

~~Beyond~~ LIBOR

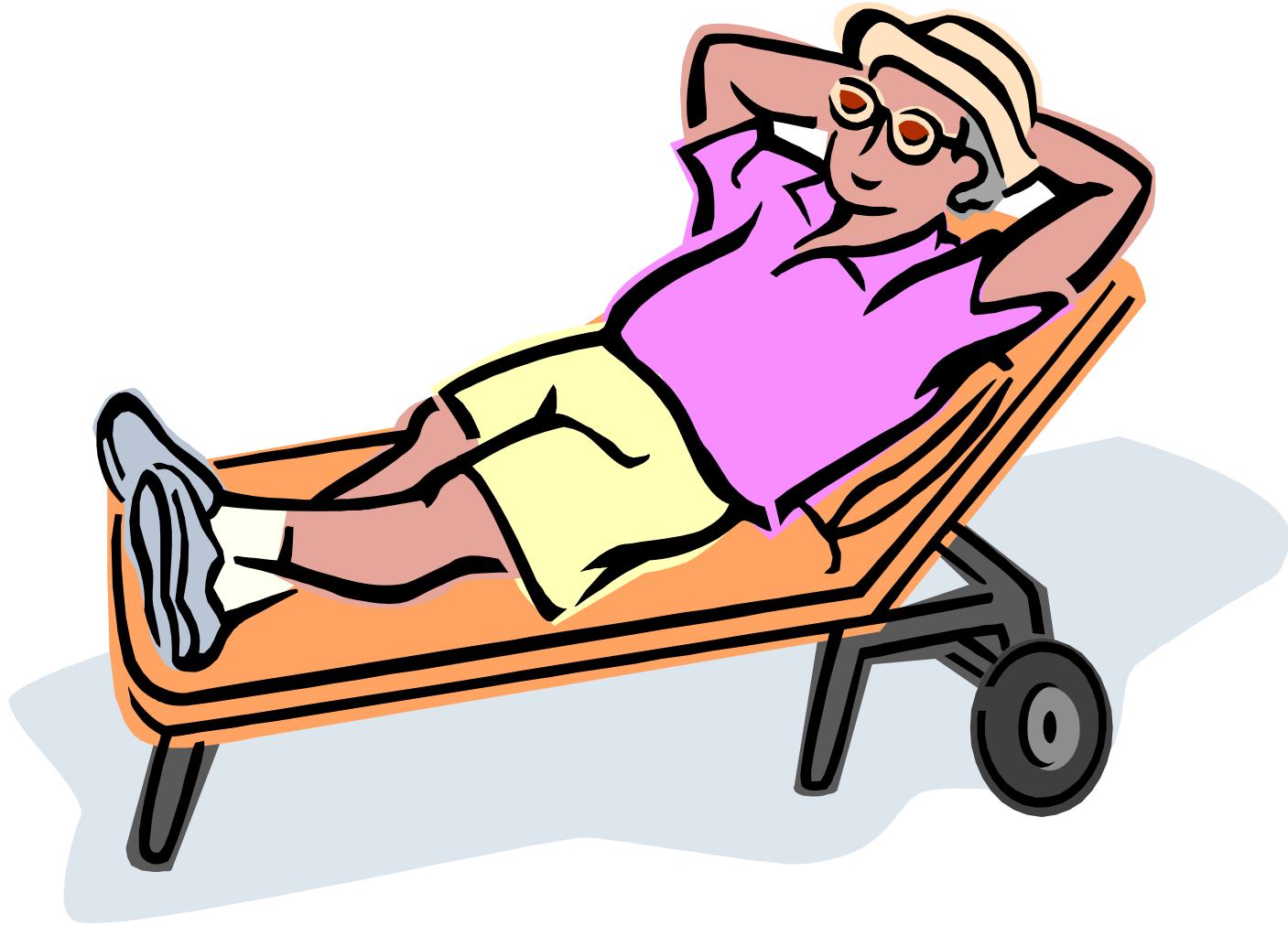
NYSFAAA Conference

October 16, 2007

Moderator:
Jim Gathard

Presenters:
Charlie Boland
Darcie Stephens

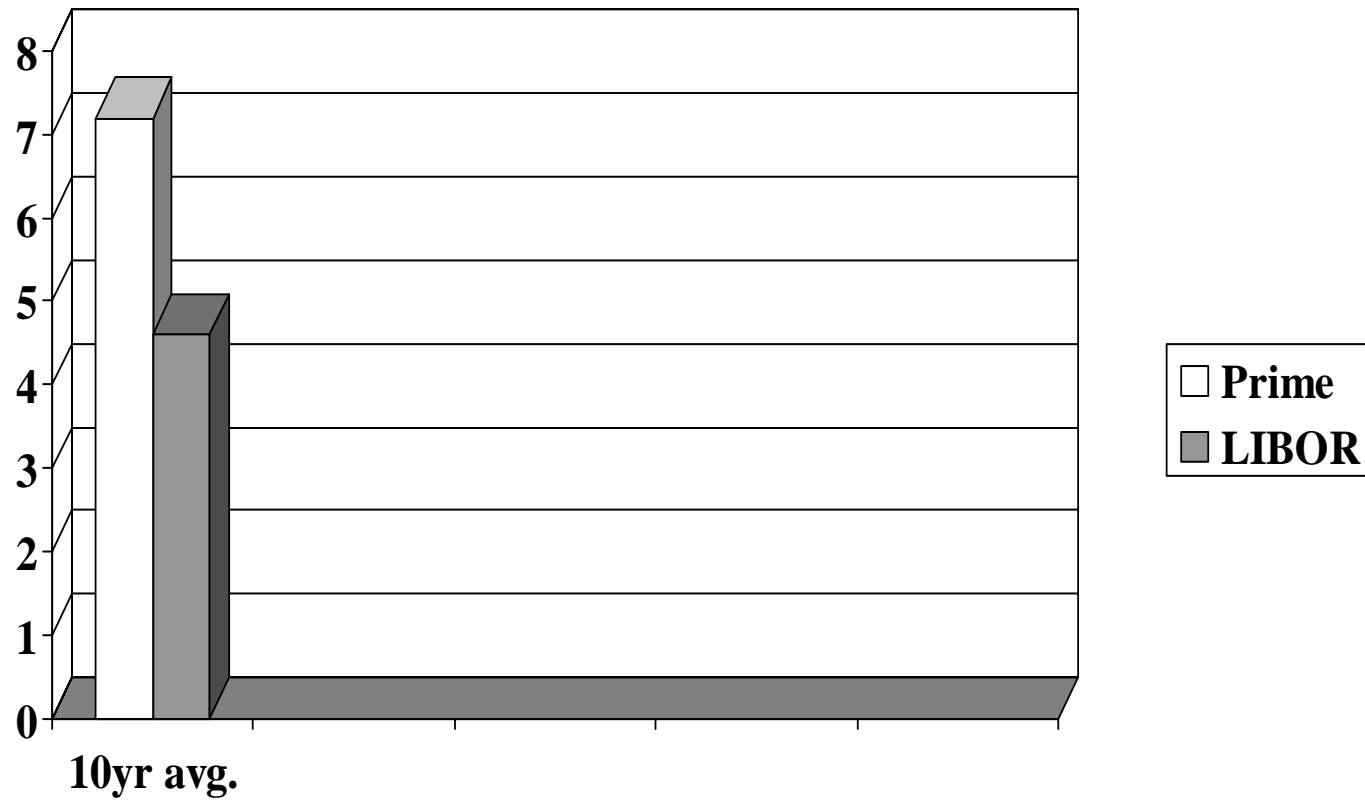
Life Before Alternative Loans...



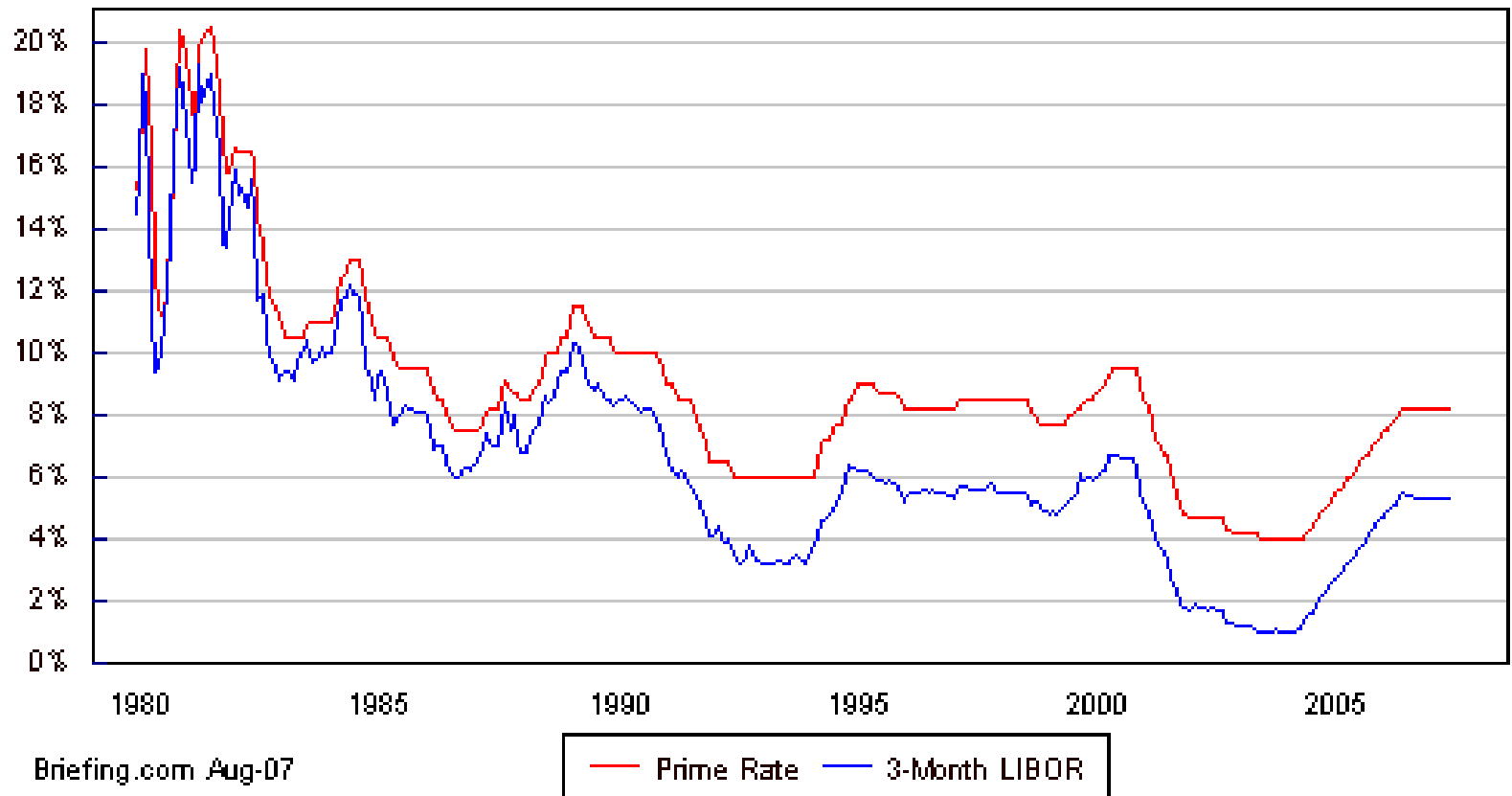
Agenda

- Indices
- Margins
- Impact on borrowers
- Capital Markets
- Things to Consider
- Resources

10 Year Index Average



History of the indices



London Interbank Offered Rate

- A Global Economic Representation
- How it's Compiled
- Variety of LIBOR Rates
- Fourth Quarter 2007 Rate = 5.47
 - 10/1/07 - 12/31/07
 - 1 month quarterly average
- Numerous Applications

Prime Rate

- US Economic indicator
- Trends with the Federal Funds Rate
- Current Prime Rate is 7.75%
- When does it change?

Interest Rate Margins

- Supplement to the index
- Determined by the overall credit of the borrowers
- State Usury Laws set interest rate caps

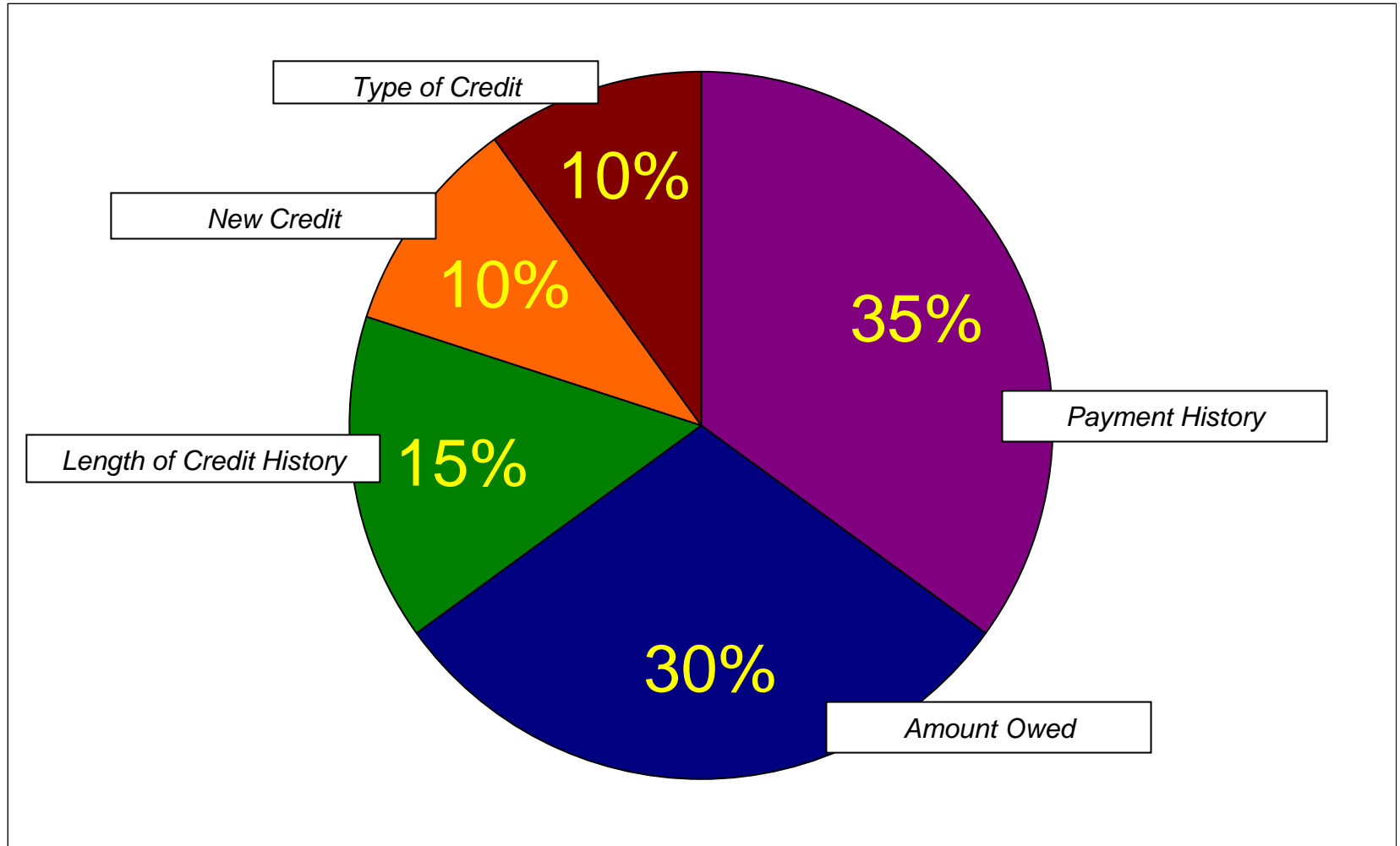
Interest Rate Calculations

Examples	Index	+	Margin	=	Interest Rate
Prime	7.75	+	1.50	=	9.25%
LIBOR (1-Month Quarterly Average)	5.47	+	2.75	=	8.22%
LIBOR (3-Month)	5.22	+	3.30	=	8.52%

Impacts on Borrower Rate / Fees

- Credit Score
 - Moderate to low risk 720 – 850
 - Fair to good risk 620 - 719
 - High risk 300 - 619

Factors that affect Credit Scores



Impacts on Borrower Rate / Fees

- Credit Ready vs. Credit Worthy
 - Established and satisfactory credit history
 - Two year residence
 - Income and employment history

Other Impacts on Borrower Rates and Fees

- Tiered vs. Non-tiered
- Co-borrower or *No* Co-borrower ???
- In-School VS. Repayment
- Debt-to-Income
- Making “Interest-Only” Payments?
- Credit Bureau Reporting

Comparing Apples to Apples

Rate (Index + Spread)	3 mo LIBOR 5.36% + 3.3%, (co-signer)	3 mo LIBOR 5.36% + 3.85%, (no co-signer)	Prime 8.25% + 0.0%	Prime 8.25% + 2.00%	Prime 8.25% + 4.00%	Prime 8.25% + 6.00%
In-School Term	4 yrs	4 yrs	4 yrs	4 yrs	4 yrs	4 yrs
Grace Term	6 Months	6 Months	6 Months	6 Months	6 Months	6 Months
Repay Term	12 yrs	12 yrs	12 yrs	12 yrs	12 yrs	12 yrs
Amount Borrowed	\$10,000.00	\$10,000.00	\$10,000	\$10,000	\$10,000	\$10,000
Disbursement Fees	0.0%	0.0%	0.0%	2.0%	4.0%	6.0%
Repayment Fees	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
In-School / Grace Interest Rate	8.66%	9.21%	8.25%	10.50%	12.50%	14.50%
Repayment Interest Rate	8.66%	9.21%	8.25%	10.50%	12.50%	14.50%
Finance Charge	\$12,392.42	\$13,421.05	\$11,646	\$15,971	\$20,914	\$26,530
Monthly Payment	\$155.50	\$162.65	\$150	\$180	\$215	\$254
Total of Payments	\$22,392.42	\$23,421.05	\$21,646	\$25,971	\$30,914	\$36,530

The Role of Capital Markets

- Liquidity
- Private Loans Are Special!
- Securitization
- Investors Care

The Role of Capital Markets

- Truly Exotic Instruments
- Who are the “Good Borrowers” According to Wall Street
- Who Owns the Loan?

Life Cycle of a Private Loan

Lender makes the original loan to the student.

Lender pays default insurance, passing the cost along to the student.

Lender sells it to a broker, where it is bundled with thousands of other loans.

The broker sells bonds backed by these loans to investors in SEVERAL countries. JG6

Investors earn interest on the bonds.

JG6

...investors.
Overspeak in several countries

I can speak to this issue comfortably if you like.
James Gathard, 10/12/2007

Things to Consider

- PLUS Loans
- Fees
- Borrower Benefits
- Loan Certification and Delivery Platform.
- Customer Service
- Ask
- Compare



Resources

- www.bankofamerica.com/studentloans
- www.elearning.makingitcount.com
- www.bankrate.com
- www.wikipedia.com

- Charlie Boland, Bank of America Student Lending
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