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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

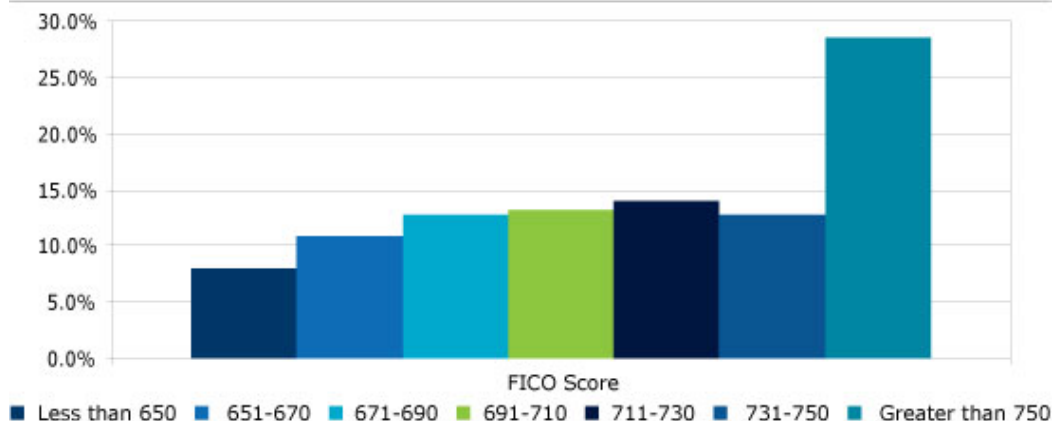
PRIVATE STUDENT LOAN ABS: THE RISK OF CONTAGION FROM SUBPRIME EXPOSURE

DBRS has received many questions recently from investors who are concerned about the possible contagion effect of subprime mortgage performance on other consumer asset-backed securities (ABS). In response, DBRS conducted an analysis of the 32 publicly issued private student loan trusts that provided FICO score distribution data in their transaction-offering documents. The analysis of the FICO score distribution of all borrowers¹ for each transaction shows that the majority of private student loans securitized to date have been made to high-quality borrowers and that there is limited exposure in the private student loan market to borrowers with weak credit files.

Generally, private student loans are subject to traditional consumer underwriting based on lender-specific underwriting criteria. Often, the underwriting criteria in a private loan program requires a borrower to (1) meet a minimum FICO score; (2) have an acceptable debt-to-income ratio; (3) not be delinquent on any other education loan; (4) be attending a Title IV eligible school; and (5) be a U.S. citizen or eligible non-citizen. Frequently, lenders will allow a borrower who cannot meet the underwriting criteria on a stand-alone basis to obtain a co-signor who meets the minimum FICO score and debt-to-income requirements.

For the analysis, DBRS considered all loans with FICO scores of less than 650 as subprime. DBRS then aggregated the distribution of FICO scores in 20-point bands up to 750. DBRS then aggregated all loans with FICOs greater than 750 as prime borrowers. The total dollar amount of collateral involved in the analysis of the 32 trusts was approximately \$29 billion. As the table below shows, the resulting analysis indicates that only 8% of the total collateral had a FICO score of less than 650 and approximately 28% of the loans had a FICO score greater than 750.

FICO Score Distribution for Private Student Loan ABS



The application of strong underwriting has led to an average FICO score of 718 for all loans, and 56.2% of the private loans are co-signed by parents of the students. Typically, these parents will have “thick” credit files with 20 to 30 years’ worth of credit history. Given these strong credit profiles and the significant percentage of loans that have co-signors, private student loans should remain relatively immune to the effects of the subprime meltdown. However, similar to other consumer assets, private student loan borrowers remain exposed to the general malaise affecting the U.S. economy and, more specifically, the U.S. job market.

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

1. As reported in the offering documents, “all borrowers” refers to the highest FICO score of either the borrower or co-signor on each loan in the collateral pool.