



U.S. STRUCTURED FINANCE NEWSLETTER

ISSUE 60. MAY 31, 2005

Michael Nelson
Managing Director
(212) 635-3408
mnelson@dbrs.com

Andrew Jones
Managing Director
(212) 635-3412
ajones@dbrs.com

Jack Toliver
Managing Director
(312) 332-0889
jtoliver@dbrs.com

Mark Adams
Managing Director
(416) 593-5577
madams@dbrs.com

Toronto Office
200 King Street West,
Suite 1304
Toronto, ON M5H 3T4
Canada
(416) 593-5577

New York Office
One Exchange Plaza
55 Broadway Suite 1502
New York, NY 10006
U.S.A.
(212) 635-3277

Chicago Office
20 North Clark
Suite 803
Chicago, IL 60602
U.S.A.
(312) 332-0889

Susan Kulakowski
Publisher
(212) 635-3411
skulakowski@dbrs.com

Student Loan ABS Comparative Credit Enhancement - Analysis

DBRS's Newsletter issued on May 16, 2005, presented selected key statistics for three recent student loan asset-backed securities (SLABS), namely:

- SLM Private Credit Student Loan Trust 2005-A;
- The National Collegiate Student Loan Trust/NCF Grantor Trust 2005-1; and
- Nelnet Student Loan Trust 2005-2.

This issue looks at the same data (see Issue 58 for the table) to compare the levels and forms of credit enhancement required to achieve the respective senior classes' 'AAA' ratings.

Subordination. The most noticeable difference between the two alternative SLABSs (SLM and NCSL/NCF) and the Nelnet transaction is the lower level of subordination supporting the 'AAA' rated senior classes. Unlike the two alternative SLABS, Nelnet's securitization is backed by U.S. government reinsured collateral. Given the insurance percentage (essentially in the high 90% range) and the superior record of the servicers with important insurance policy compliance conditions, DBRS expects the transaction net credit losses to be very low. This is because the ultimate source of credit support (the U.S. Department of Education reinsurance policy) is of the highest credit quality.

Reserve fund. The NCSL/NCF securitization may appear to have a significantly higher minimum reserve percentage (1.25%) compared to the SLM and Nelnet securitizations (both 0.25%). The 1.25% NCSL/NCF reserve percentage is multiplied by the outstanding portfolio balance vs. the initial balance for the other two securitizations. NCSL/NCF 2005-1 benefits from a second reserve funded by a 75% holdback of The Education Resources Institute loan-level credit insurance policy.

Issuance amount vs. pool balance. In comparing the total transaction amounts and the three transactions' pool balances, each of the securitizations appear undercollateralized. These apparent collateral coverage gaps can result from different structural factors (e.g., pre-funding) common to many securitizations. The most prevalent explanation for these "gaps" is the accrual and capitalization of interest that occurs during the student borrowers' "in-school" and "deferral" periods. SLABS structures generally address this gap by incorporating a "capitalized interest account" that is funded from the proceeds of issuance at closing. The account is sized by the concentration of "in-school" and "deferral" loans in the securitized portfolio and their anticipated schedule of interest accrual, capitalization, and conversion to full repayment status to ensure that sufficient cash is available to service the outstanding bonds during the non-cash generating collateral accrual period. Given that most of the loans securitized for the Nelnet transaction are in "repayment," this collateral is not expected to "grow" to full collateralization. The deal is, virtually, already there. For the SLM and NCSL/NCF transactions (the majority of their collateral being either "in-school" or "in-deferral," respectively), larger gaps exist between the bonds' face amount and the estimated collateral at closing. In these cases, the gap is covered by relatively large capitalized interest accounts.

Private credit insurance payments. Distinctions should also be made between the loan-level insurers and their reimbursement mechanisms. Unlike the TERI insurance directly available to the NCSL/NCF trust, Sallie Mae's HICA credit insurance policy is payable to the loans' originator, not the trust itself (which, within the context of this transaction, is credit neutral).