NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2021 and 2020

NorthStar Education Finance, Inc. and Subsidiary

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Independent Auditors' Report

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

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, 2021 and 2020, 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 control 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 audit 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 control 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 control. 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Milwaukee, Wisconsin
December 13, 2021

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2021 and 2020
(in thousands)

ASSETS

	2021	2020
ASSETS		
Cash and cash equivalents (Note 2)	$ 7,457	$ 30,667
Interest-bearing deposits (Note 2)	33,867	6,900
Unrestricted investments (Notes 2,3)	3,200	6,900
Student loans, net (Notes 2, 4, and 5)	1,428,057	1,668,064
Interest receivable	37,514	35,278
Servicer receivable (Note 2)	2,447	2,214
Restricted cash and cash equivalents (Note 2)	75,519	78,187
Restricted investments (Notes 2,3)	1,014	4,443
Prepaid expenses and other assets	36	56
TOTAL ASSETS	$ 1,589,111	$ 1,832,709

LIABILITIES AND NET ASSETS

	2021	2020
LIABILITIES		
Accounts payable and accrued liabilities	$ 2,714	$ 3,389
T.H.E. repayment bonus liability (Note 2)	1,143	1,057
Government payable (Note 2)	2,771	2,313
Long-term debt (Note 6)		
Principal	1,420,309	1,662,308
Less: unamortized debt issuance costs and original issue discount (“OID”) (Note 2)	(4,918)	(6,194)
Long-term debt, net	1,415,391	1,656,114
Total Liabilities	1,422,019	1,662,873
NET ASSETS		
Net assets without donor restrictions	167,092	169,836
TOTAL LIABILITIES AND NET ASSETS	$ 1,589,111	$ 1,832,709

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2021 and 2020
(in thousands)

	2021	2020
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 45,396	$ 67,503
T.H.E. repayment bonus commitment (Note 2)	(5,642)	(4,407)
Loan premium amortization (Note 2)	(2,540)	(1,354)
Total Operating Revenue	37,214	61,742
OPERATING EXPENSES		
Interest expense	17,341	37,443
Financing expense	542	558
Loan servicing fees	1,112	1,107
Loan consolidation fees	13,081	14,806
Recovery of provision for loan losses (Note 5)	(853)	(608)
Federal loan default expense	107	209
Legal expenses	309	442
Professional services	3,633	3,781
Grants and other donations	4,930	3,795
Other	111	87
Total Operating Expenses	40,313	61,620
OTHER INCOME		
Sub-servicing fees	-	87
Interest income	355	1,001
Total Other Income	355	1,088
CHANGE IN NET ASSETS	(2,744)	1,210
NET ASSETS, BEGINNING OF PERIOD	169,836	168,626
NET ASSETS, END OF PERIOD	$ 167,092	$ 169,836

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2021 and 2020
(in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,744)	$ 1,210
Adjustments to reconcile change in net assets to cash flows used in operating activities		
Amortization of loan premium costs	2,540	1,354
Amortization of debt issuance costs and OID	1,276	1,474
Recovery of provision for loan losses	(853)	(608)
(Increase) decrease in assets		
Interest receivable	(2,236)	(3,142)
Servicer receivable	(233)	382
Government receivable	-	4,143
Prepaid expenses and other assets	20	(1)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(675)	(4,279)
T.H.E. repayment bonus commitment	86	(5,567)
Government payable	458	2,313
Net Cash Flows Used In Operating Activities	(2,361)	(2,721)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	238,320	245,628
Purchases and reinvestment of interest of interest-bearing deposits	(30,667)	(12,000)
Proceeds from maturities of interest-bearing deposits	3,700	16,200
Proceeds from maturities of unrestricted investments	3,700	4,050
Proceeds from maturities of restricted investments	3,429	9,293
Net Cash Flows Provided By Investing Activities	218,482	263,171
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(241,999)	(289,362)
Net Cash Flows Used In Financing Activities	(241,999)	(289,362)
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	(25,878)	(28,912)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – Beginning of Year	108,854	137,766
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – End of Year	82,976	108,854
Cash and Cash Equivalents	7,457	30,667
Restricted Cash and Cash Equivalents	75,519	78,187
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	$ 82,976	$ 108,854
CASH PAID FOR INTEREST	$ 17,713	$ 41,773

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 The Higher Education ("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 Servicing, LLC ("Nelnet") through an administrative agreement between NEF and Nelnet, including activities required to support NEF's role as Master Servicer and Administrator (as defined in the administrative agreement) 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.

The Company's financial assets available within one year of the statement of financial position date for general expenditures consistent of cash and cash equivalents, interest-bearing deposits and unrestricted investments, totaling $44,524 and $44,467 as of September 30, 2021 and 2020, respectively. The Company's practice is to structure these financial assets to be available as its general expenditures, liabilities and obligations come due. All other financial assets are structured to support the student loan asset-backed trusts.

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 include investments in unrestricted cash in certificate of deposits and Certificate of Deposit Account Registry Service (CDARS) with financial institutions that are carried at cost with original maturities greater than three months. Balances over $250 in those institutions are not insured by the FDIC and therefore pose a potential risk in the event the respective institution was to fail.

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 and changes in fair value are not material, they 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 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 recorded 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, 2021 and 2020. 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, 2021 and 2020.

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 limits of federally insured deposits.

The Company's restricted cash and cash equivalents also includes cash that has been released from one of the Company's trusts (which allows 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.

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

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 and changes in fair value are not material, they are recorded at amortized cost (see Note 3).

Debt issuance costs and OID

The Company's debt issuance costs related to a recognized debt liability are presented in the Consolidated Statements 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.

Government payable

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 Special Allowance Payments ("SAP") formula, as established under The Higher Education Act of 1965 (the "Act").

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 London Interbank Offered Rate ("LIBOR") or 91-day Treasury Notes (see Note 9).

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 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 DOE. 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 financed 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.

T.H.E. repayment bonus commitment

The T.H.E. 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. 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 Consolidated Statements 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 Consolidated Statements of Activities in the period in which the change is identified.

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

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.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America 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, 2021 and 2020.

Principles of consolidation

The consolidated financial statements for the years ended September 30, 2021 and 2020 include the accounts of NEF and the accounts associated with the beneficial interests of its subsidiary, 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

In 2021, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Made. The ASU was intended to clarify and improve accounting guidance for contributions received and contributions made. In 2021, the Company adopted FASB ASU No. 2018-08 regarding the treatment of contributions made for the fiscal year ended September 30, 2021 using the modified prospective transition method and the adoption did not have a significant impact on the financial statements of the Company.

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

During June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. 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. During November 2018, April 2019, May 2019, November 2019 and March 2020, the FASB also issued ASU No. 2018-19, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”, ASU No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”; ASU No. 2019-05 “Targeted Transition Relief”; ASU No. 2019-11, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”; and ASU No. 2020-03 “Codification Improvements to Financial Instruments.” ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

During March 2020, the FASB issued ASU No. 2020-04, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. The Company is currently assessing the effect that electing the optional expedients and exceptions included in ASU No. 2020-04 would have on its results of operation, financial position and cash flows.

(in thousands)

NOTE 3 – Investments

The following is a summary of the Company's investments as of September 30, 2021 and 2020:

	2021			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ 3,200	$ 24	$ -	$ 3,224
Restricted	1,014	19	-	1,033
Total	$ 4,214	$ 43	$ -	$ 4,257

	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

There were no investments that have been in a continuous unrealized loss position greater than 12 months as of September 30, 2021 and 2020.

NOTE 4 – Student Loans, Net

Student loans, net, consisted of the following as of September 30, 2021 and 2020:

	2021	2020
Federal guaranteed student loans	$ 1,333,285	$ 1,545,670
Private student loans‡	90,041	115,533
Unamortized loan premiums	6,193	8,733
Total	1,429,519	1,669,936
Allowance for loan losses (Note 5)	(1,462)	(1,872)
Student loans, net	$ 1,428,057	$ 1,668,064

(in thousands)

NOTE 5 - Allowance for Loan Losses

The change in the allowance for loan losses for the years ended September 30, 2021 and 2020 consisted of the following:

	2021	2020
Beginning balance	$ 1,872	$ 2,418
Recovery of provision for loan losses	(853)	(608)
Charge-offs, net of recoveries	443	62
Ending balance	$ 1,462	$ 1,872

As of September 30, 2021 and 2020, student loans totaling approximately $14,660 and $1,834, respectively, were 91 days or more delinquent. Of these totals, $13,609 and $1,180 were federal guaranteed student loans and $1,051 and $654 were private student loans as of September 30, 2021 and 2020, respectively.

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.

(in thousands)

NOTE 5 - Allowance for Loan Losses (cont.)

Information about the credit quality of the Company's private student loans for the years ended September 30, 2021 and 2020 is as follows:

	2021		
	Outstanding balance	Percentage of repayment	Percentage of total
Deferment	$ 766	-	0.9%
Forbearance	1,008	-	1.1
Repayment			
Current	84,276	95.5%	
Delinquent 31-60 days	1,747	2.0	
Delinquent 61-90 days	1,193	1.3	
Delinquent 91 days or greater	1,051	1.2	
Total in repayment	88,267	100.0%	98.0
Total	$ 90,041		100.0%

	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%

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 with student loans owned by the DOE beginning March 13, 2020. 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 has been extended through January 31, 2022). 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 certain relief to its borrowers in April 2020.

NOTE 5 - Allowance for Loan Losses (cont.)

For the Company's federal loans: Beginning in April 2020 and through June 30, 2020, a 90-day natural disaster/COVID-specific 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 from the borrower. Although the Company stopped proactively applying this 90-day forbearance on past due loans on June 30, 2020, they continued to apply the forbearance with an end date of January 31, 2022 to any federal loan upon request.

For the Company’s private loans: All borrowers could request the same 90-day natural disaster/COVID-specific forbearance beginning April 2020 and through June 30, 2020. During the period July 1, 2020 through April 30, 2021, borrowers could request this forbearance for a 30-day period.

As of September 30, 2021, less than 1% of the Company’s federal loan portfolio balance was in the respective forbearance, and none of its private loans were with the termination of the offering as of April 30, 2021. Based on this, the high percentage of loans that are current as of September 30, 2021, 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.

NOTE 6 - Long-Term Debt (cont.)

As of September 30, 2021 and 2020, the Company had outstanding taxable auction rate notes of $797,850, respectively. 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%, until such time as the bonds are successfully remarketed or refinanced. As of September 30, 2021 and 2020, all of the reset rate notes have gone through failed remarketing with interest rates remaining at 3-month LIBOR plus 0.75%.

Unamortized debt issuance costs associated with these financings were approximately $3,129 and $3,631, respectively, as of September 30, 2021 and 2020.

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 $268 and $438, respectively, as of September 30, 2021 and 2020.

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 OID of approximately $3,883 and $454, respectively. Total unamortized debt issuance costs and OID associated with the refinancing were $1,521 and $2,125, respectively, as of September 30, 2021 and 2020.

(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, 2021 and 2020:

LIBOR Notes	Final Maturity	2021	2020	2021 Current Interest Rate
Series 2005-1A-3	10/30/2030	-	79,500	1.06%
Series 2005-1A-4	4/28/2032	210,700	210,700	0.41
Series 2006A-A4	8/28/2035	36,266	53,076	0.49
Series 2006A-B	11/28/2035	6,915	10,118	0.69
Series 2012-1A-1	12/26/2031	76,700	104,106	0.78
Series 2016-A	5/27/2036	13,231	23,311	1.33
Series 2016-B	10/26/2037	4,000	4,000	1.58
Total LIBOR Notes		$ 347,812	$ 484,811	

Reset Rate Notes	Final Maturity	2021	2020	2021 Current Interest Rate
Series 2007-1A-2	1/29/2046	$ 39,647	$ 144,647	0.93%
Series 2007-1A-3	1/29/2046	235,000	235,000	0.93
Total Reset Rate Notes		$ 274,647	$ 379,647	

Auction Rate Notes	Final Maturity	2021	2020	2021 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	2.40%
Series 2002-A	4/1/2042	233,500	233,500	1.27-3.13
Series 2002-B	4/1/2042	37,000	37,000	2.91
Series 2004-1B	12/1/2044	30,000	30,000	1.08
Series 2004-2B	12/28/2044	25,500	25,500	1.36
Series 2005-1B	10/30/2045	20,000	20,000	1.36
Series 2007-1A	1/29/2046	410,150	410,150	1.17-1.57
Series 2007-1B	1/28/2047	32,200	32,200	1.36
Total Auction Rate Notes		$ 797,850	$ 797,850	

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.

(in thousands)

NOTE 7 – Functional Expenses

The Company's Consolidated Statements of Activities includes operating expenses that support the following functions as of September 30, 2021 and 2020:

	2021			
	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 17,341	$ -	$ -	$ 17,341
Financing expense	542	-	-	542
Loan servicing fees	1,112	-	-	1,112
Loan consolidation fees	13,081	-	-	13,081
Recovery of provision for loan losses	(853)	-	-	(853)
Federal loan default expense	107	-	-	107
Legal expenses	96	-	213	309
Professional services	461	-	3,172	3,633
Grants and other donations	-	4,930	-	4,930
Other	-	-	111	111
	$ 31,887	$ 4,930	$ 3,496	$ 40,313

	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

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, 2021, the Company's portfolio of student loans was comprised of approximately 94% federal and 6% 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 borrowers.

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

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 would intend to stop compelling banks to submit LIBOR rates after 2021. On November 30, 2020, the ICE Benchmark Administration Limited (commonly referred to as "ICE") announced its plan to extend the date that most U.S. LIBOR values would cease being computed from December 31, 2021 to June 30, 2023. 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, legacy financial contracts, and variable rate loans.

The Company's legacy 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 DOE 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 13, 2021, 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.