

**A**lthough previously regarded as a cookie-cutter asset class, the student loan product is suffering — like all the other major securitization sectors — from a lack of investor confidence. The task is to win these buyers back. Observers believe that the key to wooing the return of the investor base is a much greater understanding of the sector.

# Student Loans:

**A World of Difference  
Under the Cap n' Gowns**



*EIG Aims to  
Increase  
Understanding  
in the Sector*

In this vein, **Mark Daly**, **Steve O'Connell** and **Guido van der Ven** — who were previously top officials in the largest student loan issuer **Sallie Mae's** corporate finance department — have formed a new company called **Education Investment Group LLC (EIG)**. The three are hoping to use their combined many years of experience in Sallie Mae and the student loan industry to help restore liquidity and confidence in the marketplace.

EIG has set out to offer student-loan specific modeling, structuring and analytical services to clients interested in underwriting, rating or investing in student loan ABS or ABCP. Additionally, EIG expects to provide investment management services to prospective student loan investors.

ASR's **Karen Sibayan** had a conversation with van der Ven — whose work at Sallie Mae focused on all debt investor relations and capital markets regulatory relations — regarding EIG's plan of ac-

*There are investors that feel that the student loan product is a good asset class, although it's not an easy asset class to evaluate. This is where we feel that we can fill a need.*

tion and its role in the currently volatile capital markets environment.

**ASR: What is EIG setting out to do? What will be the new company's response to the current problems in the student loan arena?**

**VAN DER VEN:** In the current market environment, investors are requiring much greater understanding before investing in any asset class than they have in the past, both in the primary and secondary markets. Looking at student loans, this asset class is very unique. Borrowers can change their status — they can be in school not

making any payments, they can be in a grace period, or they can be going back to school and be on deferment. They also have opportunities to request forbearances. These elements make student loans much more complex as compared to other consumer loans. The various borrower statuses can change the timing of payments, affect the excess spread on deals, or influence default rates. On top of that, there are borrower benefits that further complicate the analysis. Given our combined 57 years in the student loan industry, with the three of us having worked together closely over the last 10 years in corporate finance funding these assets, we feel that our expertise will fill the void and bring back much needed understanding in this asset class.

**ASR: Any specific near-term plans?**

**VAN DER VEN:** In the initial stages, we'll be flexible as to what we'll be do-

ing. We will be providing advisory services to investors, which are our primary targets, as well as to investment banks. In the beginning, we are going to offer analysis on existing deals since there's really limited transparency on these transactions. We will be looking throughout the capital structure — everything from triple-A seniors down to valuing residuals.

**ASR: Who is your competition?**

**VAN DER VEN:** We are hearing that other investment banks are looking at other opportunities in the space. Some student loan bankers who have

left their firms might also be currently providing advisory services in this area.

**ASR: What is unique about your team?**

**VAN DER VEN:** The collective experience of our team encompasses investor development, structuring, portfolio management, performance data collection, and ABS and ABCP execution, as well as whole loan, new issue, secondary market and residual valuation. We are taking that skill set and applying it as needed. We also maintain a strong relationship with the largest issuer in the student loan space.

**ASR: Are you planning to add staff?**

**VAN DER VEN:** There are no plans at this point, but as the firm grows we would be happy to be in a position where we're adding staff.

**ASR: What has been the initial response to your new venture?**

**VAN DER VEN:** We are already getting traction from investors. There are investors that feel that the student loan product is a good asset class, although it's not an easy asset class to evaluate. This is where we feel that we can fill a need.

**ASR: Is there a difference in your approach between how you view FFELP and private student loans?**

**VAN DER VEN:** There are two distinct issues. Clearly on the private loan side, the primary focus is evaluating the underlying credit. The other issue is common to both private credit and FFELP — the security structure. For both FFELP loans and private credit, issuers and bankers have created all kinds of different structures. There are T-Bill floaters, Libor floaters, auction

rate securities and reset-rate notes, as well as interest-only classes. These further complicate the evaluation of these transactions. Some deals might even contain a combination of the above. Even with FFELP, there's still a lot of uncertainty with regard to timing of payments. And if, for instance, a deal has auction rate securities in the term structure, the question is: How do you evaluate the impact of a failed auction on the transaction's overall capital structure?

**ASR: Any issues specific to private loans?**

**VAN DER VEN:** In the case of private loans, the key issue is that the investor is taking on credit risk in the underlying asset, whereas with FFELP, there is little credit risk. In private loans, you must evaluate the borrower's school, the borrower's credit score, the credit worthiness of any co-borrower and possibly any debt-to-income ratios. Then on the servicer front, where the FFELP servicer need only to be following the rules laid out by the **Department of Education**, private loans have to be serviced as unsecured consumer loans rather than the rules-driven servicing approach that you have with FFELP.

**ASR: What is your view of the current crisis in the student loan market?**

**VAN DER VEN:** Unless firms like us are successful, the sector is going to be in this liquidity crunch for some time. What we are trying to do is bring back investors' confidence so they will once again invest in these assets at the right price. We think that some of these assets can be acquired at levels that would give investors very attractive returns.

**ASR: Do you think that the proper deal analytics will help this along?**

**VAN DER VEN:** Investors have to understand how the asset is going to perform before they feel comfortable owning it. By better understanding the asset, the investor will be better positioned to bid confidently. This is true for both securities and whole loans. We'll be looking at whole loan portfolios as well.

**ASR: What is your view of the current regulatory environment for student loans?**

**VAN DER VEN:** Clearly Washington has only put a band aid on issues surrounding the FFELP student loan program. As a result, we expect that there will be continued consolidation of issuers and that more of these companies will be exiting the business. Additionally, unless Washington comes up with a long-term solution, future FFELP loans will not be funded in the private sector.

*Investors have to understand how the asset is going to perform before they feel comfortable owning it. By better understanding the asset, the investor will be better positioned to bid confidently.*

**ASR: How does your business model respond to these regulatory pressures?**

**VAN DER VEN:** Our business model will be an analytic and structuring advisory service in its initial stages. This is until we can find the right investors that are looking to capitalize on the current market dislocation. The current funding and regulatory environment is exactly why the services we offer have a specialized focus. Our prospective partners have recognized the market dislocation, but are perhaps hesitant to take advantage of the opportunity for lack of clarity and understanding regarding these assets.

**ASR: Where are you going to find the data for your analysis?**

**VAN DER VEN:** We will be working with issuers, rating agencies, and servicers to obtain the data that we need. It is all in these parties' best interest to be more transparent. I believe that some of these issuers have enough available historical data.

**ASR: The student loan sector was once considered a cookie cutter asset. What's different now?**

**VAN DER VEN:** That's very much a misnomer. Before, when everything — whether it was a credit card, auto or student loan deal — was trading at Libor plus single digits, no one felt like they had to do a lot of analysis. Analysis was more on a check-the-box approach. The problem is, and this is the case even with FFELP student loan securitizations, every issuer did things differently.

Although the industry generally followed market conventions at the time of issuance, issuers often deviated slightly depending on their goal — which might have been to maximize proceeds, to pass a certain rating agency's stress requirements, or to conform to the auction bank's auction rate platform. These differences could have a dramatic influence on how these bonds perform in the long run. That's why if you take a look, for example, at the auction rate sector, some of these deals are done on an owner trust structure, then some are on master trust, which makes analyzing them more complicated. **ASR**