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DBRS

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COMPARING STUDENT LOAN FORBEARANCE RATES

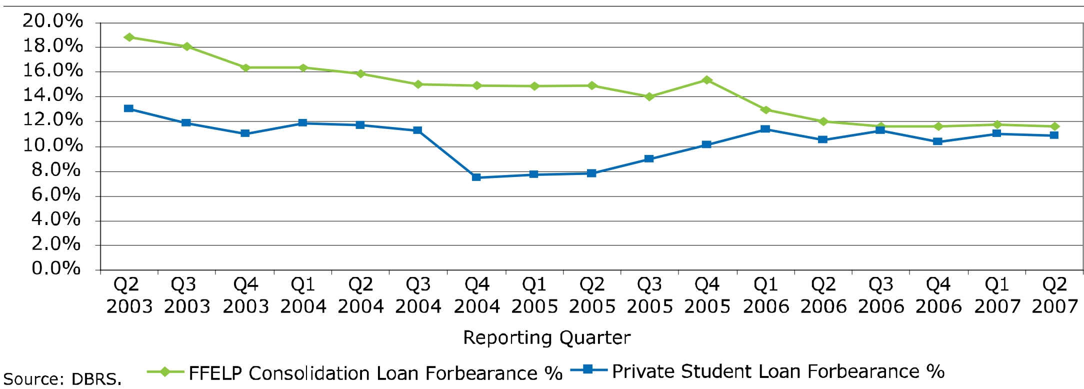
Student loans allow for lenders to grant forbearance periods to borrowers who experience economic hardship. While in forbearance, borrowers may forgo paying either monthly principal or principal and interest, but unpaid interest amounts are generally capitalized to the loan balance at the end of the forbearance period. The Federal Family Education Loan Program (FFELP) maintains specific guidelines for (1) the type of documentation to be provided by borrowers in order to receive forbearance on a loan and (2) the number of periods and maximum length of time forbearance may be granted.[1] There are no universal guidelines for private student loans, and the documentation requirements and time allowances vary among lenders. One common difference in forbearance between the FFELP and the private loan programs is that the three-year maximum forbearance period generally allowed in the FFELP is longer than the usual one-year maximum period allowed in private loan programs.

In conjunction with the release of the DBRS U.S. Private Student Loan Performance Report for the second quarter of 2007, DBRS compared the forbearance rates[2] of private student loan asset-backed securities (ABS) transactions with those of FFELP ABS transactions backed solely by pools of Consolidation loans. DBRS used FFELP Consolidation loans as a point of comparison since they do not suffer from the high level of prepayments that FFELP non-Consolidation loans have experienced, and thus FFELP Consolidation loan performance is less likely to be masked by prepayments. The analysis covers the past four years, following the first 100% FFELP Consolidation student loan ABS transaction issued in 2002.

Overall forbearance rates on FFELP Consolidation loan transactions have been higher than those on private student loan transactions, but they have improved over the past four years. Meanwhile, private student loan forbearance rates have been more stable, generally in the range of 9% to 13% (see the graph below). During this four-year period, the average forbearance rate in private student loan transactions was 10.48% compared with 14.48% for FFELP Consolidation loan transactions. In addition, the variability of forbearance rates as measured by their standard deviations was lower for private student loans than for FFELP Consolidation loans (1.60 versus 2.28 standard deviations).

The stable, lower overall forbearance rates of the private student loans as opposed to FFELP Consolidation loans are likely driven by the fact that private student loans are credit underwritten and, generally, have a creditworthy co-signer, while FFELP loans are part of a U.S. federal government entitlement program and require only minimal credit underwriting without a co-signer. Nevertheless, investors in FFELP Consolidation ABS receive the benefit of a federal guarantee of at least 97% of accrued interest and principal on defaulted loans, whereas investors in private student loan ABS are exposed to 100% of loan defaults.

Forbearance Rates



Source: DBRS.

For questions and comments, contact David Laterza at dlaterza@dbrs.com or David Hartung at dhartung@dbrs.com.

[1] Under the FFELP, forbearance may be granted in six-month increments for, generally, a total maximum amount of three years. The periods of forbearance do not have to be concurrent.

[2] Defined as the ratio of the aggregate dollar amount of loans in forbearance at the end of a reporting period divided by the dollar amount of loans in repayment at the end of that period.