



Sharon McGarvey CFA, CPA
Senior Vice President, U.S.
Structured Finance Research
+1 212 806 3261
smcgarvey@dbrs.com

Michael Nelson
Managing Director,
U.S. Structured Finance
+1 212 806 3251
mnelson@dbrs.com

Toronto

DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York

140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

Chicago

101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

London

1st Floor
25 Copthall Avenue
London EC2R 7BP
+44 (0)20 7562 5600

Paris

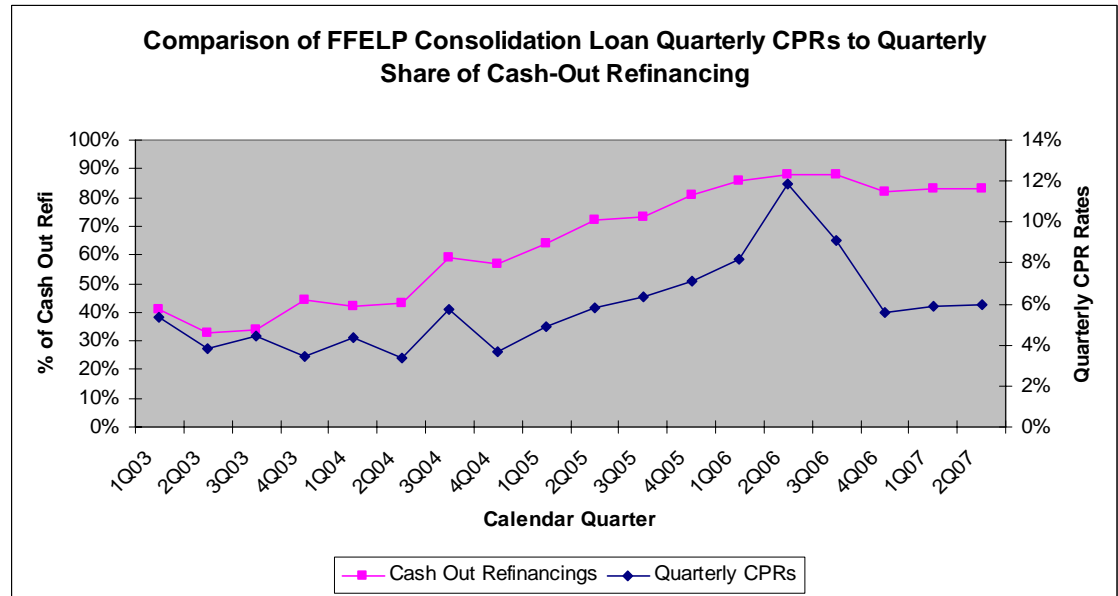
27, avenue de l'Opéra
75001 Paris
+33 (0)1 7038 5214

Frankfurt

Trianon Tower
Mainzer Landstrasse 16
60325 Frankfurt
+49 (0)69 9716 8144

HOME SCHOOLING: SLABS CPR AND MORTGAGE CASH-OUT REFINANCING

DBRS compared the quarterly constant prepayment rates (CPRs) for student loan asset-backed securities (SLABS) supported by pools consisting of 100% Federal Family Education Loan Program (FFELP) Consolidation loans with data on residential mortgage cash-out refinancing as reported by Freddie Mac¹. The analysis suggests that Consolidation loan prepayments appear to correlate with the level of quarterly mortgage cash-out refinancings from 2003 to the second quarter of 2006².



FFELP loans are subject to prepayment risk stemming from a variety of factors that vary for each FFELP loan type. Historically, Stafford and PLUS loans have most often been prepaid due to loan consolidation. Consolidation loans, which generally cannot be “reconsolidated,” have been subject to more traditional prepayment factors, such as employment bonuses, inheritance and home equity extraction.

The data set for the analysis conducted by DBRS includes 41 SLABS transactions executed between November 2002 and January 2007. Performance for these transactions is publicly reported and was reviewed for the period covering the first quarter of 2003 through the second quarter of 2007. DBRS computed the average quarterly CPRs and performed a correlation analysis³ of the CPRs to Freddie Mac quarterly cash-out refinancing data for the same time period. Based on the graph and analysis, there appears to be a relationship between cash-out refinancings and FFELP Consolidation loan prepayments. However, it is important to note that the correlation between the two weakened during the second quarter of 2006, most likely as a result of a temporary spike in Consolidation loan prepayment activity. This spike can be attributed to the temporary use of a loan consolidation process known as the “Super 2 Step,” which allowed Consolidation loan borrowers to re-consolidate their loans through a competing federal loan program⁴.

Given the tendency for FFELP Consolidation quarterly CPRs to track with quarterly mortgage cash-out refinancing activity, investors may consider referencing industry forecasts of quarterly cash-out refinancing as indicators of future trends in FFELP Consolidation loan prepayments.

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

¹ Quarterly share of mortgage cash-out refinancing is defined as the percentage of refinancings which resulted in a 5% or higher loan amount. Source: Cash-Out Refinance Share Remains High in Second Quarter, Freddie Mac, August 7, 2007. www.freddiemac.com

² As the data set is limited to four years, additional data would be required to confirm the existence of a statistically strong correlation between the two variables.

³ The analysis showed a correlation of 0.754, indicating a positive relationship between the two variables. The T-test was significant at a 95% confidence level.

⁴ The process was heavily marketed by certain loan consolidation marketing companies only for a short period of time and was eliminated through the passage of the Higher Education Reconciliation Act of 2005, which became effective on July 1, 2006.