



## Top marks

### **SLABS extension success exceeds expectations**

The final maturity dates on nine FFELP student loan ABS deals were extended earlier this month (SCI 14 September), as the industry continues to get to grips with the recent maturity crisis. Nelnet was able to extend all nine of the trusts that it sought to, largely through making use of DealVector's bondholder communication platform (SCI 22 June).

"It would have been very difficult to extend these nine trusts without a platform such as DealVector to bring bondholders together. When there are so many investors to reach, it makes our job a lot easier to have the platform be able to track them down for you," says Greer McCurley, head of capital markets, Nelnet.

He adds: "Using the platform and going through this process has been very healthy for us and for the wider student loan market. The market had been in turmoil for over a year, so this has been a very important step to find a way to solve the problems it has been facing."

The fact that Nelnet was able to go nine for nine on the extensions has surprised some sections of the market. Even DealVector ceo and founder Mike Manning admits that "no-one was 100% sure that we were going to be able to get all of these trusts extended".

He says: "What really turned it was the combination of a well-developed all-to-all network with the bond and tabulation tools that we have launched, which has made it so much easier to reach bondholders and get votes. By making that easier, we have opened up more opportunities."

A key aspect of the platform's success is that it does not rely on an all-or-nothing approach, whereby every bondholding must be registered. Using Nelnet as an example, Manning estimates that the platform had 85% of positions registered – and notes that this provided the foundation for Nelnet to get 100% of the votes.

Manning adds: "A lot of people assume that the entire system has to change, but it really does not. This is just an overlay that speeds the process up to internet speed; it does not replace all other ways of working."

The affected Nelnet transactions are: NSLT 2010-1; NSLT 2010-2; NSLT 2011-1; NSLT 2014-4; NSLT 2014-5; NSLT 2014-6; NSLT 2015-1; NSLT 2015-2; and NSLT 2015-3. Investor consent to extend NSLT 2012-3, NSLT 2014-2 and NSLT 2014-3 is now also being sought.

"When we have launched tenders in the past it has been very challenging to communicate with all of the bondholders. It is very frustrating because the communication goes through a series of people – perhaps from you to the bank, from one department within the bank to another, from that other department to the investor – so that it becomes a giant game of telephone," says McCurley.

He adds that if the planned extensions are successful for NSLT 2012-3, NSLT 2014-2 and NSLT 2014-3, then more could follow in the future. Manning notes that DealVector, too, is looking to expand its activities.

"We have been approached about consent solicitation in other categories and our service would work for other asset classes. For example, in RMBS there are a number of cases where it would make sense to call a deal – maybe because the underlying loans become worth more than the bonds they are backing – but the servicers cannot make the call without a vote. Right now that might not be possible, but with a bondholder platform that can bring people together, it becomes possible," he says.

Despite such a positive outcome, the rating cloud over the FFELP student loan ABS sector is unlikely to completely dissipate before year-end, as exemplified by rating actions taken earlier this month by Moody's. JPMorgan ABS analysts highlight downgrades for two particular Nelnet deals, neither of which were among the nine extended trusts, to low investment grade and below investment grade. The NSLT 2008-3 class A4 notes were lowered from Aaa to Baa3, and the NSLT 2008-4 A4 notes from Aaa to Ba1.

For the downgrades on those two bonds, Moody's cited qualitative factors such as Nelnet's ability to call transactions, but the rating agency does not offer any transaction-specific metrics or assumptions. The JPMorgan analysts suggest that maturity stress is not the only consideration.

They note: "Expected losses or failure on any of the other stress scenarios will impact the final rating. Based on our conversation with Moody's analysts, we believe this is also contributing to the investment grade versus non-investment grade differentiation Moody's is making on the two Nelnet bonds. Without additional disclosures from Moody's, it is hard to definitively nail down the exact distinction qualitatively or quantitatively."

The action was among nine downgrades across 12 Nelnet transactions, for which there were also six upgrades. The analysts advocate remaining cautious on FFELP ABS at risk of downgrade.

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