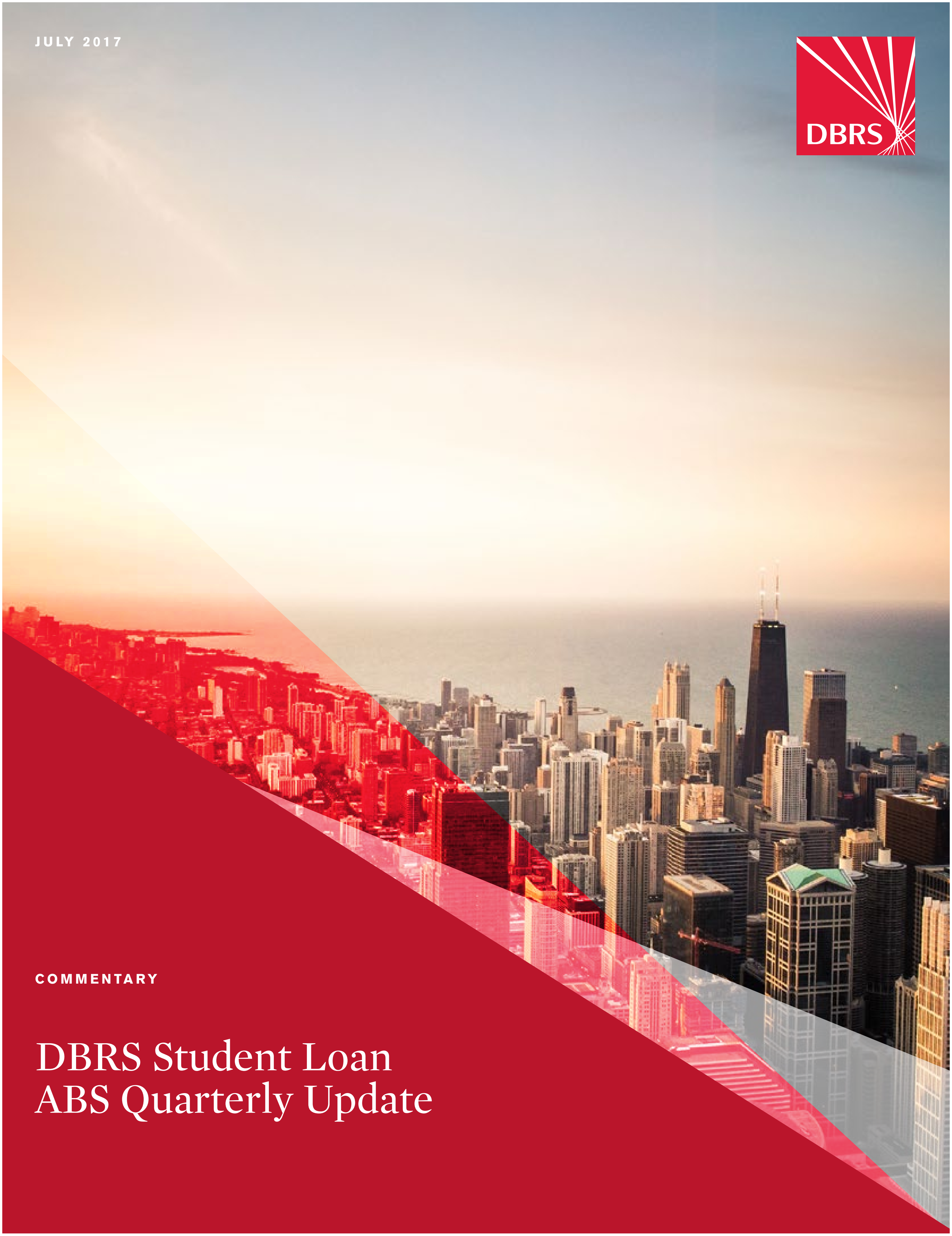
JULY 2017



COMMENTARY

# DBRS Student Loan ABS Quarterly Update

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# Executive Summary

This is the second publication of the *DBRS Student Loan ABS Update* and is structured as a Q1 2017 quarterly performance update with additional detail on new issuances through Q2 2017 compared with the first issue, which was a full-year review for 2016. The report is intended to help participants within the structured finance community stay well informed on the current state of the student loan asset-backed securities (SLABS) market, evaluate the performance of the underlying securitizations and better understand the changing credit quality of SLABS over time. The report covers three sectors of the student loan market: student loan refinancings, traditional private student loans and Federal Family Education Loan Program (FFELP) student loans. It tracks the performance of over 500 securitizations issued from 1988 through Q2 2017, representing total new issuance volume of over $470 billion. DBRS, Inc. (DBRS) produced the underlying data and charts in this report with the assistance of MeasureOne, Inc. (MeasureOne), an established aggregator of student loan performance data.

# Overall Market Review: New Issuance through H1 2017

In 2017 through Q2 2017, total SLABS new issuance volume was $7.9 billion, a year-over-year (YoY) increase of 11%. Q1 and Q2 2017 new issuance volumes were $4.6 billion (a 69% YoY increase from the $2.7 billion issued in Q1 2016) and $3.3 billion (a 34% YoY decrease from Q2 2016), respectively. On a quarter-over-quarter (QoQ) basis, Q1 2017 issuances dipped by 22%, while Q2 2017 issuances dipped by 28%. Total deal count in Q1 and Q2 2017 combined was 18 compared with 15 deals during the same period in 2016. Student loan refinance (Refi) lenders contributed 29% of total SLABS volume in Q1 and Q2 2017, up from their 26% share in full-year 2016 (18% in 2015). Total dollar volume for Refi lenders during Q1 and Q2 2017 was $2.3 billion, amounting to a 30% YoY increase. Within the private student loan market, the share of asset-backed security (ABS) issuance from student loan Refi lenders in Q1 and Q2 2017 was approximately 75% compared with 56% on average for full-year 2016. Total dollar volume for traditional private student lenders declined by 54% YoY, as no private deals were issued in Q2 2017. Finally, FFELP dollar volume increased by 14% YoY, with five deals issued during the first two quarters of 2017.

**Exhibit 1: U.S. Student Loan ABS Issuance in 2017 through Q2** ($ Value, YoY Change and QoQ Change)

| | Total Issuance by Note Balance ($ Billions) | | | | | | | | | Total Issuance by Deal Count | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 2017 | Q1 2017 | Q4 2016 | Q2 2016 | Q1 2016 | QoQ% Q2 2017 | QoQ% Q1 2017 | YoY% Q2 2017 | YoY% Q1 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q2 2016 | Q1 2016 |
| FFELP | $1.5 | $2.3 | $2.3 | $2.3 | $1.1 | -34% | 0% | -33% | 110% | 2 | 3 | 3 | 3 | 1 |
| Refi | $1.3 | $1.0 | $1.4 | $0.9 | $0.8 | 24% | -28% | 35% | 23% | 4 | 2 | 5 | 4 | 3 |
| Private | -- | $0.8 | $1.3 | $1.2 | $0.5 | -- | -39% | -- | 57% | 0 | 1 | 5 | 2 | 1 |
| State/ Non-Profit* | $0.5 | $0.5 | $0.8 | -- | $0.3 | 6% | -44% | -- | 68% | 4 | 2 | 2 | 0 | 1 |
| Total Issuance | $3.3 | $4.6 | $5.9 | $4.4 | $2.7 | -28% | -22% | -34% | 69% | 10 | 8 | 15 | 9 | 6 |

* State/Non-profit includes FFELP and private issuances by non-profit issuers.

The increase in total SLABS new issuance can be attributed to overall economic conditions and sentiment within the broader ABS market, which has contributed to high demand for ABS bonds from all asset classes.

**Exhibit 2: U.S. Student Loan ABS Issuance in 2017 through Q2**

| | Amount ($ Millions) | Type | Date | DBRS Rated |
|---|---|---|---|---|
| SMB 2017-A | 772 | Private | January 2017 | - |
| SoFi 2017-A | 561 | Refi | February 2017 | Yes |
| Navient 2017-1 | 1,003 | FFELP | February 2017 | Yes |
| Navient 2017-2 | 921 | FFELP | March 2017 | Yes |
| SoFi 2017-B | 461 | Refi | March 2017 | Yes |
| ECMC 2017-1 | 409 | FFELP | March 2017 | - |
| Navient 2017-3 | 1,001 | FFELP | April 2017 | Yes |
| DRB 2017-A | 308 | Refi | April 2017 | Yes |
| Earnest 2017-A | 175 | Refi | April 2017 | Yes |
| Nelnet 2017-1 | 535 | FFELP | May 2017 | - |
| SoFi 2017-C | 561 | Refi | May 2017 | Yes |
| CommonBond 2017-A-GS | 232 | Refi | June 2017 | Yes |
| **Total Issuance** | **$6,923** | | | |

Note: Does not include transactions issued by state agencies.

Navient Solutions, Inc. (Navient) issued the three largest transactions (all FFELP) in 2017 to date, totaling $2.9 billion of rated notes. Sallie Mae Bank (SMB) issued a private student loan transaction totaling $772 million. SoFi Lending Corp. (SoFi) issued three Refi transactions so far in 2017, totaling $1.6 billion of rated notes. There were two other FFELP transactions — one issued by Nelnet, Inc. (Netlnet) totaling $535 million and another by ECMC Group (ECMC) totaling $409 million. Darien Rowayton Bank (DRB); CommonBond, Inc. (CommonBond); and Earnest Operations LLC (Earnest) each issued one Refi transaction, totaling $308 million, $232 million and $175 million, respectively.

## Refi SLABS Market — H1 2017 Review and Outlook

### 2017 Year-to-Date (YTD) New Issuance

SLABS issuance in the student loan Refi sector in the first two quarters of 2017 totaled $2.3 billion, an increase of 30% YoY from the $1.8 billion issued during the same period of 2016. Total Refi deal count decreased from seven in Q1 and Q2 of 2016 to six in the same period of 2017, which highlights the increase in average deal size so far this year. By the end of Q2 2017, DBRS had provided credit ratings on 34 of the 35 securitizations in the Refi sector since SoFi issued its first SLABS transaction in December 2013.

**Exhibit 3: U.S. Student Loan Refi ABS Issuance**

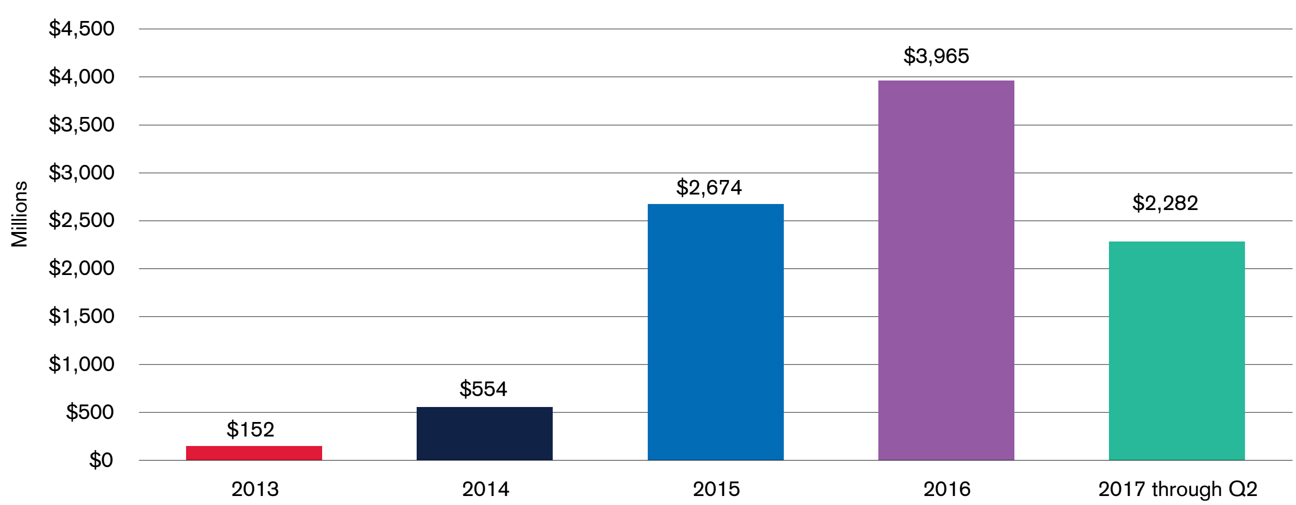
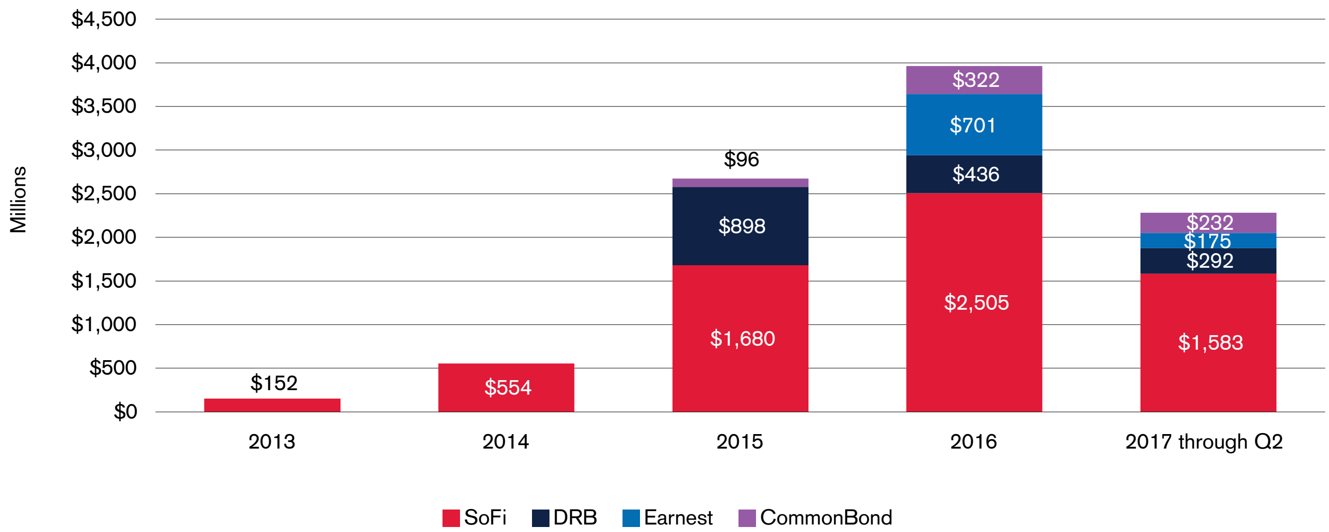


**Exhibit 4: U.S. Student Loan Refi ABS Issuance by Issuer**




## Refi SLABS Issuer Comparison

As at the end of Q2 2017, Refi SLABS issuance continues to be dominated by SoFi, which accounts for 67% of total issuance by note dollar volume, having completed 16 term securitizations since its inaugural transaction in December 2013. DRB has issued eight transactions accounting for 17% of total student loan Refi ABS issuance by note dollar volume. Earnest, which issued its first term securitization in 2016, has now issued a total of five transactions, accounting for 9% of total note dollar volume. Lastly, CommonBond accounts for 7% of total student loan Refi ABS issuance volume, with its inaugural term securitization in 2015, followed by two transactions in 2016 and one in 2017.

**Exhibit 5: Refi SLABS Issuer Market Share since 2013**
(As at end of Q2 2017)

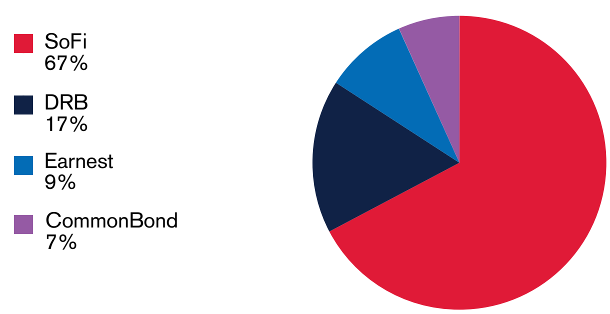


Exhibit 6 depicts a general comparison of the most recent student loan Refi ABS issuances to date (by lender).

**Exhibit 6: U.S. Student Loan Refi ABS Collateral Comparison**

| | CB 2017-A-GS | SoFi 2017-C | EARN 2017-A | DRB 2017-A |
|---|---|---|---|---|
| Statistical Cutoff Date | 9-May-17 | 14-Apr-17 | 13-Apr-17 | 21-Mar-17 |
| Aggregate Principal Balance | $252,071,384 | $599,755,099 | $181,171,062 | $338,930,878 |
| Fixed-Rate Loans | 68% | 81% | 84% | 85% |
| Variable-Rate Loans | 32% | 19% | 16% | 15% |
| Average Balance | $78,822 | $72,155 | $71,468 | $122,130 |
| WA 3-Year CDR (School Specific) | 3.57% | 4.03% | 4.04% | 3.32% |
| WA Borrower Income | $167,951 | $172,521 | $135,595 | $195,110 |
| WA Credit Score | 766 | 770 | 775 | 765 |
| WA Monthly Free Cash Flow* | $6,276 | $7,296 | $4,379 | $11,854 |
| WA Age of Borrower | 33 | 34 | 32 | 33 |
| WA Fixed-Rate Coupon without Benefit | 5.51% | 5.46% | 5.28% | 5.33% |
| WA Margin to 1mL | 3.52% | 3.50% | 3.24% | N/A |
| WA Margin to 3mL | N/A | N/A | N/A | 3.77% |
| Graduate Degree Refi | 71.8% | 68.6% | 77.8% | 89.7% |
| Undergraduate Degree Refi | 28.2% | 23.8% | 22.2% | 7.2% |
| Parent Refi | 0.0% | 7.5% | 0.0% | 3.1% |
| Active Repayment | 97.4% | 98.8% | 99.9% | 93.3% |
| Forbearance | <1% | <1% | <1% | N/A |
| Deferment | 1.7% | <1% | <1% | <1% |
| WA Original Term | 148 | 143 | 124 | 161 |
| WA Remaining Term | 145 | 142 | 122 | 157 |
| Top States | NY (12.1%)<br>CA (10.3%)<br>TX (8.4%) | CA (11.5%)<br>NY (9.7%)<br>TX (7.3%) | CA (15.5%)<br>NY (7.9%)<br>TX (7.8%) | TX (8.9%)<br>CA (8.2%)<br>NY (6.8%) |
| Top Schools | Columbia (2.2%)<br>NYU (2.0%)<br>U Penn (1.8%) | NYU (1.7%)<br>UMichigan (1.1%)<br>Penn State (1.1%) | NYU (1.9%)<br>Northwestern (1.7%)<br>Nova Southeastern (1.5%) | Midwestern (2.2%)<br>Ohio State (2.0%)<br>VCU (1.8%) |

* Each lender calculates free cash flow differently, with some being more conservative than others. DRB 2017-A free cash flow does not reflect borrower taxes.

### 2017 Outlook

For the remainder of the year, DBRS expects student loan Refi origination to continue its strong growth. Borrowers with existing federal loans and strong credit profiles, in addition to there being a favorable low interest rate environment, should continue to foster demand for a Refi product offering with attractive rates. As the sector further matures and competition and interest rates increase, growth is more likely to be supported by further expansion of eligibility across an increasing number of degree and school types. In addition, new loan types and loan originations to borrowers with marginally weaker credit characteristics are anticipated. Increased competition also includes new entrants to the space, and similar to 2016, this may result in an expanded group of securitization sponsors, as first-time issuers seek to take advantage of securitization as a funding source.

DBRS expects borrower credit quality and loan performance in the student loan Refi space to remain strong. Since the majority of Refi loans were made to employed borrowers with above-average disposable incomes, prepayments are expected to remain significantly higher than traditional student loans. Variable-rate pools are expected to experience prepayment speeds that are considerably faster than those of fixed-rate pools.

## Refi SLABS Performance in Q1 2017

### Refi SLABS Performance — Charge-Offs

***Q1 2017 Cumulative Charge-Offs***

Charge-offs in the student loan Refi sector have been extremely low. Since 2013, approximately $10.4 billion of student loan refinancings have been securitized with cumulative charge-offs for all pools combined totaling fewer than 20 basis points. Approximately 20% of all charge-offs have been because of borrower death.

**Exhibit 7: Cumulative Charge-Offs by Vintage** (as % of initial balance)

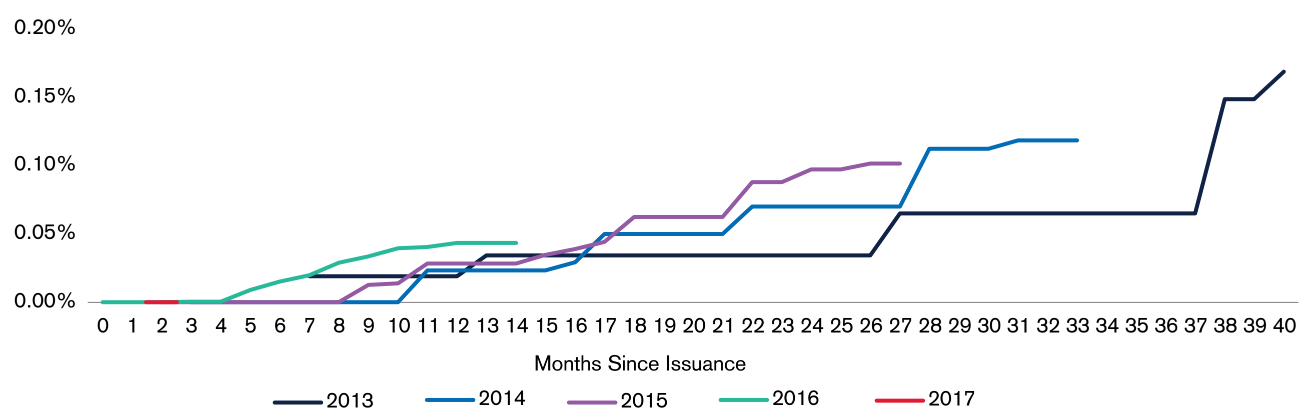
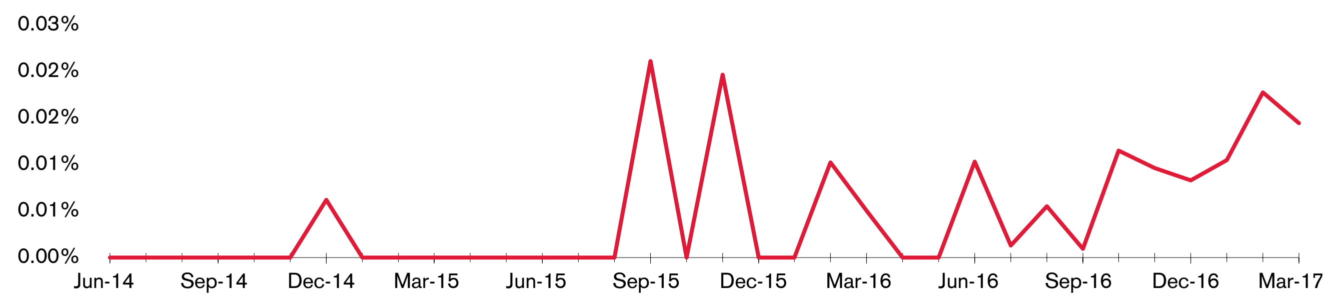



**Exhibit 8: Monthly Gross Charge-Offs** (as % of previous outstanding balance)




Note: Charge-off data for earliest deal available only from June 2014 onward.

## Refi SLABS Performance — Forbearance

***Q1 2017 Forbearance***

Forbearance utilization has remained low with a decreasing trend over the last 18 months. Finishing Q1 2017 at 0.4%, forbearance as a percentage of total outstanding balance has fallen by 30% YoY, while on a QoQ basis, it has increased slightly by 1%. It is expected that forbearance utilization will remain low, as the majority of borrowers are employed with significant disposable incomes. Further, borrowers with advanced degrees have historically experienced a much lower unemployment rate versus borrowers without such degrees. More than 80% of all securitized Refi loans were made to borrowers with graduate degrees. Although still very low by historical performance standards, an increase in forbearance utilization can be a leading indicator of performance deterioration, so this metric will continue to be closely monitored by DBRS.

**Exhibit 9: Forbearance** (as % of total outstanding balance)

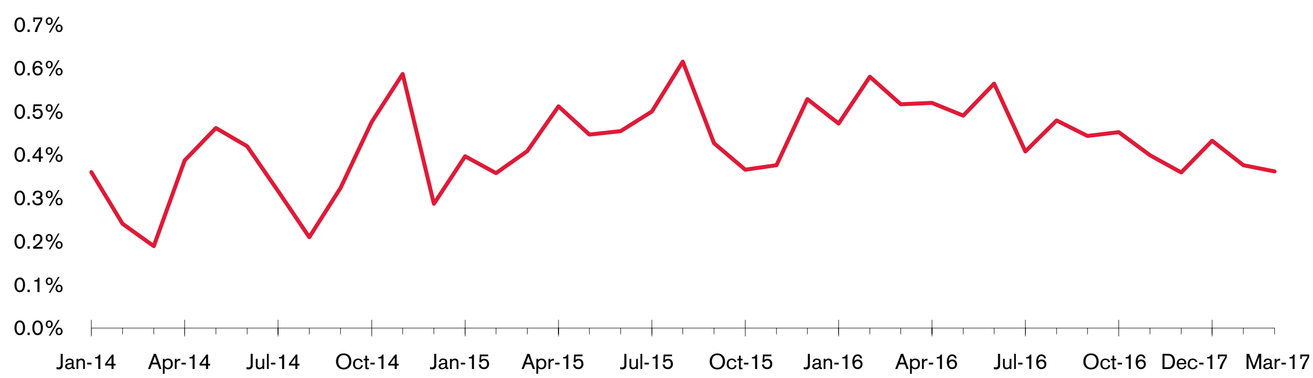
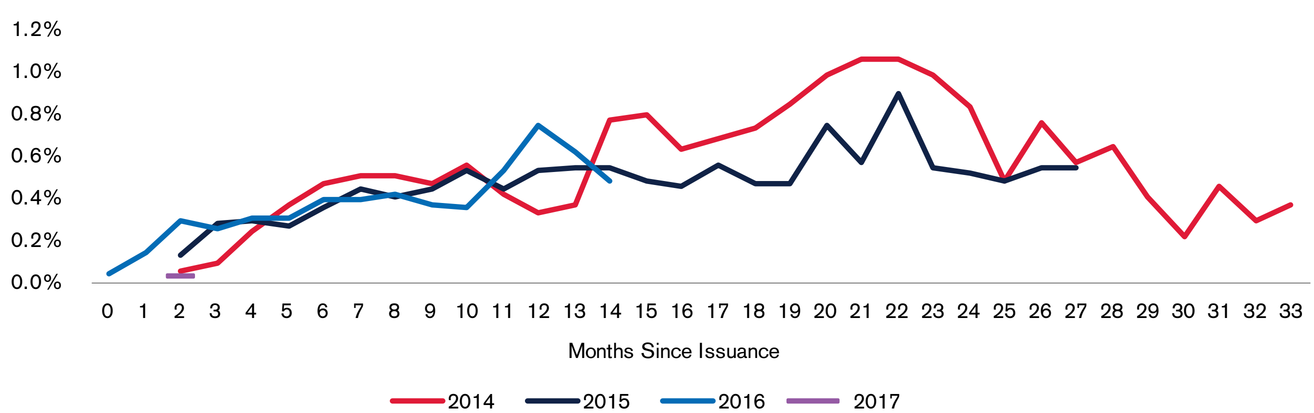



**Exhibit 10: Forbearance by Vintage** (as % of total outstanding balance)



## Refi SLABS Performance — Deferment

***Q1 2017 Deferment***

Deferment utilization has remained very low, as existing student loan Refi borrowers, who generally have advanced graduate degrees and high-paying jobs, have little desire to pursue additional education. DBRS expects deferments to increase over time as lenders originate more loans to borrowers that only have undergraduate degrees.

**Exhibit 11: Deferment** (as % of total outstanding balance)

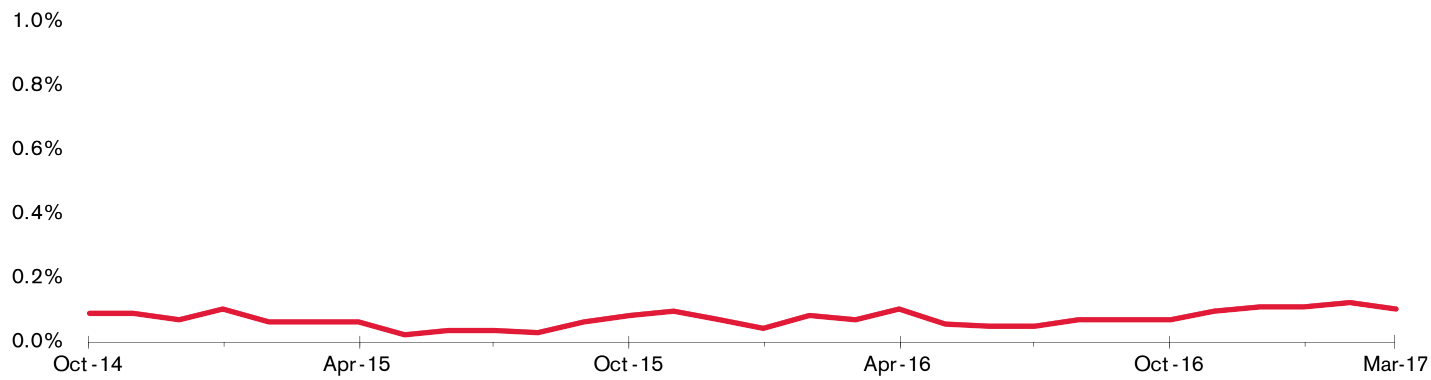
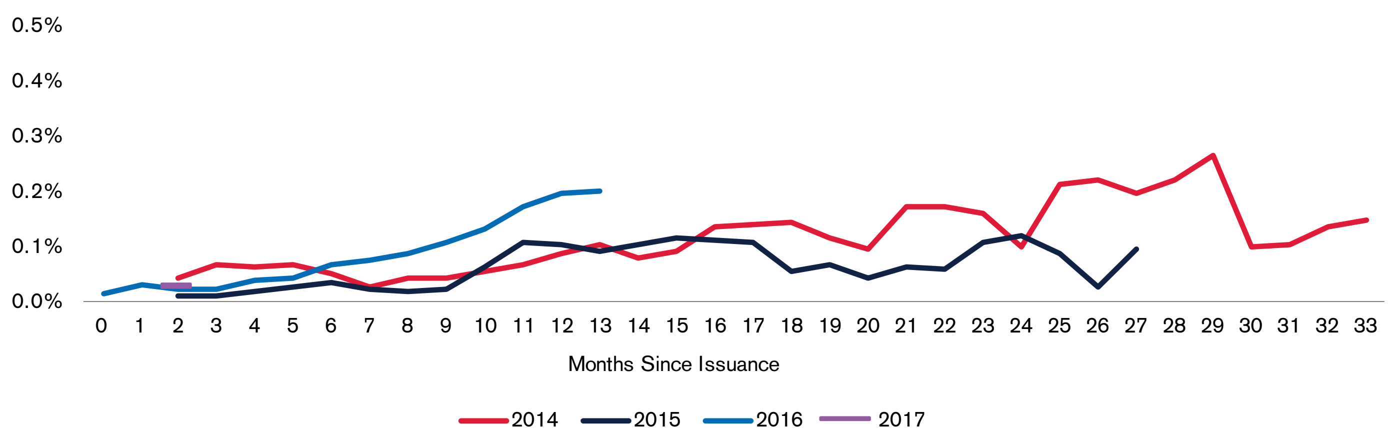


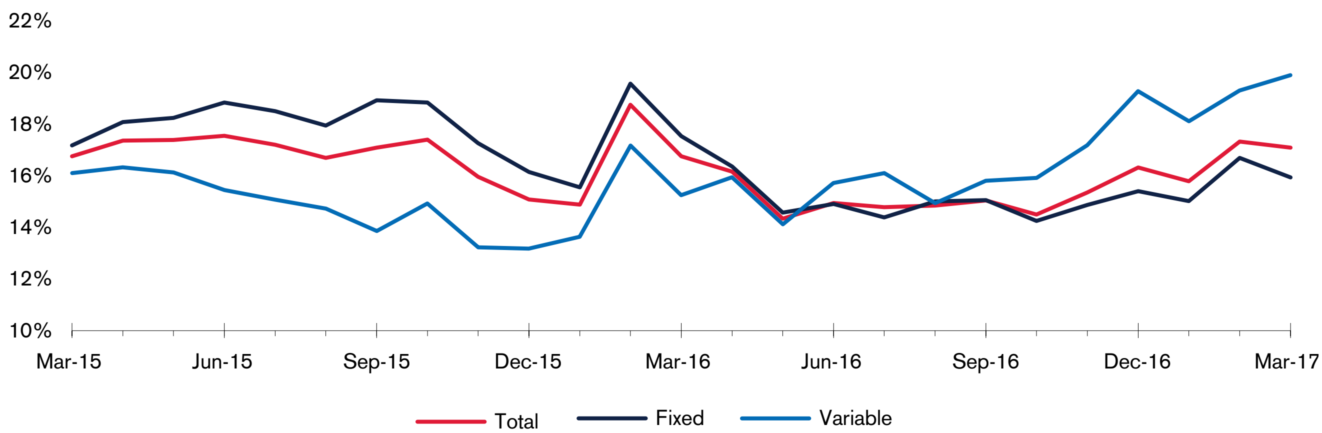

**Exhibit 12: Deferment by Vintage** (as % of total outstanding balance)



### Refi SLABS Performance — Prepayments

Prepayment speeds in the Refi sector have been significantly faster than those in other student loan sectors, as borrowers are typically employed and have very high incomes and free cash flow. Variable-rate loans, which have represented 32% of total securitized Refi collateral since 2013, have experienced a significant uptick in prepayment speeds lately, as Federal Reserve Bank rate hikes are starting to accelerate.

**Exhibit 13: Annualized Constant Prepayment Rate**




## Traditional Private SLABS Market — H1 2017 Review and Outlook

### 2017 YTD New Issuance

Traditional private SLABS issuance totaled $0.8 billion in 2017 through Q2, which is a 54% decrease from the $1.7 billion issued during the same period in 2016. There was a single deal — SMB's 2017-A deal totaling $772 million — compared with two deals in the same period last year. However, for Q1 2017 alone, there was a 58% YoY increase from the $0.5 billion issued in Q1 2016.

### 2017 Outlook

For the remainder of 2017, DBRS expects the pace of new issuance in the private SLABS market to pick up, as existing issuers such as SMB and Navient are likely to tap the ABS market. Additionally, a new sponsor has entered the sector. As of the date of this report, College Ave Student Loans, LLC (College Ave) priced their inaugural SLABS transaction (and may seek to tap the ABS market again by year-end).

# Private SLABS Performance in Q1 2017

The DBRS Private SLABS Index comprises data provided by MeasureOne and tracks the performance of 113 private SLABS transactions issued from 2001 through Q1 2017. As at the end of Q1 2017, total issuance volume reached over $90 billion, representing a YoY increase of 4% and a QoQ increase of 1%. Despite the new issuance, the overall outstanding balance continues to decline as it has since 2013, with prepayment and repayment outpacing new volumes. The YoY runoff on the portfolio (reduction in the outstanding balance) as at Q1 2017 was 12%. Exhibit 14 highlights the composition of the loans in the DBRS Private SLABS Index. Initial balances reported in the table include older master trust series for which initial balances were previously not reported.

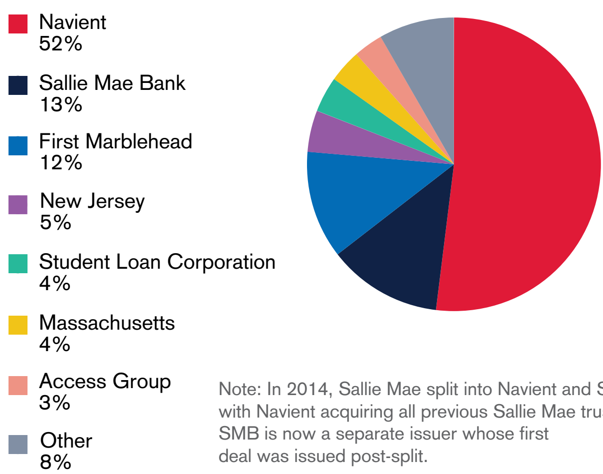
**Exhibit 14: Private SLABS Index Composition** (millions; as at quarter end)

| | Q1 2017 | Q1 2016 | Q1 2015 | Q1 2014 | Q1 2013 | Q1 2012 | Q1 2011 | Q1 2010 |
|---|---|---|---|---|---|---|---|---|
| Initial Balance (Net)* | $76,617 | $73,181 | $69,943 | $68,589 | $66,285 | $60,995 | $61,170 | $55,288 |
| Initial Balance (Gross)* | $90,372 | $86,893 | $82,138 | $79,361 | $74,777 | $68,884 | $64,058 | $55,288 |
| Outstanding Balance | $37,882 | $39,520 | $40,537 | $42,479 | $44,155 | $43,239 | $48,850 | $45,368 |
| Pool Factor | 49% | 54% | 58% | 62% | 67% | 71% | 80% | 82% |
| Active Repayment | $32,757 | $35,012 | $36,453 | $37,335 | $38,342 | $35,676 | $37,131 | $31,051 |
| % Active Repayment | 86% | 89% | 90% | 88% | 87% | 83% | 76% | 68% |

| | Q1 2009 | Q1 2008 | Q1 2007 | Q1 2006 | Q1 2005 | Q1 2004 | Q1 2003 | Q1 2002 |
|---|---|---|---|---|---|---|---|---|
| Initial Balance (Net)* | $39,056 | $38,767 | $32,544 | $18,319 | $12,374 | $6,578 | $2,207 | $644 |
| Initial Balance (Gross)* | $39,056 | $38,767 | $32,544 | $18,319 | $12,374 | $6,578 | $2,207 | $644 |
| Outstanding Balance | $32,429 | $33,751 | $29,677 | $17,343 | $12,019 | $6,382 | $4,011 | $633 |
| Pool Factor | 83% | 87% | 91% | 95% | 97% | 97% | 182% | 98% |
| Active Repayment | $21,856 | $18,618 | $15,865 | $9,097 | $6,341 | $3,505 | $1,201 | $249 |
| % Active Repayment | 67% | 55% | 53% | 52% | 53% | 55% | 30% | 39% |

* Net Initial Balance = Gross Initial Balance (excluding deals that have been paid off). Both Net and Gross Initial Balances shown here include balances of master trusts.

**Exhibit 15: Underlying Private SLABS Issuers**
(As % of total outstanding balance; as at March 31, 2017)




Note: In 2014, Sallie Mae split into Navient and SMB, with Navient acquiring all previous Sallie Mae trusts. SMB is now a separate issuer whose first deal was issued post-split.

### Private SLABS Performance — Gross Defaults

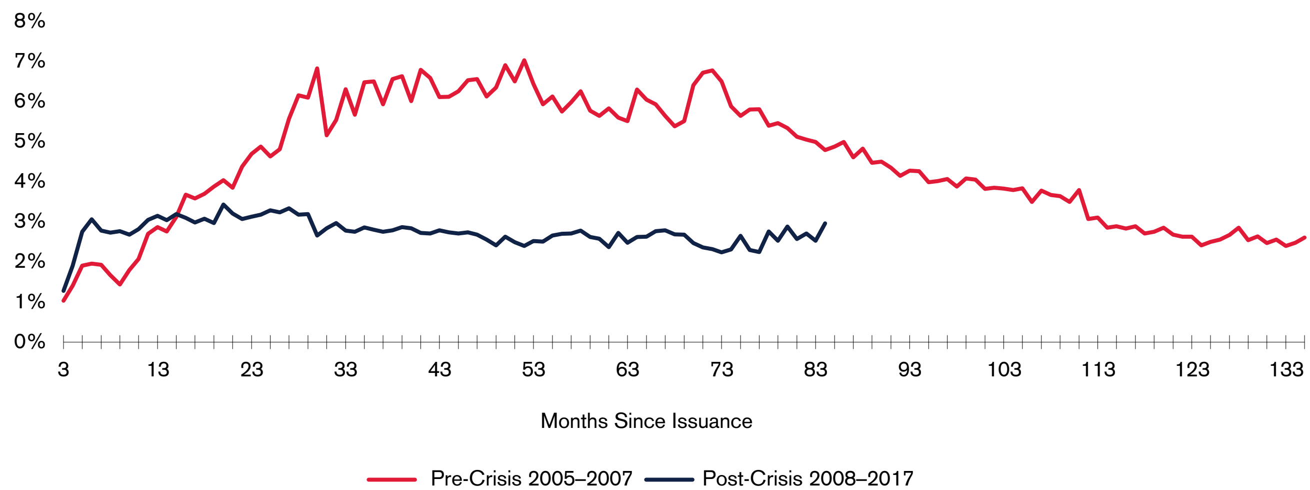
In Q1 2017, annualized gross defaults were 2.5%, the first increase in seven consecutive years, growing by 9% YoY from 2.3% in Q1 2016 and 0.2% QoQ from Q4 2016. The Q1 2017 annualized gross default rate of 2.5% is still lower than the 2016 average of 2.6% and about 60% lower than the peak gross defaults of 6.2% experienced in Q1 2009 (5.7% for full-year 2009). Continued seasoning of outstanding private SLABS transactions (loans in pre-crisis deals will continue to age past the peak years of default), improvements in the unemployment rate and economy and an increased percentage of higher credit quality borrowers in new transactions should continue to benefit default performance going forward. Despite the small recent uptick, DBRS also attributes the overall trend of improvements in defaults to an increased focus on loan management programs by student loan servicers.

**Exhibit 16: Annualized Gross Defaults** (as % of previous repayment balance; as at quarter end)

| | Q1 2017 | Q1 2016 | Q1 2015 | Q1 2014 | Q1 2013 | Q1 2012 | Q1 2011 | Q1 2010 | Q1 2009 | Q1 2008 | Q1 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Annualized Default Rate | 2.5% | 2.3% | 2.9% | 3.2% | 4.1% | 4.3% | 4.7% | 6.0% | 6.2% | 4.0% | 3.0% |
| YoY Change | 9% | -21% | -10% | -22% | -6% | -8% | -22% | -3% | 54% | 36% | 168% |
| QoQ Change | -6% | -19% | -5% | -8% | -8% | -15% | -9% | 5% | 38% | 15% | 12% |
| Change from 2009 Peak | -61% | -64% | -54% | -49% | -35% | -31% | -25% | -3% | N/A | N/A | N/A |
| Cumulative Gross Defaults | 26.8% | 25.6% | 24.3% | 22.8% | 20.8% | 18.2% | 15.2% | 12.2% | 8.8% | 6.2% | 4.5% |

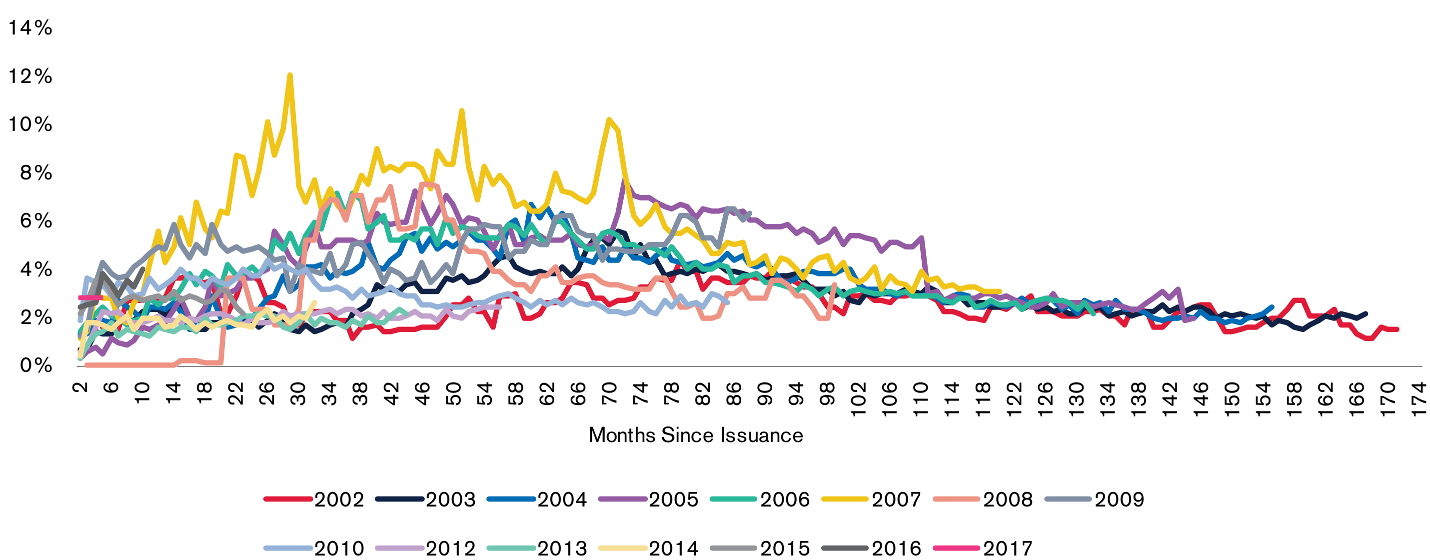
Post-crisis vintages (i.e., deals issued since 2008) have exhibited very stable performance, with defaults being significantly lower than in pre-crisis deals. This is primarily the result of loans in 2008–2017 securitizations being made to much stronger credits than those in prior years. Further, post-crisis deals generally have a higher percentage of co-signers and fewer direct-to-consumer and proprietary school loans.

**Exhibit 17: Annualized Gross Defaults: Pre-Crisis and Post-Crisis** (as % of previous repayment balance)




Further, as can be seen in Exhibit 18, most vintages have experienced a continued trend of gross default improvement over the past several years.

**Exhibit 18: Annualized Gross Defaults by Issuance Vintage** (as % of previous repayment balance)

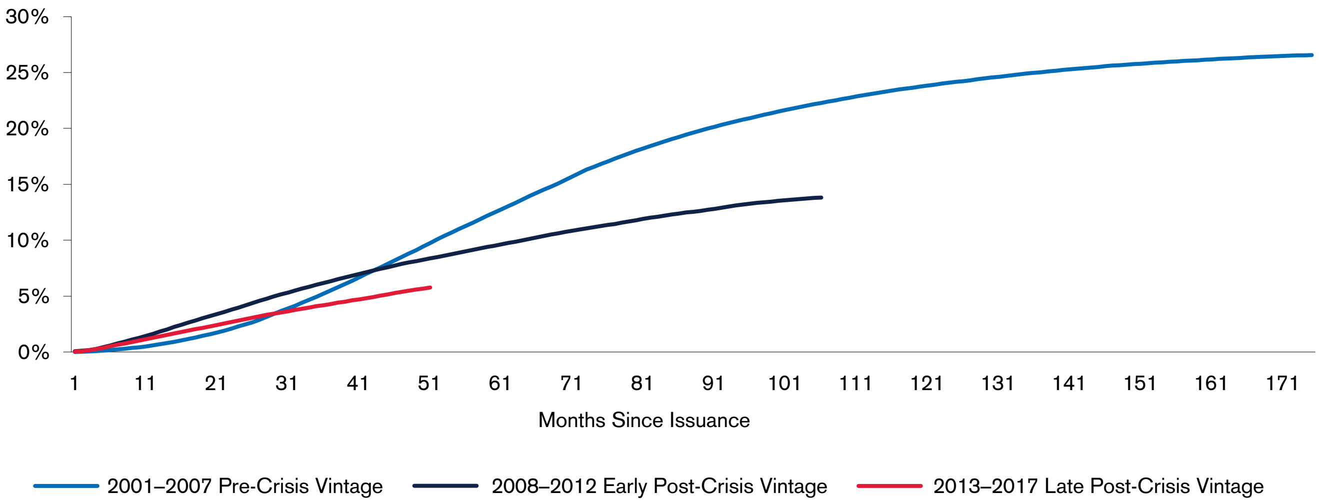


## Private SLABS Performance — Cumulative Defaults

While pre-crisis (2001–2007; the blue line in Exhibit 19) transactions exhibit the highest cumulative defaults relative to the other vintages, cumulative default rates have stabilized. This can be attributed to the improved economic environment and the continued seasoning of outstanding transactions (historically, the default curve for student loans flattens as loans season).

Default rates for early post-crisis vintages (2008–2012; the black line in Exhibit 19) remain low and continue to show signs of flattening out. This can be attributed to the improved economic environment coupled with more stringent underwriting standards. Unemployment, the key driver of student loan defaults, dropped to 4.5% as at the end of Q1 2017 (compared with 4.7% as at the end of Q4 2016 and 5.0% as at the end of Q1 2016) and has now almost reverted to pre-crisis levels (the average unemployment rate in 2007 was 4.6%).

**Exhibit 19: Cumulative Defaults** (as % of initial balance)



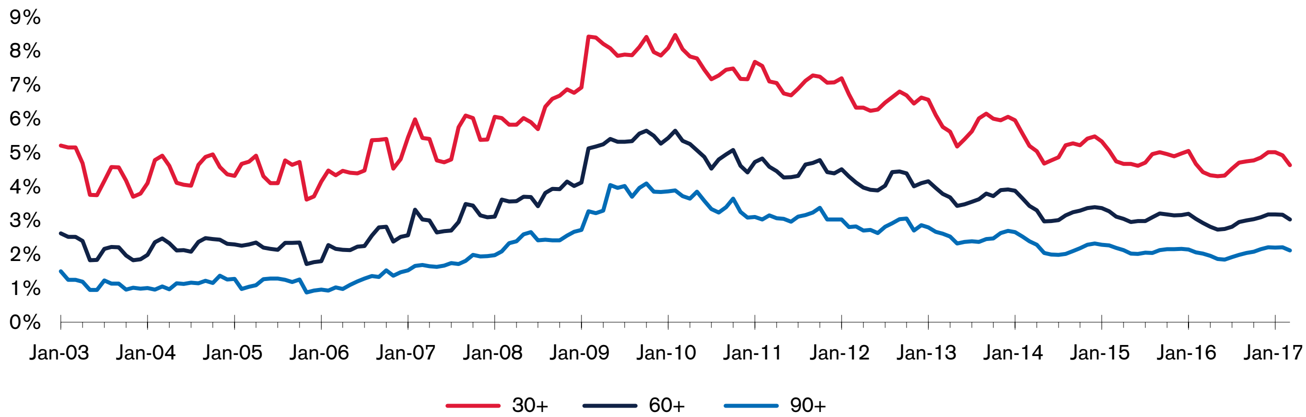

## Private SLABS Performance — Delinquencies

As at Q1 2017, 90+ day delinquencies stood at 2.1%, a slight YoY increase of 4% from 2.0% in Q1 2016 and a QoQ decrease of 4% from Q4 2016. From a long-term trend point of view, after a long period of improvement from 2010 to 2014, delinquencies have more recently remained relatively stable and are likely to remain near current levels.

**Exhibit 20: Delinquencies** (as % of repayment balance; as at quarter end)

| | Q1 2017 | Q1 2016 | Q1 2015 | Q1 2014 | Q1 2013 | Q1 2012 | Q1 2011 | Q1 2010 | Q1 2009 | Q1 2008 | Q1 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Delinquency 60+ | 3.0% | 2.9% | 3.1% | 3.4% | 3.8% | 4.1% | 4.6% | 5.4% | 5.2% | 3.6% | 3.0% |
| YoY Change | 3% | -6% | -9% | -10% | -8% | -10% | -14% | 3% | 46% | 18% | 40% |
| QoQ Change | -5% | -7% | -8% | -13% | -8% | -6% | 4% | 2% | 29% | 15% | 20% |
| Delinquency 90+ | 2.1% | 2.0% | 2.2% | 2.4% | 2.6% | 2.8% | 3.2% | 3.7% | 3.2% | 2.3% | 1.7% |
| YoY Change | 4% | -7% | -8% | -8% | -8% | -10% | -15% | 16% | 38% | 38% | 64% |
| QoQ Change | -4% | -7% | -6% | -12% | -9% | -7% | 2% | -3% | 21% | 20% | 14% |

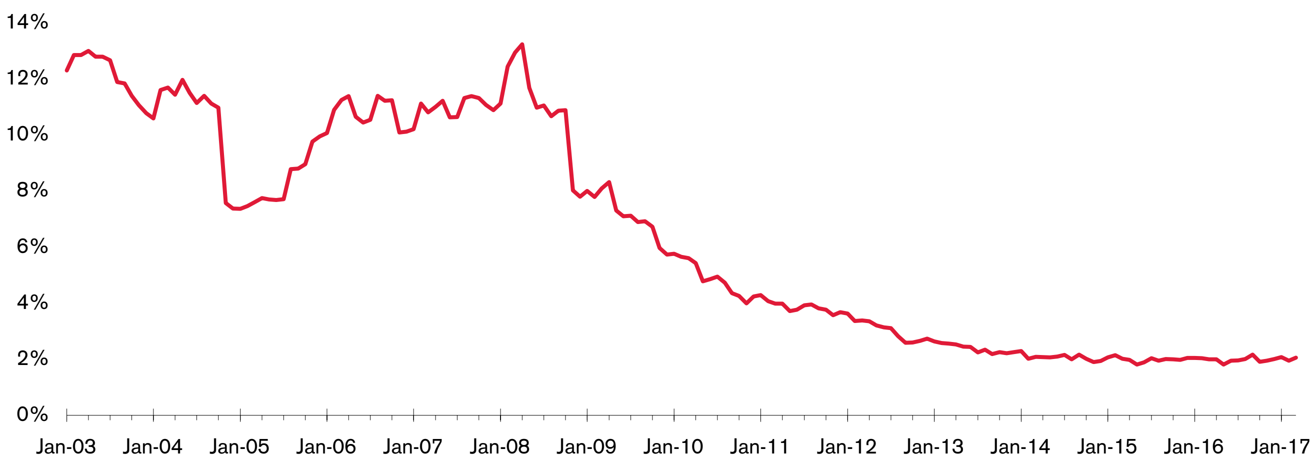
**Exhibit 21: Delinquencies** (as % of repayment balance)




## Private SLABS Performance — Forbearance

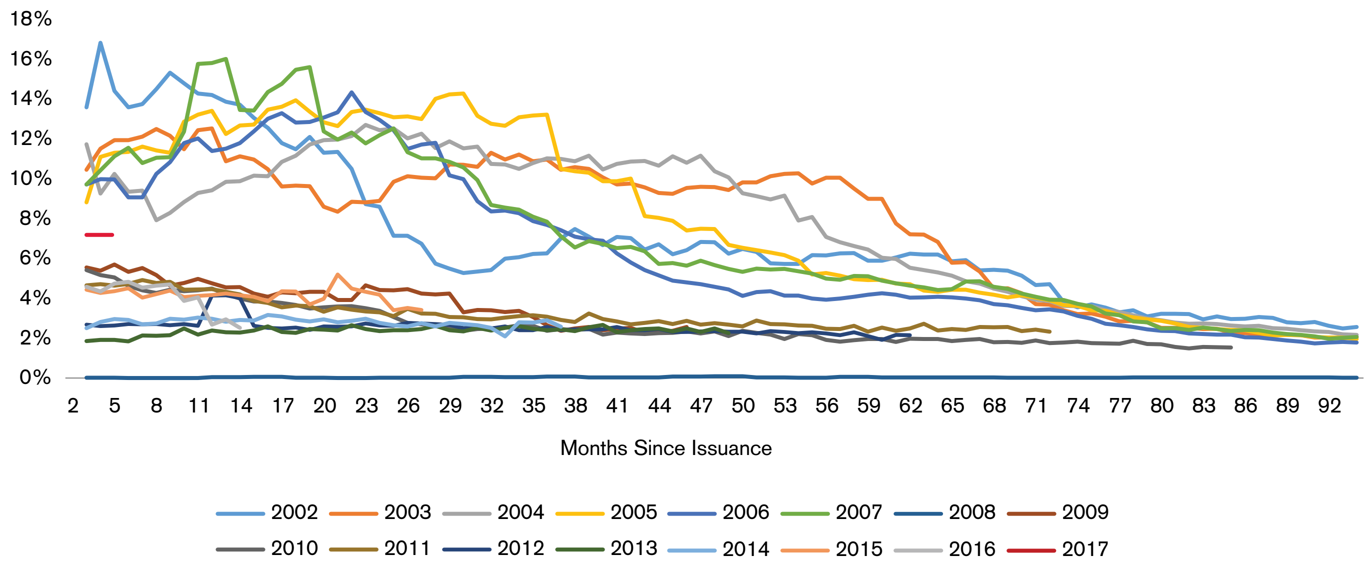
Forbearances have remained relatively stable over the past three years leading up to Q1 2017; the percentage of loans in forbearance was 2.1% in Q1 2017 (versus 2.0% as at the end of Q1 2016 and Q4 2016). Forbearances reached an all-time high of 13.2% in April 2008. The longer-term improvement in forbearances has primarily been driven by the low unemployment rate and more stringent forbearance policies in recent vintages.

**Exhibit 22: Forbearance** (as % of repayment balance)




As reflected in Exhibit 23, pool age is a key factor contributing to the stability in forbearances, as more seasoned vintages have fewer borrowers who remain eligible for forbearances. This incorporates the likelihood that weaker borrowers, who would otherwise benefit from forbearances, may have already defaulted. However, it should be noted that as at Q1 2017 borrowers from the 2016 vintage have exited forbearance much more rapidly than observed in previous vintages.

**Exhibit 23: Forbearance by Vintage** (as % of repayment balance)




## Private SLABS Performance — Prepayments

Private SLABS prepayments, as measured by the Constant Prepayment Rate, climbed to 8.3% by the end of Q1 2017 from 6.5% as at the end of Q4 2016. The pickup in prepayments from 2013 onward coincides with the growth in Refi loan originations, which took off in 2013. As can be seen in Exhibit 24, it is now very close to the March 2007 record high of 8.6% — having gradually recovered from a record low of 0.7% in February 2010. DBRS expects voluntary prepayments to moderately increase as the economy improves and the student loan Refi market continues to grow and expand into lower credit tiers.

**Exhibit 24: Annualized Constant Prepayment Rate** (as % of total outstanding balance)


## Private SLABS Performance Expectations

DBRS expects performance to continue to improve for a number of reasons:

- Improved Economic Environment
  - If the economy continues on its recent path, existing deals should exhibit lower forbearance rates and an acceleration of prepayment speeds. The unemployment rate, a primary driver of student loan defaults, is at a ten-year low and will continue to benefit private SLABS.

- Higher-Quality Collateral
  - The continued improvement in private student loan repayment performance is based on more stringent post-crisis underwriting practices with a stronger focus on ability to repay, in addition to a higher percentage of co-signers and school-certified loans within newer securitization trusts.
  - SMB is expected to originate the majority of private student loans that collateralize SLABS going forward. SMB securitization trusts are now exclusively backed by Smart Option loans, which are of higher credit quality and have a higher percentage of co-signers than the Signature loans SMB previously originated.
  - For example, SMB and Navient private SLABS transactions issued from 2010 through Q2 2017 have, on average, a co-signer rate of approximately 79% and an original FICO score of nearly 740 (2014 through 2016 SMB transactions have, on average, an original FICO score of 747). In comparison, SMB transactions issued from 2002 through 2007 have a co-signer rate, on average, of approximately 51% and an original FICO score of 718.
- Existing Private SLABS Transaction Seasoning
  - Transactions issued from 2006 to 2008, which represent 23% of the DBRS Private SLABS Index, contain borrowers with weaker credit characteristics (as of their related cutoff dates) as compared with post-crisis transactions. Over 95% of existing borrowers from these vintages have already entered repayment and have been exposed to a weak labor market; thus, these vintages have experienced their peak defaults, leaving better-quality loans in outstanding pools.
- Interest Rate Fluctuations
  - Rising interest rates affect all forms of existing consumer credit, including variable-rate private student loans. However, if interest rates continue to rise gradually as expected (and as the Federal Reserve Bank has implied), borrowers may have the opportunity to better acclimate to higher payments. Further, transactions with higher co-signer rates may also help buffer increasing loan interest payments. Inflation has been benign (under 2%) and has not been deemed an immediate concern, bolstering the idea that the Federal Reserve Bank will maintain gradual interest rate increases. The Federal Reserve Bank maintains guidance that they will likely not raise rates more than one more time in 2017.
- Refinancing Currently Available Only to Limited Group
  - As the Federal Reserve Bank raises interest rates, borrowers may seek to refinance into fixed-rate loans. However, because traditional lenders generally have implemented stricter underwriting criteria since the financial crisis, and because Refi lenders typically require borrowers to have significant employment history, strong credit scores and high disposable incomes, only the highest-quality borrowers may be able to refinance.

# FFELP SLABS Market — H1 2017 Review and Outlook

### 2017 YTD New Issuance

FFELP ABS new issuance in 2017 through Q2 was $3.9 billion, a 14% YoY increase over the $3.4 billion issued in the same period last year. Q1 2017 issuance volume stayed constant on a QoQ basis at $2.3 billion. In Q1 2017, Navient (Navient 2017-1 in February 2017 and Navient 2017-2 in March 2017) and ECMC (ECMC 2017-1 in March 2017) came to market with a combined $2.3 billion. In Q2 2017, Navient (Navient 2017-3 in April 2017) and Nelnet (Nelnet 2017-1 in May 2017) issued an additional $1.5 billion, representing two deals.

The major theme within FFELP ABS since 2015 has been slower-than-expected amortization speeds in existing transactions caused by slower prepayments, heightened forbearance usage and the growing use of income-based repayment (IBR). To address extension risk and reduce the likelihood of an event of default and rating downgrades, certain FFELP ABS issuers have adopted countermeasures. These include amending existing deal documents to allow for greater flexibility to purchase loans out of the trust at the optional call date and extending the final maturity dates on classes that are at risk of extending beyond those dates. New transactions have also incorporated structural features such as full turbo principal payments in order to increase the likelihood that the notes will be paid off by their legal final maturity dates.

### 2017 Outlook

For the remainder of 2017, DBRS expects FFELP ABS issuance to remain strong, as extension risk concerns have abated and ABS funding costs are favorable. However, FFELP collateral available for securitization will become increasingly scarce, as FFELP loan origination was discontinued in 2010. Collateral underlying new transactions will likely consist of a larger percentage of rehabilitated FFELP loans, with some transactions consisting of 100% rehabilitated FFELP loans.

DBRS expects the credit performance of existing transactions to improve, as discussed further in the FFELP SLABS Performance section.

# FFELP SLABS Performance in Q1 2017

The DBRS FFELP SLABS Index comprises data provided by MeasureOne and tracks the performance of 389 FFELP SLABS transactions issued from 1998 through Q1 2017. Exhibit 25 highlights the composition of the loans in the DBRS FFELP SLABS Index. As at the end of Q1 2017, total issuance volume was over $415 billion, a YoY growth of 2% and a QoQ growth of 1%. However, the outstanding balance continues to shrink. The YoY runoff on the portfolio as at Q1 2017 was 12%. Initial balances reported in the table include older master trust series for which initial balances were previously not reported.

**Exhibit 25: FFELP SLABS Index Composition** (millions; as at quarter end)

| | Q1 2017 | Q1 2016 | Q1 2015 | Q1 2014 | Q1 2013 | Q1 2012 | Q1 2011 | Q1 2010 |
|---|---|---|---|---|---|---|---|---|
| Initial Balance (Net)* | $346,828 | $342,153 | $352,944 | $357,527 | $350,681 | $341,100 | $331,318 | $315,590 |
| Initial Balance (Gross)* | $415,823 | $407,180 | $397,991 | $386,933 | $372,549 | $346,880 | $330,573 | $315,590 |
| Outstanding Balance | $148,030 | $159,724 | $174,864 | $186,184 | $196,371 | $199,639 | $206,758 | $207,856 |
| Pool Factor | 43% | 47% | 50% | 52% | 56% | 59% | 62% | 66% |
| Active Repayment | $121,802 | $128,456 | $136,049 | $138,937 | $145,581 | $143,283 | $143,253 | $139,515 |
| % Active Repayment | 82% | 80% | 78% | 75% | 74% | 72% | 69% | 67% |

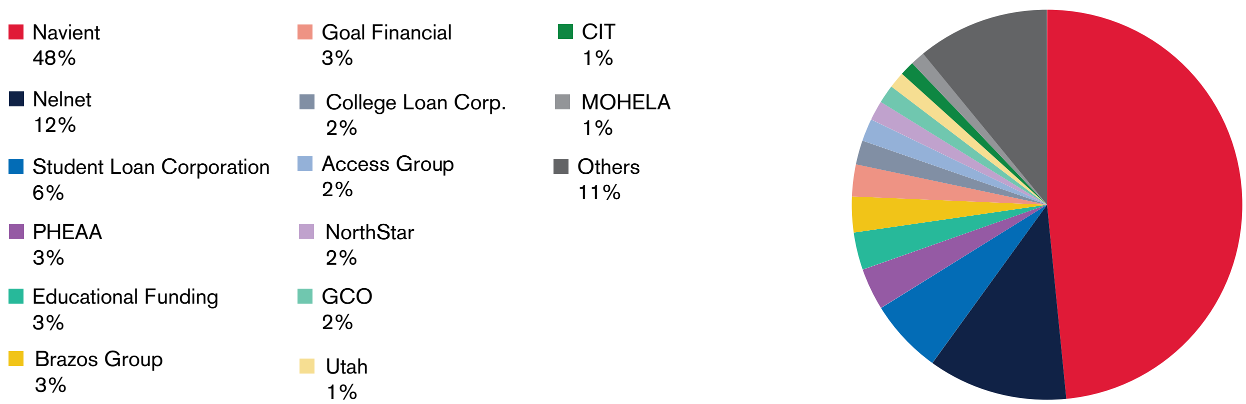
* Net Initial Balance = Gross Initial Balance (excluding deals that have been paid off).
Both Net and Gross Initial Balances shown here include balances of master trusts.

**Exhibit 26: FFELP SLABS Index Composition** (millions; as at quarter end)

| | Q1 2009 | Q1 2008 | Q1 2007 | Q1 2006 | Q1 2005 | Q1 2004 | Q1 2003 | Q1 2002 |
|---|---|---|---|---|---|---|---|---|
| Initial Balance (Net)* | $300,340 | $272,169 | $238,915 | $191,153 | $134,646 | $87,288 | $34,293 | $15,295 |
| Initial Balance (Gross)* | $300,340 | $272,169 | $238,915 | $191,153 | $134,646 | $87,288 | $34,293 | $15,295 |
| Outstanding Balance | $207,098 | $192,398 | $167,562 | $136,706 | $98,554 | $61,209 | $21,833 | $10,181 |
| Pool Factor | 69% | 71% | 70% | 72% | 73% | 70% | 64% | 67% |
| Active Repayment | $134,334 | $126,639 | $111,188 | $89,137 | $60,792 | $36,333 | $10,671 | $4,789 |
| % Active Repayment | 65% | 66% | 66% | 65% | 46% | 59% | 49% | 47% |

* Net Initial Balance = Gross Initial Balance (excluding deals that have been paid off).
Both Net and Gross Initial Balances shown here include balances of master trusts.

**Exhibit 27: Underlying FFELP SLABS Issuers** (as % of total outstanding balance; as at March 31, 2017)



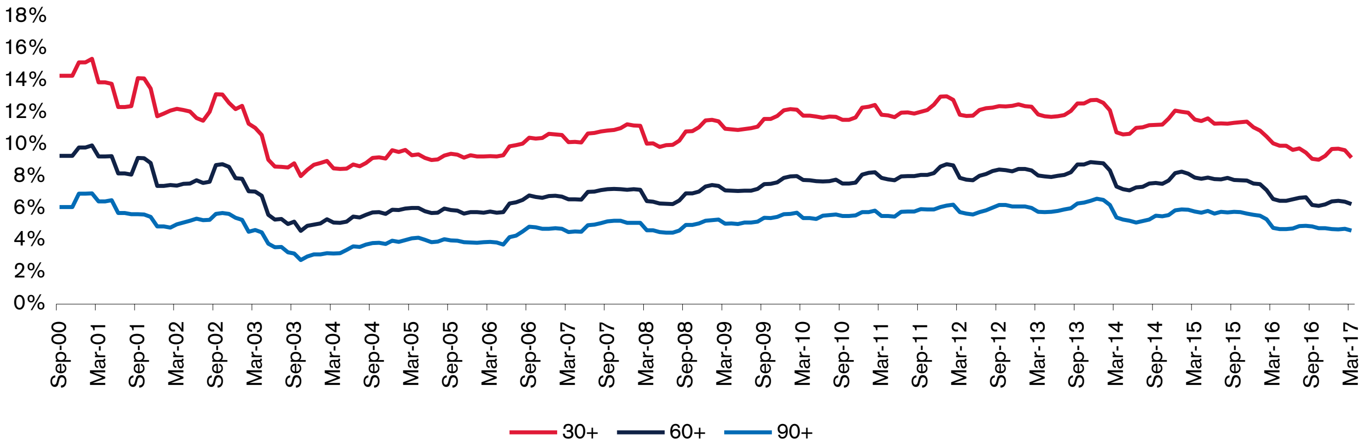

## FFELP SLABS Performance — Delinquencies

The proportion of borrowers who are delinquent dropped significantly in Q1 2017 compared with both Q1 2016 and Q4 2016. A lower unemployment rate, loan seasoning and increased participation in federal income-driven repayment plans are key contributors to the improved performance of the FFELP transactions.

**Exhibit 28: Delinquencies** (as % of repayment balance)

| | Q1 2017 | Q1 2016 | YoY Change | Q4 2016 | QoQ Change | Average 2002 – 2007 | Peak | % Change from Peak |
|---|---|---|---|---|---|---|---|---|
| Delinquency 30+ | 9.2% | 10.0% | -9% | 9.7% | -6% | 10.1% | 15.4% | -40% |
| Delinquency 60+ | 6.3% | 6.6% | -5% | 6.4% | -3% | 6.3% | 9.9% | -37% |
| Delinquency 90+ | 4.6% | 4.8% | -4% | 4.7% | -2% | 4.3% | 6.9% | -34% |

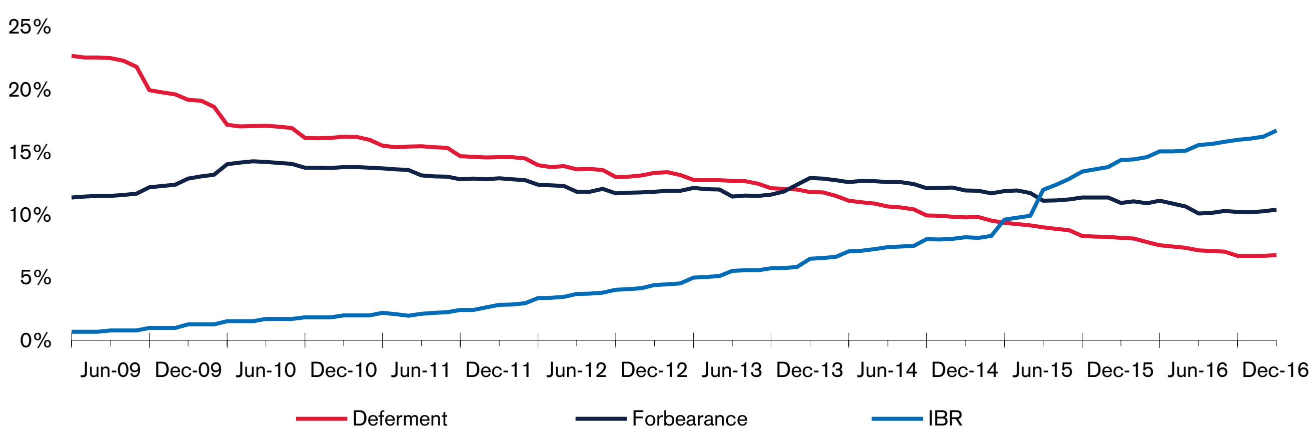
**Exhibit 29: Delinquencies** (as % of repayment balance)




## FFELP SLABS Performance — Forbearance, Deferment and IBR

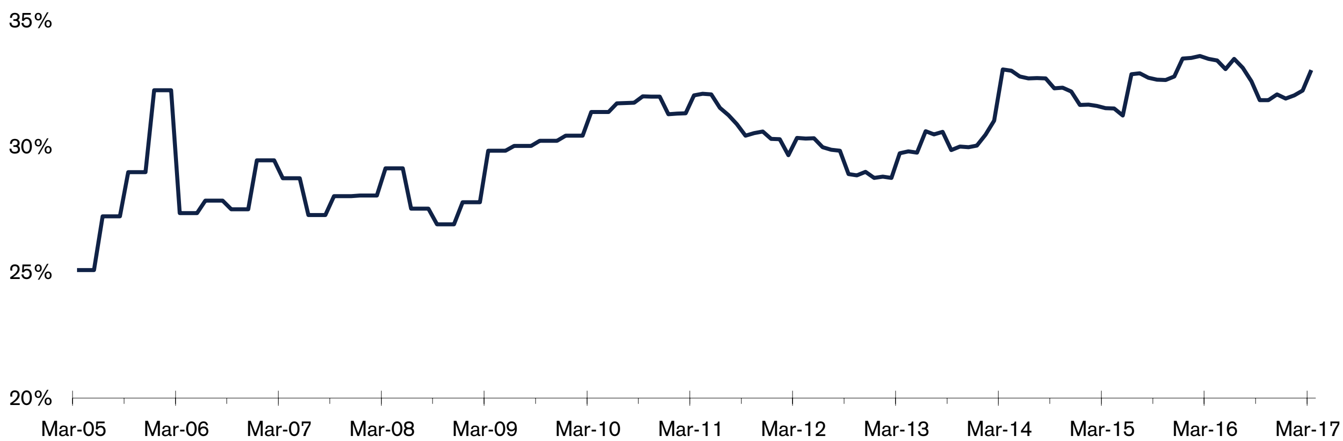
While deferments and forbearances have decreased slightly in Q1 2017 (both QoQ and YoY), IBR utilization continues to attain record highs, having most recently climbed to 16.7%. IBR, which was introduced in 2009, provides borrowers with better options to manage their debt in difficult times and has proved more popular than forbearance and deferment among borrowers who can make at least partial payments.

**Exhibit 30: Forbearance, Deferment and IBR** (as % of total outstanding balance)




DBRS continues to expect the combined utilization of deferment, forbearance and IBR to remain elevated throughout 2017, with IBR continuing to comprise a growing percentage.

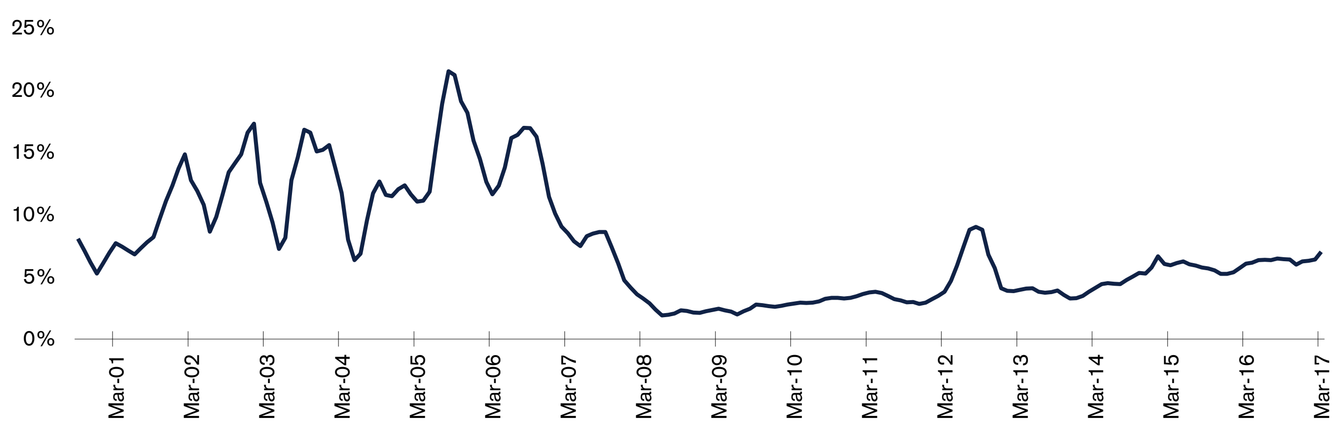
**Exhibit 31: Combined Forbearance, Deferment and IBR** (as % of total outstanding balance)




## FFELP SLABS Performance — Prepayments

Over the past several years, prepayments have increased from historical lows (1.9% as at the end of Q2 2008), reaching 7.0% as at the end of Q1 2017. This represents a YoY increase of 15%. DBRS expects voluntary prepayments to moderately increase as the economy continues to improve, loan pools become more seasoned and the Refi market continues to grow and potentially expand to lower credit tiers.

**Exhibit 32: Annualized Constant Prepayment Rate** (as % of total outstanding balance)




## FFELP SLABS Performance Expectations

- Collateral Seasoning
  - Performance of existing FFELP transactions should continue to see improvement as transactions season further.
  - Because FFELP was discontinued in 2010, the vast majority of borrowers have now graduated from school, and most have been in active repayment for quite some time.
  - Because the majority of FFELP borrowers default within a few years of entering repayment, existing FFELP ABS transactions consist of loans that are well past the peak of their historical default timing curves, thereby benefiting noteholders.
- Improved Economic Environment
  - A low unemployment rate, especially for young adults, and continued improvement in economic conditions will further benefit FFELP ABS performance. The unemployment rate, a primary driver of student loan defaults, is at a ten-year low. Defaults should also improve as a result of an increase in the number of borrowers who take advantage of IBR and other payment plans that help keep payments current.

- Lower Deferment and Forbearance
  - An improved economy coupled with wage growth should result in lower deferment and forbearance rates and an acceleration of voluntary prepayment speeds. While this may result in faster FFELP ABS pool amortization, a decrease in defaults will result in less reimbursement from the government in the form of guarantee payments. Further, an increase in IBR will slow down the repayment of loans and thus the amortization speed of FFELP ABS.
  - Deferment and forbearance utilization will continue to decline as fewer borrowers return to school and as more borrowers opt to use IBR.

# Appendix A: Refi SLABS — H1 2017 Transactions

**CommonBond Student Loan Trust 2017-A-GS (June 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A-1 | 135.1 | Fixed | 3.51 | Swaps | 90 | AA / Aa3 / – / – |
| A-2 | 64.9 | Floating | 3.42 | 1mL | 85 | AA / Aa3 / – / – |
| B | 22.6 | Fixed | 4.95 | Swaps | 170 | BBB / – / – / – |
| C | 9.0 | Fixed | 2.74 | Swaps | 375 | BB / – / – / – |
| **Total** | **231.7** | | | | | |

**Earnest Student Loan Program 2017-A (May 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A-1 | 24.4 | Floating | 3.40 | 1mL | 100 | AA (high) / – / A / – |
| A-2 | 130.3 | Fixed | 3.47 | Swaps | 100 | AA (high) / – / A / – |
| B | 15.1 | Fixed | 3.92 | Swaps | 190 | BBB / – / – / – |
| C | 5.5 | Fixed | 4.14 | Swaps | 400 | BB / – / – / – |
| **Total** | **175.3** | | | | | |

**SoFi Professional Loan Program LLC 2017-C (May 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A-1 | 96.1 | Floating | 3.01 | 1mL | 60 | AAA / – / AAA / – |
| A-2A | 230.2 | Fixed | 1.30 | EDSF | 35 | AAA / – / AAA / – |
| A-2B | 175.7 | Fixed | 4.90 | Swaps | 80 | AAA / – / AAA / – |
| B | 41.0 | Fixed | 8.48 | Swaps | 150 | AA / – / A+ / – |
| C | 18.0 | Fixed | 8.51 | Swaps | 215 | A / – / BBB+ / – |
| **Total** | **561.0** | | | | | |

**DRB Prime Student Loan Trust 2017-A (April 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A-1 | 42.0 | Floating | 4.10 | 1mL | 85 | AAA / Aaa / – / – |
| A-2A | 78.9 | Fixed | 1.05 | EDSF | 40 | AAA / Aaa / – / – |
| A-2B | 153.3 | Fixed | 5.72 | Swaps | 95 | AAA / Aaa / – / – |
| B | 33.3 | Fixed | 3.56 | Swaps | 140 | A / A2 / – / – |
| **Total** | **307.5** | | | | | |

**SoFi Professional Loan Program LLC 2017-B (March 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A-1FX | 225.3 | Fixed | 1.25 | EDSF | 40 | AAA / Aaa / AAA / – |
| A-2FX | 190.0 | Fixed | 4.82 | Swaps | 75 | AAA / Aaa / AAA / – |
| B-FX | 26.0 | Fixed | 8.49 | Swaps | 145 | AA / A1 / – / – |
| C-FX | 20.2 | Fixed | 8.50 | Swaps | 220 | A / Baa3 / – / – |
| **Total** | **461.5** | | | | | |

| SoFi Professional Loan Program LLC 2017-A (February 2017) | | | | | | |
|---|---|---|---|---|---|---|
| **Class** | **$ (mm)** | **Type** | **WAL** | **Benchmark** | **Spread** | **DBRS / Moody's / S&P / Fitch** |
| A-1 | 116.5 | Floating | 3.12 | 1mL | 70 | AAA / Aaa / AAA / – |
| A-2A | 218.7 | Fixed | 1.29 | EDSF | 45 | AAA / Aaa / AAA / – |
| A-2B | 166.9 | Fixed | 4.88 | Swaps | 80 | AAA / Aaa / AAA / – |
| B | 35.6 | Fixed | 8.83 | Swaps | 150 | AA (low) / A1 / – / – |
| C | 23.4 | Fixed | 8.88 | Swaps | 225 | A (low) / Baa2 / – / – |
| **Total** | **561.0** | | | | | |

# Appendix B: Private SLABS — H1 2017 Transactions

| Sallie Mae Bank Private Education Loan Trust 2017-A (January 2017) | | | | | | |
|---|---|---|---|---|---|---|
| **Class** | **$ (mm)** | **Type** | **WAL** | **Benchmark** | **Spread** | **DBRS / Moody's / S&P / Fitch** |
| A-1 | 292.0 | Floating | 1.25 | 1mL | 45 | – / Aaa / AAA / – |
| A-2a | 215.0 | Fixed | 5.72 | Swaps | 85 | – / Aaa / AAA / – |
| A-2b | 215.0 | Floating | 5.72 | 1mL | 90 | – / Aaa / AAA / – |
| B | 50.0 | Fixed | 9.44 | Swaps | 160 | – / Aa3 / A / – |
| **Total** | **772.0** | | | | | |

# Appendix C: FFELP SLABS — H1 2017 Transactions

| Navient Student Loan Trust 2017-3 (April 2017) | | | | | | |
|---|---|---|---|---|---|---|
| **Class** | **$ (mm)** | **Type** | **WAL** | **Benchmark** | **Spread** | **DBRS / Moody's / S&P / Fitch** |
| A-1 | 296.0 | Floating | 1.25 | 1mL | 30 | AAA / Aaa / AAA / – |
| A-2 | 175.0 | Floating | 3.63 | 1mL | 60 | AAA / Aaa / AAA / – |
| A-3 | 530.0 | Floating | 8.35 | 1mL | 105 | AAA / Aaa / AA+ / – |
| **Total** | **1,001.0** | | | | | |

| Nelnet Student Loan Trust 2017-1 (April 2017) | | | | | | |
|---|---|---|---|---|---|---|
| **Class** | **$ (mm)** | **Type** | **WAL** | **Benchmark** | **Spread** | **DBRS / Moody's / S&P / Fitch** |
| A | 535.0 | Floating | 6.28 | 1mL | 78 | – / Aaa / AAA / AAA |
| **Total** | **535.0** | | | | | |

| ECMC Group Student Loan Trust 2017-1 (March 2017) | | | | | | |
|---|---|---|---|---|---|---|
| **Class** | **$ (mm)** | **Type** | **WAL** | **Benchmark** | **Spread** | **DBRS / Moody's / S&P / Fitch** |
| A | 409.2 | Floating | 4.67 | 1mL | 120 | – / Aaa / – / AAA |
| **Total** | **409.2** | | | | | |

**Navient Student Loan Trust 2017-2 (March 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A | 921.4 | Floating | 4.88 | 1mL | 105 | AAA / Aaa / AA+ / – |
| **Total** | **921.4** | | | | | |

**Navient Student Loan Trust 2017-1 (February 2017)**

| Class | $ (mm) | Type | WAL | Benchmark | Spread | DBRS / Moody's / S&P / Fitch |
|---|---|---|---|---|---|---|
| A-1 | 270.0 | Floating | 1.02 | 1mL | 40 | AAA / Aaa / AAA / – |
| A-2 | 233.0 | Floating | 3.42 | 1mL | 75 | AAA / Aaa / AAA / – |
| A-3 | 500.0 | Floating | 8.26 | 1mL | 115 | AAA / Aaa / AA+ /- |
| **Total** | **1,003.0** | | | | | |

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