Title: The Big Short: Reloaded. A Summary of My DDs on Student Loan Asset Backed Securities.
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Hey all. Some of you guys probably read my trilogy of DDs on Student Loan Asset Backed Securities (Or SLABS) yesterday. Thank you! I realize now that posting these on a Sunday was probably not great for exposure, so I've decided to make this quick summary post in order to hopefully encourage you to read those DDs and get some more wrinkle brains on this.

You can read the original DDs here: [Part 1](https://www.reddit.com/r/Superstonk/comments/ros6ii/student_loan_asset_backed_securities_slabs_the/), [Part 2](https://www.reddit.com/r/Superstonk/comments/rp585d/the_slabs_rabbit_hole_part_2_conflicts_of/), and [Part 3](https://www.reddit.com/r/Superstonk/comments/rpcyt6/the_slabs_rabbit_hole_part_3_revenge_of_the_slab/). Part 4 HERE (https://www.reddit.com/r/Superstonk/comments/rpu2eq/the_slabs_rabbit_hole_part_4_return_of_the_slab/) and Part 5 HERE (https://www.reddit.com/r/Superstonk/comments/rq6vmi/down_the_slabbit_hole_part_5_the_federal_reserve/). You can read my DD about Auto Loan Asset Backed Securities (ALABS) here (https://www.reddit.com/r/Superstonk/comments/rqle93/the_big_short_again_auto_loans_bubble_edition/).

The thesis: SLABS are the new subprime mortgage backed securities. Basically, SLABS are tranches of student loans packaged into a security and used as collateral or sold to investors. They were considered safe investments, but due to a number of factors I believe they have decreased *drastically* in value. However, the same issues with rating agencies in 2008 still persist today. The same regulatory rating agencies that are supposed to be unbiased are being paid by the very people issuing these SLABS, so there is every incentive to rate these as AAA when they may not be. Sound familiar? While the market for these SLABS is only in the hundreds of billions, I believe that there is an even larger market betting on the SLABS market, similar to the housing markets of 2008.

SLABS have increased along with the not-coincidental recent meteoric increase in college tuitions. We know that everyone is absolutely desperate for collateral, as shown by the record breaking RRP. And until recently, SLABS were very very strong collateral, as it was nearly impossible to legally discharge student debt. However, due to the following factors, SLABS are about to come back down to Earth and bring the whole economy down with them. If these SLABS shit the bed, all of the sudden a bunch of collateral will be worthless so banks will become desperate and raise margin requirements. This is how I believe it ties into GME. Anyways, here are those factors.

\-**The Covid-19 Pandemic.** One of the strategies used by politicians to stimulate the economy was to postpone student loans. This immediately devalued SLABS as a form of collateral, as there is now unsurety of payment. This is just a way to can kick - as soon as the postponement ends, many can't or won't repay their loans, causing SLABS to drop even further in value. This only affects pre-2010 FFELP loans. Still, Covid has and will continue to cause increase defaults and forbearance, which devalues these SLABS.

\-**IBR Payment Plans.** IBR stands for Income Based Repayment plans. This is a payment plan where you pay a percentage of the loan based on your income, so you're not 'biting off more than you can chew' per se. These plans have increased *exponentially* since 2008. They're a good idea in theory and can be cheaper in some cases, but have severe downsides that are largely unconsidered. Because of the variable percentage based payment, a smaller percent of the loan is paid back. This causes interest rates to snowball, as interest is being collected on larger sums. This leads to *more expensive* payments down the line, causing defaults, which devalue SLABS as collateral.

\-**Court Case Challenges.** Recently, in January of 2020, a new legal doctrine was established that allowed for student loans to be discharged during bankruptcy. Previously, this was not the case - the previous doctrine was incredibly stringent which made it near impossible to discharge debt. This made these SLABS extremely valuable collateral. However, with this new doctrine, that's not the case. And with Covid causing inevitable bankruptcies, we may actually see student loans being discharged at a greater rate, thus devaluing SLABS.

\-**The Abundance of Loans/SLABS.** It turns out that private student loan companies haven't exactly been careful about vetting who can take out a loan. Sound familiar again? Many companies are giving loans to degrees that have a lower likelihood of making enough to pay off the loan, like truck-driving school, cosmetology school, and even dog-walking school. This is not meant to attack individuals with these professions, rather, to highlight the risk of default, which would devalue SLABS.

That's about all I'm going to get into with this summary. If you want to dive deeper, make sure to check out the trilogy. I'll leave you with this final quote from a grim report on the state of the SLABS market: "*It is likely a question of when, not if, the SLABS market will collapse, and when it does, private student lending will be crippled, carrying serious negative effects for student borrowers and the colleges they attend. If the 2008 recession was any indication, these developments could happen very quickly and ripple into the rest of the United States’ economy, due to the sheer size and scope of student loan debt in relation to overall consumer debt."*