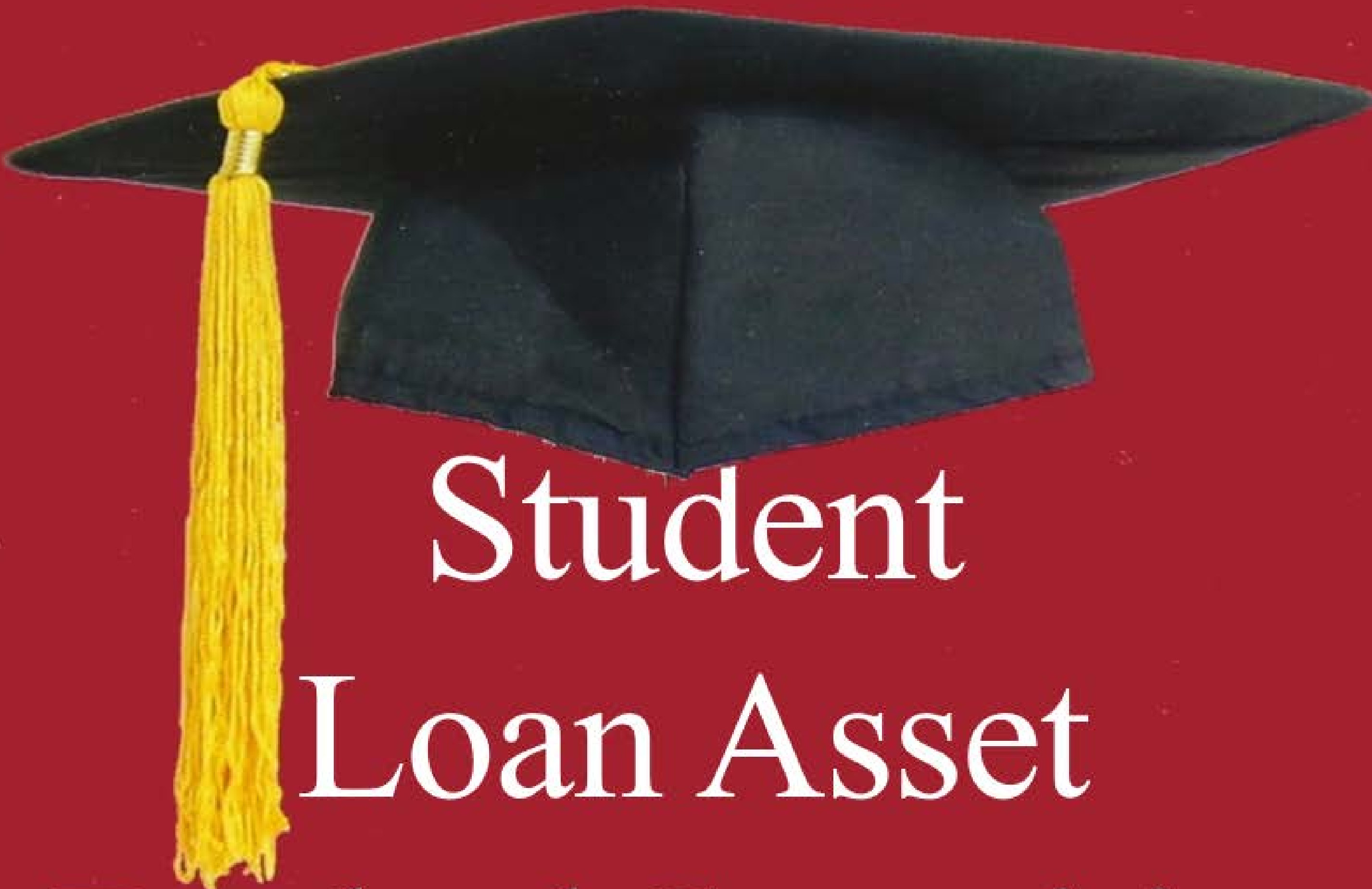
Parts 1 - 6



Student Loan Asset Backed Securities (SLABS)

THE SUBPRIME MORTGAGES OF 2021

U/HAPPYEGG1000

Student Loan Asset Backed Securities (SLABs): The Subprime Mortgages of 2021. Dec. 25, 2021

Due Diligence

EDIT: View Part 2 HERE (https://www.reddit.com/r/Superstonk/comments/rp585d/the_slabs_rabbit_hole_part_2_conflicts_of/). And Part 3 HERE (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/).

Holy shit. This could be the missing piece to the puzzle. The subprime mortgage backed securities of 2021. Here we go. (This is my first DD: please excuse any cohesive or organizational errors.)

Note: I was inspired by this post and this post. Please check them out.

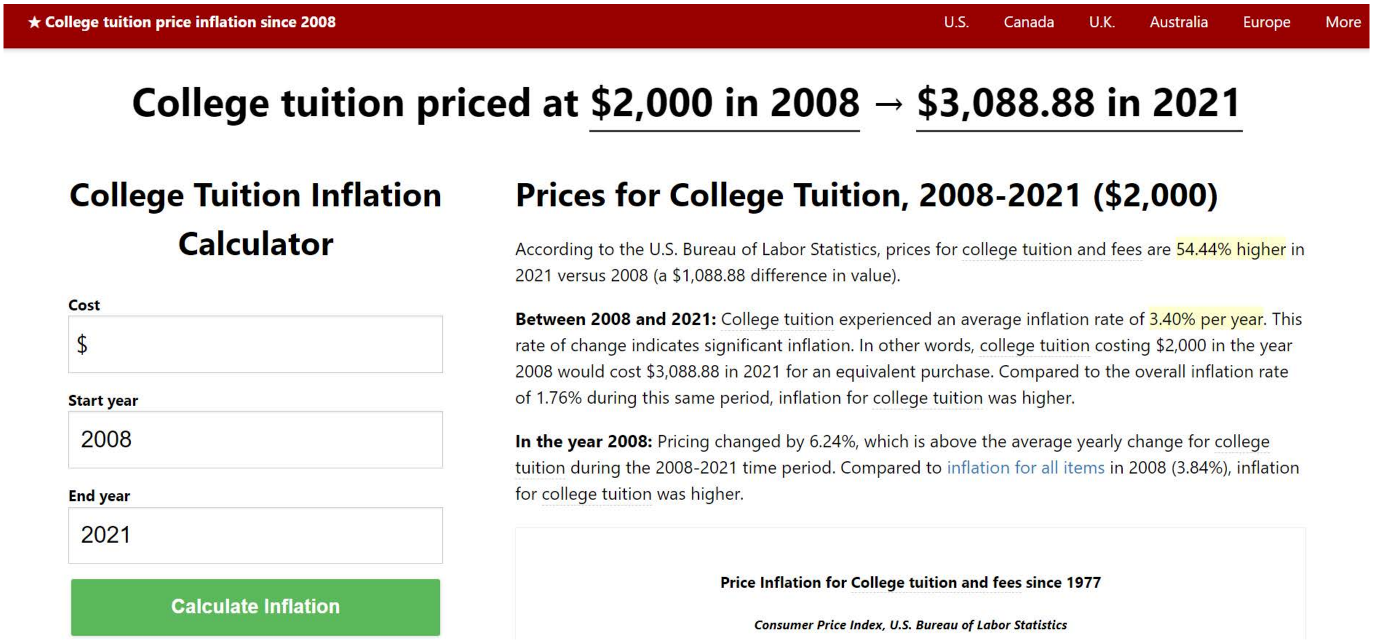
The theory: Student Loan Asset Backed Securities (SLABs) have become the new collateral in place of subprime mortgage backed securities. And this situation may be even worse. Here's why.

After mortgage backed securities shit the bed in 2008, funds needed another form of collateral to support their dogshit wrapped in catshit. Enter SLABs. They're exactly what they sound like: securities based on outstanding student loans. These loans are then packaged into tranches and sold to investors (Sound familiar?). However, I am of the opinion that these SLABs are drastically overvalued (Sound familiar part 2?), and this has been compounded by the Covid-19 pandemic.

Student loans, by US law, are very difficult to discharge. (And yes, private SLABs that don't adhere to federal law exist, but federal loans make up 90% of all student loans). By law, you have to prove in a court that the loan will cause you an 'undue hardship on you and your dependents' if you wish to discharge it completely. This is very vague, and I am under the impression that most judges will not even consider these cases as it was your choice to take out the loan in the first place: you knew the risks when you decided to go to that 80k out of state school and get a philosophy degree. Proving something ambiguous like this beyond reasonable doubt is not easy. Even defaulting doesn't help - a portion of your income will be taken until the loan is repaid. What is the effect of this? Well, these SLABs became very, very strong collateral. And until now, they were. But we'll get to that in a minute.

These loans were so strong that you have probably noticed their effects without realizing it. Just look at how high college tuitions have risen since 2008. In fact, compared to '08, tuition has increased a whopping *54.4%* according to the Bureau of Labor Statistics.

https://imgur.com/PzyNQSt



And just look at the average student loan balance per borrower since '08. Nearly *double.*

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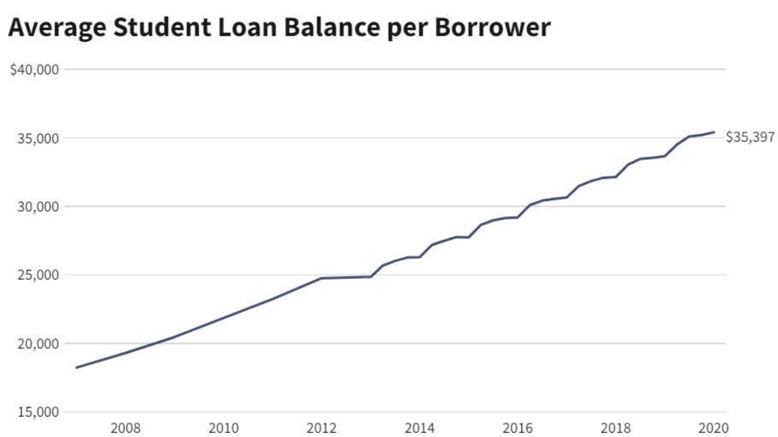
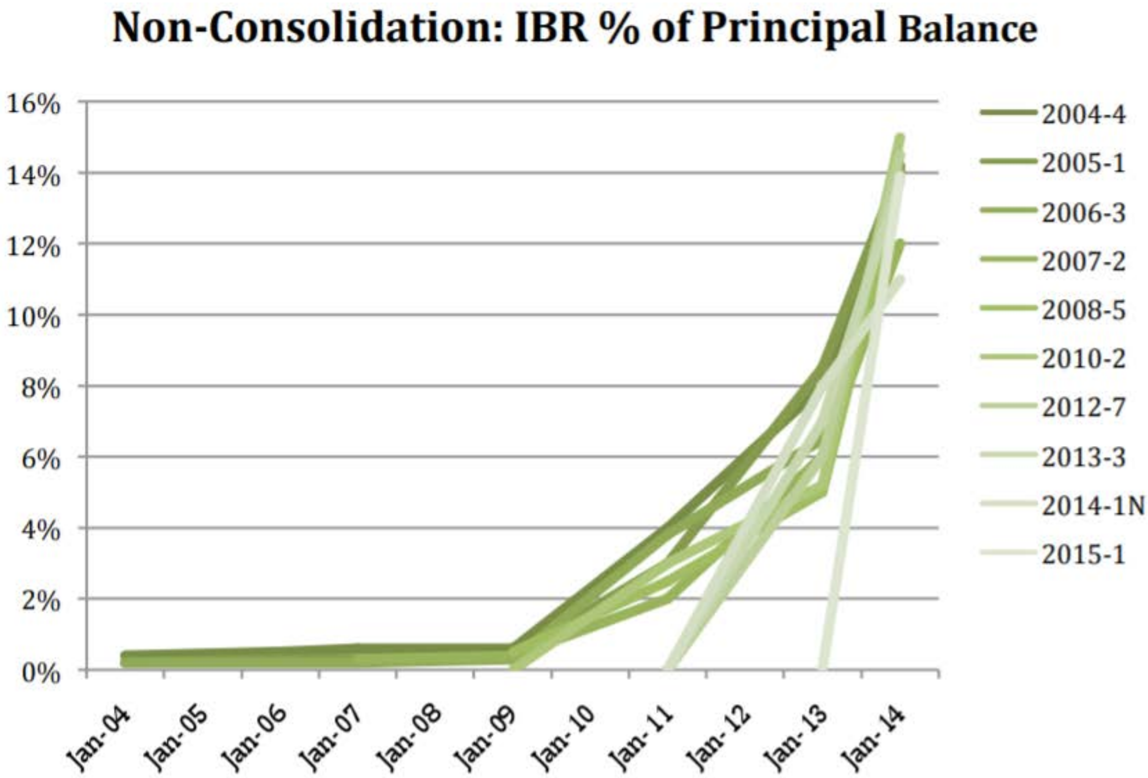


It makes sense why these values have shot up: because these SLABs are difficult to discharge and are thus very robust, they are valuable and companies want *as many loans taken out as possible.* Therefore, increasing college tuitions drastically to cause more loans to be taken out was a logical step. This was all working fine until one year changed everything.

Enter, 2019. The pandemic completely bends the economy over. Well, one of the ways that politicians decided to stimulate the economy and stave off the effects of a crash was to start implementing student loan forgiveness. Sounds great, right? Well, not for the people using these loans as collateral. These policies immediately caused a decrease in the value of these SLABs as collateral, as there was unsurety of payment. And what happened again recently? Yup, student loans postponed again. And we all know what happens when the underlying securities lose value. This should be sounding familiar. These funds will start trying to offload these SLABs while they still have some value, and the bubble begins to burst.

Now, let's get even more technical. Let's talk about income-based repayment plans (aka Pay As You Earn, or PAYE). The graph below should explain further. ***The pdf from which I got it is linked here: it is very enlightening, and it goes into much more depth on this topic. I would HIGHLY recommend you check it out.***

https://imgur.com/a/3biEsRH



Woah, what does this mean? I'll try to simplify the best I can. The IBR stands for *Income Based Repayment.* This is just another way to say a PAYE payment plan. You can see these increase exponentially after '08. This may seem like a good thing, as paying percentages of loans based on income does in fact decrease the chances of a default, as you are not 'biting off more than you can chew'. However, this had severe unintended consequences. Now, loans take much longer to pay off: in fact, it is highly likely that these loans will not be repaid until well after the final maturation date of the original loan. Essentially, this is another contributing factor to the decreasing value of using these SLABs as collateral.

Some other quotes from this PDF that I found notable.

"The deleterious credit underwriting standards during this time [2003-2008] was not exclusive to the subprime mortgage market. In hindsight, we are seeing that credit scores did little to forecast repayment". Here, they basically say that the same thing with faulty ratings was happening to SLABs as was happening to subprime mortgages. I believe this practice has continued into 2021, as we haven't seen SLABs have the same drastic loss of value as subprime mortgages (yet...).

"If a downgrade were to occur, the funds owning these notes would likely be inclined to sell as their fund must hold AAA-rated debt." Holy shit doesn't this sound familiar? Ratings agencies have incentive to rate these tranches AAA if they are going to sell at all. Well, like I mentioned before, these SLABs are about to eat it, and they maybe already have. It's literally 2008 all over again, corrupt ratings and all.

But why did I say it may be even worse? Well, with the housing crisis in 2008, there was still some sort of physical collateral to offset potential losses. *Repos*. Well, even though most of you guys snort crayons all day, I'm sure you're smart enough to realize that you can't repo a gender studies degree. There simply is no physical collateral. Because of this, funds do NOT want to get stuck bagholding, because they can't screw over the people who took out the loan in the first place to get some of their money back. This will make the bubble absolutely implode on itself.

In my mind, this relates to GME because as soon as funds start fighting each other and going bankrupt, short positions will inevitably have to close.

Obviously, this theory is just that: a theory. Again, this is my first ever DD, so I apologize for any missed information. Hopefully even wrinklier brains can take over my train of thought and really crack this thing open. Or, you guys could prove me wrong and it could be a total nothingburger. Either way, I'd appreciate some community crowdsourcing to really get to the bottom of whether funds have been doing this and whether it poses a significant risk to the economy. I believe this collateral market specifically is worth looking into because of the sheer amount of money involved. $1.6 trillion total in student loans in the USA.

Edit: for some reason my pictures got messed up. Maybe someone can tell me how to fix? Don’t really want to repost. Tried editing them in again on PC to no avail. Gonna try to embed imgur next.

Edit2: I’ve been getting lots of great comments about the legal aspect, and how beyond reasonable doubt is only with criminal trials. However, the thesis remains unchanged in my opinion. It’s still VERY difficult to discharge these loans, as you still have to show ‘undue’ harm. It’s hard to argue something is ‘undue’ when you could’ve gone to a cheaper school, could’ve tried to get a higher paying degree, could’ve got a second job, etc.

Edit3: Holy shit. I’m already getting some more great info from comments. Expect a part 2 soon.

The SLABs Rabbit Hole Part 2: Conflicts of Interest, and the True Worthlessness of SLABs. - Dec. 26, 2021

Due Diligence

If you haven't read Part 1 *yet, please do so. Part 3 can be found HERE (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/).

Welcome back everyone. This has been a wild couple of hours. First of all, I wanted to make a correction to my original DD that has been addressed in comments since then.

There is still some confusion about whether federal student loans can be packaged into SLABs. I've seen conflicting sources on this issue. In my original post, I was under the impression that modern day federal loans can be packaged into SLABs, which I now believe is incorrect. As far as I understand, **only FFELP federal loans (pre-2010) and private loans can be packaged into SLABs**. FFELP loans are essentially a hybrid type of loan: they are issued by private companies, but are backed from guarantees by the federal government. *The government technically owns these, and so they are able to be postponed*. However, the FFELP program ended in 2010 under Obama. Modern day loans sit on Department of Education books and can't be packaged into these securities. However, that doesn't mean FFELP loans are gone completely - 11 million people still have outstanding FFELP loans worth about $245 billion, and this combined with the private sector (which makes up about 10% of all student loans) still means there are a SIGNIFICANT number of SLABs out there. More than enough to have a major impact on the economy. Additionally, if you were to refinance your modern DoE loan to get a better interest rate, that loan would *turn private*. So really, SLABs aren't going anywhere. Not to mention that like we saw in 2008 with mortgage backed securities, I theorize that the market for BETTING on these SLABs is many times larger than the SLABs market itself. Therefore, the main thesis in my original post remains unchanged.

Another small hole in the original theory is that *only government loans* can be considered for postponement and/or forgiveness. This basically takes private student loan SLABs out of the picture for decreasing in value *due to postponement* like I originally theorized. However, these SLABs are still worth discussing as there are *many other ways* they can decrease in value, which I will get into here. However, the hundreds of billions of dollars worth of FFELP loans still out there (and the theoretical but likely much larger market that bets on these loans) are still subject to this added pressure, so the original thesis still holds its strength. Now, let's continue.

Now, for Part 2.

It's time to talk about ratings agencies and how these SLABs may theoretically be downgraded. There are several major private companies who's entire gig is executing SLABs on behalf of the DoE. According to this source, *"Corporations such as Navient, Nelnet, and PHEAA service outstanding student debt on behalf of the Department of Education. These companies also issue Student Loan Asset-Backed Securities (SLABS) in collaboration with major financial institutions like Wells Fargo, JP Morgan, and Goldman Sachs. For these firms and their creditors, debt isn't just an asset, it's their bottom line."* Woah. Those are some familiar names in there.

In Part 1, I discussed how a downgrade would really mess up these companies' bottom line: some companies are required to only hold AAA-rated securities, so a downgrade would mean massive selloffs. Well, I already showed how these SLABs are drastically overvalued and are about to come back down to earth. But somehow they're still being rated AAA. Sound familiar again? It's like we're at the point in the Big Short where we know all this dogshit wrapped in catshit is worthless, but the underlying securities' value is still maintained. Why?

Enter, *The Big 3*: Moody's, Standard & Poors, and Fitch Ratings. These companies are designated by the government as *nationally recognized statistical rating organizations* responsible for rating SLABs. Basically, they're **supposed** to be unbiased and rate these SLABs properly to mitigate risk. Well that's all fine and dandy. But remember: bond issuers also pay to have their bonds rated. That means these guys are ALSO paid by Navient and Nelnet, (those private companies that create SLABs from private student loans and ALSO help execute FFELP loans) to rate SLABs. Sounds like 2008 all over again. Basically, the ratings agencies are being paid by SLABs creators to rate the quality of their SLABs. Huh. No conflict of interest here, right? And like I mentioned before in Part 1, most companies can only hold AAA-rated securities or they would have to offload these SLABs. See where I'm going here? If Navient and Nelnet want to sell their SLABs and make money, these SLABs need to be AAA-rated. Moody's, S&P, and Fitch make money from these companies so they want them to succeed and buy more ratings, and the cycle continues.

Another reason why I believe SLABs are losing value: those big names I mentioned before are starting to RUN. This one is thanks to u/P_willicur. Thanks for the DM man. It turns out that Wells Fargo recently completely exited from the SLAB market. Hmmm. To me, one of the first big signs of a crash are inside actors exiting. They know something's up.

Below are some more reasons why these private SLABs and FFELP SLABs are losing value.

Now, like I mentioned before, private SLABs are not subject to becoming devalued from postponement. However, these SLABs are still ***drastically*** overvalued. One of the reasons is from that Pay As You Earn plan I mentioned in Part 1, aka Income Based Repayment (IBR). Again, if you haven't seen Part 1, these IBR plans have grown *exponentially* since 2008. A major, major downside of IBR like I mentioned was that loans take much longer to pay back. What does this mean? Well, it means that interest accrues drastically over time. These loans can potentially become **more** expensive in the long run: because IBR payments pay a smaller percentage of the loan, the interest rate begins to snowball. This could lead to an increased level of defaults, which thus devalues these SLABs as collateral.

Second, I mentioned earlier that private SLABs can still be federally guaranteed via FFELP loans. This ties into what I just mentioned previously. A drastic increase in IBR since '08 has meant increasing risks of default. This increased risk poses a threat to the investors of these SLAB creating companies, which would drastically devalue these companies themselves. This PDF (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3631953#:~:text=Student%20loan%20asset%2Dbacked%20securities,as%20a%20marketable%20financial%20instrument.&text=This%20is%20because%20there%20has,loan%20discharge%20via%20bankruptcy%20proceedings.) goes into much greater detail. I would HIGHLY RECOMMEND you read it in its entirety. It is simply mind blowing. I literally felt like Burry reading it. Anyways, here's a relevant quote: *"However, there is a very real possibility that—even if forgiveness rates remain level—a spike in borrowers entering forbearance or deferment, being forgiven of their loans, or defaulting on them could result in SLABS issuers 'failing to repay investors[,] . . . something that has never happened before' but may well be on the horizon."* Woah. A spike in forbearance or deferment? Hello, Covid. Due to the Covid-19 pandemic, there has been a drastic increase of borrowers entering forbearance. This has devalued these SLABs drastically.

Third, there have been recent challenges to the near-impossible legal process of discharging student loans. *Rosenburg v. New York State Higher Education Corp,* decided recently in January 2020, is one of these recent cases. Essentially, what this case did is redefine an outdated standard of what constitutes valid grounds to discharge a student loan. The case received significant media attention, and made people aware that they could in fact legally challenge their student debt. The PDF reads, *"Indeed, at the time of this Article's publication, at least two federal circuit courts of appeal have determined, like the U.S. Bankruptcy Court for the Southern District of New York did in reexamining its Brunner holding in Rosenberg, **that student loans are indeed dischargeable in bankruptcy proceedings***."* This is pretty huge - this case now allowed for student loans to be discharged during bankruptcy, a standard that was not previously established. Again, this has been compounded by the pandemic.

Fourth, similarly to 2008, these fuckers have been giving out loans to EVERY. ONE. The PDF reads, *"For example, SLM Private Education Student Loan 2009-CT Trust, a SLABS product created from loans issued by Sallie Mae [now known as Navient], consists of more than 40,000 loans made to students attending unaccredited trade school programs, such as truck-driving school, cosmetology school, and even dog-walking school. Our mentioning the educational programs attended by the borrowers whose loans backed the SLM Private Education Loan Trust 2009-CT is not meant to disparage these borrowers. It is, however, meant to highlight the risk of default among borrowers of private student loans."* Well I'll be damned. Sounds awful similar to those guys in 2008 giving out mortgages to literally everybody. These SLABs truly are dogshit wrapped in catshit.

Fifth, the postponement of these payments by the government and the skyrocketing unemployment rate pose a significant risk. The PDF continues, *"Even with six months of student loan relief provided in the $2 trillion package of the CARES Act, there is every reason to believe that skyrocketing unemployment will lead to dramatically increased student loan default rates when the relief ends on December 31, 2020. A spike in this default rate in a short period of time will undoubtedly strain SLABS issuers' ability to pay their investors on a scale that has never before been seen."* Holy shit. And now due to the new Rosenburg doctrine, many defaulters will turn to these bankruptcy courts for relief *and will win.* **Loans that are likely to be defaulted on are no longer good collateral**. This decreases the values of SLABs EVEN FURTHER.

I'll leave you all with a final bullish quote from this source. *" 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."* Yup, you heard it here first. Prepare for 2008: The Remix.

Again, thank all of you beautiful bastards for reading. I appreciated all your comments on Part 1, and will appreciate them here as well.

The SLABS Rabbit Hole Part 3: Revenge of the SLAB. Refinancing, Repeating History, RRP, The Fall of Navient and Other SLABS Companies, and University Corruption. - Dec. 26, 2021

Due Diligence

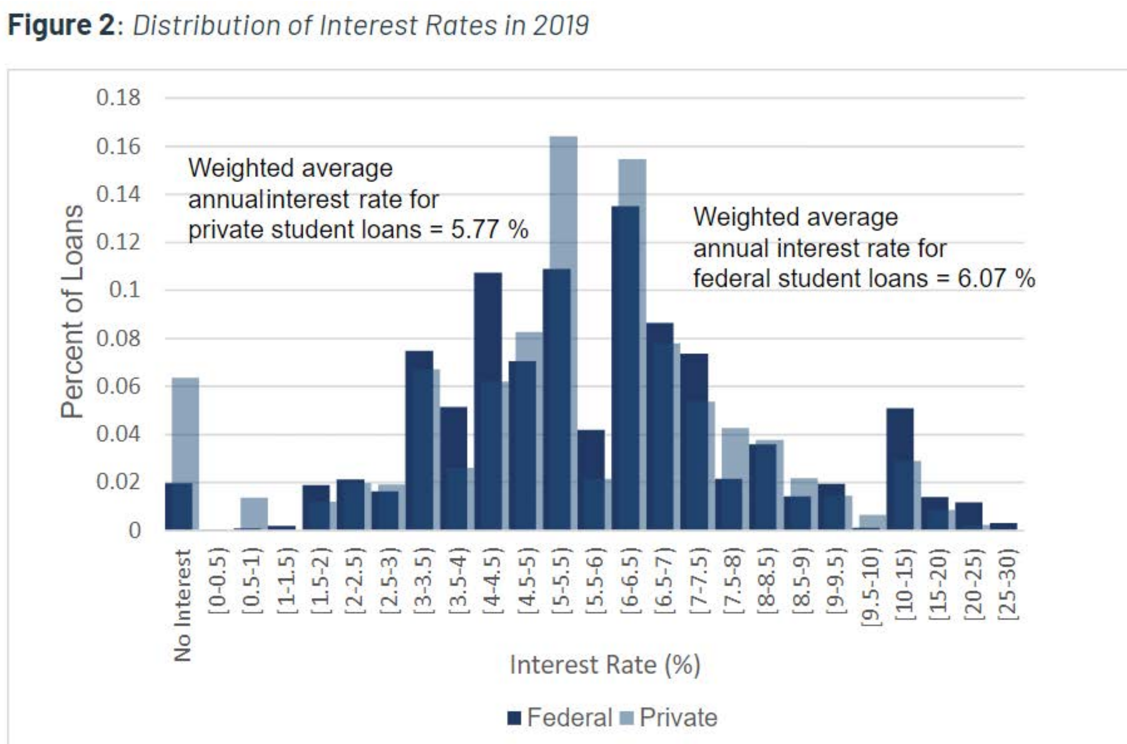
Hey all. Welcome to my third part of my DD series on SLABs. Keep in mind all of this coming to light is really new info. So take it with a grain of salt. You can read Part 1 here (https://www.reddit.com/r/Superstonk/comments/ros6ii/student_loan_asset_backed_securities_slabs_the/) and Part 2 here (https://www.reddit.com/r/Superstonk/comments/rp585d/the_slabs_rabbit_hole_part_2_conflicts_of/). 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/).

I don't really have any corrections I'd like to make regarding my Part 2 DD. If this changes, I will edit this post. Let's go!

First up: Refinancing. Like I mentioned before, only FFLEP loans (pre-2010) and private student loans can be packaged into SLABs. However, there's a *major, major* catch. If you refinance a modern Department of Education loan, that loan becomes private. In other words, **you can't refinance federal loans to get a lower interest rate.** And since private student loans can be packaged into SLABs, there is a HUGE incentive for private companies to get people to refinance their DoE loans.

Well, how would private companies encourage people to refinance? It's simple: providing lower interest rates than the federal government.

https://preview.redd.it/u1i2u82c30881.png?width=964&format=png&auto=webp&s=a7c9fd761331675882388d2b6755f649b115d8ba

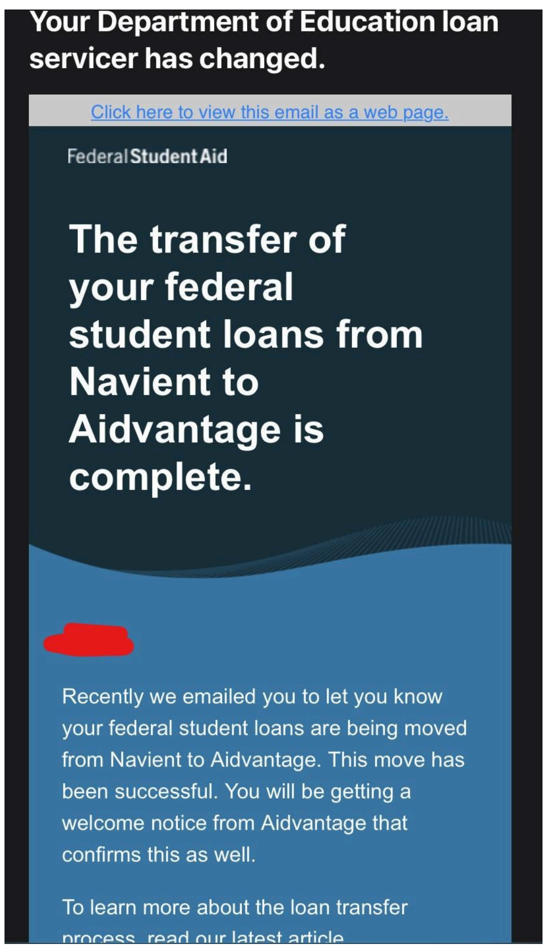


This graph demonstrates just that (unfortunately, it's 2019 only - I couldn't find any long term comparisons. Please link if you can find additional charts). You can see that the weighted average interest rate for private loans came in below federal. This would encourage people to possibly refinance, which would allow private loaners to package these loans into SLABs. The 114th Congress (year 2015-2016) actually attempted to pass a law that would establish a federal refinancing program. This law did not pass (I wonder why?).

Now, to my second topic. The repeating of history, and the warning signs of '08. Thanks to u/madal2 for pointing this one out. They pointed out that Wells Fargo was the first one to exit the mortgage market in 2008, and other companies quickly followed suit. This was a blaring alarm siren. Well guess what? Something *eerily similar* is beginning to happen. In July 2021, Wells Fargo announced that they were exiting the student loan business. Well, shit. This is a pretty big name. And sure enough, two other smaller funds called it quits in July. This article explains: "*The Pennsylvania Higher Education Assistance Agency — which services around 8.5 million student loan borrowers — and Granite State — which services around 1.3 million borrowers — both called it quits in July. Utah Higher Education Assistance Authority, which pulled out in October 2020, serviced around 1 million student loan borrowers."* Well I'll be damned. Wells Fargo pulls out, and soon after, smaller funds begin to jump ship.

And now, one of the big boys Navient, who I mentioned in Part 2, is jumping ship. This is **absolutely monumental**. I'd like to point out that I received several messages and screenshots about this topic from some awesome apes who didn't have enough karma to comment. This included u/rozaya93, and this screenshot is from u/clos7450. Thanks guys!

https://preview.redd.it/502pro8d30881.jpg?width=816&format=pjpg&auto=webp&s=f8df7f7a9427eab132f9d70fc5c0e8c3c2497fdb



It appears that **Navient is transferring all of their SLABS and student loans to a different company.** Here's a link for further reading (https://www.cnet.com/personal-finance/your-money/what-to-know-about-navient-student-loans-before-repayments-begin-in-2022/). So what's the big deal? Well, Wells Fargo only had SLABs as a portion of their total income. Not these guys. To them, this is their bottom line. In fact, they are in the middle of a lawsuit from the Consumer Financial Protection Bureau, who contended that they made it difficult for borrowers to repay their loans (which would help maintain these SLABS). Woah. If Wells Fargo jumping ship was a flashing neon warning sign, this is a fucking continent sized blimp hovering up in space for people to see all the time.

Now, I'd like to quickly talk about how this all ties into RRP. Credit to u/Snoo_75309 for this inspiration. What the record high RRP really shows us is how god damn desperate these guys are for collateral. They will use LITERALLY ANYTHING as collateral now. Don't even get me started on the potential exploitation of the used car market (DD for another time perhaps). This is a small tie in that I just wanted to point out. I think the insanely high RRP is just another piece to this collateral puzzle. But it supports the reasoning that these guys would use SLABs as collateral, which was the original thesis in the first place.

And finally, I'd like to discuss college tuitions once more. In Part 1, I discussed how the meteoric increase of college tuition was to the benefit of using SLABS as collateral - the more people take out loans, the more SLABS can be created. But who is influencing these raised tuitions? Don't act all shocked now. Former hedge fund managers, SEC employees, and Federal Reserve employees. Thanks to u/Nukelifter for pointing this one out. I found out this information from the documentary "Inside Job". I'd highly recommend. It'll help you grow a wrinkle. Anyways, it turns out that hedge fund employees have infiltrated expensive, private, for-profit universities. Here are some examples. *"Ruth Simmons, the president of Brown University, makes over 300,000 dollars a year on the board of Goldman Sachs.* ***Larry Summers***, who as Treasury secretary played a critical role in the deregulation of derivatives became president of Harvard in 2001. While at Harvard, he made millions consulting to hedge funds and millions more in speaking fees, much of it from investment banks. According to his federal disclosure report, Summers's net worth is between 16.5 million and 39.5 million dollars. ***Frederic Mishkin***, who returned to Columbia Business School after leaving the Federal Reserve, reported on his federal disclosure report that his net worth was between 6 million and 17 million dollars." Yup, the revolving door has even infected college campuses. I believe that these types of people are jacking up tuitions for the benefit of SLABs. All at the expense of the American people.

That's about all I've got for Part 3. I feel like this will likely remain a trilogy, unless any groundbreaking new information comes to light. Thanks to every single one of you for coming along on this journey with me. It's been a ride. Godspeed, fellow apes.

And one final thing - the point of this series was not to draw attention away from GME. I still believe GME is the one and only play, and that DRS is the way. The best way to hedge a market crash is to buy GME, which is why I still woUld take GME over shorting these SLAB tranches. Remain zen you guys - we're almost there. Thanks again.

The SLABS Rabbit Hole - Part 4: Return of the SLAB. Peer to Peer lending, SoFi, The DeVos Connection, and Big Banks. - Dec. 27, 2021

Due Diligence

Wow. First of all I would just like to thank all of you for the immense support on all these posts. I was never expecting this type of reception, and I'm very grateful.

Less than 15 hours ago I concluded my trilogy of DDs on SLABS. Yet here I am, 15 hours later, writing another one. I guess I'm just addicted to writing about this shit. Or maybe I just realized how much deeper the rabbit hole goes. Anyways, thanks for bearing with me guys. If the topic is feeling oversaturated please let me know and I'll try to space these DDs out a bit more. But I'll make these as long as relevant new information comes up. Hopefully this will help you all grow some more wrinkles.

You can find the other DDs here: Summary DD (Basically a TLDR), Part 1, Part 2, and Part 3. Part 5 HERE (https://www.reddit.com/r/Superstonk/comments/rq6vmi/down_the_slabbit_hole_part_5_the_federal_reserve/). I would highly recommend reading those before tackling this one.

This part will focus on Peer to Peer lending (aka P2P), SoFi and other big modern day private loan players, Betsy DeVos' impact on all this shit, and how some familiar big banks are wrapped up in all this. Let's go.

First, I would like to explain what peer-to-peer lending is and its significance with SLABS. P2P lending is what corporations like SoFi, LendingClub, and CommonBond engage in (however, I will be discussing SoFi seperately, because unlike LendingClub and CommonBond, they *allegedly* take credit into account). P2P lending essentially cuts out the middle man: instead of a financial institution mediating a loan, loans are done privately from individual to individual. What is the significance of this? Well, it *allows borrowers to take out credit without the need for official banks to do the financing.* Holy shit. This sounds really risky. And it is. You see, the entire purpose of P2P lending is to help people that can't get credit elsewhere. But the very fact that they **can't** get credit elsewhere should be a huge red flag. Well, what's in it for these companies to adopt all these risky buyers? Higher interest rates. Which again would lead to increased defaults, thus devaluing the SLABS that are created from private loans under these P2P protocols. These are seriously dogshit. **But miraculously, these companies still pull AAA ratings.** (Link). Guess who? Yup, the same ratings people I mentioned in Part 2: Moody's. Conflict of interest much? And JUST LOOK at all of the other names mentioned in this report. *"The transaction was CommonBond's tenth and brings the company's total securitized loan amount to over $2 billion. Goldman Sachs served as structuring agent, co-lead manager, book-runner, and co-sponsor for this securitization. Barclays, Citi, BMO and Guggenheim Securities also served as co-lead managers and book-runners on the transaction."* Ummmmm... Goldman? Citi? Barclays? Jesus Christ. This shit goes so much deeper than I thought it did. One important thing to note though is that student loans are only a portion of these companies' loans. Still, total private loans make up hundreds of billions of dollars. I don't have a way to figure out what percent of private loans are under P2P institutions.

Now, onto SoFi. SoFi, like I mentioned, is a P2P lending institution. Yet, unlike the previous ones I mentioned, they claim to take credit into account. Sounds great, right? Nope. First of all, *SoFi doesn't even disclose their requirements for credit scores.* These dudes could theoretically be loaning out money to people with credit scores absolutely in the shitter. Now, third party sources have stated that the minimum to qualify hovers around 680. This is **lower** than the national average, and in some places won't even qualify you for a home or apartment loan. But yeah, taking out a hundred grand to pay for college is no problem. **And you'll never guess what these are rated.** Yup, they're rated AAA. By Moody's (Link). JUST. WOW. And guess what? "*In October of 2017, SoFi announced a $777 million SLABS deal, in partnership with Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, and Morgan Stanley (Link)."* This honestly just speaks for itself.

Just LOOK at these quotes. *"SoFi CEO Mike Cagney says that every time he's placed a SLABS offering, Morgan Stanley was involved... CommonBond just did its first SLABS offering. Unsurprisingly, Morgan Stanley was the lead underwriter and sold manager on the deal." (*Link*).* My god. And this was all the way back in 2015. Just imagine the SLABS market since then.

Now, let's get into DeVos. If you are unaware, she served as the Secretary of Education from 2017-2021. And as it turns out, she was pretty fucking corrupt. That's what happens when your family is worth $5.4 billion. Anyways, she did some shitty things that helped jack tuition prices (which benefit SLABS), and appointed many officials who were high up at for-profit universities that were even being investigated for fraud. Here's the quote from this link: *"Rather than curtailing the subpriming of student debt by eliminating student income loans and seeking to reduce the student debt bubble, Trump's secretary of education, Betsy Devos, has aggressively sought to deregulate student lending for the benefit of banks and for-profit universities. Once in office, Devos appointed leaders from the for-profit higher education sector whose schools were being investigated for fraud. For-profit colleges and universities have engaged in widespread lying to prospective students about the value of a degree and the nature of a program to capture vast sums through tuition financed through student loan debt. Devos and these officials proceeded to dismantle the special team responsible for fraud investigations, and they also moved to protect colleges and universities that made fraudulent claims to students by gutting the 'borrower's defense' act."* I'm honestly astounded at what such a high level this corruption has spread. Then again, it is Wall Street, so maybe I shouldn't be surprised. Still, these blatant conflicts of interest, of which has clearly benefited predatory SLABS companies, is just appalling.

That's about all I've got for Part 4. Given that each DD has been getting shorter and shorter, I do expect this one to be the last one at least for a little bit (edit: it wasnt. Part 5 out now lol.) But honestly who even knows, that's what I said yesterday and here I am. Thanks again for all your continued support. As always, I believe that GME is the best hedge against a market crash (not financial advice though). Buy, Hold, DRS. Thanks.

Down the SLABbit Hole Part 5: The Federal Reserve/ TALF Measures, The Link Between SLABS and 401Ks, and how IBR Plans Relate To The Housing Market. - Dec. 27, 2021

Due Diligence

Welcome back to *yet another* SLABS DD. At this point, I'm not even surprised I'm writing this. Just when I think I've sufficiently covered this stuff, your guys' DMs and comments lead me down yet another path. So thank you for continuing to give me leads. You are all what makes this possible!

As always, you can read 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/), Part 3 (https://www.reddit.com/r/Superstonk/comments/rpcyt6/the_slabs_rabbit_hole_part_3_revenge_of_the_slab/) , and Part 4 (https://www.reddit.com/r/Superstonk/comments/rpu2eq/the_slabs_rabbit_hole_part_4_return_of_the_slab/) before this one. 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/).

Like I did in Part 2, I'd like to start out with addressing some shortcomings of my previous DDs.

I've gotten a lot of comments about how all of this relates to GME so I'd just like to clarify this link a little further. Like I showed in my original DD, these SLABS were considered very strong collateral due to how difficult it was to discharge them, and the fact that federal student loans are ensured to some extent by the government. I also pointed out in Part 3 how this ties into RRP - RRP being insanely high shows that everyone is desperate for collateral. Both of these reasons led me to assume that SLABS were being used extensively as collateral throughout the market. But, as I've shown in these last few DDs, I believe that the value of these SLABS has been drastically lowered by a number of different recent factors. What does this mean for GME? Well, if all of the sudden a ton of collateral is suddenly devalued, banks may start to get scared and thus will raise margin requirements. This would lead to increased margin calls (which may effect our beloved gaming retailer), and would lead to larger market selloffs that would further effect the abilities of these funds to can-kick. In short (pun intended), SLABS devalue = Banks Freak Out = Banks Raise Margin Requirements = Margin Calls = Moon. Hopefully this clears up why I believe these posts are relevant in this sub.

Another shortcoming that I failed to address was how collateral works with these loans. We know that there is no physical collateral for student loans - like I said, you can't repo a gender studies degree. So, what do they use for collateral instead? Well, two things: federally backed loans have the collateral of government-ensured coverage, and both federal and privately backed loans have the collateral of future payments. However, I believe that both these forms of collateral are much weaker than the collateral in 2008, which was the physical house. The collateral of the government ensuring payment is, in my opinion, weak. The government is already trillions of dollars in debt. If suddenly a large percentage of people with student loans decided to default, the government would be responsible for covering VAST amounts of money. Not only would this affect taxpayers, but could effect inflation as well. I also believe that the collateral of future payments or a portion of income is a weak one. There are several ways to get out of paying this collateral. First, you can discharge the loan entirely. This previously was difficult, but under that new court case I mentioned in Part 2, I believe that this has gotten much easier. Second, you can consolidate your student loans into a single loan. This increases your interest rate, but allows you to take advantage of IBR, or Income based Repayment. Sound familiar? I mentioned this in my Part 1 DD. But basically, IBR has exponentially increased since 2008 and has a severe downside of increased default risk. Not a great thing to use as collateral in my opinion. Plus, if you don't repay your loan in full after 20 years, the remaining debt is completely forgiven. Hmmm. Also doesn't sound like very strong collateral.

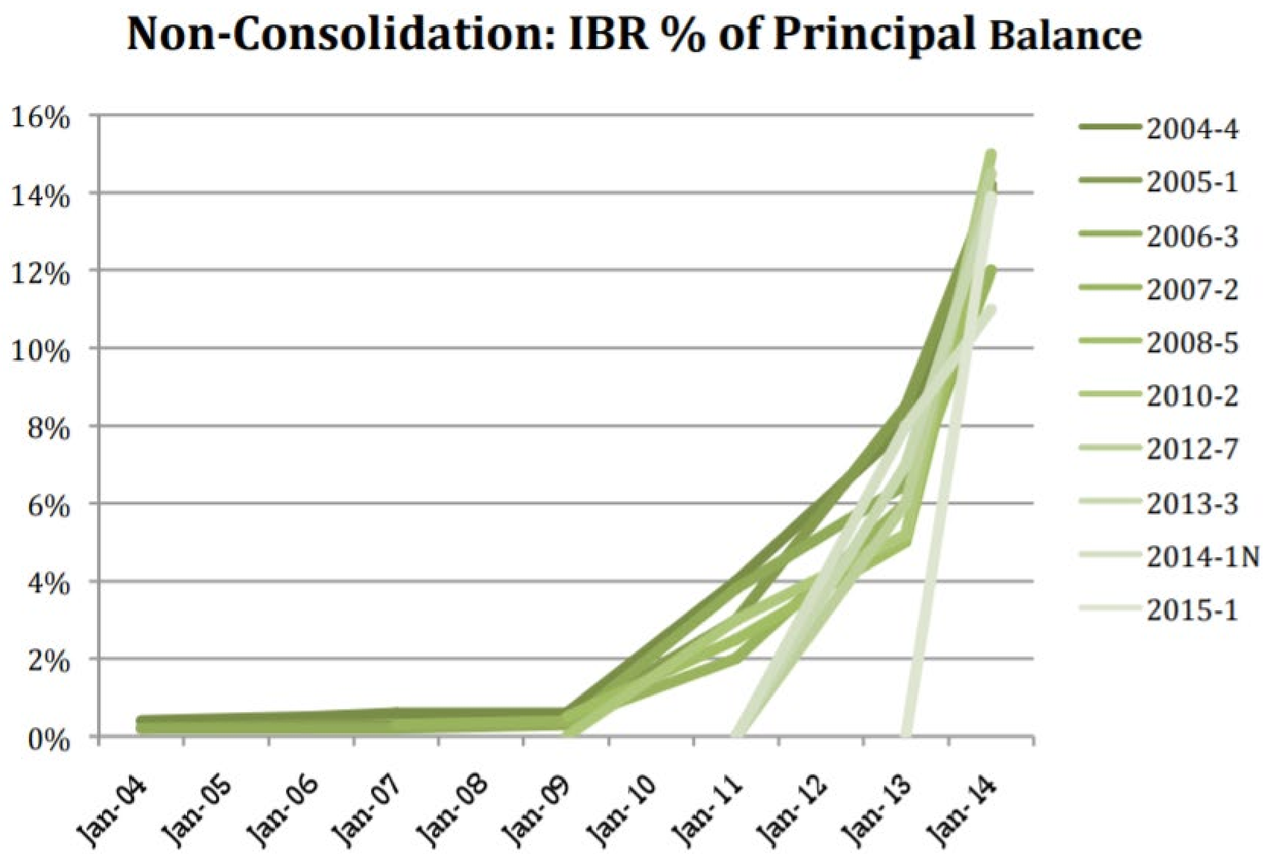
And finally, a helpful commenter pointed out that the court case that challenged the previously stringent discharge requirements has been in contention still. So, take with a grain of salt that discharging loans will become easier. The courts are still fighting that one out.

I believe that's all the corrections I wish to make until this point. Let's continue with Part 5.

The first thing I'd like to talk about is the Federal Reserve's part in this whole saga via their recent TALF measures. TALF stands for Term Asset-Backed Securities Loan Facility. This was established on March 23, 2020, as a response to the Covid-19 pandemic. Essentially, **this was a subsidy paid to holders of SLABS.** The official report reads, *"Under the TALF, the Federal Reserve lent on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The Federal Reserve lent an amount equal to the market value of the ABS less a haircut and was secured at all times by the ABS."* Woah! **The FED is basically paying for more SLABS to be created.** This is a damn big discovery that I hadn't even considered until it was pointed out by u/PureCiasad. Thanks man! And even though they only paid out to AAA-rated holders, I've already talked about how the ratings agencies are corrupt in a way similar to 2008 where they will basically rate anything AAA. Yikes. The FED is literally creating a bubble right under everyone's noses.

The next thing I'd like to talk about are how now student loans are being linked to retirement savings. Thanks to u/Skomponop for pointing this one out. Basically, some lawmakers proposed a law that would allow businesses to contribute to their employees' 401Ks if you paid off your student loans. Here's a quote from this article that explains it further: *"Keller and other lawmakers have focused on one particular provision: linking retirement savings to student loan debt. The idea is to allow businesses to contribute to employees' retirement accounts when workers make their student loan payments. In other words, if you put $100 towards your student loan, your company could "match" it with up to $100 going into a retirement plan like a 401(k)."* In my opinion, **this is just another way to encourage people to take out as many student loans as possible.** And we all know that the more student loans there are, the more SLABS there are which makes these guys money. This could encourage people that may not be in a great position to repay their loans properly to take out student loans anyways just to start filling up that retirement fund earlier. In my opinion, this will devalue SLABS, because again you have these theoretically pretty shitty loans being rated as AAA and used as collateral or sold.

Finally, I'd like to talk more about IBR and how it relates to the housing market. Like I explained in Parts 1 and 2, IBR payment plans look better on paper, but since a smaller percent of the principal loan is paid, interest can accrue drastically over time and can actually make these plans more expensive in the long run, causing increase risk of default or discharge. Well, one of the major barriers to taking out an IBR payment plan for student loans was because previously, it was very difficult to get a housing loan or mortgage while paying off student loans via IBR. This is because lenders were unsure whether to calculate debt to income ratios using the payments under the IBR plan, or to have a fixed ratio. This lead to pretty stringent requirements for taking out a housing loan while paying off IBR student loans. However, these guidelines have been recently updated. Let's take a look at this source. *"For loans not in active repayment (forbearance, deferment, income-based repayment plan), the guidelines previously required FHA mortgage lenders to calculate a borrower's monthly student loan payment using 1% of the total loan balance. This amount was then factored into their debt-to-income (DTI) ratio, negatively impacting borrowing potential... Now, anyone taking advantage of an income-based repayment plan can have the actual dollar amount they're paying factored into their DTI, as long as the payment is above zero dollars a month. And, if your student loans are in forbearance, deferred, or your IBR's monthly payment is zero, then 0.5% of your student debt will be factored into your DTI."* Let's unpack this a little bit. Basically what this is saying is that getting a mortgage while under an IBR student loan payment plan got a whoooole lot easier. This, in my opinion, will lead to IBRs increasing EVEN MORE.



I posted this graph on my first DD but I'd like to show it again. It shows how meteoric the rise of these IBR plans has been since 2008. And this was without these new FHA guidelines. *Just imagine how much the usage of these IBR plans will increase now that they are no longer a barrier to getting a mortgage.* And again, like I said earlier, I believe that increasing IBR plans will eventually lead to increased defaults and discharges of student loans, thus affecting the bottom line of SLABS.

Thanks again for reading. I would say that this will be the last dive into SLABS that I'll do. But that would probably be wrong. Please, keep sending me DMs and comments with criticisms, leads, or anything else. You guys are what make this all possible.

One final thing before I go. I've had a TON of comments asking me how to short these SLABS tranches and how to make money off this whole shitshow. I am not a financial advisor, and I will not be providing financial advice. So please don't ask. But I will say one thing about my own personal investing strategy. I have personally always believed GME to be the best hedge against a market crash, and I will continue to invest in the GME play. Those feelings have not changed since all this SLABS stuff started coming out.

Thanks again guys. Happy reading.

Down the SLABbit Hole Part 6: Maturation Dates, Tuition Lawsuits, and How Big is the Bubble? - Jan. 12, 2021

Due Diligence

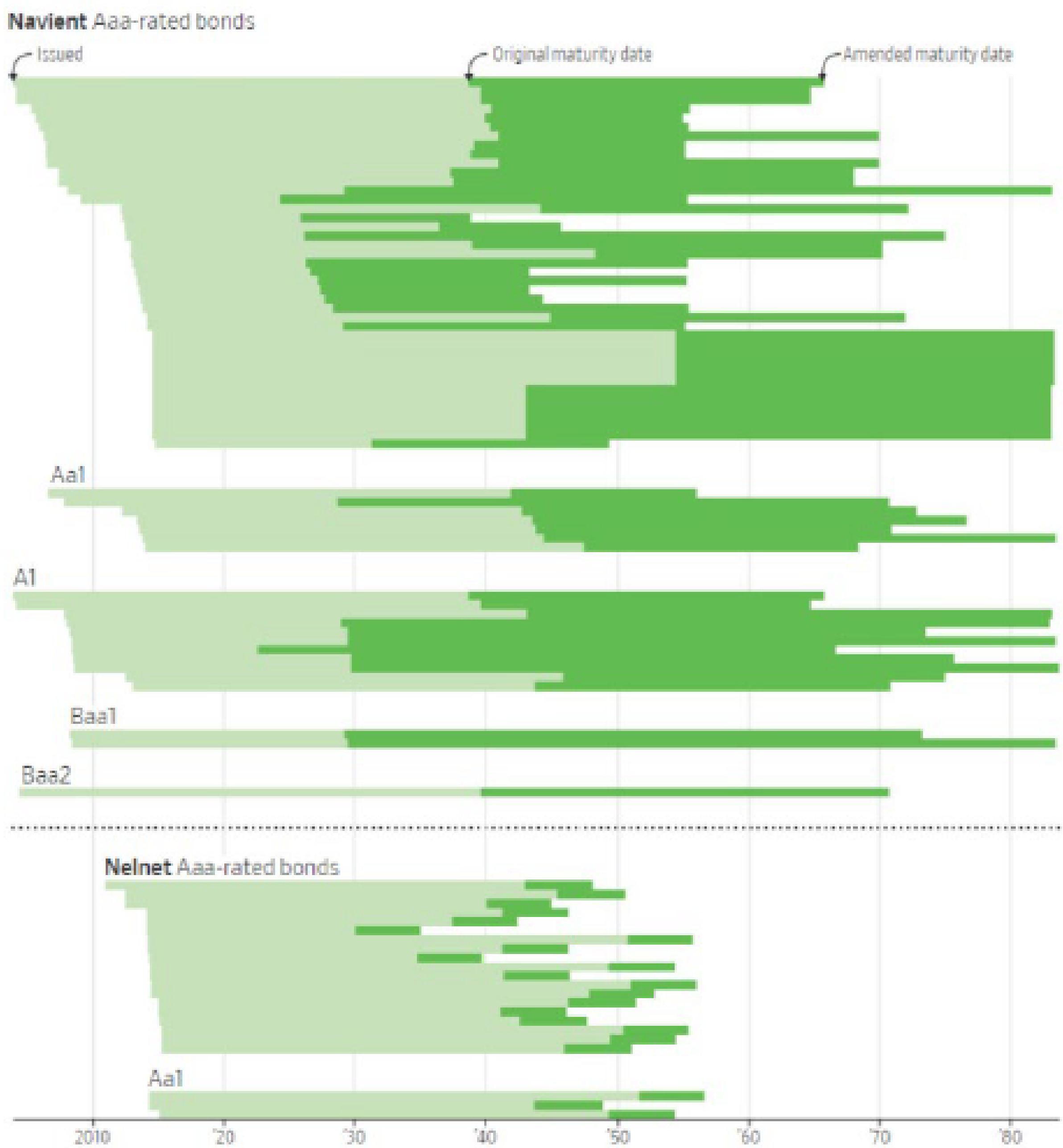
Hey there everybody. It's been a minute since my last SLABS DD. True to my word, I frantically covered content until I felt I had adequately explored the rabbit hole for the time being. After that last DD dropped, I hit a total dead end in leads and didn't want to force anything. I wasn't even really planning on writing this one until I saw some news trending on Twitter that I'll talk about here in a minute. However, this is also true in part because I realized that the SLABS bubble is still in the much earlier stages than I believed when I first wrote about this issue. Trust me, about $340 billion in SLABS-able loans is nothing to ignore and will have an impact on the economy in the event they crash (especially if there is a larger market betting on these SLABS themselves like in '08 w/ MBS), but a vast majority of the loans are still secured by promises from the government (albeit a government in political turmoil with trillions of *its own* debt). Anyways, it's still worth talking about, but I actually believe auto loan asset backed securities, or ALABS, are the bigger threat - since they're about as widespread and don't have this distinction between federal and private that prevents a large majority of loans from being ABS-able. So I'd encourage all you readers to check out the DDs I did on ALABS, which can be found HERE (https://www.reddit.com/r/Superstonk/comments/rqle93/the_big_short_again_auto_loans_bubble_edition/), with Part 2 HERE (https://www.reddit.com/r/Superstonk/comments/rqpup4/the_big_short_again_the_auto_loan_asset_backed/) .

I would recommend reading my other SLABS DDs before this one. You can catch up here: Part 1, Part 2, and Part 3, 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/).

Phew! As of right now I do not feel I have any errors to correct in Part 5 since I released it. As usual, if a comment or DM proves me wrong, I will be editing this post and that post to include an update. Now, onto Part 6!

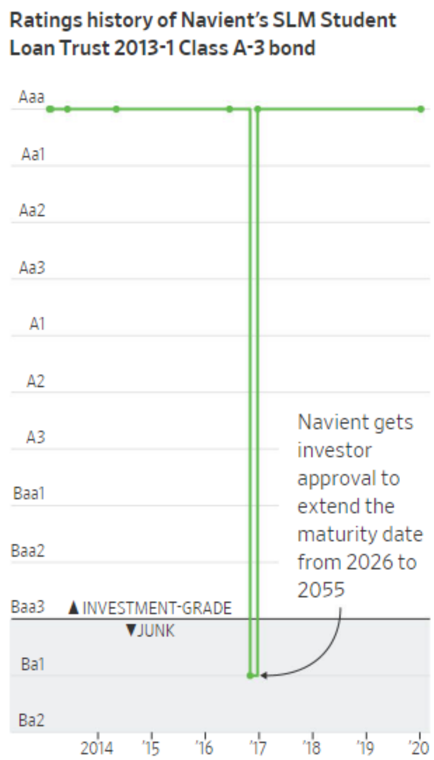
Let's start off with the news I saw on Twitter that prompted this post in the first place. The news just broke that a group of big-name top universities like Yale, Georgetown, Brown, Cornell, Vanderbilt and Northwestern just to name a few colluded to limit financial aid given to students. This article reads, *" According to a lawsuit filed in Illinois federal court late Sunday by law firms representing five former students who attended some of the schools, the universities engaged in price fixing and unfairly limited aid by using a shared methodology to calculate applicants' financial need. Schools are allowed under federal law to collaborate on their formulas, but only if they don't consider applicants' financial need in admissions decisions. The suit alleges these schools do weigh candidates' ability to pay in certain circumstances, and therefore shouldn't be eligible for the antitrust exemption... "While conspiring together on a method for awarding financial aid, which raises net tuition prices, defendants also consider the wealth of applicants and their families in making admissions decisions," said Eric Rosen, a partner at Roche Freedman involved in the suit who was a lead prosecutor on the federal Varsity Blues college admissions-cheating investigation in 2019."* Alright, let's unpack this. Basically what this is lawsuit is saying is that top universities colluded and engaged in price fixing which ultimately led to raising net tuition prices. This totally ties into what I talked about in Part 3! Hedge fund actors, corrupt SEC/Fed members, and basically just the scum of the financial world are all starting to cling to universities and influence tuition in order to get more loans taken out and keep the SLABS machine growing. And ultimately, as you know, this machine is going to collapse because loans are being given out to too many people who cannot afford them. This article really just shows how deep the corruption has run, and at the expense of the average American.

This next tidbit comes in from u/BadassTrader. Thanks ape(ette)! This article talks about how student loan issuers are avoiding downgrades by drastically extending maturation dates. Check this out: *"Julie Chinnock is 50 years old and owes* *about $250,000 in student loans. She was happy to get a new payment plan that lowered her monthly bill, but the holders of two bonds backed by her loans were probably less cheerful. The two bonds were due in 2043 and 2054, but Ms. Chinnock and other borrowers were paying less each month under a new government plan that tied debt payments to income. Because borrowers were taking longer to pay off their loans, there was a risk the bonds backed by the loans wouldn't be paid off in time. Bond-rating firms were watching and getting ready to downgrade the highly rated bonds, potentially causing losses for investors. The issuer of the bonds and the investors who owned them hatched a plan to avoid the downgrades. Their solution: make sure bonds were paid off in time by extending their maturity dates by decades. The bonds that include a big chunk of Ms. Chinnock's loans now mature in 2083, when she will turn 114. Today, the bonds are rated triple-A. Altogether, issuers have extended maturities on about $11.5 billion of outstanding bonds backed by mostly older-vintage student loans, extending maturity dates by as much as 54 years."* Ok. So it looks like loaning companies are drastically extending maturation dates in order to avoid downgrades. This is a problem that has several impacts which I will discuss shortly, but this interesting chart from the same source helps demonstrate this concept visually.



Note: Ratings shown are the current Moody's ratings

So what does this mean? Basically, this: companies have begun extending the maturation date of loans in order to make sure people pay off their loans and thus the loans will not get downgraded. However, clearly this turns into a problem for several reasons. One, it is an indicator of how at risk the government is for *not* being able to repay these loans. The entire reason the maturation dates are being extended is to put the burden of the loan firmly on the individual instead the government, which would've had to cover in the event the individual cannot pay. **To me, this is a red flag that companies don't actually trust the government to repay loans that mature while still unpaid completely, which is a large percentage of student loans.** Yikes. Also, the other edge of this sword is that a lot of debt has now been put back on the borrowers, *who again couldn't even pay these loans off in the first place.*



Here is a look at what happens if companies *don't* do this. You can clearly see Navient jump off a cliff once it has been determined that these loans need more time to be paid out: as soon as Navient extends the maturity date the loans jump right back up to AAA.

So let's just take a minute to get at the root of the problem. The article continues, saying *"Congress created the maturity issue when it let borrowers tie their payments to their income. The program, known as income-based repayment, began in 2009. The program capped federal student loans' monthly payments at 15% of discretionary income, which meant some loans wouldn't be paid off when the securities they backed came due. These particular bonds were sold by private lenders that originated federally guaranteed student loans. About $262 billion of those loans remain outstanding and 26% are in default, Education Department data show. Under the guarantee, the federal government pays off the loans when borrowers die. Congress ended that program in 2010 and replaced it with direct lending via the Education Department. These newer loans, which are held by the government, total about $1.2 trillion, of which 10%, or about $120 billion, are in default, department data show."* So, a couple of things. You can see the income-based repayment plan has much larger levels of default. This goes along with how I've discussed IBR plans in the past, showing that these really are a problem. You can see that the government pays off loans when borrowers die. Well, the loan in the original anecdote wasn't supposed to mature until the lady was 114, meaning the government would still have to pay off some of the loan: **the extension is essentially just a way to can-kick the government from needing to repay for as long as possible, because companies don't trust a) borrowers to pay off their loans in time and b) the government to be**

able to adequately cover and funds they have to, so they have increased this time.

Finally, the article concludes with *"The threat of downgrades got the attention of federal regulators at the Consumer Financial Protection Bureau. In a 2015 report, the agency's student loan ombudsman cited issuers' "economic incentive to ensure that bonds backed by these loans perform on schedule" as a concern because it might mean issuers steer borrowers toward temporary payment pauses and away from income-based repayment plans that provide longer-term relief. In January 2017, the CFPB sued Navient for allegedly "failing borrowers at every stage of repayment. " Navient says the CFPB's allegations are false and is fighting the lawsuit."* Now, I already mentioned Navient getting sued into irrelevancy in one of my previous DDs, but I just wanted to show very quickly how these companies really are willing to do anything to maintain these AAA ratings despite the underlying risks.

Finally, I'd like to end with this really cool animated chart that shows just how big the markets for these loans and ALABS are. This should hopefully drive home my point about these bubbles and encourage you to read up on the rest of my DDs.

This video is from u/PieChartPirate. Thanks man!

For more on this point, I would just like to demonstrate the scope of the mortgage-backed-security bubble in 2008 and how that compares to these bubbles. According to Investopedia, *"By March 2007, the value of subprime mortgages had reached around $1.3 trillion".* Ok. This should help us ground ourselves a bit. The entire student loan market itself makes up around $1.3T, but only about 20% of student loan holders are in default. Therefore, I believe this bubble to be approximately 1/5 the size of the 2008 bubble. However, the auto loan bubble that I discussed in my ALABS DDs is slightly larger The auto loans market total is also about $1.3T, however 25% of auto loans are in subprime, making this bubble about 1/4 the size of the 2008 bubble. This is just personal opinion though - remember in 2008 it wasn't just about the subprime mortgage bubble itself, but the larger market *betting on* those MBS.

TL:DR

A bunch of universities just got sued for jacking up tuition rates. Remember, jacking up tuition rates makes more students takes out loans which makes these companies more money. I already showed in Part 3 how universities are being infiltrated by hedge fund interests.

Loan issuers have now started drastically extending the maturation dates of loans in order to squeeze out the maximum amount of money from borrowers and can-kick the government's involvement with payment for as long as possible. To me, this demonstrates a lack of faith in the ability of the government to cover the remaining cost of these loans, and will put even more of a burden on the individual borrower, leading to further increased defaults across the board.

Finally, it's clear that while both of these bubbles may be in their earlier stages, they both still pose a significant risk in the event that the underlying assets crash.

Thanks again for all your continued support. I am not a financial advisor, please do not ask me how to make money off this play. As always, I believe that GME is the best hedge against a market crash (not financial advice though). Again, I would encourage you all to check out my ALABS DDs as well Buy, Hold, DRS, and keep sending me leads to follow! Thanks.