Sallie Mae launches $433M SLABS issuance

By **Glen Fest** January 30, 2020, 2:17 p.m. EST 3 Min Read

Sallie Mae Bank is sponsoring a $433 million private student-loan securitization, a week after the lender made waves by announcing plans to sell off $3 billion in managed loans from its books.

According to presale reports, the affiliate of SLM Corp. (Nasdaq: SLM) is pooling loans with an outstanding balance of $481.8 million into SMB Private Education Loan Trust 2020-A.

Payments on the loans will fund principal and interest proceeds to three classes of fixed- and floating-rate notes, including Class A-1 and A-2 tranches totaling $370 million carrying preliminary triple-A ratings from Moody's Investors Service and S&P Global Ratings.

Over 92% of the loans were underwritten to Sallie Mae's "Smart Option" program, and have a weighted average FICO of 744. The vast majority of loans carry prime-borrower co-signers; none benefit from U.S. government guarantees.

The loans in the pool have an average balance of $12,757 per borrower, at average interest rates of 95% and remaining terms averaging 140 months.

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Moody's has an 8.1% loss expectation for the deal, which is within the 8%-9% range estimated by S&P.

In a Jan. 23 release on Sallie Mae's fourth-quarter 2019 earnings, the company announced plans for a $3 billion loan sell-off in the first quarter, as part of a capital management strategy shift that will help the company fund a stock repurchasing program.

Also in the earnings report, Sallie Mae officials announced plans to boost the level of loans sales from its managed portfolio to the $3 billion level, with proceeds going toward stock repurchases intended to improve the company's share price.

In an earnings conference call, Sallie Mae Chief Executive Raymond Quinlan said the 2020 loan sales for the stock repurchases would be completed during the first quarter, and would be an ongoing program for the next three years. "Loan sales of $3 billion will continue," he said. The share repurchases are expected to total $1.4 billion over the next few years.

Sallie Mae's announcement did not state whether the loan sales to institutional investors would involve placement through its own securitization platform.

Jon Riber, DBRS Morningstar senior vice president of U.S. ABS, said it was unclear how the loan sales might impact Sallie Mae's further asset-backed issuance for the year. "It depends on the loans they are selling," Riber said in an email. "If these are loans that would have otherwise made it into Sallie Mae ABS deals, it could result in lower overall student loan ABS issuance volume."

A Sallie Mae spokesman could not be reached for comment.

The lender sold student-loan ABS (SLABS) notes totaling $1.1 billion to $2 billion in volume in each of the last five years. The planned $3 billion loan sale this year would represent more than half of the $5.6 billion in private student loans Sallie Mae originated in 2019.

Sallie Mae is one of the largest issuers of post-crisis private SLABS deals, but in recent years it has been far eclipsed in volume by other private student-loan firms that have entered the securitization space: the refinance specialist SoFi and servicing giant Navient Corp., Sallie Mae's former loan-management arm that was spun off in 2014.

SoFi and Navient each marketed more than $4 billion in private SLABS notes in 2019. Navient's transactions have pooled older legacy private loans and federally guaranteed loans under the former Federal Family Education Plan Loans program that was disbanded a decade ago in favor of the federal direct-lending program.

Sallie Mae also announced in the earnings report that it was ending its foray into the personal loan origination business. The company is halting the short-lived program after issuing about $1.6 billion in personal loans the last two years. Sallie Mae had about $1 billion in outstanding consumer loans on its books at the end of 2019, or about 5% the size of its $22.9 billion student-loan portfolio.

(*This article includes information from Bloomberg News and American Banker.*)

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