

Asset Backed Commercial Paper Conduit FAQ

Last Updated May 14, 2008

The information presented in this Question and Answer (Q&A) format provides additional information on the new Loan Purchase Programs authorized by the "Ensuring Continued Access to Student Loans Act of 2008" (Pub. Law 110-227) (ECASLA). This set of Q&As relates to the Asset Backed Commercial Paper Conduit.

These Q&As supplement information provided in other documents on this website. This information is to be considered interpretive guidance provided by the Department for use with the Asset Backed Commercial Paper Conduit. This document will be periodically updated, as needed.

TRANSFERABILITY OF GUARANTEE

Q1. What is the status of the guaranty on a loan that a lender transfers to its Special Purpose Vehicle (SPV) under the terms of the Conduit Program?

A1. When a loan holder transfers a loan to its SPV in the conduit facility, the original guaranty issued by its guarantor remains in effect, and the Department will pay reinsurance with respect to that guarantee, if the need arises. The fact that the SPV is a new entity that holds the loan under an eligible lender trustee agreement with an eligible lender, which will be issued a unique LID for transactions on those loans, does not alter the guaranty status of the loan. The conduit program is designed to ensure that no claims will arise for payment on the guarantee on account of borrower default on any loan in the conduit facility. Other claims - Federally-reimbursed in full - will continue to be handled by guaranty agencies.

Q2. Must a guaranty agency enter into a new agreement with the specially created SPV and its ELT to support the agency's continued inclusion of the loan in the agency's guaranty portfolio?

A2. No. While guarantors may need to add the new LID to their systems for purposes of tracking the loan, and if needed, for reviewing and paying claim submissions, the Department does not consider there to be a need for a guarantor to enter into a separate agreement with either the SPV or its eligible lender trustee. The Department acknowledges that such an existing guarantee satisfies the representations regarding guaranty status of the loan with respect to the Put Agreement.

Q3. Under the conduit program offered by Straight-A Funding, LLC, certain non-profit and State agency holders may participate by pledging loans they hold to the Conduit rather than selling the loans to an SPV in the facility. A unique LID will be issued to the entity and its ELT for these loans. What is the status of a guaranty on a loan pledged by such an entity under the conduit program?

A3. Of course, because a not-for-profit entity and its ELT, if any, that pledges loans directly to the conduit under the Conduit Program does not transfer the loan to a new entity (the SPV), there is no question that the original guaranty and guarantor remain the same. Guarantors may need to take steps needed to recognize the new LID for transactions on these pledged loans.

OFFSET

Q4. If a lender assigns FFEL program loans to an SPV that pledges the loans to Straight-A Funding, LLC (the "Conduit"), or pledges FFEL program loans directly to the Conduit, will the Department seek to enforce claims against the lender for loans other than those loans pledged to the Conduit by offset against interest subsidy payments and special allowance payments on those FFEL program loans pledged for the benefit of Straight-A Funding, LLC?

A4. The Department has not generally used offset in similar circumstances in the past and does not expect the need to arise for its use for loans pledged to the Conduit. For policy and managerial reasons, the Department will use offset against claims on loans pledged to the Conduit only after other collection approaches have not been successful or would not, under the circumstances, be expected to be successful. The Department would enforce such claims by offset against interest subsidy payments and special allowance owed on loans pledged to the Conduit only after notice to the Direct Issuer or SPV, consultation with the Conduit, and careful consideration of the effect of such an offset on the Conduit. The Department intends that any use of offset will not jeopardize the Conduit's ability to meet investor demands. However, the Department has not waived, and the foregoing is not intended to operate as a waiver of, such setoff rights.

RANDOM SELECTION

Q5. Section 4.E of the Conduit Put Agreement requires that loans be selected for pledge to the Conduit or release from a pledge to the Conduit at random, in a manner approved by the Department. Has the Department approved a method of random selection?

A5. The Department has approved the following random selection method for loans to pledged to or released from a pledge to the Conduit:

1. Start with a list of all eligible loans.
2. Identify the nine-digit Social Security Number (SSN), including zeros, in the list of all eligible loans.
3. Sort the list of all eligible loans in number order (either from 0 to 9 or 9 to 0) by the 6th digit of the SSN.
4. Within that sorted file, additionally sub-sort all eligible loans by each loan's entire SSN (include leading zeros).
5. Select loans (include all eligible loans for each borrower) from a random starting point until the target principal amount is reached. If the bottom of the list is reached, you start back at the top (a circular process).

PAYMENT OF ACCRUED GOVERNMENT INTEREST ON SUBSIDIZED STAFFORD LOANS SOLD TO THE DEPARTMENT

Q6: How will the Department pay subsidized interest on Stafford loans sold to the Department?

A6: Upon the Department's purchase of a subsidized Stafford loan from the Conduit, the Department will pay 100% of the subsidized interest that has accrued during the quarter for that loan through the Purchase Date. Then, on the regular quarterly LaRS billing, the Seller will exclude the sold loan from the balances reported for the purpose of collecting Interest Benefits.