

U.S. Structured Finance Newsletter

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Q2 2008 PRIVATE STUDENT LOAN PERFORMANCE TELLS A CAUTIONARY TALE

For the past two years, private student loan asset-backed securities (ABS) trusts have been able to withstand the significant and growing pressures felt by U.S. consumers, but that relative resiliency may be eroding.

Even before the current economic slowdown was in full swing, as far back as the second quarter of 2006, delinquencies in publicly issued private student loan trusts had begun to trend higher. Throughout the past year, however, delinquencies increased but never at a truly alarming rate, with the absolute level of delinquencies remaining within rating agency expectations. In the second quarter of 2008, according to the quarterly DBRS Private Student Loan Delinquency Index, 120-day delinquencies increased 60 basis points – a 38.2% increase over the previous quarter – to a record high of 2.15%. Although this is still within the range used in rating agency cash flow stress scenarios, the magnitude and timing of the spike is noteworthy.

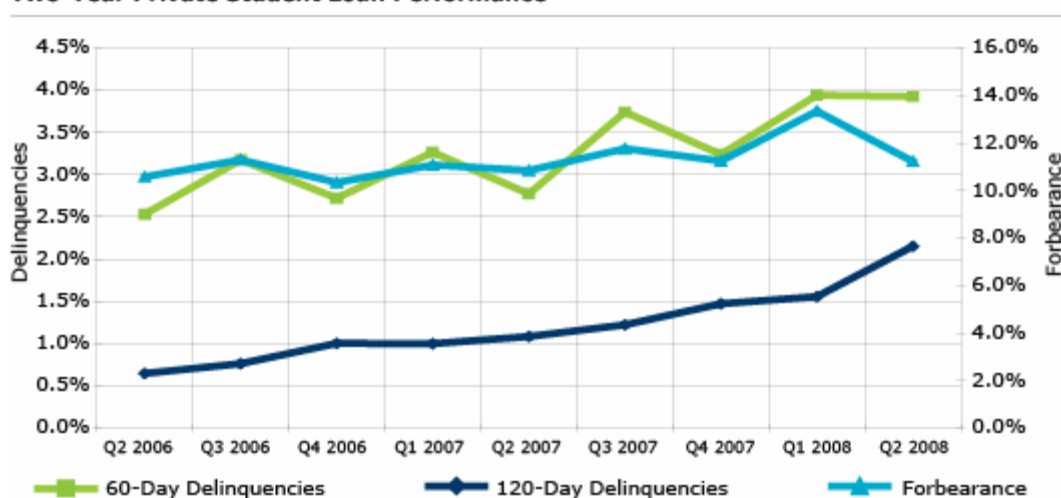
The measure of 120-day delinquencies is based on the dollar amount of loans in repayment and therefore excludes loans in forbearance – the status reserved for borrowers experiencing economic hardship. Interestingly, in the second quarter of 2008, the percentage of loans in forbearance dropped precipitously – 211 basis points, or nearly 16%, to 11.23%. Meanwhile, early-stage delinquencies, as measured by loans 60 days delinquent, declined slightly.

This data indicates that private student loan servicers are continuing to work hard to resolve early-stage delinquencies but may have developed a reduced willingness to offer or extend forbearance to borrowers whose delinquencies cannot be resolved within 90 days or whose financial profiles have continued to deteriorate over the past year.

If it has become the practice of servicers to limit forbearance or not to let borrowers extend forbearance in order to avoid what appears early on to be an eventual default, then the private loan ABS market could be on the verge of a steady, more severe increase of late-stage delinquencies and, eventually, defaults. Only time will tell, however.

The data included in the chart below is a subset of DBRS's *Q2 2008 Private Student Loan Performance Report*, which will be published in the coming days.

Two-Year Private Student Loan Performance



Note: Delinquency and forbearance figures are a percentage of loans in repayment.
Source: DBRS analysis.

For questions or comments, please contact David Hartung at dhartung@dbrs.com.