

July 12, 2004

Mr. Jonathan Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

Re: File Number: S7-21-04

Ladies and Gentlemen:

Sallie Mae, Inc. and Nelnet, Inc. (sometimes collectively referred to in this letter as the 'Respondents') are submitting this comment letter on the proposed new and amended rules and forms relating to the registration, disclosure and reporting requirements for asset-backed securities under the Securities Act of 1933 and the Securities Exchange Act of 1934 (the 'Proposed Rule') issued by the staff (the "Staff") of the United States Securities and Exchange Commission (the "Commission"). We appreciate the enormous amount of effort expended by the Staff to develop a new comprehensive set of rules for asset-backed securities and applaud the Staff on their production of the Proposed Rule. We believe that the Proposed Rule, once amended to account for existing market practices, the particular needs of the asset-backed securities marketplace in general, and the education lending industry in particular, will be of benefit to issuers, underwriters and investors.

In preparing this letter, we have reviewed drafts of the comment letters that are being submitted by a task force of the American Securitization Forum (the "ASF") and by the Committee on Federal Regulation of Securities of the American Bar Association's Section of Business Law (the "ABA"). In general, we support the positions taken by the ASF and the ABA and commend them on their efforts. We encourage the Staff to consider adopting their proposals. In particular, we strongly endorse the ASF's call for the Staff to re-publish revised proposed rules and afford another meaningful comment period prior to the adoption of final rules. Given the comprehensive scope of the Proposed Rule and the wide-range of alternative proposals presented, we have found it very difficult to fully and accurately analyze all of the implications of the Proposed Rule. Having reviewed the approximately 200 pages of draft comments from the ASF and the ABA as well as having talked to various other industry participants, we firmly believe that our experience is not an isolated one.

We also point the Staff to ASF's comments relating to ABS reporting on Form 10-K, 8-K and 10-D. Specifically, we concur with their comments on combined periodic reports, posting periodic reports to a website in lieu of filing them with the Commission, giving notice of the occurrence of trigger events on Form 10-D rather than both Form 10-D and Form 8-K and possible EDGAR improvements. Lastly, we would like to suggest that the Staff adopt the AFS position on an extended implementation period and grandfathering existing registration statements and transactions.

Even though we endorse many of the positions of the ABA and the ASF, we ask the Staff to consider certain clarifications and exceptions to the rules proposed under new Regulation AB. We believe that the “principles-based set of disclosure items” articulated in the Proposed Rule ignores certain unique features of the underlying assets and borrower repayment profiles of student loan securitizations (both FFELP and private credit student loans). In addition, we also believe that several of the proposed rules go much further than merely codifying existing market practices or are unnecessary and overly burdensome in light of the characteristics of this asset class. We therefore present our own proposals for the Staff’s consideration regarding items that are of particular interest to the education lending industry.

In particular, we request that changes be made to the Proposed Rule with respect to each of the following:

- We request that the Staff amend the definition of “delinquent” to reflect that both student loans originated under the Higher Education Act of 1965, as amended (the “Higher Education Act”) and specifically the Federal Family Education Loan Program (“FFELP”), or other similar federally insured loan programs which are referred to in this letter as “FFELP Loans,” and student loans that are not federally insured, which are referred to in this letter as “Private Credit Loans,” routinely go through non-payment periods when the related borrowers are in-school, or the student loans enter periods of grace, deferment or forbearance. These non-payment periods are granted without separate contractual arrangements, and which in the case of FFELP Loans, do not adversely affect the federal guaranty underlying the assets and are typically legal entitlements of FFELP Loan borrowers, and which in the case of Private Credit Loans, have become the industry practice as they are often designed to mirror the requirements of the FFELP program. (See, “Comments on Proposed Rule—Delinquent and Non-Performing Pool Assets—Definition of Delinquent” and “—Proposed Revisions” below.)
- We request that the Staff amend the definition of what constitutes a “non-performing” asset to reflect that when these education loans are in non-payment periods (i.e., in-school, grace, deferment and forbearance), such non-payment periods do not adversely affect the ultimate repayment of the related assets. (See, “Comments on Proposed Rule—Delinquent and Non-Performing Pool Assets—Definition of Non-performing Asset” and “—Proposed Revisions” below.)
- We request that the Staff amend the definition of “re-aging” to exclude certain education loan status changes since whether a student loan is in repayment or in a non-payment period can change as a function of where the related borrower is in their education\employment life-cycle and that such status changes are often mandatory under federal law (with respect to FFELP Loans) or in keeping with accepted industry practice (with respect to Private Credit Loans). (See, “Comments on Proposed

*Rule—Delinquent and Non-Performing Pool Assets—Definition of Re-aging” and
“—Proposed Revisions” below.)*

- We request that the Staff amend the restrictive definitions of “prefunding” and “revolving” periods, first, to include all educational loans, and second, to have no limits on the amount of prefunding or revolving assets for FFELP Loans because of the homogeneity of FFELP Loans, and due to the preference of investors not to receive prepayments on their securities when there exists a source of replacement collateral that is substantially identical to the original assets. (*See, “Comments on Proposed Rule—Prefunding and Revolving Periods” below.*)
- We request that the Staff exclude from the calculations of maximum prefunding and revolving percentages education loans that are actually added to the related pool subsequent to the closing date, but where all requisite characteristics of such education loans have been fully disclosed in the prospectus. (*See, “Comments on Proposed Rule—Fully Disclosed Subsequent Periods” below.*)
- We request that the Staff make clear that it is not prohibiting structures that on day one contain multiple groups of securities backed by different sub-pools of collateral, provided that there is cross-collateralization and that they are not “series trusts.” (*See, “Comments on Proposed Rule—Multiple Groups of Loans/Securities” below.*)
- We request that the Staff delete certain of the proposed disclosure requirements that are inconsistent with current accepted market practices in the education lending securitization industry. We believe that requiring additional disclosure regarding tangential transaction parties (such as originators of FFELP Loans, sub-servicers or collection agencies contracted by a master servicer, identities of originators where the applicable loan has been underwritten to the related seller’s standards, more comprehensive disclosure regarding providers of derivative instruments, and additional disclosure regarding guarantors of FFELP Loans since their obligations are reinsured by the Department of Education) from what is current market practices does not provide potential investors with any relevant information that would assist them in their investment decisions. (*See, “Comments on Proposed Rule—Disclosure Requirements Re: Transaction Parities” below.*)
- We request that the Staff clarify that on-going disclosure requirements regarding static pool data, with respect to education loans, which goes beyond actual loss and charge-off experience is not required. This disclosure, if required, would be immensely burdensome for issuers to supply and would not provide investors with any additional material information that would be useful in assessing the performance of the underlying pool assets or the securities backed by those assets. (*See, “Comments on Proposed Rule—Disclosure Requirements Re: Transaction Parities” and “—Disclosure Requirements Re: Static Pool Data” below.*)

- We ask that the Staff indicate that the good faith failure to file timely reports which failure was immaterial, inadvertent or involuntary would not result in the loss of Form S-3 eligibility. (See, “*Comments on Proposed Rule—Failure to File Timely Reports*” below.)

A. Background of the Respondents

Sallie Mae, Inc. (“Sallie Mae”) serves as the administrator and servicer for securitizations sponsored by its affiliates, SLM Funding LLC, SLM Education Credit Funding LLC, Secondary Market Services, Inc., USA Group Secondary Market Services, Inc., Student Loan Funding LLC and Nellie Mae Education Funding LLC. Since 1995, these companies have sponsored 67 securitization trusts that have issued over \$110 billion of publicly registered securities backed by student loans originated under FFELP, pursuant to the Higher Education Act, and an additional \$8 billion of securities backed by Private Credit Student Loans. Since January 1, 2003, these entities sponsored in excess of \$38 billion of publicly registered securities on Form S-3. In total, Sallie Mae and its affiliates have issued \$50.3 billion over this period representing approximately 64% of all student loan asset-backed securities issued globally. As a result, Sallie Mae conducts the second largest asset-backed securities program of any asset class in the world.

Nelnet, Inc. (“Nelnet”) (f/k/a UNIPAC Service Corporation) was originally formed in 1978 as a student loan servicer and is currently one of the leading education finance companies in the United States with over \$12 billion in total assets. Since 1996, Nelnet and its affiliates have sponsored the issuance of 28 securitizations, totaling over \$13 billion of securities backed by student loans originated under the FFELP program. Since January 2003, Nelnet and its affiliates have sponsored \$4.9 billion in securitizations, making it the second largest sponsor of FFELP Loan-backed securities during this time period.

Together, since January 2003, the Registrants have issued in excess of \$55 billion representing over 70% of all student loan asset-backed securities issued globally during that period.

B. Types of Student Loans

I. Summary of FFELP. FFELP provides for education loans to students, or to parents of dependent students, in each case who are enrolled in eligible institutions, to finance their educational costs. Payment of at least 98% of the principal and interest on FFELP Loans is guaranteed by a state or not-for-profit guarantee agency and reinsured by the Department of Education under the Higher Education Act against:

- the default of the borrower;
- the death, bankruptcy or permanent, total disability of the borrower;
- the closing of the borrower’s school prior to the end of the academic period;

- the false certification by the borrower's school of his eligibility for the loan; and
- an unpaid school refund.

Under the Higher Education Amendments of 1992, if the United States Department of Education (the "Department of Education") has determined that a guarantee agency is unable to meet its insurance obligations, a loan holder may submit claims directly to the Department of Education and the Department of Education is required to pay the full guarantee payment in accordance with guarantee claim processing standards no more stringent than those of the guarantee agency.

Generally, FFELP provides for four types of student loans:

- Subsidized Stafford Loans to students who demonstrate financial need;
- Unsubsidized Stafford Loans to students who either do not demonstrate financial need or require additional loans to supplement their Subsidized Stafford Loan;
- Parent loans for Undergraduate Students, known as "PLUS Loans," to parents of dependent students whose estimated costs of attending school exceed other available financial aid; and
- Consolidation Loans, which consolidate into a single loan a borrower's obligations under various federally authorized student loan programs.

Before July 1, 1994, the Higher Education Act also authorized loans called "Supplemental Loans to Students" or "SLS Loans" to independent students and, under certain circumstances, dependent undergraduate students to supplement their Subsidized Stafford Loans. The Unsubsidized Stafford Loan program replaced the SLS program. All of the eligibility criteria, maximum loan amounts, interest rates and repayment parameters for each of these programs are prescribed under the Higher Education Act.

Similarly, the Higher Education Act defines the criteria for providing borrowers with FFELP Loans with certain grace, deferral and forbearance periods from repayment. While the criteria for these various periods differ depending on the type of loan owed by a borrower, generally, borrowers may defer payment of principal during periods of enrollment, unemployment or economic hardship as defined in the Higher Education Act. Interest that accrues during these periods is paid by the Department of Education for Subsidized Stafford Loans or deferred and capitalized for Unsubsidized Stafford Loans, PLUS and SLS Loans. The Higher Education Act also permits, and in some cases requires, "forbearance" periods from loan collection in some circumstances.

For a more detailed summary of FFELP and FFELP Loans, we refer you to Annex A of this letter.

II. *Private Credit Loans*. A second part of the education-lending marketplace has evolved to provide additional funding to students (and parents of students) over and above loans provided under the FFELP program. This additional funding is needed because, in many instances, funds available to students through FFELP Loans are not sufficient to finance today's high cost of education. Given the expected tuition increases coupled with only limited increases in amount of available credit for FFELP Loans, it is likely that the dollar volume of Private Credit Loan securitizations will increase in the near future. Student loans made in the private market can be either guaranteed by private companies or are made as unsecured loans. Underwriting criteria for Private Credit Loans differ by company, however, market practice has come to include many of the features found in FFELP Loans and, while not required by law, non-payment periods such as in-school, grace, deferment and forbearance are routinely offered to students, often (just as in the FFELP program) without the execution of additional paperwork. The implementation of these non-payment periods does not adversely impact the ultimate creditworthiness of Private Credit Loans, and in fact increases the chances of eventually collectability given the unique nature of student borrowers (who are not generally financially able to shoulder loan repayments until they have established themselves in the workplace).

C. **Comments on Proposed Rule.** The Respondents have the following comments on the Proposed Rule:

1. **Delinquent and Non-Performing Pool Assets**. The Proposed Rule provides that, for shelf registration eligibility, an asset pool having total delinquencies of up to 20% as of the cut-off date may still be considered an "asset-backed security." The Proposed Rule also provides that improper re-aging or re-characterization of delinquent accounts cannot be employed for purposes of satisfying delinquency concentration limits. The Proposed Rule clarifies the definition of "delinquent" such that "a pool asset that was more than one payment past due could not be characterized as not delinquent if only partial payment of the total past due amount had been made, unless the obligor had contractually agreed to restructure the obligation, such as part of a workout plan."

Definition of Delinquent. As described above, the Higher Education Act provides certain rules, regulations and practices for FFELP Loans relating to in-school, grace, deferral and forbearance periods. Industry practice with regard to Private Credit Loans generally has evolved to mirror the FFELP requirements. The Higher Education Act does not require, nor is it industry practice to require, a contractual agreement with the obligor to restructure the FFELP Loan or Private Credit Loan before the related obligor is entitled to grace, deferment or forbearance.

The Respondents desire to clarify the delinquency test to provide that FFELP Loans that are entitled to be, or Private Credit Loans that are permissibly, in a period of, in-school, grace, deferment or forbearance should not count towards the requirement that no more than 20% of the pool assets be delinquent as of the cut-off date. We believe that this is a codification of long-standing practice in the student loan securitization market, especially as it relates to FFELP Loans that are ultimately guaranteed at least 98% by the Department of Education. As a result, the policy goal behind limiting “delinquent” assets is not present in the case of student loans to the extent the delinquency relates to any such loan in a period of grace, deferment or forbearance as proscribed or permitted by FFELP and the Higher Education Act or is the industry standard with respect to Private Credit Loans.

Definition of Non-performing Asset. Similarly, we do not believe that an education loan where the borrower is in-school or in a period of grace, deferment or forbearance should be considered to be a non-performing asset. *Rather we propose that only if and when a FFELP Loan is submitted to a guarantor for a payment of a claim, or when a Private Credit Loan reaches its charge-off date, should the FFELP Loan or Private Credit Loan, as applicable, be considered a non-performing asset for purposes of the definition of “asset-backed security” and Regulation AB.* This interpretation is consistent with long-standing market practice and public policy considerations underpinning FFELP and the secondary market for the sale and purchase of FFELP Loans. We believe, however, that as part of a securitization, FFELP Loans that have a claim pending with a guarantor as of the cut-off date should be considered to be a non-performing asset. With respect to Private Credit Loans, since, as noted above, the education loan industry has mirrored FFELP requirements with respect to non-payment periods, we ask that Private Credit Loans in permissible periods of in-school, grace or forbearance be treated in a similar manner as FFELP Loans.

Re-aging. In furtherance of the above, we are also concerned that the Staff’s interpretation of “re-aging” under the Proposed Rule is inconsistent with current practice in the education loan market with respect to both FFELP Loans and Private Credit Loans. There are many instances where a borrower’s loan may move into and out of repayment merely as a function of where the borrower is in his or her education/employment life cycle (e.g., if the borrower graduates, enters repayment and subsequently goes back to school to get an advanced or additional degree or certification, he or she may be eligible to defer payments while again in-school). These changes of status are granted in some cases without regard to whether the borrower was current at the time. When the borrower leaves school, grace, deferment or forbearance, the borrower will begin repayments anew without regard to whether he or she was past due

when they entered the previous status. It is common, and in fact expected, that during the terms of both FFELP Loans and Private Credit Loans for the borrower to enter and exit at least one of these categories. The grant of most of these status changes is mandatory under the Higher Education Act. Several others have risen to the level of industry standard. For example, for FFELP Loans, every loan will go through a grace period between graduation and repayment and can go back into grace if the borrower goes back to school. In addition, a FFELP Loan may not be submitted to a guarantor for payment on its guarantee when the related loan is in-school, grace, deferment or forbearance. Rather the loan must be delinquent (absent such period) for at least 270 days. This period is calculated from the date that the obligor is first delinquent while not in-school, grace, deferment or forbearance. For example, the Higher Education Act does not permit a lender to make a claim under a guaranty for a FFELP Loan that was in forbearance and then comes out of forbearance unless such loan becomes at least 270 days delinquent after that loan exited forbearance and without re-entering any grace, deferment or forbearance status. None of these status changes result in the improper re-aging of a delinquent asset but rather are part of the normal life-cycle of an education loan. They are also disclosed in our prospectuses and are well known to investors globally. While not proscribed by law, as stated above, Private Credit Loan lending practices have in many respects evolved to mirror the FFELP requirements. Besides helping meet stated public policy goals (as evidenced by FFELP), any differences might be poor loan portfolio management practice because education-related borrowers who enter such status periods would normally be in a (possibly much) lower income-earning period of their education/employment life cycle; whereas, after they exit grace, forbearance or deferment, it is more likely that they will be financially able to fulfill their contractual repayment obligations in a timely manner.

Proposed Revisions. Under the Proposed Rule, almost all of the normal life-cycle changes described above would cause the issued securities not be eligible for Form S-3 status inasmuch as they occur without the obligor entering into a written agreement or formal work-out plan for the education loan to become current. Such additional paperwork is generally not required by the Higher Education Act for FFELP Loans and not a routinely accepted practice in the Private Credit Loan marketplace. In addition, these normal life-cycle changes do not affect guarantees on the education loans. As a result, we ask the Staff to amend the Proposed Rule to account for status changes with regard to education loans that do not have an adverse impact on the ultimate repayment of the assets and propose that the Staff codify existing practice in the education loan market to provide that if an education loan is considered current consistent with industry practice or the Higher Education Act, as applicable, that it is considered current for purposes of Regulation AB.

2. **Prefunding and Revolving Periods.** We believe that the percentage limitations and the one-year period for prefunding and revolving periods should not apply to FFELP Loans (or other asset types) that are homogenous in nature. The terms, including all eligibility criteria, of FFELP Loans under the Higher Education Act are strictly prescribed. Thus, there are no underwriting criteria other than whether the borrower is attending an eligible school, is otherwise eligible for that type of loan (i.e., subsidized versus unsubsidized) and whether the loan is guaranteed by a participating guarantor. We fully describe the FFELP and the material provisions of the Higher Education Act in our prospectuses.

Further, revolving periods in particular permit issuers to structure securities with specific payment windows, duration and weighted average lives that investors demand. Revolving periods also help mitigate prepayment risks to investors. Since all FFELP Loans are essentially the same with regard to credit risk and interest rate, investors need not be concerned that the addition of future FFELP Loans would adversely (or otherwise) impact the material aggregate characteristics of the initial pool of loans. There is also no apparent public policy reason for establishing this limit given the homogeneous, high creditworthiness of FFELP Loans. The result of this aspect of the Proposed Rule will be to cause issuers of student-loan backed securities to issue more of their securities in transactions exempt from registration. If, despite the homogenous nature of FFELP Loans, the Staff believes that investors need ongoing disclosure of the composition of the asset pool, we propose that an exception to the percentage and one-year period rules be permitted to the extent the registrant undertakes to continue to file with SEC on a quarterly basis the then current pool composition for the life of the pre-funding period or revolving period, as the case may be. In the alternative, we propose a five-year period limitation for homogenous assets such as FFELP Loans.

With respect to Private Credit Loans, there exists an abundance of loan product that could be used for prefunding or revolving. These additional loans could be mandated to be of equivalent credit quality and not change, in any material respect, the aggregate characteristics of the asset pool. In fact, most deals that revolve already have stringent rating agency controls where no such loans can be added to the pool if such additions would result in a ratings downgrade of any class of related securities or contain even more specific restrictions. Given investor preferences for securities with limited prepayment risk, we ask that the staff re-consider its position on limited and short duration periods for prefunding and revolving with respect to these assets.

3. **Fully Disclosed Subsequent Pools.** Regardless of the Staff's ultimate position on prefunding and revolving, we ask the Staff amend its position (for all asset categories) to affirmatively exclude from any such limitations fully disclosed pools of subsequent loans (including both FFELP Loans and Private Credit Loans) that are identified in the prospectus using the same charts and statistical data as the initial pool of loans, but for some reason will not be added to the pool until up to six months following the closing date. Because characteristics of such loans will be fully disclosed to investors prior to closing, excluding such loans from the pre-funding/revolving limitations cannot potentially result in investors being at all disadvantaged by their subsequent addition to the pool as might be the case with non-homogeneous pre-funded or revolving education loans.

4. **Multiple Groups of Loans/Securities.** It is quite common in the asset-backed securities marketplace for a single trust to issue securities that are backed by different, but identified, groups of loans; provided that prior to residual cashflows being distributed, such excess amounts would first be made available to the other groups to off-set any shortfalls such group or groups would otherwise experience on a distribution/payment date. We are concerned that the existing wording of footnote 63 regarding "series trusts" could be read to prohibit these types of structures, even though there is no subsequent issuance of securities. These multi-group structures have long provided operational efficiencies (and additional credit support for holders of publicly issued securities at the expense of residual holders). While we take no issue with the exclusion of series trusts from the definition of "asset-backed securities," we ask that the Staff revise the existing language to make clear that multiple groups of securities, backed by different and distinct groups of loans (with the appropriate cross-group credit support) will not be prohibited assuming that all related securities come into being as part of the same transaction closing.

5. **Disclosure Requirements Re: Transaction Parties.** The Proposed Rule requires additional disclosure for originators, servicers and credit enhancement providers that is inconsistent with current market practice for student loan securitizations, is overly burdensome for issuers to supply and does not provide investors with any additional material information that affects the performance of the underlying pool assets or the securities backed by these assets.

Originator. The Proposed Rule requires extensive disclosure of each originator of pool assets that constitutes 10% or more of the pool assets. However we argue that the identity of the originator and their origination policies are largely irrelevant in the FFELP market place.

Given that FFELP Loans are homogenous in nature, their terms are strictly proscribed by FFELP and the Higher Education Act, and they are at least 98% guaranteed by a state or not-for-profit guarantee agency and reinsured by the Department of Education, there is a robust secondary market in these assets with many buyers and sellers participating. It is not unusual for FFELP Loans to be purchased, acquired and resold in the secondary market with regularity. In many cases the holder of a FFELP Loan and, in turn, the entity wishing to securitize the asset may not know the identity of the actual originator of the FFELP Loan. Rather that entity may know only the identity of the entity from which they purchased the loan.

Since FFELP Loan pricing and eligibility criteria are federally established and an individual lender can not vary these terms, a secondary market buyer of these loans is generally interested in only the composition of the pool and whether there is a reputable and credit-worthy seller who can stand behind the representations and warranties that the FFELP Loans were originated in compliance with the Higher Education Act and that they are guaranteed. In our almost 10 years of experience in securitizing this asset class, it has been our experience that an investor in asset-backed securities does the same analysis.

The proposed disclosure relating to originators of FFELP Loans is inconsistent with market practice and will not give investors any additional information that is material to their investment decision. We believe that as long as the seller of the FFELP Loans or sponsor of the securitization is making all of the representations and warranties relating to the FFELP Loans to be securitized that the originator for purposes of the Regulation AB should be only that seller/sponsor. Any additional disclosure requirement of the identity of the originators of FFELP Loans would likely substantially impair the liquidity of the established secondary market for FFELP Loans.

In addition and with respect to Private Credit Loans, to the extent that such loans are underwritten to the standards of the seller to the issuer, the criteria used to originate such loans, and even the identity of the entity that originated such loans, are not germane to investors who instead are relying on the seller's underwriting standards and such seller's ability to make the requisite representations and warranties regarding such Private Credit Loans as the basis for establishing creditworthiness. As such, we request that the Staff not require any disclosure regarding originators in instances where the related loans have been underwritten to the standards of the disclosed sellers. All of this is especially true if the loans were originated using the same loan origination and servicing platform.

Servicer. The Proposed Rule requires extensive disclosure of servicers that service 10% or more of the pool assets. As proposed, Regulation AB takes a very expansive view of the definition of “servicer.” The Proposed Rule would include entities that perform securities administration only (that is, they do not handle collections of pool assets). More importantly, as drafted “servicer” could include entities that are not contractually liable to the issuing entity and in most cases are performing activities that are highly fungible and could be easily transferred to another entity without adversely affecting the pool assets or related securities.

Therefore, we propose that the term “servicer” should be defined as the entity that is contractually liable for the servicing activities including in relation to FFELP Loans the obligation to ensure that the loans are serviced in accordance with the Higher Education Act. Conversely, we believe that disclosure relating to entities that are not contractually liable to the issuing entity (and for which the servicer is assuming such liability) should not be required.

To the extent there is a master servicer that is ultimately responsible to the issuer for all servicing related losses, extensive disclosure regarding any sub-servicers utilized by such master servicer, but who are not in privity with the issuer, will serve little purpose for investors who cannot look past the master servicer to recoup improper servicing caused losses. In addition, requiring disclosure of these sub-servicers may be sufficiently burdensome so as to restrict the otherwise permissible movement of these services to more highly rated or better performing entities and such reassignment of duties would only be beneficial to the holders of the securities. For example, many servicers engage numerous collection agencies all across the country to help collect payments on its FFELP Loans and Private Credit Loans. As servicer, such entity is legally responsible to the issuing entity for the duties performed by those collection agencies and no legal relationship exists between the issuer and the applicable collection agency. We do not believe that investors would materially benefit from knowing the identity of such entities, much less the type of information that would be required under the Proposed Rule.

Credit Enhancement Providers. The Proposed Rule would require disclosure of audited financial statement prepared in accordance with generally accepted accounting principles for all providers of credit enhancement of 20% or more of the principal balance of any security. The Staff notes in the Proposed Rule that this is a codification of an existing Staff position. We believe that the Proposed Rule as it relates to disclosure of information regarding guarantors under FFELP and derivative counterparties is contrary to advice previously given by the Staff and existing market practice.

(a) Guarantors. As noted above, all FFELP Loans are originated with the benefit of a guaranty of at least 98% of principal and interest by a state or not-for-profit guarantee agency and reinsured by the Department of Education. As a result of extensive discussions with the Staff from the earliest days of student-loan securitizations, the Staff determined that because (1) the reinsurance provided by the Department of Education made financial information relating to any specific guarantor far less material, (2) the limited nature of the publicly available information on any guarantor, (3) the absence of audited financial statements prepared in accordance with generally accepted accounting principles as proscribed by Regulation SX for any guarantor because guarantors are state agencies or not-for-profit entities and (4) the ratings of the securities backed by FFELP Loans are not dependent on the identity of the guarantors, an alternative disclosure regime would suffice as it related to the FFELP Loan guarantors. Consistent with this advice, it is our practice to include information, with respect to each guarantor that is guaranteeing at least 10% of the pool assets, the following:

- the name of such guarantor;
- the number of loans and aggregate outstanding principal balance of the FFELP Loans guaranteed by such guarantor (both by number and percentage of the pool as of the cut-off date);
- five federal fiscal years of history of all of the FFELP Loans guaranteed by such guarantor;
- five federal fiscal years of the reserve ratio at the end of each such federal fiscal year, to the extent available;
- five federal fiscal years of history of the recovery rates of such guarantor, to the extent available; and
- five federal fiscal years of historical claim rate of such guarantor, to the extent available.

We have attached sample disclosure of guarantor information from a recent SLM Funding, LLC prospectus as Annex B. We believe that this disclosure of guarantor information is consistent with the level of disclosure of other regular issuers of publicly registered securities backed by FFELP Loans.

Moreover, the types of data included is the same type of data that the Department of Education makes publicly available in its publications with respect to guarantors. In some cases, it is even more current than made available by the Department of Education. For these reasons, we request that the Staff codify existing practice relating to the disclosure of guarantor information in the FFELP Loan securitization market as described above.

(b) Derivative Product Counterparties. Under the Proposed Rule, a derivative product counterparty would be considered to be providing credit enhancement for 20% or more of any class of securities if the cash flows that the derivative product counterparty would be legally required to pay equals or exceeds 20% of the principal amount of any class of securities. Under the Proposed Rule, it is likely that the audited financial statement disclosure would be required of all currency and many interest rate swap providers.

We feel that these new requirements are burdensome, inappropriate and unnecessary for the following reasons. Many derivative product counterparties active in the securitization marketplace are foreign entities or special purpose structured finance product companies that do not have separate audited financial statements prepared in accordance with U.S. generally accepted accounting principles. These special purpose entities are structured so that they are subject to specially calculated capital requirements based on their overall derivatives exposure, with the intention that they be isolated from the bankruptcy risk of their affiliates. We believe that imposing a financial statement disclosure requirement for such entities would be very burdensome and would result in fewer options for issuers seeking derivative counterparties in a market already severely limited due to the stringent requirements of the rating agencies regarding ratings criteria, collateral postings and replacement standards.

Derivative instruments used in securitization transactions require, as part of the rating agency criteria, that if the rating of the counterparty entity (or the rating of the entity providing a guarantee of the obligations of such counterparty) is reduced below a certain level, that cash or other acceptable collateral be posted in an amount that the rating agencies deem sufficient. Further, if the counterparty's rating drops any further after the posting of the requisite collateral, then such counterparty is required to assign its obligations to a replacement (that will be found at no expense to the issuer). We believe that these protective measures, if existing in a deal, more than adequately protect potential investors from risks associated with the day one financial strength of such counterparty and negate the need for the type of financial disclosure contemplated by the Proposed Rule.

In the alternative, we strongly encourage the Staff to adopt a materiality/probability assessment for derivative contracts. By custom, practice and rating agency criteria, these derivative contracts have no limit on the maximum amount a counterparty may be liable to pay. However, the reasonably likely exposure, as can be demonstrated to a high statistical confidence level, is typically far less than the maximum possible exposure.

For example, an interest rate cap counterparty who agrees to pay a securitization trust if LIBOR exceeds a specified rate during the contract period (often not exceeding one-to-three years) faces unlimited liability depending on how far rates rise above that level and thus under the Proposed Rule, an issuer of asset-backed securities would have to include financial information concerning that counterparty. This can be illustrated very clearly by looking at the interest rate cap from SLM Funding's last transaction in late June 2004, pursuant to which over \$3 billion of securities were publicly issued. In that transaction, the LIBOR strike rate of the related interest rate cap was 6.0% with a maturity of October 25, 2005. Under this cap, while the counterparty's liability is unlimited, three-month LIBOR would have to quadruple in that timeframe before the cap counterparty would owe any amount and would have to more than quintuple before the cap counterparty could provide cash flows 20% of the principal amount of the smallest class. We suggest that the chances of LIBOR exceeding this 20% threshold prior to October 2005 (which given the current rate applicable to this transaction would be approximately 8.25%), while possible, is extremely low. The market supports this viewpoint because the unaffiliated, third-party cap counterparty charged the trust less than one basis point for that cap.

This type of analysis is consistent with our understanding that, based on conversations with the Staff in the context of registered offerings of Australian mortgage-backed securities and UK mortgage-backed securities, the Staff took a different position as it relates to currency swaps. In those cases, it is our understanding that the registrants devised a matrix based on both the probability of a counterparty with the specified rating for defaulting on its obligations during the term of the derivative (based on rating agency published criteria) and the likely amount of the payment required to be made by the derivative product counterparty based on ten years or more history of the relationship of the rates to the index and applying a two-standard deviation movement. The purpose of the calculation was to determine the likely magnitude of the exposure of the issuing entity to the credit of the derivative product counterparty. Therefore if the Staff believes derivative contracts are properly included as credit enhancement and wishes to adopt disclosure requirements for derivative contracts, we urge the Staff to adopt market practice as applied in the publicly registered Australian and UK mortgage-

backed securities or some other standard that incorporates a materiality and probability assessment.

6. **Disclosure Requirements Re: Static Pool Data.** We concur with the Staff's desire to provide investors with greater transparency regarding the performance of prior securitization pools. However, in its current form, the Proposed Rule would be unduly burdensome on issuers and, with respect to FFELP Loans, would not provide investors with information they would deem material to their portfolio performance analyses.

As an example, Sallie Mae and its affiliated sponsors have issued 37 separate series of education loans over the past three years. *Effectively, Sallie Mae believes that under the Proposed Rule, it could be required to present more than 300 pages of loan data (approximately 10 pages of loan data per trust) in each prospectus.* In the Respondents' collective experience, FFELP Loans have only immaterial differences with regard to losses when examined over similar time frames. Our history of monitoring FFELP Loan asset performance has led us to conclude that default losses have an immaterial impact on trust performance due to the 98% government guarantee. In illustration of this point, the attached Annex C shows all of the registered SLM Student Loan Trusts containing FFELP Loans issued prior to December 2003 and their cumulative and average annual loss performance since the inception of Sallie Mae's securitization program in 1994 through trusts having a distribution as of March 31, 2004. This data was taken from SLM's quarterly servicing or distribution reports which are available on its website. The table demonstrates that on average, cumulative pool losses to date are 0.06% translating to 0.02% annually. As the Respondents have often demonstrated to investors world-wide, applying a ten-times stress multiple to these kinds of levels will not come close to having an impact on the ability of the trust loan cash flows to service the debt. Consequently, we believe that any further segmentation of pool performance data will serve no value to investors. In addition, many of the items listed in Item 1104 such as geography, credit score, etc. may be of academic interest, but are not relevant or useful on an ongoing basis to homogeneous collateral items (and in the case of credit scores for FFELP Loans are not even part of the loan application process). They are also enormously difficult to track pool-by-pool after issuance.

Therefore, we propose the following static pool regime for FFELP Loans on a pool-by-pool basis for securitized pools for which the related securities were issued during the previous three years:

- Cumulative (since date of sale) pool realized losses,
- Quarterly, periodic pool realized losses, and

- Loans outstanding by status (in-school, grace, deferment, forbearance and repayment).

For Private Credit Loans, we propose the following static pool regime on a pool-by-pool basis for securitized pools for which the related securities were issued during the previous three years:

- Cumulative (since date of sale) pool realized losses,
- Quarterly, periodic pool realized losses,
- Cumulative and Quarterly periodic losses by relevant loan type (e.g., Sallie Mae's Signature Loans, Lawloans, Medloans, MBA Loans, etc., each as determined to be relevant by the issuer/sponsor),
- Loans outstanding by status by pool (in-school, grace, deferment, forbearance and repayment), and
- Delinquency aging by pool in 30 day increments.

Additionally, for both FFELP Loans and Private Credit Loans, the requisite material aggregate pool information is provided to investors as part of the initial issuance and, if required, issuers could repeat this information in subsequent prospectus supplements (as of the original cut-off date) so that investors can compare how a prior pools initial composition compares to the current pool (that underlies the relevant securities) as of its related cut-off date. However, all of this information is already available to investors on EDGAR and if required in each prospectus would serve to increase the books to unwieldy sizes.

In the alternative, and to assist in mitigating the side-effect that this proposed disclosure will result in voluminous prospectuses, we ask the Staff to consider permitting issuers to incorporate by reference into each prospectus the relevant sections of on-going filed quarterly servicing reports to satisfy the static pool disclosure requirements.

While we can think of many other ways to "slice and dice" pool data, we firmly believe that the above data will give investors an excellent basis on which to evaluate pool performance and will fully meet any practical analytical need. Going beyond this regime would be so burdensome in terms of compliance costs and time so as to effect the flow of student loan ABS product into the market, or would force issuers to avoid registration. Neither of which do we believe are good alternatives for issuers or investors.

Of further concern is timeliness of data. While automated systems may allow for fairly timely development of some of the kinds of data described above, that is only part of the process. Quality control is also important. In order to have "disclosure quality" data, issuers must have third party auditors "comfort" the data. If one is a large and frequent issuer, being able to complete this process in time for an issuance is an enormous challenge, if not impossible. Therefore, we ask the Staff to recognize the practical realities that dictate that having the data completed for disclosure may not be as timely as, in theory, we all would like to have it. This data is far more detailed and time consuming to collect, review, etc. than say, corporate aggregate level charge-off and delinquency data. Consequently, we respectfully ask that the regulations provide that data not be required for static pool purposes until 90 days after a pool's normal distribution reporting date.

7. **Failure to File Timely Reports.** We ask the Staff to formally acknowledged within the Proposed Rule that good faith, immaterial, inadvertent or involuntary failure to file timely required reports would not result in the loss of Form S-3 eligibility. We strongly believe that failure to have timely filed any reports in compliance with the Exchange Act of 1934, as amended, should not result in loss of Form S-3 eligibility in cases where such failure is the result of third party action or inaction, the failure is immaterial or unintentional or good cause can otherwise be shown for such failure. There should be an extension mechanism available and all registrants should have the benefit of grace periods. The standard that we propose is also similar to the standard the Staff notes in footnote 198 to the release of the Proposed Rule used with respect to Rule 165(e) to the Securities Act of 1933, as amended. The Staff notes that factors used to determine materiality include the nature of the information, the length of the delay and the surrounding circumstances. In the alternative, we believe that if any required report is filed late, the applicable registrant should at least be able to continue to issue off of an effective Form S-3 shelf registration statement until the date the shelf is exhausted.
8. **Transition Rules.** Finally to permit an orderly transition from current market practice to compliance with the adopted form of Regulation AB, we ask that the Staff provide for an extended implementation period and grandfather certain existing registration statements and transactions. Compliance with the regulations will require substantial changes in internal procedures and programming, in addition to the preparation of new disclosure. We believe that sponsors should be given enough time to prepare registration statements and prospectuses complying with Regulation AB in a thoughtful manner. This request is not without precedent when such changes require drastic revisions to past practices. For example, in the past the Staff provided gradual or

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extended implementation times for “plain-Englishing” of prospectuses and for compliance with certain provisions of the Sarbanes-Oxley Act. In addition, we believe that takedowns off of existing registration statements should be exempt from having to comply with the new requirements. These registration statements were filed relying on a different rules’ paradigm. In the alternative, we propose that takedowns from an existing registration statement should be so exempt for a period of two years from the effective date of Regulation AB.

Much of what we have proposed here would require, in some cases significant, changes to initially published discussion draft of Regulation AB. We would be pleased to provide the Staff with specific language suggestions if you believe that this would be appropriate or useful.

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We thank you for your consideration. Should you have any questions, please contact Lance Franke or Mark Heleen of Sallie Mae at 1-703-810-7724 and 1-703-810-7677, respectively, or Jeffrey Noordhoek of Nelnet at 1-303-696-5699, or feel free to contact our outside counsel on this matter, Reed Auerbach, Esq. of McKee Nelson LLP, at 1-917-777-4400.

Sincerely,

SALLIE MAE, INC.

/s/ J. Lance Franke
J. Lance Franke
Senior Vice President, Corporate Finance

NELNET, INC.

/s/ Jeffrey R. Noordhoek
Jeffrey Noordhoek
Executive Vice President, Capital Markets

ANNEX A

Description of FFELP

ANNEX B

Sample Guarantor Disclosure

**SLM Student Loan Trust 2004-6,
Prospectus Supplement and Prospectus, dated June 23, 2004**

ANNEX C

SLM Student Loan Trusts: Cumulative and Average Annual Loss Performance

As of March 31, 2004

(\$'s in thousands)

Trust	Original Pool Balance	Cumulative Default Rate *	Cumulative Loss Rate	Annual Loss Rate
SLM 1995-1	\$ 1,000,126	7.59%	0.05%	0.01%
SLM 1996-1	1,502,106	11.69%	0.11%	0.02%
SLM 1996-2	1,517,608	12.80%	0.16%	0.03%
SLM 1996-3	1,502,704	12.66%	0.13%	0.03%
SLM 1996-4	1,501,183	12.16%	0.14%	0.03%
SLM 1997-1	2,004,092	12.90%	0.20%	0.05%
SLM 1997-2	2,441,522	9.68%	0.14%	0.03%
SLM 1997-3	2,503,690	10.26%	0.14%	0.03%
SLM 1997-4	2,502,640	9.62%	0.14%	0.03%
SLM 1998-1	2,999,161	9.97%	0.14%	0.04%
SLM 1998-2	3,013,768	7.06%	0.09%	0.02%
SLM 1999-1	1,004,581	6.32%	0.10%	0.03%
SLM 1999-2	1,003,093	5.78%	0.09%	0.03%
SLM 1999-3	2,007,576	6.94%	0.11%	0.03%
SLM 2000-1	2,007,611	6.87%	0.11%	0.04%
SLM 2000-2	2,015,661	6.87%	0.11%	0.04%
SLM 2000-3	2,509,344	6.22%	0.09%	0.03%
SLM 2000-4	2,007,424	7.22%	0.10%	0.04%
SLM 2001-1	1,505,498	5.68%	0.08%	0.04%
SLM 2001-2	1,505,095	5.90%	0.09%	0.04%
SLM 2001-3	1,506,436	3.00%	0.05%	0.02%
SLM 2001-4	1,504,082	3.99%	0.07%	0.04%
SLM 2002-1	1,505,677	3.12%	0.05%	0.03%
SLM 2002-2	2,006,298	3.06%	0.05%	0.03%
SLM 2002-3	1,501,262	2.84%	0.04%	0.03%
SLM 2002-4	1,503,142	2.91%	0.05%	0.03%
SLM 2002-5	1,325,707	1.47%	0.02%	0.01%
SLM 2002-6	2,003,707	0.95%	0.01%	0.01%
SLM 2002-7	1,975,948	1.11%	0.01%	0.00%
SLM 2002-8	1,501,262	0.49%	0.01%	0.01%
SLM 2003-1	2,055,372	1.02%	0.01%	0.01%
SLM 2003-2	2,005,060	0.83%	0.01%	0.01%
SLM 2003-3	1,256,038	1.01%	0.01%	0.01%
SLM 2003-4	2,256,330	0.62%	0.00%	0.00%
SLM 2003-5	2,251,218	0.63%	0.00%	0.00%
SLM 2003-6	1,005,203	0.77%	0.01%	0.01%
SLM 2003-7	2,507,766	0.50%	0.00%	0.00%
SLM 2003-8	2,005,422	0.38%	0.00%	0.00%
SLM 2003-9	1,505,695	0.36%	0.00%	0.00%
SLM 2003-10	3,005,424	0.34%	0.00%	0.00%
SLM 2003-11	2,005,350	0.13%	0.00%	0.00%
SLM 2003-12	2,506,345	0.15%	0.00%	0.00%
SLM 2003-14	2,255,598	0.10%	0.00%	0.00%
Total / Wtd. Avg.	\$ 81,008,825	4.73%	0.06%	0.02%
High		12.90%	0.20%	0.05%
Low		0.10%	0.00%	0.00%

*Cumulative Default Rate is based on the Original Pool Balance