NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2023 and 2022

NorthStar Education Finance, Inc. and Subsidiary

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Independent Auditors' Report

To the Board of Directors of
Northstar Education Finance, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of Northstar Education Finance, Inc. and Subsidiary (the Company), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2023 and 2022, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Milwaukee, Wisconsin
December 13, 2023

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2023 and 2022
(in thousands)

ASSETS

	2023	2022
ASSETS		
Cash and cash equivalents (Note 2)	$ 6,601	$ 11,573
Interest-bearing deposits (Note 2)	38,000	25,732
Unrestricted investments (Notes 2,3)	-	8,731
Student loans, net (Notes 2, 4, and 5)	870,810	1,090,003
Interest receivable	31,090	33,816
Servicer receivable (Note 2)	1,718	2,300
Government receivable (Note 2)	8,426	3,537
Restricted cash and cash equivalents (Note 2)	61,210	117,235
Restricted investments (Notes 2,3)	-	504
Prepaid expenses and other assets	33	38
TOTAL ASSETS	$ 1,017,888	$ 1,293,469

LIABILITIES AND NET ASSETS

	2023	2022
LIABILITIES		
Accounts payable and accrued liabilities	$ 4,296	$ 4,025
T.H.E. repayment bonus liability (Note 2)	-	178
Long-term debt (Note 6)		
Principal	857,268	1,131,868
Less: unamortized debt issuance costs and original issue discount (“OID”) (Note 2)	(2,606)	(3,841)
Long-term debt, net	854,662	1,128,027
Total Liabilities	858,958	1,132,230
NET ASSETS		
Net assets without donor restrictions	158,930	161,239
TOTAL LIABILITIES AND NET ASSETS	$ 1,017,888	$ 1,293,469

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2023 and 2022
(in thousands)

	2023	2022
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 70,212	$ 45,299
T.H.E. repayment bonus commitment (Note 2)	-	(3,207)
Loan premium amortization (Note 2)	(1,056)	(2,410)
Total Operating Revenue	69,156	39,682
OPERATING EXPENSES		
Interest expense	57,051	23,896
Financing expense	482	526
Loan servicing fees	685	869
Loan consolidation fees	8,165	10,726
Provision for loan losses (Note 5)	223	1,532
Federal loan default expense	210	239
Legal expenses	129	87
Professional services	3,197	3,303
Charitable grants	4,671	4,788
Other	83	65
Total Operating Expenses	74,896	46,031
OTHER INCOME		
Interest income	3,431	496
Total Other Income	3.431	496
CHANGE IN NET ASSETS	(2,309)	(5,853)
NET ASSETS, BEGINNING OF PERIOD	161,239	167,092
NET ASSETS, END OF PERIOD	$ 158,930	$ 161,239

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2023 and 2022
(in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,309)	$ (5,853)
Adjustments to reconcile change in net assets to cash flows used in operating activities		
Amortization of loan premium costs	1,056	2,410
Amortization of debt issuance costs and OID	1,235	1,077
Provision for loan losses	223	1,532
(Increase) decrease in assets		
Interest receivable	2,726	3,698
Servicer receivable	582	147
Government receivable	(4,889)	(3,537)
Prepaid expenses and other assets	5	(2)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	271	1,311
T.H.E. repayment bonus commitment	(178)	(965)
Government payable	-	(2,771)
Net Cash Flows Used In Operating Activities	(1,278)	(2,953)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	217,914	334,112
Purchases of and reinvestment of interest in interest-bearing deposits	(38,007)	(77)
Purchases of unrestricted investments	-	(8,731)
Proceeds from maturities of interest-bearing deposits	25,739	8,212
Proceeds from maturities of unrestricted investments	8,731	3,200
Proceeds from maturities of restricted investments	504	510
Net Cash Flows Provided By Investing Activities	214,881	337,226
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(274,600)	(288,441)
Net Cash Flows Used In Financing Activities	(274,600)	(288,441)
Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(60,997)	45,832
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – Beginning of Year	128,808	82,976
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – End of Year	67,811	128,808
Cash and Cash Equivalents	6,601	11,573
Restricted Cash and Cash Equivalents	61,210	117,235
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	$ 67,811	$ 128,808
CASH PAID FOR INTEREST	$ 55,226	$ 21,418

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 (“FFEL”) Program 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. 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 consisted of cash and cash equivalents, interest-bearing deposits and unrestricted investments, totaling $44,601 and $46,036 as of September 30, 2023 and 2022, 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 1 - Business Operations (cont.)

July 1, 2023 transition from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financial Rate ("SOFR")

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it would 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 United States ("U.S.") LIBOR values would cease being computed and announced 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 U.S. Treasury repurchase agreement transactions, including SOFR, which was recommended as an alternative to U.S. dollar LIBOR by the Alternative Reference Rates Committee ("ARRC") of the Federal Reserve. On May 21, 2021, the ARRC announced its selection of CME Group Inc., a large financial services company, as the sole administrator of Term SOFR Rates. On July 29, 2021, the ARRC formally recommended CME Term SOFR, available in one-, three-, and six-month for use in cash market financial instruments. On March 15, 2022, the President signed the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") into law. In February 2023, the Board of Governors of the Federal Reserve System adopted a final rule to implement the LIBOR Act. The final rule establishes benchmark replacements for contracts governed by U.S. law that reference certain tenors of U.S. dollar LIBOR (the overnight and one-, three-, six-, and 12-month tenors) and that do not have terms that provide for the use of a clearly defined and practicable replacement benchmark rate following the first London banking day after June 30, 2023. The final rule also provides additional definitions and clarifications consistent with the LIBOR Act.

The Company's legacy contracts for its existing LIBOR-indexed assets (student loans) provide provisions for an alternative rate. Indenture agreements pertaining to the Company's outstanding debt do not include provisions for adjusting to a permanent discontinuation of LIBOR nor a method for transitioning from LIBOR to an alternative benchmark rate (as noted above, the final rule provides the benchmark replacements (SOFR) for these types of contracts).

NOTE 2 – Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of checking, demand deposit and savings accounts. The Company considers depository accounts and investments with a maturity date of acquisition and expected usage of three months or less to be cash and cash equivalents. The Company places its cash and cash equivalents with high quality financial institutions. At time, these balances may exceed government insured limits. The Company maintains cash balances in various financial institutions which exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash. The Company has $6,101 of funds that exceeded FDIC insurance limits as of September 30, 2023. 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 of unrestricted cash in certificate of deposits and Certificate of Deposit Account Registry Service ("CDARS") with high quality financial institutions that are carried at cost with original maturities greater than three months. The Company maintains cash balances in various financial institutions which exceed the FDIC insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash. The Company has $37,750 of funds that exceeded FDIC insurance limits as of September 30, 2023

Unrestricted investments

Unrestricted investments represent unrestricted cash which has been invested in U.S. 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 FFEL Program. 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 U.S. 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 a 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, no allowance for federal student loan losses has been recorded by management in the consolidated financial statements.

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

During the years ended September 30, 2023 and 2022, the Company experienced an increased volume of FFEL Program loan repayments which was primarily from borrowers consolidating their loans with The Pennsylvania Higher Education Assistance Agency pursuant to the DOE's announcement on October 6, 2021 regarding a recent waiver relating to Public Service Loan Forgiveness (“PSLF”) program rules (allowing borrowers to receive credit for past periods of repayment that would otherwise not qualify for PSLF).

An additional factor contributing to the increased volume of FFEL Program loan consolidations was the response to the Biden Administration’s federal loan forgiveness program (for Federal Direct Loans). In June 2023, the Supreme Court issued a decision blocking this program from moving forward. Subsequently, President Biden, Vice President Harris, and the U.S. DOE have announced a three-part plan to help working and middle-class federal student loan borrowers transition back to regular payment as pandemic-related support expires. This plan includes loan forgiveness of up to $20,000 (for Federal Direct Loans).

The consolidations noted above were primarily from loans securitized in the Company’s two FFEL Program financings (see Note 6) and resulted in an increase in cash proceeds which was used to pay down outstanding debt (principal) on these two financings. This was a significant factor contributing to the decline in NEF’s outstanding debt during the years ended September 30, 2023 and 2022.

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 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. The Company will adopt ASU No. 2016-13 (as amended) in fiscal year end September 30, 2024, and is in the process of evaluating the effect it will have on its results of operations, financial position and cash flowsl.

Defaulted loans are generally charged off to the allowance when a loan is greater than 180 days delinquent. Subsequent recoveries of accounts previously charged off are recorded (restored) to the allowance.

Management believes the allowance is adequate as of September 30, 2023 and 2022. While management used available information to estimate losses on private loans, future adjustments to the allowance may be necessary based on changes in economic conditions.

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, 2023 and 2022.

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

Government receivable

Government receivable represents an amount due from the DOE for borrower interest earned on federal student loans which is less than the floating rates derived from the DOE's Special Allowance Payments ("SAP") formula, 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, were based on the following indexes:

- Through June 30, 2023: 1-month LIBOR and/or 91-day Treasury Notes
- Beginning July 1, 2023: 30-day average SOFR (plus tenor adjustment) and/or 91-day Treasury Notes

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 funds invested in highly liquid financial instruments with stated maturities of three months or less. . The Company has $60,960 of funds that exceeded FDIC insurance limits as of September 30, 2023.

Restricted investments

Restricted investments represent restricted cash which has been invested in U.S. 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 and is computed using a modified interest method, which takes into consideration actual loan prepayments.

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 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.

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 (beginning July 1, 2023, 30-day Average SOFR plus tenor adjustment), and/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 borrower 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.

FFEL Program 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". In high interest rate environments, this floor income reduces or is eliminated.

Private loans

The Company's private student loans have variable interest rates that reset quarterly with the majority based on 3-month LIBOR (beginning July 1, 2023, 3-month CME Term SOFR (plus adjustment), as endorsed by the ARRC).

T.H.E. repayment bonus commitment

The T.H.E. repayment Bonus ("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.

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 (Average SOFR, beginning July 1, 2023). As noted above, indenture agreements pertaining to the Company's outstanding debt do not include provisions for adjusting to a permanent discontinuation of LIBOR nor a method for transitioning from LIBOR to an alternative benchmark rate; however, the final rule of the LIBOR Act provides the benchmark replacements (SOFR) for these types of contracts.

Loan consolidation fees

Loan consolidation fees represent monthly interest payment 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.

Principles of consolidation

The consolidated financial statements for the years ended September 30, 2023 and 2022 include the accounts of NEF and the accounts associated with the beneficial interests of its subsidiary.

Recent accounting standards updates

Financial Instruments—Credit Losses (Topic 326)

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. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. 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 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures”. These amendments eliminate the troubled debt restructurings (TDR) and vintage disclosures recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. ASU No. 2022-02 is effective for entities that have adopted ASU No. 2016-13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU No. 2016-13, the effective date is the same as the effective dates in ASU No. 2016-13. These amendments should be applied prospectively, except as provided in the next sentence. For the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. Early adoption is permitted if an entity has adopted ASU No. 2016-13, including adoption in an interim period. If an entity elects to early adopt ASU No. 2022-02 in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Company is currently assessing the effect that ASU No. 2022-02 will have on its results of operations, financial position and cash flows.

(in thousands)

NOTE 3 – Investments

The following is a summary of the Company's investments as of September 30, 2023 and 2022:

	2023			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ -	$ -	$ -	$ -
Restricted	-	-	-	-
Total	$ -	$ -	$ -	$ -

	2022			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ 8,731	$ -	$ (15)	$ 8,716
Restricted	504	-	(2)	502
Total	$ 9,235	$ -	$ (17)	$ 9,218

There were no investments that have been in a continuous unrealized loss position greater than 12 months as of September 30, 2023 and 2022.

NOTE 4 – Student Loans, Net

Student loans, net, consisted of the following as of September 30, 2023 and 2022:

	2023	2022
Federal guaranteed student loans	$ 816,531	$ 1,018,258
Private student loans	52,349	69,080
Unamortized loan premiums	2,728	3,784
Total	871,608	1,091,122
Allowance for loan losses (Note 5)	(798)	(1,119)
Student loans, net	$ 870,810	$ 1,090,003

(in thousands)

NOTE 5 - Allowance for Loan Losses

The change in the allowance for the years ended September 30, 2023 and 2022 consisted of the following:

	2023	2022
Beginning balance	$ 1,119	$ 1,462
Provision for loan losses	223	1,532
Private loan defaults	(1,411)	(2,806)
Recoveries	867	931
Ending balance	$ 798	$ 1,119

As of September 30, 2023 and 2022, student loans totaling approximately $14,634 and $17,601, respectively, were 91 days or more delinquent. Of these totals, $14,190 and $16,746 were federal guaranteed student loans and $444 and $855 were private student loans as of September 30, 2023 and 2022, 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, 2023 and 2022 is as follows:

	2023		
	Outstanding balance	Percentage of repayment	Percentage of total
Deferment	$ 473	-	0.9%
Forbearance	303	-	0.6
Repayment			
Current	49,780	96.5%	
Delinquent 31-60 days	864	1.7	
Delinquent 61-90 days	485	0.9	
Delinquent 91 days or greater	444	0.9	
Total in repayment	51,573	100.0%	98.5
Total	$ 52,349		100.0%

	2022		
	Outstanding balance	Percentage of repayment	Percentage of total
Deferment	$ 550	-	0.8%
Forbearance	473	-	0.7
Repayment			
Current	65,918	96.9%	
Delinquent 31-60 days	915	1.3	
Delinquent 61-90 days	369	0.5	
Delinquent 91 days or greater	855	1.3	
Total in repayment	69,057	100.0%	98.5
Total	$ 69,080		100.0%

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 pursuant to two separate master indentures of trusts. Series of issuances in years 2000-2005 and in 2007 are secured by a pool of federally-guaranteed student loans originated under the FFEL Program. The issuance in year 2006 (Series 2006A) is secured by a pool of private student loans. The securities issued pursuant to these master indentures of 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 securities issued by the Company included senior and subordinate floating rate notes and senior reset rate notes, all of which were issued at a fixed spread to 3-month LIBOR (90-day Average SOFR plus tenor adjustment as of July 1, 2023). The senior floating rate notes secured by federally-guaranteed student loans 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, 2023 and 2022, the Company had outstanding taxable auction rate notes of $702,500 and $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% (and a defined Net Loan Rate) 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 have all been paid in full as of September 30, 2023.

Unamortized debt issuance costs associated with these financings were approximately $2,177 and $2,676, respectively, as of September 30, 2023 and 2022.

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 FFEL Program student loans (NorthStar Student Loan Trust I, or the “2012-1” Issue).

NOTE 6 - Long-Term Debt (cont.)

The notes issued in conjunction with the 2012-1 refinancing are obligations of NorthStar Student Loan Trust I and included senior floating rate notes at a fixed spread to 1-month LIBOR (30-day Average SOFR plus tenor adjustment as of July 1, 2023), 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 $66 and $144, respectively, as of September 30, 2023 and 2022.

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 floating rate notes at a fixed spread to 1-month LIBOR (3-month CME Term SOFR plus tenor adjustment as of July 1, 2023). 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 $363 and $1,021, respectively, as of September 30, 2023 and 2022.

(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, 2023 and 2022:

Floating Rate Notes	Final Maturity	2023	2022	2023 Current Interest Rate
Series 2005-1A-4	4/28/2032	$ 111,200	156,600	5.50%
Series 2006A-A4	8/28/2035	15,079	24,845	5.81
Series 2006A-B	11/28/2035	2,880	4,740	6.01
Series 2012-1A-1	12/26/2031	22,095	48,230	6.10
Series 2016-A	5/27/2036	-	5,956	N/A
Series 2016-B	10/26/2037	3,514	4,000	6.91
Total Floating Rate Notes		$ 154,768	$ 244,371	

Reset Rate Notes	Final Maturity	2023	2022	2023 Current Interest Rate
Series 2007-1A-3	1/29/2046	$ -	89,647	N/A
Total Reset Rate Notes		$ -	$ 89,647	

Auction Rate Notes	Final Maturity	2023	2022	2023 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	7.78%
Series 2002-A	4/1/2042	138,150	233,500	6.67-7.59
Series 2002-B	11/1/2040	37,000	37,000	8.31
Series 2004-1B	12/1/2044	30,000	30,000	6.43
Series 2004-2B	12/28/2044	25,500	25,500	6.79
Series 2005-1B	10/30/2045	20,000	20,000	6.84
Series 2007-1A	1/29/2046	410,150	410,150	6.68-6.93
Series 2007-1B	1/28/2047	32,200	32,200	6.93
Total Auction Rate Notes		$ 702,500	$ 797,850	
Total		$ 857,268	$ 1,131,868	

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, 2023 and 2022:

	2023			
	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 57,051	$ -	$ -	$ 57,051
Financing expense	482	-	-	482
Loan servicing fees	685	-	-	685
Loan consolidation fees	8,165	-	-	8,165
Provision for loan losses	223	-	-	223
Federal loan default expense	210	-	-	210
Legal expenses	78	-	51	129
Professional services	180	-	3,017	3,197
Charitable grants	-	4,671	-	4,671
Other	-	-	83	83
	$ 67,074	$ 4,671	$ 3,151	$ 74,896

	2022			
	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 23,896	$ -	$ -	$ 23,896
Financing expense	526	-	-	526
Loan servicing fees	869	-	-	869
Loan consolidation fees	10,726	-	-	10,726
Recovery of loan losses	1,532	-	-	1,532
Federal loan default expense	239	-	-	239
Legal expenses	45	-	42	87
Professional services	307	-	2,996	3,303
Charitable grants	-	4,788	-	4,788
Other	-	-	65	65
	$ 38,140	$ 4,788	$ 3,103	$ 46,031

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 pay its outstanding debt obligations. 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, 2023, 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 FFEL Program loans were not affected by this legislation. However, Congress and the Administration still exercise significant authority over the servicing and administration of existing FFEL Program loans. Because of the ongoing uncertainty around efforts to reduce the federal budget deficit, the timing, method, and manner of implementation of various federal student loan forgiveness and other administration program initiatives has become less predictable. This, and general economic conditions, 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.

NOTE 9 - Subsequent Events

Management has evaluated subsequent events through December 13, 2023, 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.