

FINANCIAL STATEMENTS

Federated Student Finance Corporation
Years Ended June 30, 2020 and 2019
With Independent Auditor's Report

Federated Student Finance Corporation

Financial Statements

Years Ended June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Federated Student Finance Corporation

We have audited the accompanying financial statements of Federated Student Finance Corporation (a not-for-profit organization), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of changes in fund deficit and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Federated Student Finance Corporation, as of June 30, 2020 and 2019, and the changes in its fund deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Dallas, Texas
October 27, 2020

Federated Student Finance Corporation
Balance Sheets
(In Thousands)

	June 30, 2020	June 30, 2019
Assets		
Cash and short-term investments	\$ 898	\$ 1,054
Interest receivable:		
Student loan notes receivable	1,090	1,114
Investments	-	5
Student loan notes receivable, net	51,277	57,214
Total assets	\$ 53,265	\$ 59,387
 Liabilities and fund deficit		
Liabilities:		
Notes payable, net	\$ 55,137	\$ 61,700
Accrued interest payable	2,781	2,495
DOE rebate fees payable	33	36
Administrative and loan servicing fees payable	8	11
Total liabilities	57,959	64,242
 Fund deficit:		
With restrictions	(4,694)	(4,855)
Total liabilities and fund deficit	\$ 53,265	\$ 59,387

The accompanying notes are an integral part of these financial statements.

Federated Student Finance Corporation
 Statements of Changes in Fund Deficit
(In Thousands)

	For the Years Ended	
	June 30, 2020	June 30, 2019
Interest revenue:		
Student loan notes receivable	\$ 1,894	\$ 2,473
Investments	26	54
	1,920	2,527
Interest expense:		
Notes payable	1,560	2,110
	360	417
Provision for loan losses	(2)	(9)
Net interest revenue after provision for loan losses	358	408
Noninterest revenue:		
Other	20	20
Noninterest expense:		
Administrative and loan servicing fees	210	244
Other	7	9
Total noninterest expense	217	253
Revenue over expenses	161	175
Fund deficit, beginning of year	(4,855)	(5,030)
Fund deficit, end of year	\$ (4,694)	\$ (4,855)

The accompanying notes are an integral part of these financial statements.

Federated Student Finance Corporation
Statements of Cash Flows
(In Thousands)

	For the Years Ended	
	June 30, 2020	June 30, 2019
Operating activities		
Revenue over expenses	\$ 161	\$ 175
Adjustment to reconcile revenue over (under) expenses to net cash used in operating activities:		
Student loan interest capitalized	(608)	(672)
Provision for loan losses	2	9
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Interest receivable	29	(2)
Increase (decrease) liabilities:		
Administrative and loan servicing fees payable	(3)	(2)
Accrued interest payable	286	292
DOE rebate fees payable	(3)	(5)
Net cash used in operating activities	<u>(136)</u>	<u>(205)</u>
Investing activities		
Principal collected on student loan notes receivable, net	6,703	8,758
Proceeds from sale of student loan notes receivable, net	31	-
Purchase of student loan notes receivable, net	(191)	(117)
Net cash provided by investing activities	<u>6,543</u>	<u>8,641</u>
Financing activities		
Payment of notes payable	(6,563)	(8,750)
Net cash used in financing activities	<u>(6,563)</u>	<u>(8,750)</u>
Net change in cash and short-term investments	(156)	(314)
Cash and short-term investments, beginning of year	1,054	1,368
Cash and short-term investments, end of year	<u>\$ 898</u>	<u>\$ 1,054</u>
Supplemental disclosure:		
Cash paid during the year for interest	<u>\$ 1,275</u>	<u>\$ 1,817</u>

The accompanying notes are an integral part of these financial statements.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

1. Organization

Federated Student Finance Corporation (the Company) is a Texas not-for-profit public benefit corporation, which was incorporated as Guadalupe Higher Education Authority, Inc. in March 1989, subsequently amended its Articles of Incorporation to become US Education Finance Corporation in March 2001, and again amended its Articles of Incorporation in July 2002 to become Federated Student Finance Corporation. The Company commenced operations on May 1, 2001, for the purpose of providing funds for the acquisition and servicing of student loans that are: (1) insured by the U.S. Department of Education (DOE) and guaranteed by various national guarantors under the Federal Family Education Loan Program (FFELP) as provided for in the *Higher Education Act of 1965*. To maintain such insurance and guarantee of student loans, the Company must comply with the servicing, collecting, accounting, and reporting requirements of the FFELP. The Company has contracted with Brazos Higher Education Service Corporation, Inc. (BHESC) to serve as master servicer. BHESC has contracted with various sub-servicers for loan servicing duties. Funding for the Company has been provided by the issuance of asset-backed notes and, periodically, by advances from affiliates.

The Company's primary source of revenue is interest on student loans. All borrowings on the notes payable are expected to be repaid solely from funds derived from student loan principal repayments, interest, special allowance payments, interest subsidy payments, guarantee payments on defaulted notes, proceeds from sales of student loan notes, and investment revenue.

2. Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States and, accordingly, reflect all significant receivables, payables and other liabilities. The accounts of the Company are maintained in accordance with the principles of fund accounting in compliance with the debt instruments. This is a system under which resources are classified for accounting purposes into funds established for specific purposes. The Company aggregates its funds into general groups by the source of funding. The fund deficit related to specific financings is with restrictions by the indenture, and as such, is shown with restrictions on the balance sheets. The non-debt related fund deficit, if any, is shown as without restrictions on the balance sheets.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

Affiliated Entities

The Company is affiliated with the following entities, which are required to be audited due to federal program requirements, or which are audited due to the significance of their activities and operations:

- Brazos Higher Education Authority, Inc. (BHEA)
- Brazos Student Finance Corporation (BSFC)
- Bosque Higher Education Authority, Inc. (Bosque)
- Acapita Education Finance Corporation (AEFC)
- Brazos Higher Education Service Corporation, Inc. (BHESC)
- Brazos Education Loan Authority, Inc. (BELA)

All of the entities operate in the student loan higher education industry and are controlled by common officers and directors with the ability to influence the business performed by each entity. BHESC, by contract and for compensation, serves as Master Servicer and provides headquarter facilities, management, administrative support, marketing and accounting services. BHESC also oversees the sub-contracting of servicing and collection activities.

Interest Receivable

Interest receivable on student loan notes receivable includes special allowance payments receivable from or payable to the DOE, government subsidy interest, and borrower interest on all student loans outstanding.

Cash and Short-Term Investments

Cash and short-term investments consist of money market funds with original maturities of 90 days or less. Cash and short-term investments are held in indenture with U.S. Bank, N.A. (the Trustee) under various indentures, subject to certain limitations, and are pledged to secure related notes payable. See *Note 2*. Any realized or unrealized changes in fair value are recorded through the statements of changes in fund deficit. Interest revenue from these investments is recorded on an accrual basis.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

Cash and short-term investments are comprised of the following:

	June 30, 2020	June 30, 2019
Money market funds	\$ 898	\$ 1,054

As of June 30, 2020 and 2019, the Company had \$500 and \$500, respectively, in cash and short-term investment reserves in compliance with the note indenture requirements.

Student Loan Notes Receivable

Student loans are stated at the principal amount outstanding, plus unamortized purchase premiums, and transfer fees, net of the allowance for loan losses. All student loan notes receivable are pledged to secure related notes payable.

There was no impairment of student loan notes receivable during the years ended June 30, 2020 and 2019. A loan is considered past due or delinquent when it becomes 31 days past due. At June 30, 2020 and 2019, there are no loans placed in nonaccrual status. Delinquent FFELP loans cannot be submitted to the guarantor for payment until the loan is 270 days past due, but before 330 days past due. The guarantor pays interest accrued through the date of the claim payment.

Premiums on Loans Purchased

The Company defers premiums paid on those student loan notes purchased and used to secure long-term financings, and amortizes such premiums over the estimated life of the student loan notes as an adjustment to the yield of the related loans utilizing a method which approximates the effective interest rate method. Amortization of the premiums is included within the statements of changes in fund deficit in interest on student loan notes receivable. The unamortized loan purchase premium is included on the balance sheet within the student loan notes receivable.

Income Taxes

The Company is a not-for-profit public benefit corporation which is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Company is also exempt from state income tax. Income which is not related to its exempt purposes, less applicable deductions, is subject to federal income taxes. The Company had no net unrelated business income for the years ended June 30, 2020 and 2019. As such, no provision for federal or state income taxes has been provided in the accompanying financial statements.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

The Company files federal information returns in the United States. The Company may be subject to examinations for the tax years ended June 30, 2017, and later by the Internal Revenue Service. The Company is not currently under examination for any open tax year.

The Company follows the accounting standard related to the accounting for uncertainty in income taxes recognized in the Company's financial statements. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company currently does not have any positions reserved.

Trustee

The Company contracts certain services to the Trustee. The Trustee holds the pledged student loan notes receivable and other invested assets in the Company's name, and invests and disburses funds as directed by the Company pursuant to the requirements of the indenture agreements. The Trustee also monitors the invested assets of the Company and the related cash flows of the loans and other assets pledged under the indenture to secure the related debt.

Concentration Risk

The Company's credit risk is inherent principally in its student loan notes receivable. It is impossible to predict the status of the economy or unemployment, which could significantly affect the Company's credit risk exposure. However, the credit risk of the Company is substantially decreased by the guaranteed nature of its investments in student loan notes receivable.

The Company's loan portfolio is also concentrated in FFELP loans. As of June 30, 2020 and 2019, 100% of the Company's loan receivable portfolio is comprised of FFELP loans. Any changes in legislation related to existing FFELP or consolidation loans could have a significant impact on the Company.

Fund Balance

Fund balance, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Fund balance without donor restrictions are available for use in general operations and not subject to donor restrictions.

Fund balance with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

specified by the donor or credit arrangement. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Student Loan Revenue

The Company recognizes interest revenue on student loans, special allowance revenue (rebates), and government interest subsidies as earned, net of DOE rebate fees paid on a monthly basis. Additionally, revenue is recognized based upon the principal amount outstanding in accordance with the terms of the applicable loan agreement on a monthly basis until the outstanding balance is paid or charged off.

Interest Expense

Interest expense is based upon contractual interest rates (variable).

Department of Education Fees

Approximately 71% and 71% of the portfolio is comprised of consolidation loans, on which the Company pays fees to the DOE for the years ended June 30, 2020 and 2019, respectively. DOE fees consist of rebate fees due to the DOE. Rebate fees are monthly fees assessed by the DOE on the outstanding consolidation loan balance at the end of the month. Rebate fees are accounted for as an adjustment to the yield on student loan notes receivable included within the statements of changes in fund deficit in interest revenue from student loan notes receivable.

Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Key accounting policies that include significant judgments and estimates include the use of the effective interest rate method to amortize premiums on loans purchased and determining the provision for loan losses.

3. Student Loan Interest Receivable and Revenue

FFELP loans obligate the borrower to either pay interest at a stated fixed rate or an annually reset variable rate that has a cap depending on when the loan was originated. The interest earned by the Company is dependent upon the borrower's interest rate, the date the loan was originated and the Special Allowance Payment formula.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

The Special Allowance Payment formula, or SAP rate, is determined by the DOE, based upon an average of all of the applicable floating rates (91-day Treasury bill, commercial paper, and 52-week Treasury bill) in a calendar quarter, plus a spread between 1.74% and 3.50%, depending on the underlying loan status and origination date. These rates are then applied to the quarterly average daily balance for loans eligible to receive SAP.

For loans first disbursed prior to April 1, 2006, the Company earns interest at the higher of the borrower's rate or the SAP rate. If the SAP rate exceeds the borrower's rate, the DOE makes a payment directly to the Company. For loans first disbursed after April 1, 2006, the Company earns interest at the SAP rate. If the SAP rate is less than the borrower's rate, the Company "rebates" the difference between the borrower's rate and the lower SAP rate to the DOE. If the SAP rate is greater than the borrower's rate, the DOE makes SAP payments to the Company for the difference between the two rates.

At June 30, 2020 and 2019, student loans held by the Company had stated interest rates determined annually by the DOE ranging from 4.06% to 8.50% and 3.63% to 8.50%, respectively, and are generally payable by the borrower following a specified grace period. Effective July 1, 2020, the DOE reset these rates to range from 1.83% to 8.50%.

For FFELP loans, the U.S. Government pays the Company the interest on subsidized student loans from the date of acquisition until the end of the grace period as defined in the regulations.

Interest revenue from student loan notes receivable consists of the following:

	June 30,	
	2020	2019
Student loan interest revenue	\$ 1,980	\$ 2,141
Interest subsidiary revenue	117	154
Special allowance revenue	207	637
DOE rebate fees	(410)	(459)
Net interest revenue on student loan notes receivable	\$ 1,894	\$ 2,473

Under certain conditions, the Company may capitalize accrued interest receivable and add it to the borrower's outstanding principal. For unsubsidized FFELP student loans, the borrower has the option of either paying the interest or having accrued interest capitalized from the date of the loan origination until the end of the grace period and during periods of deferment. Borrowers of both subsidized and unsubsidized FFELP student loans have the option of having accrued interest capitalized during periods of forbearance. Subsequent interest accrues on the new total principal balance which includes any capitalized interest.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

Interest receivable on student loan notes receivable consisted of the following:

	June 30,	
	2020	2019
Student loan interest receivable	\$ 1,061	\$ 929
Interest subsidiary receivable	27	34
Special allowance receivable	2	151
Interest receivable on student loan notes receivable	<u>\$ 1,090</u>	<u>\$ 1,114</u>

4. Student Loan Notes Receivable

Student loan notes receivable are either originated by the Company or purchased primarily from third-party originating lenders. The Company's student loan portfolio consists solely of loans originated under the FFELP federally sponsored student loan program.

Total student loan notes receivable consisted of the following:

	June 30,	
	2020	2019
FFELP student loan notes receivable	\$ 51,307	\$ 57,253
Allowance for student loan losses	(30)	(39)
Student loan notes receivable, net	<u>\$ 51,277</u>	<u>\$ 57,214</u>

Loan Programs

The FFELP includes the Federal Stafford Loan (Stafford) Program, the Federal Supplemental Loans for Students (SLS) Program, the Federal Parent Loan for Undergraduate Students (PLUS) Program, the Federal Parent Loan for Graduate Students (GradPLUS) Program, and the Federal Consolidation Loan Program. These loan programs are available to students or parents of students who, when the loans were originated, were enrolled in postsecondary institutions.

Stafford, SLS, GradPLUS, and PLUS loans have repayment periods ranging from between 5 and 10 years. Federal consolidation loans have repayment periods of 12 to 30 years. Repayment on these loans commences subsequent to a grace period following the student's graduation.

All FFELP held by the Company have been either insured or guaranteed by the U.S. Government, Texas Guaranteed Student Loan Corporation (TGS LC), or other national

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

guarantors, provided applicable program requirements have been met by the original lender, prior servicer, and the current servicing agent with respect to such loans. For purchased loans, the original lenders have warranted to the Company that the student loans have met these requirements and are valid obligations of the borrowers. Student loan notes that do not conform to the terms of the purchase agreement between the individual entities and the original lender may be returned to the original lending institution for reimbursement of principal, interest, and costs incurred while held by the individual entities.

In the event of default on a student loan due to borrower default, death, disability, or bankruptcy, the Company files a claim with the insurer or guarantor of the loan. The Company will receive the unpaid principal balance and accrued interest on the loan less any risk sharing, if applicable, provided the loan has been properly originated and serviced.

Student Loan Servicing

BHESC serves as Master Servicer for the Company with the necessary student loan servicing to maintain compliance with the requirements of the FFELP and alternative loan programs by holding subservicing agreements for loan servicing duties with various student loan servicing agents. BHESC currently holds subservicing agreements for loan servicing duties with American Education Services, and Navient (formerly known as Sallie Mae Servicing Corporation) on behalf of the Company. Under the terms of these subservicing agreements, the sub-servicer indemnifies the Company for any loss of principal and interest resulting from deficiencies in the loan servicing performed by the sub-servicer. At June 30, 2020 and 2019, 100% of the portfolio is serviced by third-party sub-servicers.

Allowance for Student Loan Losses

The Budget Reconciliation Act of 1993 (the Act) lowered the federal guarantee for FFELP student loans made on or after October 1, 1993, to 98%. *The Deficit Reduction Act of 2006* lowered the federal guarantee for FFELP student loans made on or after July 1, 2006 to 97%. The Company provides an allowance for estimated loss of guaranteed student loan principal and interest related to the 2% unguaranteed and unrecoverable amounts on student loan notes receivable. The Act's lowering of the federal guarantee has not historically had a material impact on the Company. The Company determines the allowance for loan losses based on loss factors applied to the portion of the student loan balances without guarantees by individual loan type and status. Because the Company's portfolio consists of guarantees ranging from 97% to 99%, and because there is a relatively small percentage of loans at the 97% guarantee, management has considered that 98% of principal and interest is guaranteed and there is only 2% of principal with credit risk.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

Activity in the allowance for loan losses is summarized as follows:

	June 30,	
	2020	2019
Balance, beginning of year	\$ 39	\$ 49
Provision for loan losses	2	9
Charge-offs	(11)	(19)
Balance, end of year	<u>\$ 30</u>	<u>\$ 39</u>

5. Notes Payable

Notes payable consist of the following:

	June 30,		Final Maturity Date
	2020	2019	
Student Loan Asset-Backed Notes			
Series 2010 A-1	\$ 40,437	\$ 47,000	September 2041
Student Loan Asset-Backed Notes			
Series 2010 C-1	14,700	14,700	September 2041
	<u>\$ 55,137</u>	<u>\$ 61,700</u>	

The Series “A” notes are senior notes and the Series “C” notes are junior subordinate notes. Per the indentures, the senior notes have a superior interest to the indenture assets over the subordinate notes. Due to this higher risk, subordinate notes yield a higher interest rate. The subordinate notes are unrated.

Interest rates for the various notes are based on variable rates. The interest rates at June 30, 2020 and 2019 for each class of notes are as follows:

		<u>June 30, 2020</u>	<u>June 30, 2019</u>
Series 2010 A-1 Floating rate securities	90-Day LIBOR plus 0.90%	1.97%	3.50%
Series 2010 C-1 Fixed rate subordinate	Fixed	1.75%	1.75%

Pursuant to the indenture agreement, interest on the subordinate notes is not paid until all senior principal amounts are called or matured. Unpaid interest is compounded quarterly at the fixed rate for the notes. For the years ended June 30, 2020 and 2019, subordinate interest of \$302 and \$297, respectively, was expensed. As of June 30, 2020 and 2019, the Company had \$2,772 and \$2,470, respectively, of interest related to subordinate debt accrued.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

Pursuant to the indenture agreement, the Company is subject to certain financial and nonfinancial covenants. Under the note agreements, the Company has certain minimum collateral coverage requirements. Under the indenture covenants, the Company must make timely principal and interest payments or the notes will default.

The maturities of notes payable as of June 30, 2020, by fiscal year, are as follows:

2021	\$	-
2022		-
2023		-
2024		-
2025		-
Thereafter		55,137
		55,137
	\$	55,137

The actual maturities of notes payable may differ from the contractual maturities noted above, as the Company has the ability to prepay the debt outstanding.

6. Fund Balance (Deficit)

Fund Balance (Deficit) with Restrictions

As noted in *Note 2* of Significant accounting policies of the Company, the fund balance (deficit) with restrictions by the credit agreement as noted on the balance sheets. For the Company, fund balance (deficit) with restrictions for the fiscal years ended June 30, 2020 and 2019 is noted below:

	June 30,	
	2020	2019
Subject to expenditure for specified purpose:		
Fund balance (deficit) with restrictions	\$ (4,694)	\$ (4,855)

Fund Balance (Deficit) Without Restrictions

As noted in *Note 2* of Significant accounting policies of the Company, fund balance (deficit) without restrictions is limited to any non-debt related funds as of fiscal years ended June 30, 2020 and 2019 designated as fund balance (deficit) without restrictions on the balance sheets. The Company had no fund balance (deficit) without restrictions during for the years ended June 30, 2020 and 2019.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

Fund Balance (Deficit) Released from Restrictions

As noted in *Note 2* of significant accounting policies of the Company, resources of the Company are established for specific purposes or financings. As shown in the statements of changes in fund balance (deficit), fund balance (deficit) with restrictions revenues exceeded expenses in the amount of \$161 and \$175 for the years ended June 30, 2020 and 2019, respectively.

7. Revenue of the Company

Recognition of the direct, significant revenue of the Company is disclosed in *Note 2* to the financial statements.

Disaggregation of Revenue

The disaggregation of total revenue per percentage including both interest revenue and noninterest revenue is as follows for the years ended June 30, 2020 and 2019:

	June 30,	
	2020	2019
Interest revenue:		
Student loans note receivable	97.63%	97.09%
Investments	1.34%	2.12%
Noninterest revenues:		
Other	1.03%	0.79%

8. Liquidity and Availability

As disclosed in *Note 2* of significant accounting policies, all financial assets of the Company are limited and restricted to a specific purpose in accordance with the principles of fund accounting in compliance with debt instruments. Revenue from those assets with restrictions is for specific purposes of the fund. Funds of the Company are only available for general expenditure through the fund balance without restrictions.

9. Related-Party Transactions

Included in administrative and loan servicing fees are administrative fees paid to BHESC and servicing fees paid to third-party sub-servicers. During the years ended June 30, 2020 and 2019, the Company recorded \$88 and \$100, respectively, in administrative fees paid to BHESC, Master Servicer, for providing administrative support, such as accounting and information technology infrastructure.

Federated Student Finance Corporation
Notes to Financial Statements (continued)
(In Thousands)

June 30, 2020 and 2019

10. Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively affect the financial position, results of operations and cash flows of the Company. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through October 27, 2020, which is the date the financial statements were available to be issued. No events requiring disclosure were noted.