May 6, 2020

Mr. Andreas Lehnert  
Director, Program Direction Section  
Federal Reserve System  
1850 K St NW  
Washington, DC 20006

Dear Mr. Lehnert:

The National Council of Higher Education Resources (“NCHER”) and Education Finance Council (“EFC”) appreciate the strong actions taken by the Federal Reserve Board of Governors to respond to the severe economic crisis caused by the coronavirus (“COVID-19”) pandemic. The swift action by the Federal Reserve in unveiling a range of responses was unprecedented and has certainly prevented the seizure of the consumer credit markets. NCHER and EFC understand that the Fed is in the process of preparing more detailed terms for the new Term Asset-Backed Securities Loan Facility announced on March 23, 2020 (“TALF 2.0”) and would like to suggest ways in which the terms can be revised to better support the student loan market by providing liquidity for student loan asset-backed securities (“SLABS”).

NCHER is a national, nonprofit trade association representing state, nonprofit, and private higher education finance organizations that provide loan assistance to students and parents to pay for the costs of postsecondary education. Our membership includes lenders that originate and/or refinance private education loans and holders of loans under the legacy Federal Family Education Loan Program (“FFELP”). Many NCHER members assist students and their families succeed in postsecondary education as part of their public service missions and have designated Ombudsman staff who work with struggling borrowers to help them identify alternative repayment plans.

EFC is the national trade association representing nonprofit and state-based organizations that, as mission-driven, public purpose organizations, are dedicated to improving college access, success, and affordability in their states and nationwide. EFC members operate as loan servicers and supplemental loan originators and provide a wide array of college access and student success services and resources.

According to the Securities Industry and Financial Markets Association or SIFMA, the total amount of student loan asset-backed securities currently stands at $173 billion,¹ which includes both legacy FFELP loans and private education loans. While there has not been any new FFELP loans originated since 2010, approximately $169 billion in such loans continue to be commercially held, and benefit from a 97 to 100

percent guaranty by the federal government. In addition to the legacy FFELP program, there were approximately $125 billion in private student loans outstanding on September 30, 2019. These loans, which were made by nonprofit and state agencies, banks, and other non-bank lenders, consist of qualified education loans made to finance postsecondary education and loans made to refinance qualified education loans such as private education loans, FFELP loans, and Federal Direct Loans made by the U.S. Department of Education. New SLABS finance loans in all of these categories, including legacy FFELP loans, private education loans for borrowers in-school, and refinancing loans.

Unfortunately, the vast majority of these federal and private education loans do not appear to be eligible for financing under TALF 2.0. Accordingly, NCHER and EFC suggest that the terms of TALF 2.0 be revised in the following ways to ensure the availability of credit to finance postsecondary education and liquidity in the market for student loan backed securities:

- Eligible collateral should include, as a recognized subsegment, SLABS where the underlying credit exposures include FFELP loans. For many SLABS issuers, such loans provide critical volume and support for an overall issuance. Without the seasoned FFELP collateral, new issues may not reach the size necessary to provide a vehicle to finance new in-school private education loans. As noted, FFELP loans are guaranteed by the federal government; they were also eligible for financing under TALF 1.0.

- Eligible collateral should include, also as a recognized subsegment, SLABS where the underlying credit exposures include Private Refinance Education Loans. This particular asset class, Private Refinance Education Loans, did not exist during the last credit crisis in 2008 when TALF 1.0 was launched. The refinancing of existing federal and private education loans provides a valuable debt management tool for borrowers. Borrowers refinance their education loans in order to lower their interest rate, consolidate their loans to ease payment, and/or lower their monthly payment. The proceeds of such loans are paid directly to the holder of the loan being refinanced; these are not cash-out refinancings. A loan that refinances a federal education loan or a qualified private loan is considered to be a qualified education loan by the Internal Revenue Service. Further, the credit performance of refinance loans has been outstanding, with extremely low charge-offs over the past eight years, and have significantly outperformed the performance on private in-school student loans. According to DBRS Morningstar, as of the end of third quarter 2019, the cumulative charge-off rate for refinancing loans made in 2013 and 2014 were 0.26 percent and 0.33 percent of the original principal balance. In addition, Private Refinance Education Loans perform better than prime auto, as mentioned in the Moody’s Investor Service report dated August 2019.

- The Term Sheet for TALF 2.0 states that “substantially all of the underlying credit exposures must be newly issued, except for legacy CMBS.” To allow for the financing of FFELP loans, legacy FFELP loans should also be mentioned as an exception. In-school private education loans and Private Refinance Education Loans should also be included in the exception to permit

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aggregation of originations. Otherwise, small to mid-size lenders will be unable to access TALF 2.0 for warehoused student loan and refinancing loans.

- Certain SLABS issuers include prefunding components in their transactions, both to fund second disbursements on loans scheduled to be disbursed in installments (which is the common practice) and to fund future loans using predetermined eligibility criteria regarding credit profile, interest rate, and term to provide comfort to rating agencies and investors. While prefunding was not permitted under the original TALF program, this was not restrictive as the concept had yet to be introduced into the SLABS market. Prefunding capacity is especially helpful to smaller lenders, who can scale up the size of their ABS issues by financing: (i) second disbursements; (ii) pipeline loans originated after the statistical cutoff date but before the settlement date; and (iii) new loans originated after the settlement date but before the prefunding period end date (typically a few months). As an example of how this would be beneficial, when the new issue ABS market shut down in mid-March, one of our members was unable to price a $221.8 million student loan ABS issue. This transaction included a 20 percent prefunding component. If prefunding components like this are permitted for SLABS issues under the TALF 2.0, the subject transaction could be reintroduced to the market once the new program is up and running.

- Eligible issuers should include state and nonprofit issuers. The TALF 2.0 term sheet is unclear on this point as it states that “all of the credit exposures underlying eligible ABS must have been originated by a U.S. company.” We assume that student loan revenue bonds are eligible SLABS but would like clarification.

- An issuer should be able to finance more than one education loan type within a single issue.

- The collateral haircut should reflect the asset quality and superior credit performance of each type of education loan, including the federal guaranty on legacy FFELP loans and the superior performance of refinance loans.

- The rating agency requirement should be revised to allow for a rating by a single nationally recognized rating agency (NRRA). Many existing private education loan programs financed with SLABS are currently rated by a single NRRA that has already done the extensive due diligence on the program necessary to deliver a rating. The current due diligence process for these types of programs does not start until the NRRA assigns analysts to the project which often takes several weeks. Once the analysts are in place, the ratings process then typically takes an additional 6-8 weeks and includes in-person meetings and a site visit. Adding a new NRRA for these types of programs would be impractical.

- TALF 2.0 should not be restricted to new issue asset backed securities, but also include secondary market issues. Disruptions in the secondary market affect the overall student loan asset-backed market, and therefore the flow of funds to support postsecondary education.
NCHER and EFC believe that TALF 2.0 will be ineffective in supporting the student loan asset-backed securities market and fostering continued lending to student and families to finance postsecondary education if these recommendations are not implemented.

We thank you for your attention to these important matters. If you have any questions, please do not hesitate to contact James Bergeron at jbergeron@ncher.us or (202) 822-2106 or Debra Chromy at debrac@efc.org or (202) 552-8500.

Sincerely,

James P. Bergeron
President
National Council of Higher Education Resources

Debra J. Chromy, Ed.D.
President
Education Finance Council