain to the Company's federal loans, are based on 1-month LIBOR or 91-day Treasury Notes. If the floating rate exceeds the borrower rate, the DOE makes a payment directly to the Company. If the floating rate is less than the rate the borrower is obligated to pay, the Company earns interest at the borrower rate on all loans with first disbursements prior to April 1, 2006. For loans with first disbursements on or after April 1, 2006, the Company must remit back to the DOE on a quarterly basis any borrower interest in excess of the floating rate. The interest rates on the majority of the Company's federal loans are fixed to term, with a small number of loans with variable rates based on the 91-day U.S. Treasury bill.

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the DOE's SAP formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. The Company generally finances its student loan portfolio with variable rate debt. In low and/or certain declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, these student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, the Company may earn additional spread income that it refers to as "floor income".

Private loans

The Company's private student loans have variable interest rates that reset quarterly with the majority based on 3-month LIBOR.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

T.H.E. repayment bonus commitment

The T.H.E. repayment bonus commitment represents the Company's obligation to make payments on eligible borrower accounts to reduce the amount of interest due on their loans. The funding source for these bonus payments is excess cash released from certain of the Company's secured bond financings which allow cash releases pursuant to terms and conditions of trust indenture agreements. Once the funding source is available, the Company has an obligation to make these bonus payments to eligible borrower accounts. Cash that has been released which is in excess of T.H.E. repayment bonus payments made to eligible borrower accounts (and thus, available and to be used for future bonus payments) is reported as a liability on the Statement of Financial Position.

Student loan premiums

Student loan premiums consist of origination and lender fees paid to the DOE on federal loans originated by the Company, premiums paid in the acquisition of student loans and certain expenses incurred to originate student loans. The Company utilizes the interest method to amortize these costs, taking into account actual loan prepayments. Changes in the estimated carrying value of loan premiums resulting from changes in the timing or amount of the repayment of the underlying student loans are recorded in the statement of activities in the period in which the change is identified.

Interest expense

The Company has financed its student loan portfolio with securities which have interest rates that, based on contractual agreements, are indexed to U.S. Treasury bill rates or LIBOR.

Loan consolidation fees

Loan consolidation fees represent monthly rebate fees paid to the DOE which are required of lenders who hold consolidation loans. The rate used to calculate the fee is determined by the DOE and is applied to the principal amount plus accrued unpaid interest on the loan to calculate the amount of the monthly fees due.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic and the COVID-19 control responses, and such differences may be material. The Company considered the impact of the COVID-19 pandemic on the assumptions and estimates used and determined that there were no material adverse impacts on the financial statements for the year ended September 30, 2020.

Principles of consolidation

The consolidated financial statements for the years ended September 30, 2020 and 2019 include the accounts of NEF and the accounts associated with the beneficial interests of its subsidiary, NorthStar Education Funding I, LLC, the depositor entity which holds all beneficial interests in the loans pledged to a trust specific to NEF's 2016A financing (see Note 6).

Recent accounting standards updates-not yet adopted

<u>Credit Losses</u>

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13*, "Measurement of Credit Losses on Financial Instruments".* The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The provisions of the ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The amendments in this ASU are an improvement because they eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit losses, which will be more decision useful to users of the financial statements. For all non-public entities, including not-for-profits, the amendments of this ASU were effective for fiscal years beginning after December 15, 2020. However, the FASB subsequently issued ASU 2018-19 (see below) which amends the effective dates for certain companies.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

In November 2018, the FASB issued ASU 2018-19, "*Codification Improvements to Topic 326, Financial Instruments-Credit Losses*". On June 16, 2016, the FASB issued ASU. 2016-13 (see above) which introduced an expected credit loss methodology for the impairment of financial assets measured at amortized cost basis. That methodology replaces the probable, incurred loss model for those assets. Through that ASU, the FASB added Topic 326.

In April 2019, the FASB issued ASU 2019-04, "*Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*". The amendments in this ASU affect a variety of Topics in the FASB's Codification, including those pertaining to credit losses.

In November 2019, the FASB issued ASU 2019-10, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)"*—The ASU amends the effective dates for three major accounting standards relating to credit losses, derivatives and leases for certain companies. With regard to standards relating to credit losses (derivatives and leases are not applicable to the Company), the effective date for not-for-profit organizations is fiscal years beginning after December 15, 2022.

The Company is in the process of evaluating all ASUs pertaining to credit losses; however, based on its current methodology for determining its allowance for credit losses, it does not expect adoption of these ASUs to have a material impact on its consolidated financial statements.

(in thousands)

NOTE 3– Investments

The following is a summary of the Company's investments as of September 30, 2020 and 2019:

	2020			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ 6,900	$ 107	$ -	$ 7,007
Restricted	4,443	51	-	4,494
Total	$ 11,343	$ 158	$ -	$ 11,501

	2019			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ 10,950	$ 31	$ 28	$ 10,953
Restricted	13,736	165	37	13,864
Total	$ 24,686	$ 196	$ 65	$ 24,817

There were investments with gross unrealized losses of $0 and $11,350, respectively that have been in a continuous unrealized loss position greater than 12 months at September 30, 2020 and 2019.

(in thousands)

NOTE 4– Student Loans, Net

Student loans, net, consisted of the following as of September 30, 2020 and 2019:

	2020	2019
Federal guaranteed student loans	$ 1,545,670	$ 1,758,981
Private student loans	115,533	147,788
Unamortized loan premiums	8,733	10,087
Total	1,669,936	1,916,856
Allowance for loan losses (Note 5)	(1,872)	(2,418)
Student loans, net	$ 1,668,064	$ 1,914,438

NOTE 5 - Allowance for Loan Losses

The change in the allowance for loan losses for the years ended September 30, 2020 and 2019 consisted of the following:

	2020	2019
Beginning balance	$ 2,418	$ 3,144
(Recovery of) provision for loan losses	(608)	592
Charge-offs, net of recoveries	62	(1,318)
Ending balance	$ 1,872	$ 2,418

As of September 30, 2020 and 2019, student loans totaling approximately $1,834 and $27,385, respectively, were 91 days or more delinquent. Of these totals, $1,180 and $24,681 were federal guaranteed student loans and $654 and $2,704 were private student loans as of September 30, 2020 and 2019, respectively.

(in thousands)

NOTE 5 - Allowance for Loan Losses (cont.)

The Company's private student loans were originated using the Company's program guidelines, with loans being made only to eligible borrowers at eligible schools. Borrower eligibility was determined through a proprietary credit underwriting process utilizing credit scoring models, cosigner requirements and consideration of other factors such as school eligibility. School eligibility was determined by the Company, based on the school's historical default experience. All loan servicing functions are performed by the Company's third-party loan servicer, who also provides supplemental default aversion activities.

Information about the credit quality of the Company's private student loans for the years ended September 30, 2020 and 2019 is as follows:

	2020		
	Outstanding balance	Percentage of repayment	Percentage of total
Deferment	$ 2,070	-	1.8%
Forbearance	2,926	-	2.5
Repayment			
Current	107,701	97.4%	
Delinquent 31-60 days	1,690	1.5	
Delinquent 61-90 days	492	0.5	
Delinquent 91 days or greater	654	0.6	
Total in repayment	110,537	100.0%	95.7
Total	$ 115,533		100.0%

	2019		
	Outstanding balance	Percentage of repayment	Percentage of total
Deferment	$ 1,833	-	1.2%
Forbearance	1,296	-	0.9
Repayment			
Current	137,912	95.3%	
Delinquent 31-60 days	2,722	1.9	
Delinquent 61-90 days	1,322	0.9	
Delinquent 91 days or greater	2,704	1.9	
Total in repayment	144,660	100.0%	97.9
Total	$ 147,789		100.0%

NOTE 5 - Allowance for Loan Losses (cont.)

COVID-19 Relief: On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act, among other things, provided broad relief for borrowers during the period March 13, 2020 through September 30, 2020 that had student loans owned by the DOE. On August 8, 2020, the President directed the DOE to continue to suspend loan payments, stop collections, and waive interest on student loans owned by the DOE through December 31, 2020. This relief package excluded FFELP loans, private education loans, and consumer loans. Although the Company's loans are excluded from the provisions of the CARES Act, the Company voluntarily began providing relief to its borrowers in April 2020.

For the Company's federal loans: Beginning in April 2020 and through June 30, 2020, a 90-day natural disaster forbearance was proactively applied to any of the Company's federal loans that were 31-269 days past due and to any current loan upon request. Although the Company stopped proactively applying the 90-day natural disaster forbearance on past due loans on June 30, 2020, they continued to apply a natural disaster forbearance with an end date of January 31, 2021 to any federal loan upon request. For federal loans in the natural disaster forbearance, credit reporting was suspended during the respective forbearance period.

For the Company's private loans: All borrowers could request the same 90-day natural disaster forbearance beginning April 2020 and through June 30, 2020. Additionally, credit bureau reporting and processing of private loan defaults were both suspended through November 2020.

As of September 30, 2020, approximately 1.9% and 1.7% of the Company's federal and private loan portfolio balances, respectively, were in the natural disaster forbearance. These percentages have subsequently continued to decline. Based on this, the high percentage of loans that are current as of September 30, 2020, and the fact that the Company's federal loans are guaranteed at a level between 97% and 100%, management does not believe the COVID-19 pandemic has materially impacted the collectability of its federal and private loan portfolios. The Company will continue to review whether additional and/or extended borrower relief policies and activities are needed and will also continue to evaluate the economic impact of the COVID-19 pandemic on the Company's allowance for loan losses.

NOTE 6 - Long-Term Debt

The Company has, from time to time, issued taxable student loan asset-backed notes to finance its student loans as follows:

Years 2000-2007

The Company issued a series of securities under two separate master trusts. One of the trusts, the FFELP Master Trust, is secured by a pool of federally-guaranteed student loans originated under the Federal Family Education Loan Program. The other trust, the Private Master Trust (or 'Series 2006A) is secured by a pool of private student loans. The securities issued under these two master trusts are secured by the respective federal and private student loan portfolios, accrued interest on the loans, and other assets pledged as collateral in each of the respective trusts.

The notes issued by the Company included senior and subordinate LIBOR rate notes and senior reset rate notes, all of which were issued at a fixed spread to 3-month LIBOR. The senior LIBOR rate notes issued under the FFELP Master Trust were issued at a fixed maturity with targeted amortization schedules. The Company also issued senior and subordinate auction rate notes with interest rates that are reset every 28 days based upon auction procedures. These securities have approximately forty-year maturities with prepayment at the option of the Company.

As of September 30, 2020 and 2019, the Company had outstanding taxable auction rate notes of $797,850. Beginning in February 2008, a disruption in the auction rate securities market resulted in failures in auctions on these notes. As a result, all of the Company's auction rate notes bear interest at the maximum rate allowable under their terms. The maximum allowable interest rates on these taxable auction rate securities is based on the 91 day U.S. Treasury Bill plus 1.20% on the AAA rated securities and the 91 day U.S. Treasury Bill plus 1.50% on the A rated securities, and uses a rolling 13-month reset period average to determine the actual interest rate. The rates reset every 28 days.

The Company's reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. In the event a reset rate note cannot be remarketed on its remarketing date and is not repurchased, the interest rate increases to and remains at 3-month LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or refinanced. As of September 30, 2020 and 2019, all of the reset rate notes have gone through failed remarketing with interest rates remaining at 3-month LIBOR plus 0.75 percent.

Unamortized debt issuance costs associated with these financings were approximately $3,631 and $4,172, respectively, as of September 30, 2020 and 2019.

NOTE 6 - Long-Term Debt (cont.)

Year 2012

In October 2012, the Company completed an asset-backed refinancing with debt issuance transactions totaling $686,600, which included a structured issue secured by a portfolio of federally insured FFELP student loans (NorthStar Student Loan Trust I, or the “2012-1” Issue).

The notes issued in conjunction with the 2012-1 refinancing are obligations of NorthStar Student Loan Trust I and included senior LIBOR notes at a fixed spread to 1-month LIBOR, and a subordinate note at a fixed spread to 3-month LIBOR. The subordinate note was paid in full in October 2016. NEF, as the issuer, invested approximately $8,900 in its 2012 refinancing transactions, which included the issue of the 2012-1 notes, as well as a series of notes secured by a portfolio of private student loans which were paid in full in September 2016. Unamortized debt issuance costs associated with the 2012-1 refinancing transaction were approximately $438 and $656, respectively, as of September 30, 2020 and 2019.

Year 2016

On September 7, 2016, NEF completed an asset-backed refinancing with a debt issuance totaling $90,000 (par value), which included a structured issue secured by a portfolio of private student loans (NorthStar Student Loan Trust III, or the “2016A” Issue). The Company received proceeds of approximately $16,200 from overcollateralization on the transaction. These funds represent a return of the majority of the Company’s investments in the re-financings in years 2011 and 2012 totaling approximately $18,000. The remaining investment of approximately $1,800 will be reimbursed to the Company when the outstanding notes have been paid in full. The notes issued in conjunction with the 2016A re-financing, which are obligations of NorthStar Student Loan Trust III, included senior and subordinate LIBOR notes at a fixed spread to 1-month LIBOR. The senior and subordinate notes were purchased at an original issue discount (OID) of approximately $3,883 and $454, respectively. Total unamortized debt issuance costs and OID associated with the refinancing were $2,125 and $2,840, respectively, as of September 30, 2020 and 2019.

(in thousands)

NOTE 6 - Long-Term Debt (cont.)

The Company's outstanding balance of long-term debt by issue and type of security, and current interest rates consisted of the following as of September 30, 2020 and 2019:

LIBOR Notes	Final Maturity	2020	2019	2020 Current Interest Rate
Series 2004-2A-4	7/28/2021	$ -	$ 42,130	
Series 2005-1A-3	10/30/2030	79,500	134,100	1.06%
Series 2005-1A-4	4/28/2032	210,700	210,700	1.12
Series 2006A-A4	8/28/2035	53,076	72,584	0.72
Series 2006A-B	11/28/2035	10,118	13,836	0.92
Series 2007-1A-1	4/28/2030	-	65,000	
Series 2012-1A-1	12/26/2031	104,106	141,201	0.88
Series 2016-A	5/27/2036	23,311	35,622	1.43
Series 2016-B	10/26/2037	4,000	4,000	1.68
Total LIBOR Notes		$ 484,811	$ 719,173	

Reset Rate Notes	Final Maturity	2020	2019	2020 Current Interest Rate
Series 2007-1A-2	1/29/2046	$ 144,647	$ 199,647	1.64%
Series 2007-1A-3	1/29/2046	235,000	235,000	1.64
Total Reset Rate Notes		$ 379,647	$ 434,647	

Auction Rate Notes	Final Maturity	2020	2019	2020 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	2.43%
Series 2002-A	4/1/2042	233,500	233,500	1.32-3.18
Series 2002-B	4/1/2042	37,000	37,000	2.95
Series 2004-1B	12/1/2044	30,000	30,000	1.16
Series 2004-2B	12/28/2044	25,500	25,500	1.66
Series 2005-1B	10/30/2045	20,000	20,000	1.66
Series 2007-1A	1/29/2046	410,150	410,150	1.22-1.62
Series 2007-1B	1/28/2047	32,200	32,200	1.49
Total Auction Rate Notes		$ 797,850	$ 797,850	

(in thousands)

NOTE 6 - Long-Term Debt (cont.)

Pursuant to trust indentures and agreements associated with the specific issues, the Company is required, among other things, to maintain certain financial covenants and ratios.

NOTE 7 – Functional Expenses

The Company's Statement of Activities includes operating expenses that support the following functions as of September 30, 2020 and September 30, 2019:

2020	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 37,443	$ -	$ -	$ 37,443
Financing expense	558	-	-	558
Loan servicing fees	1,107	-	-	1,107
Loan consolidation fees	14,806	-	-	14,806
Recovery of provision for loan losses	(608)	-	-	(608)
Federal loan default expense	209	-	-	209
Legal expenses	81	-	361	442
Professional services	505	-	3,276	3,781
Grants and other donations	-	3,795	-	3,795
Other	-	-	87	87
	$ 54,101	$ 3,795	$ 3,724	$ 61,620

2019	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 69,864	$ -	$ -	$ 69,864
Financing expense	554	-	-	554
Loan servicing fees	1,376	-	-	1,376
Loan consolidation fees	16,630	-	-	16,630
Provision for loan losses	592	-	-	592
Federal loan default expense	433	-	-	433
Legal expenses	151	-	38	189
Professional services	695	-	3,330	4,025
Grants and other donations	-	3,161	-	3,161
Other	-	-	59	59
	$ 90,295	$ 3,161	$ 3,427	$ 96,883

NOTE 8 – Significant Risks and Concentrations

The Company's business is primarily focused on managing its portfolio of federal and private student loans and overseeing its financings to maximize the T.H.E. Bonus paid to its student borrowers. Because of the Company's concentration in one industry, it is exposed to credit, legislative, operational, regulatory and liquidity risks associated with the student loan industry.

As of September 30, 2020, the Company's portfolio of student loans was comprised of approximately 93% federal and 7% private student loans. The Company's private loans are unsecured. The government subsidized loans are substantially guaranteed. As a result of legislation changes in 2010 (see Note 1), all federal loans are now made through the DSLP. The terms and conditions of the Company's FFELP loans were not affected by this legislation. However, Congress and the Administration still exercise significant authority over the servicing and administration of existing FFELP loans. Because of the ongoing uncertainty around efforts to reduce the federal budget deficit, the timing, method and manner of implementation of various education lending initiatives has become less predictable. This, and general economic conditions, including any impact from the COVID-19 pandemic, may impact the Company's ability to collect loans and interest from students.

The Company receives periodic payments from its third-party student loan servicer. These amounts are generally unsecured from the time student loan payments are received by the loan servicer until the time they are remitted to the Company.

Interest rate risk - replacement of LIBOR as a benchmark rate

The London Interbank Offered Rate ("LIBOR") is a widely accepted interest rate benchmark referenced in financial contracts globally and is used to determine interest rates on commercial and consumer loans, bonds, derivatives, and numerous other financial instruments.

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop compelling banks to submit LIBOR rates after 2021. Accordingly, there is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021. In April 2018, the Federal Reserve Bank of New York commenced publication of three reference rates based on overnight United States Treasury repurchase agreement transactions, including the Secured Overnight Financing Rate ("SOFR"), which has been recommended as an alternative to United States dollar LIBOR by the Alternative Reference Rates Committee. Uncertainty exists as to the transition process and broad acceptance of SOFR as the primary alternative to LIBOR, including what effect it would have on the value of LIBOR-based securities, financial contracts, and variable rate loans.

The Company's contracts for its existing LIBOR-indexed assets provide provisions for an alternative rate. Indenture agreements for the Company's liabilities do not include provisions that contemplated the possibility of a permanent discontinuation of LIBOR and method for transitioning from LIBOR to an alternative benchmark rate. It is not yet known how the market in general, specific counterparties, in particular, the courts, or regulators will address the significant complexities and uncertainties involved in a transition away from LIBOR to an alternative benchmark rate. Specifically, the Department has not yet indicated any market transition away from the current LIBOR framework for paying special allowance payments to holders of FFELP assets. As a result, management of the Company cannot predict the impact that a transition from LIBOR to an alternative benchmark rate would have on its existing LIBOR-indexed assets and liabilities.

NOTE 9 - Subsequent Events

Management has evaluated subsequent events through December 15, 2020, the date which the consolidated financial statements were available to be issued. No subsequent events or transactions have occurred requiring adjustments to or disclosures in the consolidated financial statements.