

U.S. Structured Finance Newsletter

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TURNING THE PAGE: POTENTIAL AID FOR THE STUDENT LOAN INDUSTRY

On April 3, 2008, in a somewhat surprising development, bills were presented in both houses of the U.S. Congress to provide support to the federally guaranteed student loan industry.

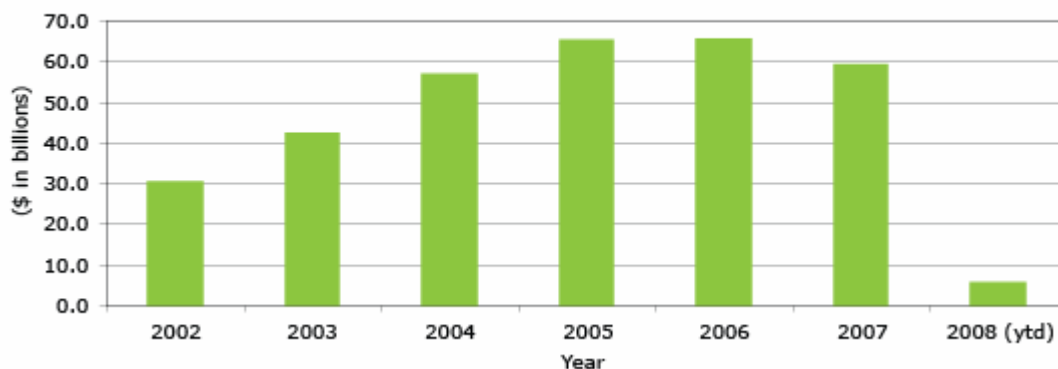
In what had previously been a hostile environment for lenders participating in the Federal Family Education Loan Program (FFELP), Democratic leaders of the major education committees in the U.S. Senate and House of Representatives introduced initiatives that would, among other things, increase federal loan borrowing limits for students and allow the Department of Education to purchase loans from FFELP lenders currently struggling to sell loans. The first provision of the bills is an obvious plus for FFELP lenders, as it presents an opportunity to originate more loan volume. The last proposal has the potential to provide much needed liquidity to lenders who are unable to originate new loans by allowing them to free up capital to fund their lending operations.

Currently, many lenders have reached maximum limits on warehouse facilities and other lines of credit with major banks. Due to the paralysis afflicting the capital markets, most of these same lenders have also been unable to securitize loans to free up capital for additional lending activities. The effect of the proposed legislation not only provides a direct opportunity for lenders to offload loans in order to free up capital, but also has the potential to provide leverage for lenders relying on the securitization market.

Over the past several months, lenders tapping the securitization market have been forced to pay to investors of asset-backed securities backed by FFELP loans spreads at levels equal to multiples of historical norms. By providing an alternative purchaser for loans, the legislation may well allow those lenders to be more selective in their use of securitization, which could drive spreads lower. A lower cost of funds not only provides lenders additional capital to increase lending activities, but also may allow certain lenders to refinance high-rate auction-rate securities that have suffocated their business models.

The bills are in the very early stages of the legislative process. However, given that both houses of Congress have presented similar legislation, the likelihood of reaching a substantive and bipartisan consensus on the matter is increased. DBRS will continue to follow this and other legislative developments and provide updates and guidance as warranted.

FFELP Student Loan ABS Issuance



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