

U.S. Structured Finance Newsletter

Volume 5, Issue 38, October 19, 2009



Claire Mezzanotte

Managing Director,
ABS/RMBS
U.S. Structured Finance,
+1 212 806 3272
cmeyzanotte@dbrs.com

Jan Buckler

Senior Vice President,
Research and Modeling
U.S. Structured Finance
+1 212 806 3925
jbuckler@dbrs.com

David Hartung

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3269
dhartung@dbrs.com

Quincy Tang

Senior Vice President,
RMBS
U.S. Structured Finance
+1 212 806 3256
qtang@dbrs.com

Kathleen Tillwitz

Senior Vice President,
ABS/RMBS
Operational Risk
U.S. Structured Finance
+1 212 806 3265
ktillwitz@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

WHERE HAVE ALL THE STUDENT LOANS GONE?

For the past two academic years, a substantial portion of the new student loans originated under the Federal Family Education Loan Program (FFELP) have been either purchased directly by the U.S. Department of Education (ED) or have had participation interests in the loans sold to the ED, which has merely delayed the outright purchase of the loans by the ED. Further, aside from the originations for the past two years, many of the loans that remain on the books of lenders have been sold through the ED-sponsored, Straight-A Funding asset-backed commercial paper conduit (ABCP). The presence of these alternative financing avenues has resulted in a dramatic slowdown in the public term asset-backed securities market for newer federal student loans.

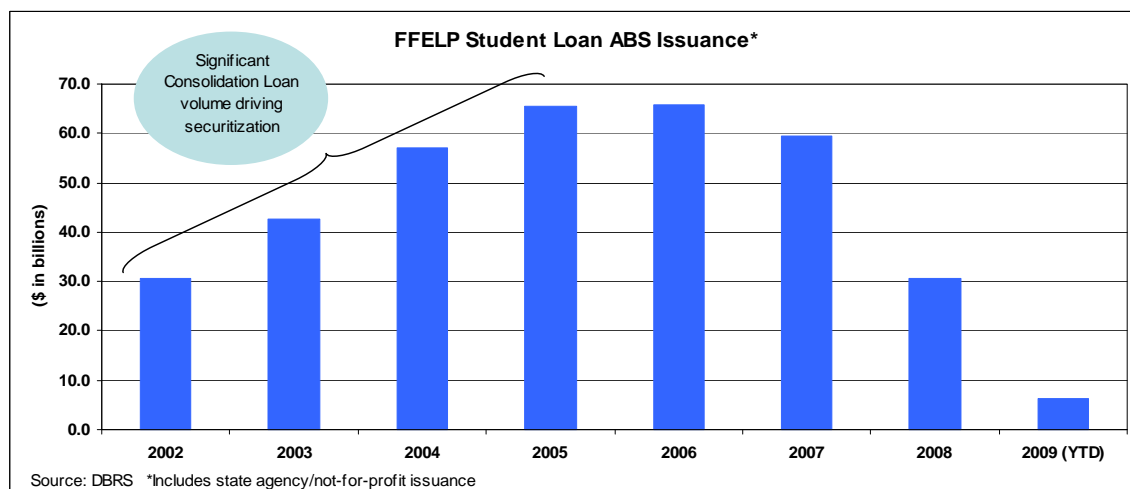
According to the ED, as of October 6, 2009, FFELP loans sold to the ED through the 2008-2009 Loan Purchase Commitment Program totaled \$23.84 billion. For the Loan Participation Purchase Program, as of October 6, 2009, the amount of FFELP Loan Participation Interest sold to the ED through the 2008-2009 totaled \$33.29 billion; and the outstanding balance of participation interests owned by the ED as of September 30, 2009 totaled \$20.03 billion. (For more information on the Loan Purchase Commitment Program and Loan Participation Purchase Program, see [DBRS U.S. Structured Finance Newsletter, Volume 4, Issue 38, dated September 15, 2008.](#))

The creation of the ABCP conduit, Straight-A Funding, was focused more on older loans that have accumulated on lenders' balance sheets. The program provides five-year financing for FFELP Stafford and PLUS loans first disbursed from October 1, 2003 to June 30, 2009. The program is supported by a liquidity facility provided by the Federal Financing Bank and an ultimate backstop purchase of the financed student loans by the ED. As of August 31, 2009, the Conduit was funding approximately \$25.8 billion in principal outstanding of student loans.

Granted, the conditions for ABS issuance in the capital markets were prohibitive to term ABS issuance over much of the past two years, which was the primary cause for creating the ED programs, but more recently the ABS market has rallied and a fair degree of ABS investor interest has returned. This interest may manifest itself in more offerings of older consolidation loan-backed ABS or, if the market comes back even stronger, Stafford- and PLUS-backed deals, if the pricing can surpass that of Straight-A Funding.

But for the time being, the fact now is that the ED programs are up and running effectively and lenders have just recently expended capital and resources to put systems in place to use the ED programs. Switching away from those programs at this time, or any time soon, may not be attractive to some lenders.

Further, a proposal included in the Student Aid and Fiscal Responsibility Act of 2009 (H.R. 3221) seeks to eliminate the FFELP completely after June 2010. The prospects for the bill passing through the U.S. Senate and becoming law are fairly strong. As a consequence of these combined circumstances, prospective FFELP student loan investors may see very little new FFELP student loan ABS issuance.



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

Please refer to www.dbrs.com for DBRS's [Privacy Policy](#), [Disclaimers](#), [Proprietary Rights](#), [Terms and Conditions of Use](#). To stop receiving these mailings, please send an e-mail to sf_weekly-unsubscribe@news2.dbrs.info