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Student Loan Report

Headlines

FFELP SLABS missing ABS rally due to worries about Libor fallback language, maturity extensions

Legacy FFELP student loan ABS spreads have widened over the past year, bucking the overall ABS market's tightening trend, in part due to growing investor concerns about the market's lack of progress in replacing Libor, according to an investor, an investment bank analyst and a DealVector executive.

Lingering maturity extension concerns have also played a role in the widening, the sources said.

Virtually every ABS sector tightened over the 52 weeks prior to 24 January — except for student loan ABS, according to Wells Fargo Security data. For instance, 1-10 year credit card AAAs have tightened by 8bps–13bps over the past year; prime auto AAAs have tightened by 5bps–7bps; and subprime auto AAAs have tightened by 12bps–13bps. Meanwhile, FFELP ABS AAAs have widened by 10bps–15bps, according to the Wells data.

FFELP ABS AAAs have tightened by 4bps–5bps over the past four weeks, lagging tightening in comparable credit card and auto ABS by roughly 1bps–4bps, according to Wells.

A USD 8.8m **NSLT 2014-4 A** FFELP SLABS from Nelnet was offered at 1ML+ 50bps on 9 January, compared to the 1ML+ 37bps spreads at which it was offered on 8 January, 2019, according to Solve Advisors' SolveQuotes database. Similarly, a USD 149,000 **SLCLT 2008-1 A4** FFELP SLABS from Navient was offered at 3ML+ 110bps

on 21 January, compared to offers of 3ML+ 60bps on 15 January, 2019.

STUDENT LOAN SPREADS

Sector*	Rating*	WAL*	Bps as of 9 January*	4 Week Change	12 Weeks Change	52 Weeks Change
FFELP	AAA	1	50	-5	-6	10
FFELP	AAA	3	63	-4	-6	13
FFELP	AAA	5	90	-5	-6	15
FFELP	AAA	7	105	-5	-6	15
FFELP	AA	8	220	-5	-6	10
FFELP	AAA	10	125	-5	-6	15
FFELP	AA	12	235	-5	-6	10
FFELP	AAA	15	145	-5	-6	15
Private	AAA	1	60	-5	-6	10
Private	AAA	3	70	-10	-11	5
Private	AAA	5	95	-10	-11	-5

Source: Wells Fargo Securities

In contrast, a USD 10m **MFT 2018-1 B** unsecured consumer loan ABS from Marlette was bid at S+ 59bps on 27 January, tight of S+ 115bps bids on 28 January, 2019. And a USD 120,000 **SDART 2018-1 C** subprime auto ABS from Santander was offered at S+ 37bps on 27 January, compared to S+ 60bps offer spreads on 28 January, 2019.

As reported, the UK Financial Conduct Authority's agreement with Libor submission panel banks ends on 31 December 2021, throwing the benchmark's future into question. While Libor administrator ICE Administration is working to ensure the benchmark lives on after that date, there is no assurance that it will.

If ICE stops publishing Libor, bonds without replacement language —

FFELP SLABS missing ABS rally due to worries about Libor Fallback language, maturity extension *(cont'd)*

including many floating-rate SLABS — will essentially convert to fixed rate, as reported and according to industry sources.

The current indentures in many legacy deals state that if a Libor quote is unavailable on any given day, the deal will continue to reference the last available quote, according to the sources.

“This in essence turns the notes into fixed rate bonds of whatever the last available Libor is,” said the analyst.

The Libor replacement language imbroglia piles onto investor concerns about FFELP bond maturity extensions pushed through in recent years to prevent maturity defaults resulting from payment deferment, forbearance and income based repayment programs, according to Geoff Caan, managing director of US public fixed income at SLC Management.

“FFELP [paper] is some of the longer ABS out there; initially it was based on 10-year amortized loans, but that was extended through these programs,” Caan said. “Now you're seeing deals that were originated in 2005, that still may have six-seven years left of life, as some of the borrowers have been able to either go for forbearance or got a deferment.”

Many bonds that have previously gone through the investor consent process to extend maturities are now attempting the process to add Libor replacement language, Caan said.

As a result of both concerns, there has been less activity in the market and FFELP ABS spreads — although still “attractive”— have widened relative to other sectors, he said.

One factor slowing the SLABS consent process is that to amend deal documents, in most cases 100% bondholder consent is needed, said Caan and the analyst.

Conservatively, more than 200 student loan ABS deals have no Libor fallback language, said Jim Kranz, vice president of business development at DealVector. And in many cases tracking down all the bondholders and getting them to consent is difficult, the analyst said.

DealVector, an asset registry and communications network, is aiming to make the consent process faster and more efficient by delivering notices directly to investors and custodians the same day the trustee delivers them to the Depository Trust & Clearing Corporation, and following up directly with investors to ensure consents are completed.

DealVector has been employed to help a number of student loan transactions that are aiming to add fallback language, including **NTHEA 2010-1** and **NTHEA 2010-2**, which are redemptions, as well as **NSLT 2006-1 A6** and **B**, **SLCLT 2007-1 A4**, **CEDLT 2006-A A3** and **B**, Kranz said. For more on DealVector’s consent solicitation activities, click [HERE](#).

But in the meantime, “it wouldn’t be surprising [if investors] offload a lot of [SLAB] bonds,” the analyst said.

by [Larissa Padden](#) and [Diana Asatryan](#)

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