



SLM Private Education Loan ABS Primer

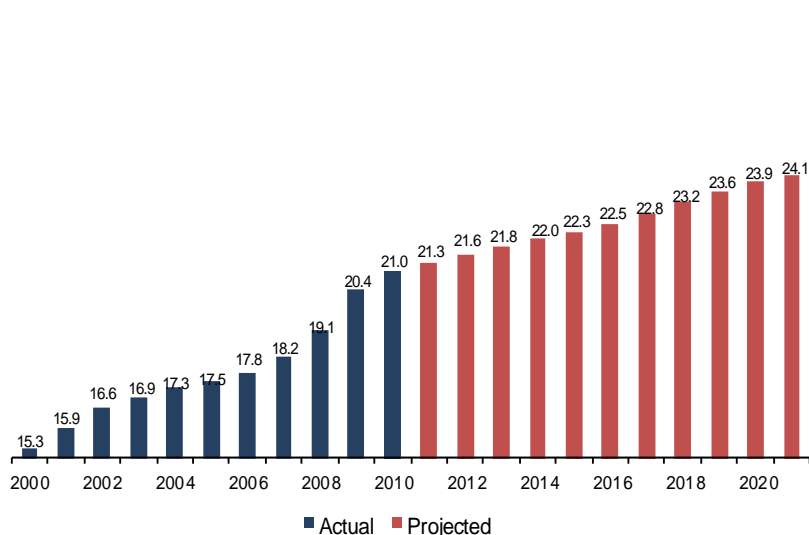
Private Education Loan Market
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Private Education Loan Market

Student Loan Market Trends

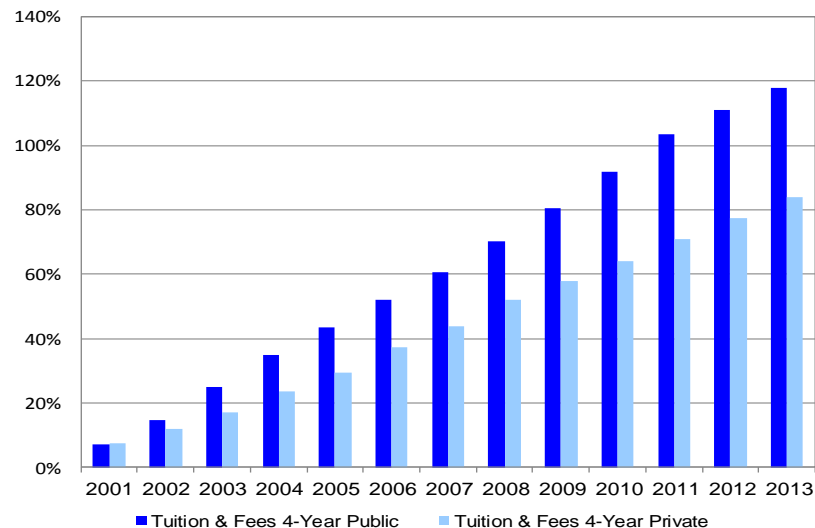
- ▶ College enrollment has increased by 37% since 2000, and is projected to increase 13% from 2011 to 2021
- ▶ Tuition and fees have increased at nearly twice the rate of inflation over the last 10 years
 - ▶ Compound annual growth rate (CAGR) for tuition at four-year public schools - 6.3%
 - ▶ CAGR at four-year private schools – 4.7%

Actual and Projected Higher Education Enrollments (millions)



Source: U.S. Department of Education, National Center for Education Statistics
 Note: Total enrollment in all degree-granting institutions; middle alternative projections for 2011 onward

Cost of Attendance Cumulative % Increase from AY 2000-2012

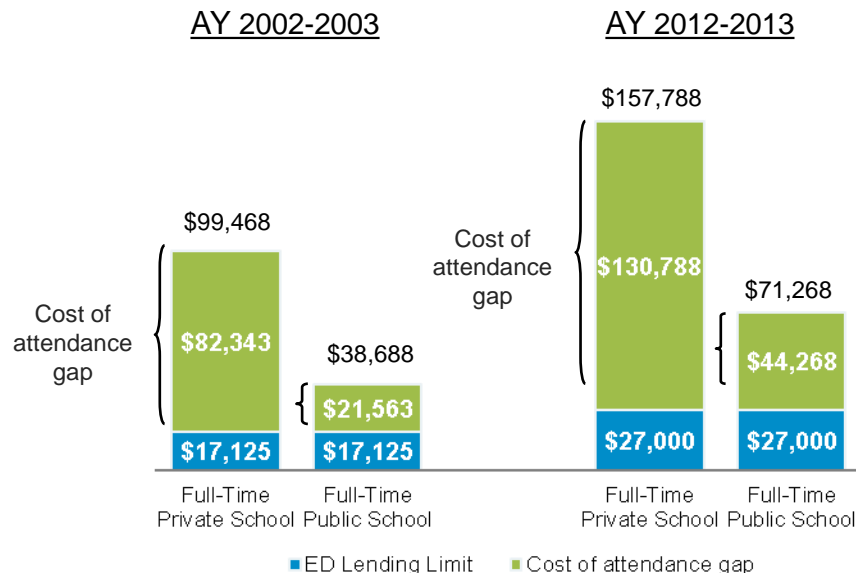


Source: Trends in College Pricing © 2013 The College Board, www.collegeboard.org.
 Note: Academic years, average published tuition, fees, room and board charges at four-year institutions; enrollment-weighted

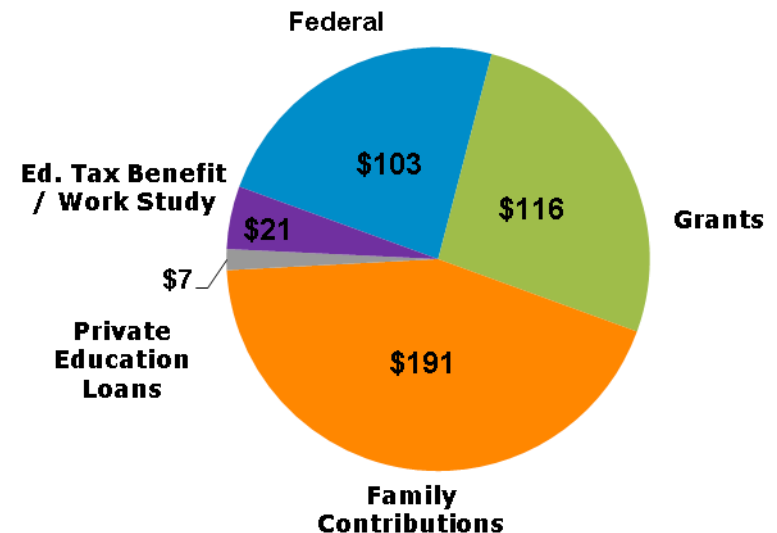
Role of Private Education Loans

- ▶ Private Education Loan products bridge the funding gap between the cost of a college education and funds available through U.S. Department of Education (ED) programs, grants, and other sources
- ▶ Estimates for academic year 2012-13 project that 22 million students will enroll in higher education and incur costs of over \$438 billion; \$7 billion of which is funded by private education loans

Cost of College (Based on a Four-Year Term)



Estimated Total Cost of Education (in billions)
2012/2013 Academic Year



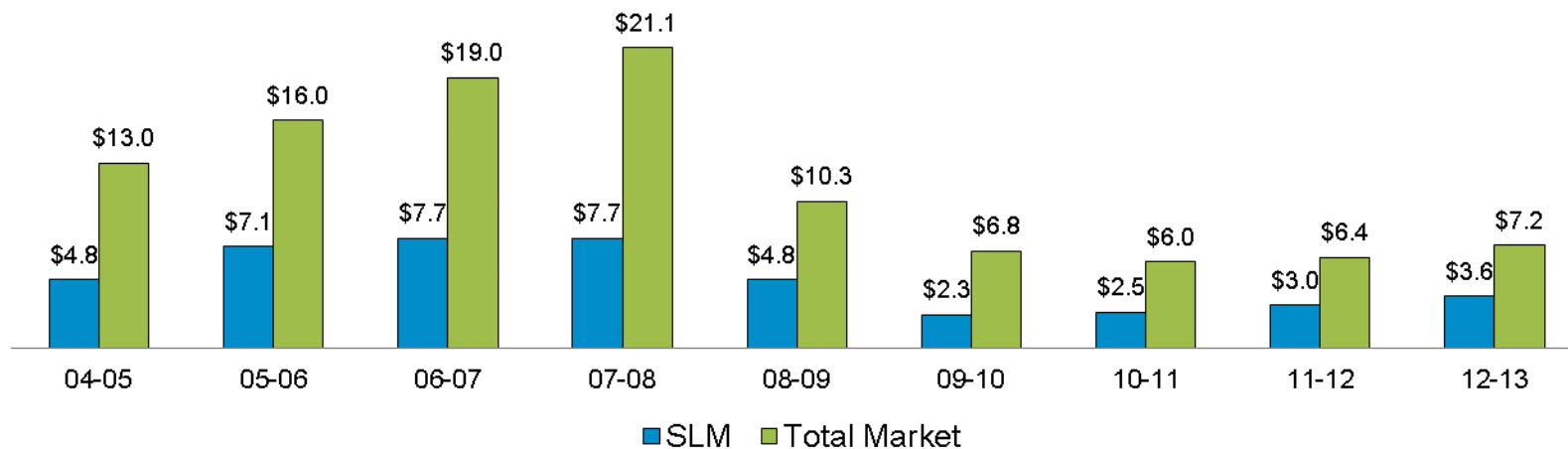
Sources: Department of Education, College Board, McKinsey & Company, MeasureOne, National Student Clearinghouse, Company Analysis

Sources: Department of Education, College Board, McKinsey & Company, MeasureOne, National Student Clearinghouse, Company Analysis

Private Education Loan Industry Originations

- ▶ 2012-13 academic year market share approximately 51%

SLM vs. Industry Originations
(billions)

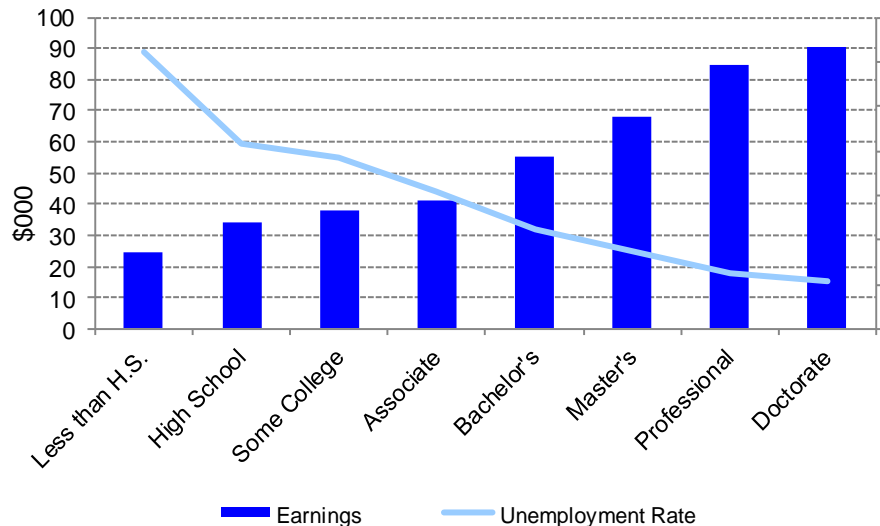


- ▶ Private Education Loan originations declined from their peak as a result of an increase in federal student loan limits, an overall increase in the use of federal student loans, an increase in federal grants, and tighter underwriting standards.

Education Return On Investment

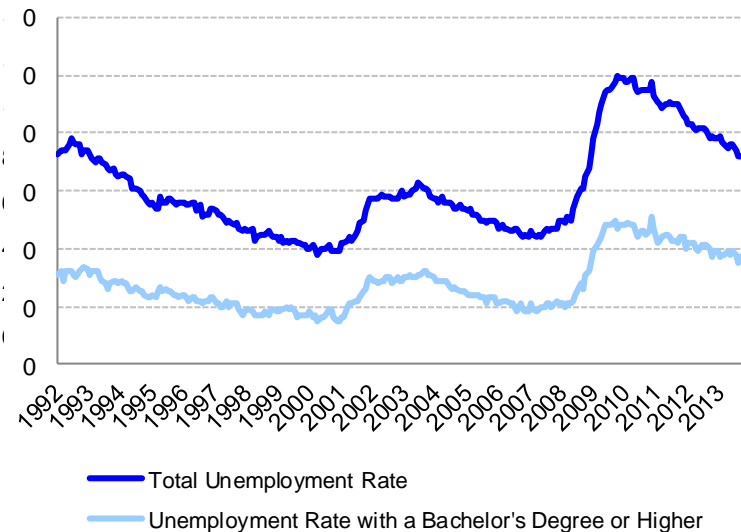
- ▶ Individuals with higher levels of education both earn more and are more likely to be employed
 - ▶ The positive correlation between the level of education and earnings remains at the core of the higher education value proposition
 - ▶ The gap between the total unemployment rate and the unemployment rate for college graduates has widened significantly since 2009

Correlation of Earnings and Unemployment to Higher Education



Source: U.S. Census Bureau, Current Population Survey, 2013. Represents median earnings for a full time, year-round worker over age 25 in 2012. Unemployment data as of 2012. Represents unemployment for civilian non-institutional population over age 25.

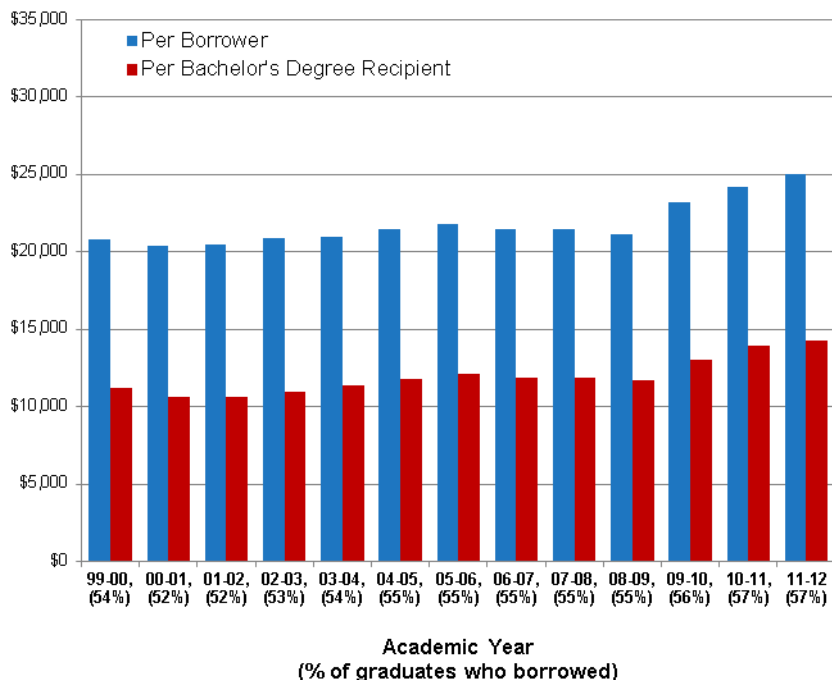
Unemployment Rate for College Graduates



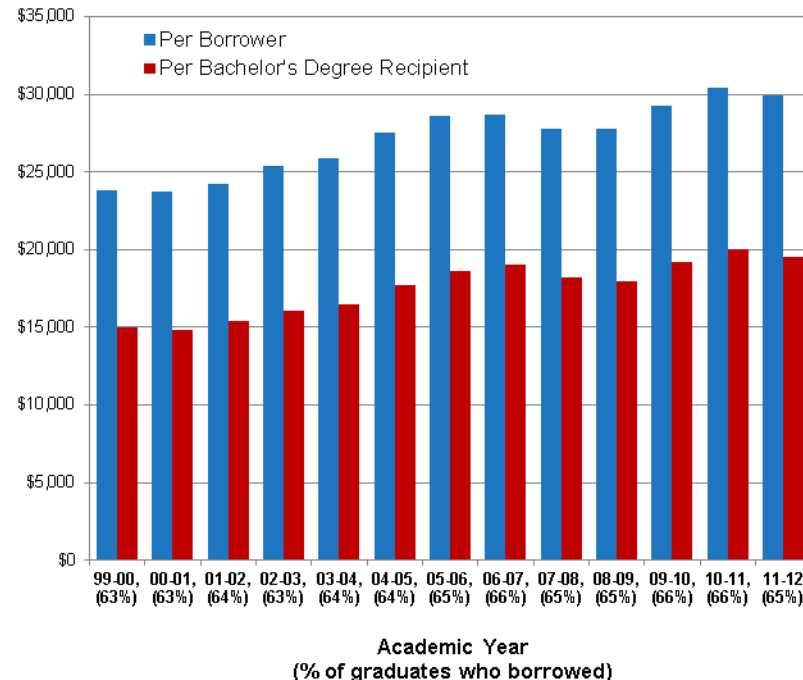
Source: U.S. Department of Labor, Bureau of Labor Statistics as of 12/31/2013

Average Student Debt has Grown by Only 2% Annually Since 2002

Average Debt– Public 4-Year



Average Debt– Private NFP 4-Year

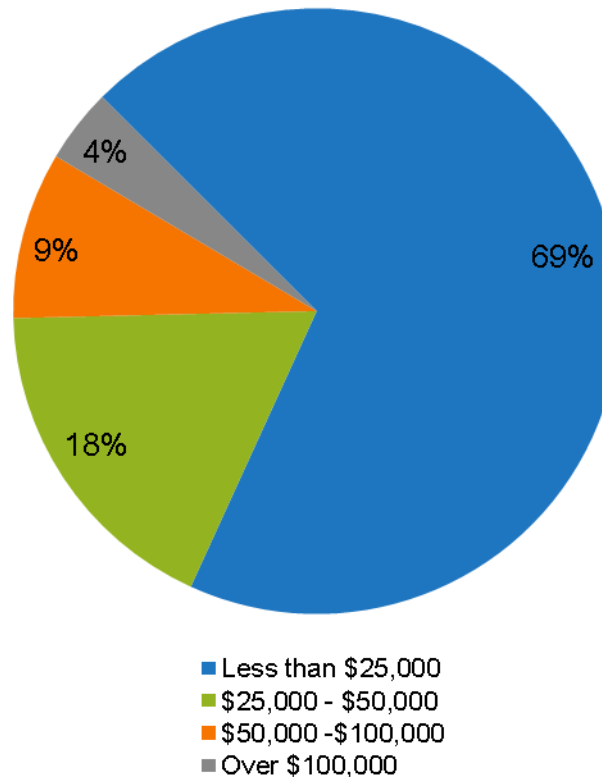


Source: College Board, "Trends in Student Aid, 2013"

Average Indebtedness Remains Manageable

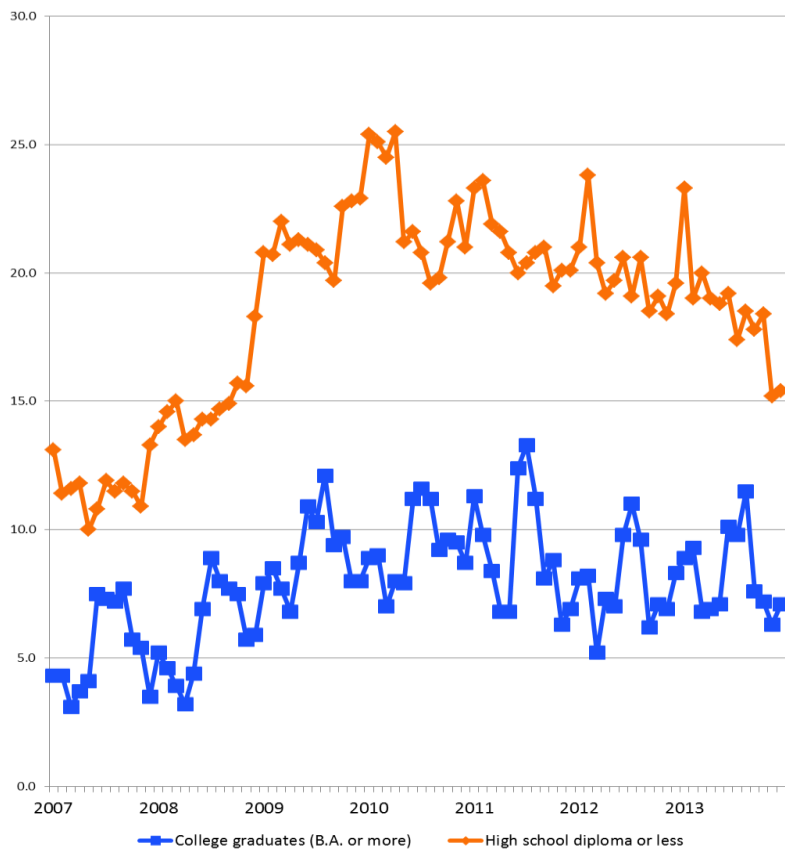
Average outstanding student loan balance per borrower = \$23,300.
Median balance = \$12,800

10% owe more than \$ 54,000
3% owe more than \$100,000

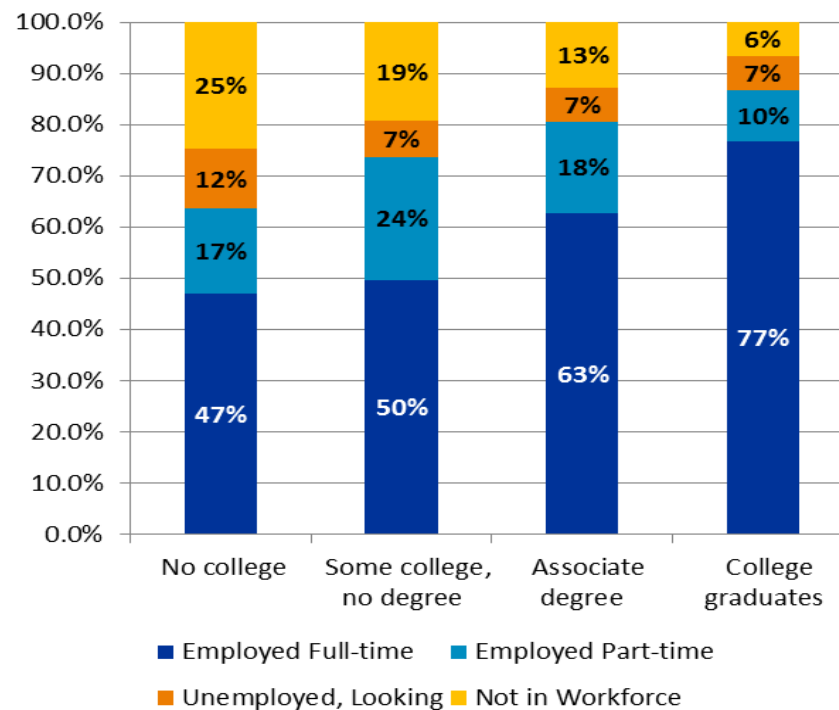


College Degree Greatly Enhances Likelihood of Employment for Young Adults

Unemployment Rates for 20-24 Year Olds



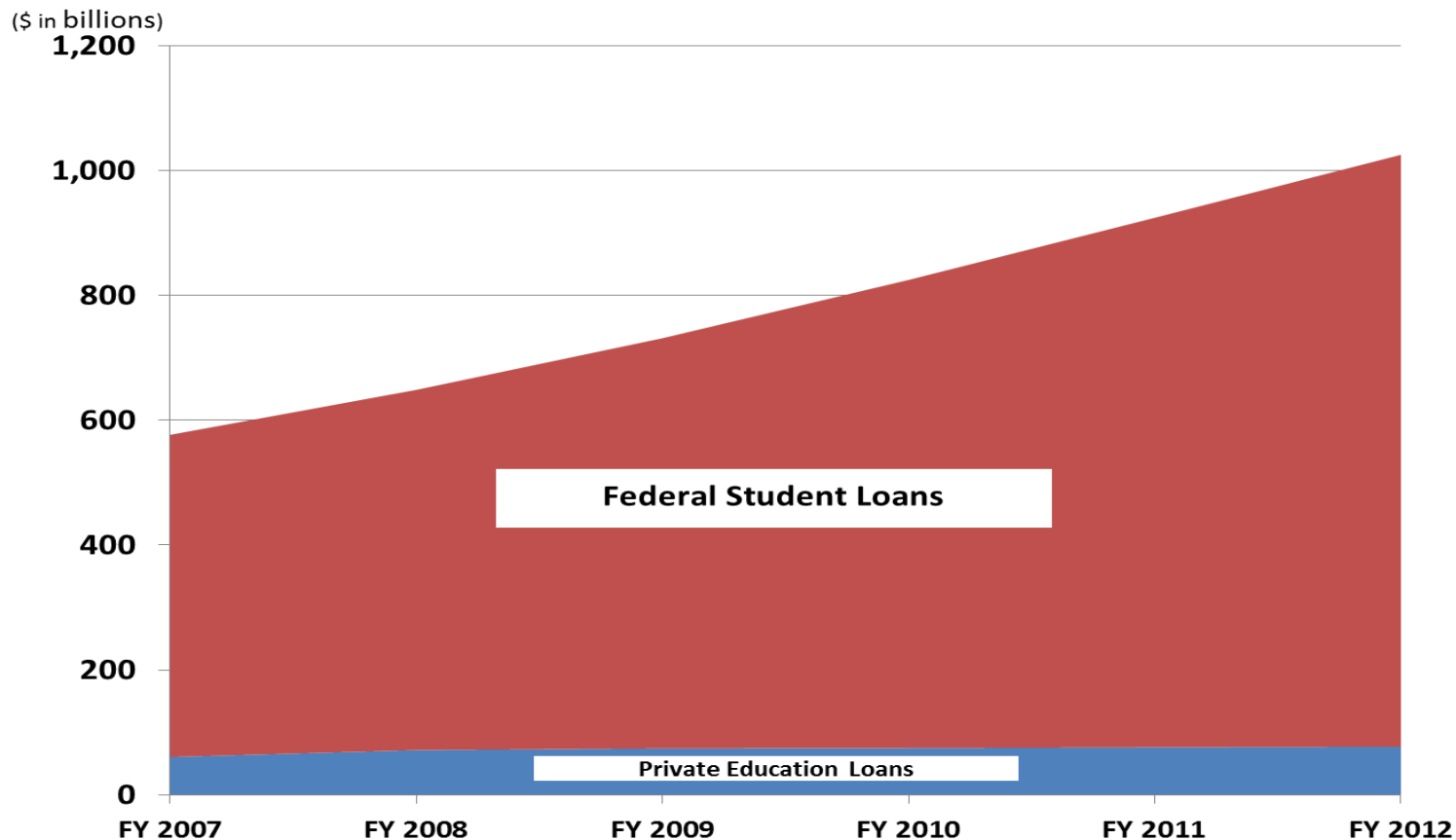
Employment Status for All Non-Enrolled, 20-24 year olds December 2013



Source: Bureau of Labor Statistics. Current Population Survey

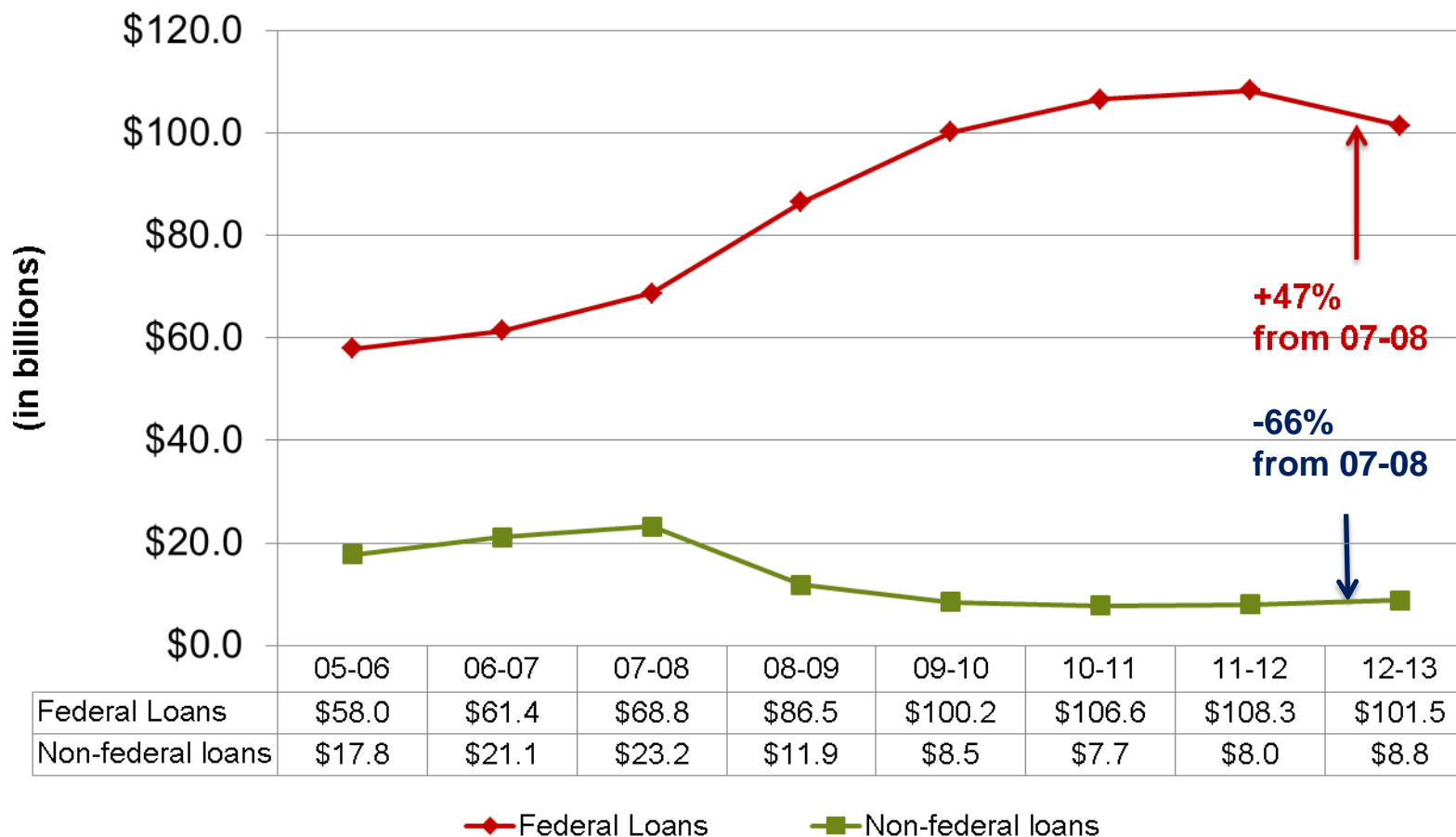


85% of Student Loans Outstanding are Federal Student Loans



Source: Department of Education, Federal Student Aid Data Center, Federal Student Outstanding Loan Portfolio Summary; Private education loan volume estimated based on data from Measure One, "Private Student Loan Report," December 2013

Student Loan Origination Trends



Source: College Board, "Trends in Student Aid 2012,"
 * 2012-13 data preliminary



SLM's Securitized Private Education Loans

Note: Loan characteristics described in this section include loan programs securitized between 2002 and 2012, including Smart Option, Undergraduate/Graduate, Law Loans, Medical Loans, MBA Loans, Consolidation, Career Training, DTC, and Tutorial.



Private Education Loan Characteristics

- ▶ Unsecured consumer loans made to qualified borrowers/co-signers to fund the cost of undergraduate, graduate and other forms of post-secondary education
- ▶ Unlike FFELP Loans, private education loans are not guaranteed against losses by the Department of Education, or any other entity
- ▶ Similar to FFELP loans, private education loans are generally non-dischargeable in bankruptcy
- ▶ Private education loans are made to students attending public, private, not for profit, and for profit institutions
- ▶ Students and parents are encouraged to exhaust other sources of aid prior to applying for a private education loan



Private Education Loans

FFELP vs. SLM Private Education Loan Comparison

	<u>FFELP Stafford Loans</u>	<u>SLM Private Education Loans ⁽¹⁾</u>
Borrower	Student	Student or Parent
Co-signer	None	Typically a parent
Lender	Eligible banks and private lenders under FFELP	Banks and other private sector lenders
Guarantee	97-100% of principal and interest by the U.S. Department of Education	<u>Not</u> guaranteed by the U.S. Government or any other entity
Interest Subsidy/Special Allowance Payments	Paid by the U.S. Department of Education	Not Applicable
Underwriting	Borrower must have no outstanding student loan defaults or bankruptcy	Consumer loan underwriting, using FICO, debt-to-income and other factors
Pricing	Fixed or floating rate depending on origination year and loan program	Risk-based variable rate indexed to LIBOR/Prime
Maximum Amount per Year	\$5,500-\$7,500 for dependent student, based on year in school	Up to the full cost of education, less grants and federal loans
Repayment Term	10 years, with repayment deferred until after graduation	15 years or more, typically deferred until after graduation
Collections	Based on prescribed U.S. Dept of Education regulations	Typical consumer loan collections activities, managed independent of FFELP
Deferment	Permitted for a variety of reasons, including economic hardship	Granted only to students who return to school
Forbearance	Permitted for a variety of reasons, including economic hardship	Typically granted for economic hardship, up to a maximum of 24 months ⁽²⁾
Dischargeable in Bankruptcy	No	No ⁽³⁾

(1) Pertains primarily to the Sallie Mae Undergraduate/Graduate loan product. Private Consolidation, Career Training, and certain other loan program characteristics may vary in one or more respects.

(2) Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance beyond 24 months is granted only in limited circumstances.

(3) Private education loans are typically non-dischargeable; that is, they cannot be dismissed or eliminated in bankruptcy. For cases filed after October 7, 1998, private education loans are dischargeable only if a borrower can prove that having to repay the loan would impose an "undue hardship".

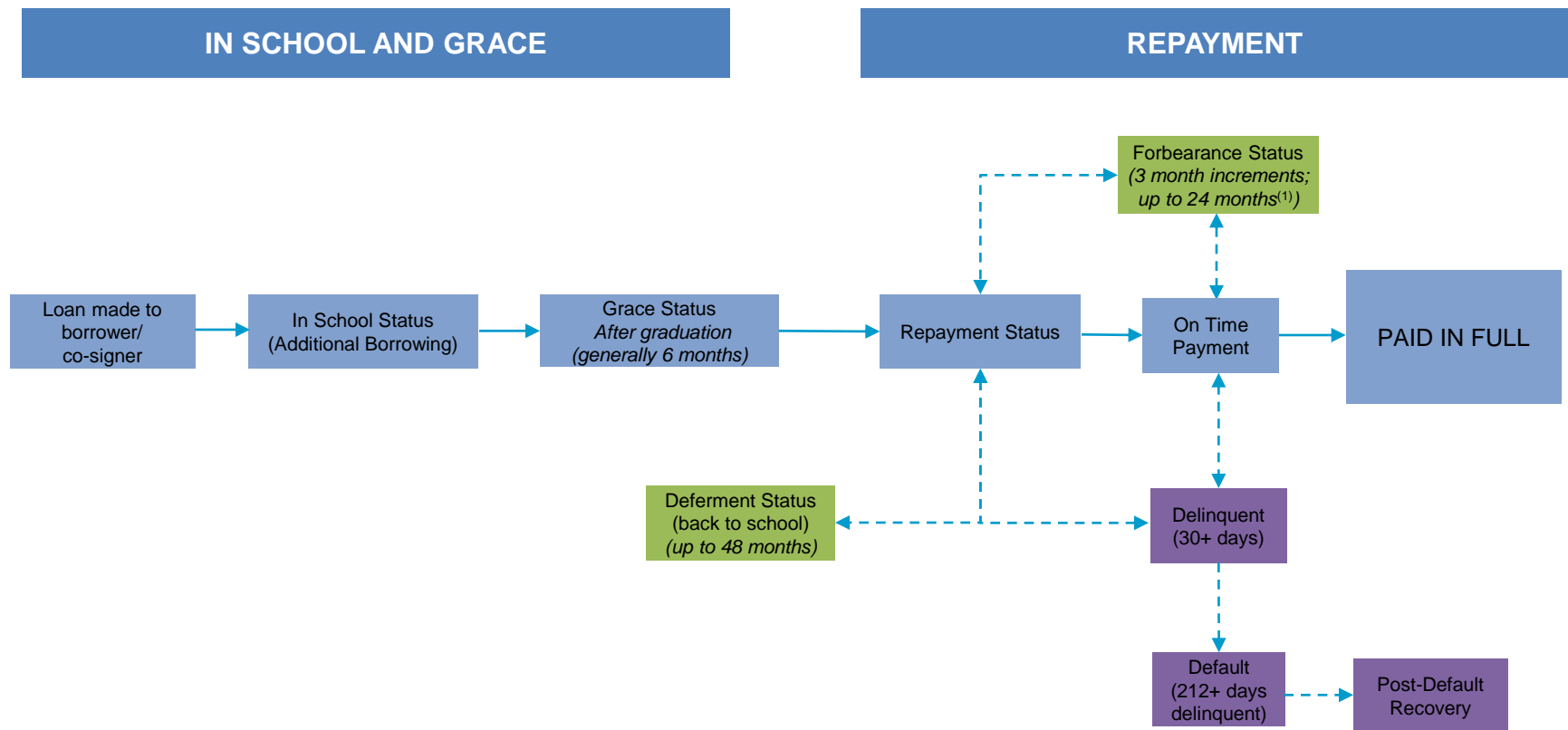


SLM Securitized Private Education Loan Programs

	Smart Option	Undergraduate/Graduate/ Med/Law/MBA	Direct-to-Consumer (DTC)	Consolidation	Career Training (CT)
Origination Channel	School	School	Direct-to-Consumer	Lender	School
Typical Borrower	Student	Student	Student	College Graduates	Student
Typical Co-signer	Parent	Parent	Parent	Parent	Parent, Spouse
Typical Loan	\$10k avg orig bal, 10 yr avg term, in-school payments of interest only, \$25 or fully deferred	\$10k avg orig bal, 15 yr term, deferred payments	\$12k avg orig bal, 15 yr term, deferred payments	\$43k avg orig bal, 15-30 year term depending on balance, immediate repayment	\$10k avg orig bal, up to 15 yr term, immediate payments
Origination Period	March 2009 to present	All history to present	2004 through 2008	2006 through 2008	1998 to present
Certification and Disbursement	School certified and disbursed	School certified and disbursed	Borrower self-certified, disbursed to borrower	Proceeds to lender to pay off loans being consolidated	School certified and disbursed
Borrower Underwriting	FICO, Debt-to-Income, custom credit score model, and judgmental underwriting	Primarily FICO; Debt-to-Income since 2008	Primarily FICO	FICO and Debt-to-Income	FICO, Debt-to-Income and judgmental underwriting
Borrowing Limits	\$200,000	\$100,000 Undergraduate, \$150,000 Graduate	\$130,000	\$400,000	Cost of attendance plus up to \$6,000 for expenses
Current ABS Securitization Criteria	For-Profit; FICO ≥ 670 Non-Profit; FICO ≥ 640	For-Profit; FICO ≥ 670 Non-Profit; FICO ≥ 640	FICO ≥ 670	For-Profit; FICO ≥ 670 Non-Profit; FICO ≥ 640	FICO ≥ 670, school channel only, no loans in school status
School Underwriting	No	No	No	No	Yes
Historical Risk-Based Pricing	L + 2% to L + 14%	P-1.5% to P+7.5% L+0% to L+15%	P+1% to P+6.5% L+6% to L+12%	P - 0.5% to P + 6.5%	P+0% to P+9% L+6.5% to L+14%
Dischargeable in Bankruptcy	No	No	No	No	Yes
Additional Characteristics	<ul style="list-style-type: none"> ▶ Made to students and parents primarily through college financial aid offices to fund 2-year, 4-year and graduate school college tuition, room and board ▶ Also available on a limited basis to students and parents to fund non-degree granting secondary education, including community college, part time, technical and trade school programs ▶ Both Title IV and non-Title IV schools (1) 	<ul style="list-style-type: none"> ▶ Made to students and parents through college financial aid offices to fund 2-year, 4-year and graduate school college tuition, room and board ▶ Signature, Excel, Law, Med and MBA Loan brands ▶ Title IV schools only (1) ▶ Freshmen must have a co-signer with limited exceptions ▶ Co-signer stability test (minimum 3 year repayment history) 	<ul style="list-style-type: none"> ▶ Terms and underwriting criteria similar to Undergraduate, Graduate, Med/Law/MBA with primary differences being: <ul style="list-style-type: none"> ▪ Marketing channel ▪ No school certification ▪ Disbursement of proceeds directly to borrower ▶ Title IV schools only(1) ▶ Freshmen must have a co-signer with limited exceptions ▶ Co-signer stability test (minimum 3 year repayment history) 	<ul style="list-style-type: none"> ▶ Loans made to students and parents to refinance one or more private education loans ▶ Student must provide proof of graduation in order to obtain loan 	<ul style="list-style-type: none"> ▶ Loans made to students and parents to fund non-degree granting secondary education, including community college, part time, technical, trade school and tutorial programs ▶ Both Title IV and non-Title IV schools (1)

(1) Title IV Institutions are post-secondary institutions that have a written agreement with the Secretary of Education that allows the institution to participate in any of the Title IV federal student financial assistance programs and the National Early Intervention Scholarship and Partnership (NEISP) programs.

Private Education Loan Lifecycle



⁽¹⁾ Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance beyond 24 months is granted only in limited circumstances.



Collections and Loan Policy



SLM Private Education Loan Collections

Overview

- ▶ Sallie Mae services and collects the vast majority of loans in its Private Education Loan portfolio
- ▶ Private Education Loan collections are conducted by a stand-alone consumer credit collections unit, not the company's FFELP collections operations
- ▶ Private Education Loan collections are managed by individuals with extensive experience managing collections operations for credit cards and other consumer loans
- ▶ Over the past two years, Private Education Loan collections resources have been significantly increased and collections technology and practices enhanced
 - ▶ Multi-variable analysis has enabled prioritization of collection efforts on higher risk borrowers
 - ▶ Forbearance policies have been enhanced to reduce reliance on forbearance as a collection tool, while still meeting customer needs during an economic downturn
 - ▶ Additional workout and settlement programs have been introduced to help customers avoid default
 - ▶ Collection workstations, dialer capabilities, and internet utilities have all been enhanced with more effective technology solutions
 - ▶ Sallie Mae Private Education Loans are charged-off at the end of the month in which the loan exceeds 212 days past due

Collection Philosophy and Fundamentals

- ▶ Locate and make contact with the borrower and/or co-signer simultaneously
- ▶ Understand and document each borrower's unique circumstance and reason for delinquency
- ▶ Secure an understanding of how they will stay up-to-date once cured from delinquency
- ▶ Document each account and update demographic and employment information
- ▶ Focus on cash collections as the primary account resolution approach

Segmented Collection Practices by Risk Tier

- ▶ Determine optimal contact channel based on borrower's preferences and risk profile. Channels include letter, phone, email, text messaging, and Internet
- ▶ Phone attempts begin at 5 days past due
- ▶ Simultaneous collections efforts on borrower and co-signer
- ▶ For lowest risk segments, contact begins at 30 days due to high self-cure rates
- ▶ In high risk segments, communication begins before repayment to notify borrower of obligation coming due
- ▶ Delinquency is reported to credit bureaus for borrower and co-signer beginning at 45 days past due and monthly thereafter, with no reporting for loans in forbearance
- ▶ Focus on account ownership by collectors for middle and late stage accounts
- ▶ Tenured collectors assigned to higher risk accounts
- ▶ Credit reports reviewed as part of repayment negotiation



Forbearance

- ▶ First choice is always to collect a payment from the borrower or co-signer
- ▶ Where payment is not possible due to temporary hardship, forbearance grants the borrower the ability to skip payments for a specified period of time
- ▶ Forbearance temporarily provides borrowers limited time to improve their ability to repay between graduation and start of first job, or during temporary economic hardship (e.g. job loss)
- ▶ Typically granted in 3 month intervals, up to a max of 24 months
 - ▶ The majority of loans do not use forbearance
 - ▶ Those that do remain in forbearance for less than 12 months
 - ▶ Applied most frequently in the first 2 years of repayment
- ▶ Interest capitalized to the loan balance at the end of the forbearance period
- ▶ Key considerations when granting forbearance include: loan delinquency, payment history, credit profile, and loan characteristics
- ▶ Three years after being granted forbearance for the first time, the majority of the loans placed in forbearance are current, paid in full, or receiving an in-school grace or deferment
- ▶ Forbearance beyond 24 months is granted only in limited circumstances



Post-Default Recoveries

Recovery Operations

- ▶ Any proceeds from defaulted loans are categorized as Post-Default Recoveries
- ▶ Sallie Mae keeps defaulted loans in-house for a short period after default and continues to collect them
- ▶ Recovery operations are typically outsourced to external agencies specializing in Post-Default Recoveries
 - ▶ An average third-party contingency collections fee varies between 20-30% of the collected amount

Recovery Methods

- ▶ There are two primary sources of Post-Default Recoveries:
 - ▶ Periodic principal and interest payments from payment plan arrangements
 - ▶ Lump sum payments received as a result of a loan settlement
- ▶ Because of the number of borrowers on payment plans, Private Education Loan recoveries typically occur over an extended period of 10 or more years

Bankruptcy

- ▶ Because Private Education Loans are generally non-dischargeable in bankruptcy, Sallie Mae can continue to collect on loans after a bankruptcy filing:
 - ▶ From the co-signer at any time if the co-signer did not file
 - ▶ From the borrower after the loan is determined by the court to be non-dischargeable

Glossary Of Terms



GLOSSARY OF TERMS

Accrued Interest to be Capitalized – Interest accrued during a period of nonpayment, which will be added to the principal balance, capitalized, when the loan returns to repayment.

Borrower Benefit Incentive Programs – Sallie Mae offers various incentive programs to student loan borrowers and co-signers, including interest rate reductions for on time payments, principal reductions for on-time payments, and interest rate reductions for borrowers who make student loan payments electronically.

Capitalization – The addition of unpaid accrued interest to the principal balance of a loan after a period of school, grace, forbearance, and/or deferment. Capitalization of interest results in a higher principal balance and additional finance charges over the course of repayment and may result in a higher monthly payment amount.

Career Training Loans – Career Training Loans provide eligible borrowers financing at technical and trade schools.

Charged-Off Loans (Defaulted Loans) – A loan is charged-off in accordance with the servicer's policies and procedures when the servicer concludes the loan is uncollectable. Sallie Mae charges off a loan at the end of the month in which it becomes 212 days past due.



GLOSSARY OF TERMS

Co-signer – An individual who signs the promissory note and is equally liable for a loan's repayment if the primary borrower fails to make payment.

Cost of Attendance Gap – Education cost not covered by government guaranteed loans and grants.

Current Repayment Status – A loan is in a Current Repayment Status when a borrower is making regular on-time payments to service the loan obligation.

Custom Credit Score – A custom credit score is a company-specific, proprietary measure of credit risk used in underwriting decisions. Custom credit scores may include credit-related data, borrower characteristics, and loan information.

Deferment – A period when the borrower is not required to make payments because they have returned to school. During deferment, interest continues to accrue and is capitalized to the principal balance when the loan re-enters repayment status. In-school deferment is not followed by additional grace time if the borrower has already had a grace period.



GLOSSARY OF TERMS

Direct-to-Consumer Loans (DTC) – Direct-to-Consumer (DTC) loans are private education loans marketed directly to student and parent borrowers. Prior to 2009, DTC loan proceeds were disbursed directly to the borrower following a self-certification of school of attendance.

Federal Family Education Loan Program (FFELP) – The Federal Family Education Loan Program (FFELP) was a public/private partnership between the federal government and private entities that provided or serviced government guaranteed education loans to students and families. On July 1, 2010, FFELP was discontinued. All federal student loans are now made by the U.S. Department of Education under the Federal Direct Loan Program.

FICO Score – FICO credit scores were developed by Fair Isaac and Company and are designed to be a relative measure of the degree of risk a potential borrower represents to a lender based upon credit-related data contained in an applicant's credit bureau reports. FICO scores are influenced by a number of factors and can change over time.

Forbearance – A period when the borrower is not required to make payments, for example during periods of economic hardship. While a loan is in a forbearance status, interest continues to accrue and is capitalized to the principal balance when the loan re-enters repayment status. When loans in forbearance emerge from forbearance they are reported as current.



GLOSSARY OF TERMS

Grace Period – Typically a six-month period before the first payment on a private education loan is due. The grace period begins the day after the student graduates, leaves school, or drops below half-time status.

Grants – A financial aid award that does not have to be repaid. Grants are often made based on an applicant's financial need or expected family contribution.

Law Loans – Law loans provide law students additional educational financing to help pay for the costs of attending law school and to finance the costs of taking one or more state bar examinations upon graduation from law school.

MBA Loans – MBA Loans provide business school students with additional educational financing to help pay for the costs of attending graduate school.

Medical Loans – Medical loans provide medical students additional educational financing to help pay for the costs of attending medical school.



GLOSSARY OF TERMS

Non-Dischargeable Loan – Private education loans are typically non-dischargeable; that is, they cannot be dismissed or eliminated in bankruptcy. For cases filed after October 7, 1998, private education loans are dischargeable only if a borrower can prove that having to repay the loan would impose an "undue hardship".

Non-Traditional Loans – SLM Private Education Loans made to borrowers attending for-profit schools with an original winning FICO score of less than 670 and borrowers attending not-for-profit schools with an original winning FICO score of less than 640.

Post-Default Recovery – All amounts received in respect to a charged-off loan after such student loan became a charged-off loan.

Private Consolidation Loans – Private Consolidation Loans allow eligible borrowers to combine several existing private credit student loans into one new loan.



GLOSSARY OF TERMS

Private Education Loan – Private education loans are non-government guaranteed loans offered by banks, credit unions and other lenders. Private education loan products bridge the gap between family resources, federal loans, grants, student aid, scholarships, and the cost of a college education. The funds are used for a wide range of education expenses including tuition, fees, on-campus room and board, and living expenses.

Title IV – Refers to Title IV of the Higher Education Act of 1965, as amended, which created the federal student loan programs under FFELP and the Federal Direct Student Loan Program (FDLP). Title IV Institutions are post-secondary institutions that are authorized to make student loans under the Title IV federal student financial assistance programs.

Undergraduate and Graduate Loans – Marketed by SLM as Signature Student Loans® and EXCEL Loans®. These loans provide undergraduate and graduate students (other than law, medical, dental, or business school students) supplemental financing to help fund the cost of attending an undergraduate or graduate institution.

Winning Original FICO or Credit Score – Maximum of borrower's and co-signer's FICO or credit score used in granting loan approvals.