

The Supply Side of Student Loans:
How the Global Capital Markets Fuel the Student Loan Industry

Joe Keeney

American Enterprise Institute

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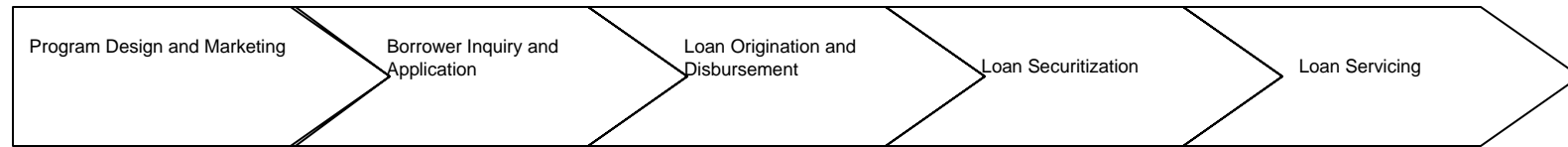
Agenda

- Student loan volume, growth, industry structure
- Key metrics: student loan losses and loan value
- Student loan ABS
 - A new and rapidly growing asset class
 - Student loan ABS investors
 - The nuts and bolts of student loan securitization
 - Market risks and opportunities
 - Disclosure and compliance
- The nature of competition
- International student loan market
- Summary

Volume and Growth

- Federal loan program: \$63B, 5 yr CAGR = 11%
- Private student loans: \$13B; 5 yr CAGR = 30%
 - Could exceed federal in 10 years
 - Gap between costs and federal loan limits

Industry Structure



Market research and analysis
 Program design
 - Credit standards
 - Loan terms
 - Regulatory and legal compliance
 Training, marketing support and advisory

Dissemination of loan materials and applications
 Application screening
 Customer call center management

Application processing and credit underwriting
 Delivery of promissory note
 Disbursement of funds to school or borrower
 Regulatory and legal compliance

Organization of critical resources (investment banks, financial guarantors, rating agencies, and other participants)
 Structuring of securitization/asset selection
 Negotiation with transaction parties and coordination with rating agencies
 Execution and reconciliation

Customer call center management
 Billing and account management
 Delinquency and collections management
 Securitization trust administration
 - Calculation and distribution of funds

Student Loan Losses

- Definition of losses
- The most popular graph in the industry
- Reasons for lower default rates
- Private student loan default rates lower

TERI Net Defaults Paid by Cohort Year (\$000)

Cohort Year	Total Loans Guaranteed	Total Net Defaults Paid for Loans Guaranteed	Net Cohort Default Rate
2001	\$97,120	\$3,857	3.97%
2002	\$623,496	\$13,230	2.12%
2003	\$965,416	\$12,365	1.28%
2004	\$1,704,139	\$10,246	0.60%
2005	\$2,556,750	\$1,598	0.06%

Student Loan Value

Simplistic example

A \$10,000 loan @ 8.5% p.a. for 10 years is worth....

- \$10,000 to you if your cost of funds is 8.5%
- \$12,000 to you if you cost of funds is 4.5% (LIBOR)

Other factors

- Origination fees
- Risk of loss
- Early prepayment

Asset Backed Securities (“ABS”)

- Subset of “Structured Finance” industry
- Turns predictable cash flows into securities that can be combined, carved up and sold to investors
- U.S. ABS issuance \$850B, +11%
- Student loan ABS in 2005 = \$73B
 - Includes consolidation loans
 - \$9B of PSLs
- Small number of PSL issuers
- If not securitized, loans typically held by banks

ABS Investors

- Lopsided – small number of large investors
- Global, esp. Europe
- Extensive monitoring and due diligence
- Federal loans have sovereign-like guarantee
- PSL spread decreasing

Student Loan ABS Nuts and Bolts

- 84 issuers over last 15 years; Sallie = 39% of 2005 volume
- Usually floating rate notes
- Most deals have 5-10 tranches
 - Different credit risk, weighted average life, etc.
 - Note triggers and reserve accounts protect senior holders
 - Excess spread and residual value
- Stable market = low spread above LIBOR, or even sub-LIBOR

Market Risks and Opportunities

- Mercury Finance case
- Private student loan compliance with consumer credit laws
- Legislation – e.g., income contingent repayment
- Direct loan policy
- Development of a secondary market

Disclosure and Compliance

- Reg AB
- Internal and external audit of loan pools
- Rating agencies

Nature of Competition

- First Marblehead bulls and bears
- Price competition – borrower benefits
- New entrants
- Lenders not concentrated

Top lenders FY97			Top lenders FY05		
	\$MM	% of total		\$MM	% of total
Direct loans	9,977	31.8%	Direct loans	13,698	21.5%
Chase Manhattan Bank	1,706	5.4%	Sallie Mae	4,990	7.8%
Citibank	1,585	5.1%	Citibank	3,508	5.5%
First Union	1,175	3.7%	Bank One	3,490	5.5%
Bank One	1,064	3.4%	Bank of America	2,999	4.7%
Norwest Bank	889	2.8%	Wells Fargo EFS	2,466	3.9%
Key Bank	806	2.6%	JP Morgan Chase Bank	2,323	3.7%
Nationsbank	760	2.4%	Wachovia Ed. Finance	2,265	3.6%
Wells Fargo Bank	701	2.2%	College Loan Corp.	1,235	1.9%
Bank of America	687	2.2%	U.S. Bank	1,202	1.9%
Top ten total	19,350	61.7%	Top ten total	38,176	60.0%

International Market

- Different models
- Opportunity in global post-secondary market development

Global Post-Secondary Education Market

	U.S.	Western Europe	Latin America	Asia
Population Age 18-24	32 mil.	49 mil.	78 mil.	411 mil.
Participation rate (% 18-24 enrolled)	47%	23%	15%	8%
Enrollment 1990, MM	13.5	11.6	7.3	13.8
Enrollment 2005, MM	16.1	13.6	12.0	27.8
Enrollment growth rate (CAGR 90-05)	1.1%	1.2%	3.6%	5.3%

Summary

- Rapidly growing, especially PSL
- Complex intermediation process from initial borrower to ultimate lender
- Most loan securitized and sold to sophisticated global investors; strong market disciplines in place
- Huge growth opportunity internationally