Zacks Small-Cap Research

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The First Marblehead Corporation (FMD-NYSE)

UPDATE: FMD Launches New Private Student Loan Consolidation Product with SunTrust Bank

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	06/10/2010
Current Price (08/09/12)	$1.14
Six- Month Target Price	**$1.25**

OUTLOOK

Our recommendation on The First Marblehead Corporation (FMD) remains Neutral. FMD is in the initial stages of a turnaround. It has rolled out its new partnered lending program with two lenders, Sun Trust Bank and Kinecta Federal Credit Union, has added tuition payment services to its product line-up through the acquisition of TMS, and recently began using its Union Federal Savings Bank (UFSB) subsidiary to originate private education loans. That said, we believe that any meaningful pickup in revenues will be dependent upon a significant ramp-up in partnered lending and UFSB loan origination and the re-entry of FMD into the securitization market, in which it has not participated since September 2007. Until that time, FMD continues to lose money, though at a decelerating pace, with our diluted loss per share estimates at $0.58 in fiscal 2012 and $0.45 in fiscal 2013, an improvement over fiscal 2011's loss per share of $0.87 before a nonoperating gain. Fortunately, FMD has strengthened its balance sheet, has an available cash cushion of about $191 million, and expects to reduce its cash burn rate by 26% to about $10 million per quarter from $12-13 million per quarter, due to staff reductions and operating expense cutbacks from outsourcing operations and TMS's call center. The deconsolidation of the NCSLT Trusts in the second quarter and the GATE Trusts in the third quarter go a long way toward improving understanding of the Company, in our opinion.

SUMMARY DATA

52-Week High	**$1.52**
52-Week Low	**$0.85**
One-Year Return (%)	**-19.72**
Beta	**1.92**
Average Daily Volume (sh)	**71,573**
Shares Outstanding (mil)	**102**
Market Capitalization ($mil)	**$116**
Short Interest Ratio (days)	**29.60**
Institutional Ownership (%)	**36**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small-Value**
Industry	**Fin-Cons Loans**
Zacks Rank in Industry	**6 of 10**

ZACKS ESTIMATES

Net Revenue*
(in millions of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	13.5A	10.1A	(16.8)A	9.5A	16.3A
2011	5.1A	9.5A	(14.6)A	7.5A	7.5A
2012	12.3A	8.0A	15.0A	10.4E	45.7E
2013					51.4E

Earnings per Share*
(EPS is operating earnings before nonrecurring items)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	$(0.95)A	$(0.12)A	$(0.30)A	$(0.10)A	$(1.46)A
2011	$(0.16)A	$(0.10)A	$(0.41)A	$(0.19)A	$(0.87)A
2012	$(0.19)A	$(0.15)A	$(0.09)A	$(0.14)E	$(0.58)E
2013					$(0.45)E

*Education finance only in 2011-12
Quarterly EPS may not add to total dues to changes in shares outstanding

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UPDATE

On August 2, 2012, FMD announced the launch of a of new private student loan consolidation product with SunTrust Bank that will allow students to refinance their existing private student loans into one new loan at a fixed or variable interest rate with a single payment, and the potential to reduce their current monthly payment and interest rate. The program runs for two years and has a similar structure to those that exist for other SunTrust loan programs based upon the Monogram platform.

FMD will perform loan processing services, program support and portfolio management services, program administration services, and production support services for which it will earn a fee. In addition, FMD will provide credit enhancement through funding a participation account to serve as a first-loss protection for defaulted loans.

The agreement prohibits FMD from launching any consolidation programs offering both fixed and variable terms within the same application session. FMD is able to launch additional consolidation programs; however for the first 14 months, any such program cannot be priced lower than the SunTrust product nor can it be marketed in any of SunTrust's footprint states.

Additionally, SunTrust agrees not to promote this program to borrowers that have loans owned by one of the National Collegiate Student Loan Trusts, nor will FMD purchase lists or customer data of borrowers that have a loan owned by SunTrust.

Initial program size has not yet been disclosed by FMD, but we believe that growth potential looks promising. That said, we are not changing our EPS estimates at this time, but will wait to learn more about this new program when FMD announces fourth quarter and full-year results after market close on August 14, 2012.

In other news, the Consumer Financial Protection Bureau (CFPB) recently announced findings on the private student loan (PSL) industry. Significant recommendations that affect PSL lenders include:

- Improved disclosure regarding the availability of federal student loans
- Enhanced cooperation between lenders and higher education institutions to prevent overborrowing by students
- Creating a database for private student loans similar to the National Student Loan Data System (NSLDS) for federal student loans to aid borrowers in understanding their total debt obligations
- Permitting dischargeability of private student loan debt in bankruptcy to borrowers who are experiencing financial distress

Regarding dischargeability, we're not sure if this would have a significant impact on the PSL industry as more than 80% of private student loans currently underwritten are cosigned by high-quality guarantors having strong credit profiles (FICO scores of 750 or better).

OVERVIEW

The First Marblehead Corporation (FMD) provides student loan services to financial and education institutions throughout the United States. These services are comprised of an integrated suite of private student loan design, implementation, and credit risk management services that help these institutions meet their risk, strategic and financial goals while maintaining regulatory compliance.

FMD offers these services under the Monogram® platform (Monogram), a new product for FMD that was developed over the last few years. Monogram utilizes FMD's proprietary credit risk analytics models, which are based upon data gathered by FMD over 20 years and among the most sophisticated in the industry. Through the partnered lending program based upon Monogram, FMD receives service fees, as well as a portion of the net interest income generated portfolio of program loans for which they provide credit enhancement

Currently, FMD has two clients using Monogram though its partnered lending program: SunTrust Bank, headquartered in Atlanta and serving the Southeast and mid-Atlantic regions, with more than $170 billion in assets; and Kinecta Federal Credit Union, a California-based federal credit union with over $3.5 billion in assets. Program capacity is $500 million for SunTrust and $75 million for Kinecta, with maturities of early 2015 for SunTrust and mid 2013 for Kinecta.

With the December 2010 purchase of Tuition Management Systems (TMS) for $47 million, FMD has added a complementary fee-for-service business to its line-up. TMS, one of the nation's largest providers of outsourced tuition planning, billing, counseling, refund management and payment technology services for colleges, universities, and elementary and secondary schools, operates in 47 states and now serves over 760 school clients, including such prestigious institutions as Duke University, Boston College, University of Chicago, MIT, and Carnegie Mellon. TMS is expected by FMD to add approximately $26-27 million of total revenues in fiscal 2012.

FMD also owns a small federally chartered thrift, Union Federal Savings Bank of North Providence, Rhode Island (acquired in November 2006), that offers residential and commercial mortgage loans, private student loans, and retail savings, money market and time deposit products. Union Federal began originating Monogram-based private education loans in July, 2011.

Financial statements were considerably altered with the beginning of the fiscal 2011 year (ending June 30, 2011), following the adoption of new accounting standards, which required the consolidation of 14 securitizations trusts that had previously been accounted for off balance sheet. Thus, $8.2 billion of securitized loan receivables from the trusts were added to FMD's balance sheet, along with $9.0 billion of nonrecourse debt issued by the trusts. However, with the recent sale of FMD's variable interest in the NCSLT Trusts as well as the sale of FMDS and related transactions, assets and liabilities of these 14 entities were deconsolidated: 11 entities in fiscal 2012's second quarter (ending December 31, 2011) and 3 entities in the 2012 fiscal third quarter (ending March 31, 2012).

Prospectively, FMD's financial statements will include only the operations of the education financing segment as opposed to the two segments reported (education financing and securitization trusts) when the securitization trusts were consolidated.

VALUATION

FMD's stock valuation metrics are depressed. Although FMD is in the initial stages of a turnaround and we are encouraged by the progress made to date, the outlook remains somewhat murky. Moreover, FMD continues to lose money, though at a decelerating pace, with our diluted loss per share estimates at $0.58 in fiscal 2012 and $0.45 in fiscal 2013, an improvement over fiscal 2011's loss per share of $0.87 before a nonoperating gain

Though FMD's share price has rebounded 34% from a recent low of $0.85 that it hit on November 10, 2011, it is down 2.6% year to date and also down 22% from 2012's high of $1.52 reached on February 22, 2012, and now sells at $1.14 per share. We note that FMD's stock ran afoul of the continued listing standards of the New York Stock Exchange in early November 2011, when its average closing price fell below the required $1.00 per share over a consecutive 30 trading-day period. Positively, this was cured in early January.

That said, the stock remains below its 52-week high of $1.52, but is now trading within the Company's historical norms based upon Price/Book Value. Using Price/Book Value, we note that FMD is valued at 0.48X, though this is below FMD's average Price/Book Value of roughly 0.70X for the past couple of years.

Applying the 0.70X ratio to our estimated book value for FMD six months out results in a price target of approximately $1.25. We continue to recommend a Neutral on FMD shares.

Industry Comparables- Small-Cap Financial Services

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2012E	2013E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
First Marblehead	**(2.6)**					**0.48**	**Neg**	**Neg**	**Neg**	**Neg**	**-----**
S&P 500	**11.5**	**14.5**	**13.8**	**12.9**	**17.0**	**8.6**	**45.2**		**9.79**		**2.1**
Median	**9.0**	**10.1**	**9.4**	**8.5**	**10.4**	**1.23**	**12.5**	**13.43**	**5.04**	**4.4**	**-----**
Average	18.3	12.8	9.7	9.1	14.7	2.0	16.1	(13.06)	6.38	(8.3)	1.5
High	75.1	36.8	18.1	15.6	64.1	9.6	54.3	42.47	40.85	32.9	11.0
Low	(60.0)	5.0	3.5	4.6	5.9	0.5	(14.8)	(355.32)	(5.92)	(222.9)	-----

*Trailing twelve months

The First Marblehead Corporation

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	06/07	06/08	06/09	06/10	06/11	06/12 E	06/13 E
Net interest income	9.4	25.6	25.1	9.9	0.7	2.4	5.4
Non-interest revenue	871.3	(54.0)	(315.1)	6.4	6.8	43.3	46.0
Total net revenue	880.7	(28.4)	(290.0)	16.3	7.5	45.7	51.4
Loan loss provision (credit)	0.0	0.0	0.0	0.0	0.3	(0.5)	0.1
Non-interest expense	253.0	358.5	260.8	232.1	93.5	103.9	95.6
Income tax expense (credit)	256.4	(151.8)	(187.8)	(70.3)	1.1	1.7	1.2
Education financing net income before NRI	**371.3**	**(235.1)**	**(363.0)**	**(145.5)**	**(87.4)**	**(59.4)**	**(45.5)**
Securitization trusts net income & eliminations	0.0	0.0	0.0	0.0	(140.2)	1,136.1	0.0
Zacks adjusted net income before NRI	371.3	(235.1)	(363.0)	(145.5)	(227.6)	1,076.7	(45.5)
GAAP net income	371.3	(235.1)	(363.0)	(145.5)	(221.6)	1,101.7	(45.5)
Education financing EPS	**3.92**	**(2.46)**	**(3.66)**	**(1.46)**	**(0.87)**	**(0.58)**	**(0.45)**
Reported EPS	3.92	(2.46)	(3.66)	(1.46)	(2.20)	9.96	(0.45)
Dividends per share	0.58	0.40	0.00	0.00	0.00	0.00	0.00
Cash & short-term investments	234.9	221.1	173.1	381.0	267.4	197.5	154.5
Restricted cash & GICs	0.0	0.0	0.0	1.0	124.7	50.0	50.0
Loans	37.1	508.1	360.5	113.6	6.4	40.0	95.0
Receivables	809.7	411.2	233.9	73.3	2.9	0.0	0.0
Other assets	132.8	60.5	53.8	64.5	106.1	126.0	122.0
Total education financing assets	**1,214.5**	**1,200.9**	**821.3**	**633.4**	**507.5**	413.5	421.5
Securitization trusts assets & eliminations	0.0	0.0	0.0	0.0	7,144.4	0.0	0.0
Total assets	1,214.5	1,200.9	821.3	633.4	7,651.9	413.5	421.5
Deposits	53.5	244.1	154.5	108.7	60.5	74.8	129.8
Restricted funds due to clients	0.0	0.0	0.0	0.0	121.9	90.0	90.0
Short-term borrowings	0.0	242.9	230.1	218.1	0.0	0.0	0.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	318.4	76.3	31.2	36.8	67.8	23.2	21.7
Education financing shareholders' equity	842.6	637.6	405.5	269.8	257.3	225.5	180.0
Education financing liabilities and equity	**1,214.5**	**1,200.9**	**821.3**	**633.4**	**507.5**	413.5	421.5
Securitization trusts liabilities & eliminations	0.0	0.0	0.0	0.0	8,281.7	0.0	0.0
Securitization trusts equity & eliminations	0.0	0.0	0.0	0.0	(1,137.3)	0.0	0.0
Total liabilities and equity	1,214.5	1,200.9	821.3	633.4	7,651.9	413.5	421.5

The First Marblehead Corporation

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
	Q1 A	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 E**
Net interest income	0.1	0.2	0.4	0.1	0.3	0.5	0.8	0.8
Non-interest revenue	5.0	9.3	(15.0)	7.4	12.0	7.5	14.2	9.6
Total net revenue	5.1	9.5	(14.6)	7.5	12.3	8.0	15.0	10.4
Loan loss provision	0.1	0.2	0.0	0.0	(0.2)	(0.1)	(0.2)	0.0
Non-interest expense	20.0	19.5	27.2	26.9	31.0	24.1	25.5	24.5
Income tax expense (credit)	1.1	(0.0)	(0.1)	0.1	0.5	0.3	0.5	0.4
Education financing net income before NRI	**(16.1)**	**(10.2)**	**(41.7)**	**(19.5)**	**(19.0)**	**(16.3)**	**(10.8)**	**(14.5)**
Securitization trusts net income & eliminations	(48.9)	(29.3)	2.4	(64.3)	(69.8)	1,197.8	8.1	0.0
Zacks adjusted net income before NRI	(65.0)	(39.5)	(39.3)	(83.8)	(88.8)	1,181.5	(2.7)	(14.5)
GAAP net income	(65.0)	(33.4)	(39.3)	(83.8)	(88.0)	1,194.3	9.9	(14.5)
Education financing EPS	**(0.16)**	**(0.10)**	**(0.41)**	**(0.19)**	**(0.19)**	**(0.15)**	**(0.11)**	**(0.14)**
Reported EPS	(0.64)	(0.33)	(0.39)	(0.83)	(0.87)	10.82	0.09	(0.14)
Dividends per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash & short-term investments	328.6	293.8	278.7	267.4	245.4	217.7	210.5	197.5
Restricted cash & GICs	0.0	147.0	97.4	124.7	142.1	144.5	46.0	50.0
Loans	8.6	8.0	6.9	6.4	14.0	23.7	39.0	40.0
Receivables	21.3	14.6	2.7	2.9	0.0	12.5	16.9	0.0
Other assets	67.1	118.1	105.7	106.2	113.8	99.8	128.9	126.0
Total education financing assets	**425.6**	**581.5**	**491.4**	**507.6**	**515.3**	**498.2**	**441.3**	413.5
Securitization trusts assets & eliminations	7,824.8	7,504.1	7,347.8	7,144.3	6,972.9	258.3	0.0	0.0
Total assets	8,250.4	8,085.6	7,839.2	7,651.9	7,488.2	756.5	441.3	413.5
Deposits	79.5	55.9	57.3	60.5	66.4	68.1	73.8	74.8
Restricted funds due to clients	0.0	147.0	94.7	121.9	139.5	143.9	85.4	90.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	28.6	64.1	65.4	67.8	69.9	49.1	42.1	23.2
Education financing shareholders' equity	317.5	314.5	274.0	257.4	239.5	237.1	240.0	225.5
Education financing liabilities and equity	**425.6**	**581.5**	**491.4**	**507.6**	**515.3**	**498.2**	**441.3**	413.5
Securitization trusts liabilities & eliminations	8,869.6	8,578.2	8,419.6	8,281.7	8,178.8	266.4	0.0	0.0
Securitization trusts equity & eliminations	(1,044.8)	(1,074.1)	(1,071.8)	(1,137.4)	(1,205.9)	(8.1)	0.0	0.0
Total liabilities and equity	8,250.4	8,085.6	7,839.2	7,651.9	7,488.2	756.5	441.3	413.5

HISTORICAL ZACKS RECOMMENDATIONS



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