

U.S. Structured Finance Newsletter

Volume 4, Issue 10, March 10, 2008



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

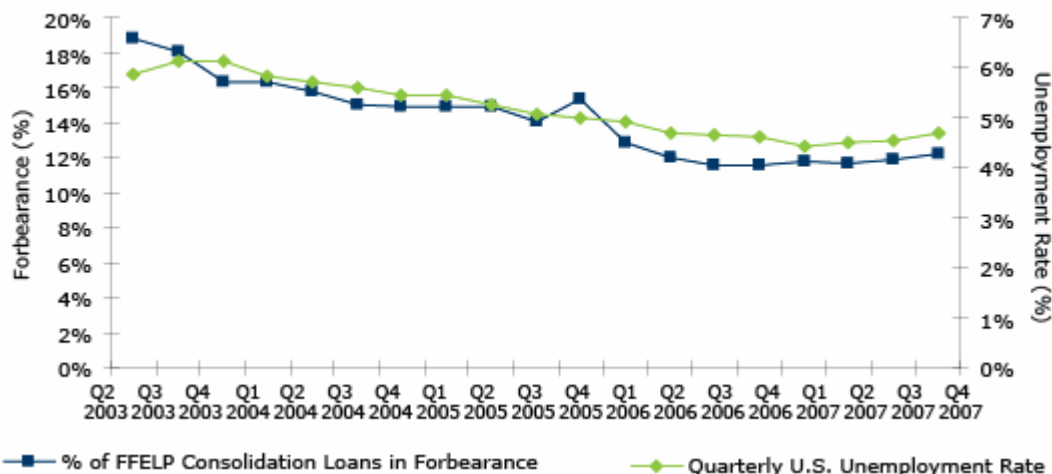
CORRELATION OF FFELP FORBEARANCE RATES AND U.S. UNEMPLOYMENT RATE

DBRS has analyzed the quarterly forbearance rates of student loan asset-backed securities (SLABS) supported by pools consisting of 100% Federal Family Education Loan Program (FFELP) Consolidation loans and compared them with the U.S. unemployment rate as reported by the U.S. Department of Labor. The analysis concludes that there is a strong correlation between the previous quarter's average unemployment rate and the level of forbearance in Consolidation loan trusts.

FFELP guidelines allow lenders to offer discretionary forbearance to borrowers who have experienced financial hardship. Federal regulations require that the lender document the reason for the forbearance and only use forbearance as a tool to bring delinquent loans current or as a default-aversion tool if the lender reasonably believes the borrower intends to repay the loan. Forbearance is granted to the borrower in one-year increments, with no maximum limit on the number of years of discretionary forbearance a borrower may receive. During forbearance, the borrower must either make interest payments on the loan or have the interest capitalized to the loan's balance. There is no government interest subsidy paid on subsidized loans when in forbearance.

The data set for the correlation analysis includes 61 SLABS transactions executed between November 2002 and November 2007 that publicly report performance (\$105.2 billion of total outstanding loan volume as of the fourth quarter of 2007). The analysis, which covers the period from the second quarter of 2003 through the fourth quarter of 2007, compares the average quarterly forbearance rate as a percentage of loans in repayment with the quarterly average unemployment rate for the prior quarter. The analysis indicates a strong linear relationship between the trends displayed by the two variables, and a T-test concludes that the correlation is significant.

Comparison of FFELP Consolidation Loan Forbearance Rates and U.S. Unemployment Rates



Given the strong relationship between quarterly average unemployment rates and the lagging quarterly average forbearance rates, investors may choose to use forecasts of unemployment rates and actual unemployment rate data as an indicator of future trends in FFELP Consolidation loan forbearance rates.

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