Zacks Small-Cap Research

February 15, 2012
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# The First Marblehead Corporation (FMD-NYSE)

## FMD: Second Quarter – Enhanced Clarity - NEUTRAL

| | |
|---|---|
| **Current Recommendation** | **Neutral** |
| Prior Recommendation | N/A |
| Date of Last Change | 06/10/2010 |
| Current Price (02/14/12) | $1.46 |
| **Six- Month Target Price** | **$1.50** |

## OUTLOOK

Our recommendation on The First Marblehead Corporation (FMD) is 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 $0.63 in fiscal 2012 and $0.56 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, and has an available cash cushion of about $196 million at present, though it is burning cash at the rate of $12-15 million per quarter. The second quarter sale of FMD's interests in the NCSLT Trusts simplifies financial statement presentation, and will go a long way toward improving understanding of the Company, in our opinion.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$2.54** |
| **52-Week Low** | **$0.85** |
| **One-Year Return (%)** | **-34.23** |
| **Beta** | **1.98** |
| **Average Daily Volume (sh)** | **127,706** |
| **Shares Outstanding (mil)** | **101** |
| **Market Capitalization ($mil)** | **$148** |
| **Short Interest Ratio (days)** | **21.93** |
| **Institutional Ownership (%)** | **32** |
| **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 8** |

## 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 | 11.5E | 10.6E | 42.4E |
| 2013 | | | | | 49.0E |

**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 | $(0.15)E | $(0.15)E | $(0.63)E |
| 2013 | | | | | $(0.56)E |

*Education finance only in 2011-13
Quarterly EPS may not add to total dues to changes in shares outstanding

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## SECOND QUARTER

On January 31, 2012, the Company reported its fiscal 2012 second quarter results for the period ending December 31, 2011. For the quarter, FMD recorded a net loss from education financing of $3.5 million, or a diluted loss per share of $0.03, including a $0.3 million gain on proceeds from the TERI settlement and a $12.5 million one-time tax benefit related to FMD's settlement with the Massachusetts Appellate Tax Board. Excluding the TERI gain and tax benefit, the net loss was $16.3 million or a diluted operating per share loss of $0.15.

Total net earnings, including the securitization trusts net income of $1.2 billion, was $1.2 billion, or $10.82 per diluted share, including a $1.2 billion gain from the deconsolidation of the NCSLT Trusts when FMD sold its variable interests in these trusts on November 14, 2011. Sale of these interests simplifies financial statement presentation, leaving only education financing and the GATE Trusts, in which FMD owns 100% of the residual interests, on the balance sheet and income statement. This clarification will go a long way toward improving understanding of the Company, in our opinion.

Our second quarter loss estimate for the education financing segment was $18.1 million, or a loss of $0.18 per diluted share. Both revenues and expenses came in lower than we had anticipated, with the benefit from reduced costs outweighing the shortfall in revenues.

On the revenue side, the primary reason for the shortfall was a $3.1 million negative swing in additional structural advisory fees to a loss of $2.8 million as a result of the sale, which compares with our estimate of a $0.3 million gain. Most other revenue line items were below our estimates as well, so that net revenues of $8.0 million were well below our $12.8 million estimate.

Positively, TMS posted administrative fee revenue of $7.2 million during the second quarter on a 2% advance in tuition payments processed to $1.1 billion (since the TMS acquisition occurred on December 31, 2010, TMS is not included in the year-ago quarter). While this is down $0.1 million from 2012's first quarter, TMS is still on track to post net revenues for the year of almost $28 million.

As to expenses, noninterest expense was $24.1 million, $6.1 million shy of our $30.2 million estimate, and compares to $31.0 million in 2012's first quarter. According to the Company, this primarily reflected $2.7 million in reduced marketing expenses, $2.0 million from seasonality issues at TMS, and $1.4 million in credits related to sublease income and to the Massachussetts Apellate Tax Board decision.

Going forward, FMD announced that it is embarking on a significant cost-cutting program, primarily stemming from operations related to legacy issues of the now-sold NCSLT Trusts. This includes reduced headcount, though no cutbacks are expected in the marketing staff for the Mongram program or at TMS.

Net income from the GATE Trusts, in which FMD owns 100% of the residual interests, was $1.3 million, or $0.01 per share, compared to $1.7 million or $0.02 per share in the prior-year quarter.

We are changing our education financing diluted per share loss estimates to $0.63 from $0.70 for fiscal 2012, ending June 30, 2012, and to $0.56 from $0.65 for fiscal 2013, ending June 30, 2013, largely reflecting lower expenses than we had previously estimated, in part related to FMD's cost-cutting program. This compares to an education financing net loss of $87.4 million (excluding a $6 million of nonoperating gain) in fiscal 2011, or a $0.87 loss per diluted share.

Below we discuss 2012 fiscal second quarter results in more depth.

### *Business Review*

FMD has had an auspicious launch to its first peak origination student loan season since the beginning of the credit crisis in 2007. Including the Monogram-based loan programs at Sun Trust and Kinecta that began in July and September 2010, respectively, as well as at Union Federal Savings Bank (UFSB),

which began on July 1, 2011, the Company has processed over 72,000 private student loan applications representing $718 million in loans, of which it has approved $159 million, or almost one-quarter of the $718 million total. Of the total $159 million amount approved, $43.6 million has been booked to date.

These metrics demonstrate that loan demand is quite strong and that FMD is accepting only the cream of the crop, the top 22% of all loans submitted. This is further borne out by the credit quality statistics of the loans that have been approved: a weighted-average credit score of 759; 87% are cosigned, 62% are in immediate repayment; 94% have repayment terms of 15 years or less; weighted average interests rates of 6.10% for variable-rate loans and of 8.60% for fixed-rate loans; and 80% of loans are fixed rate, generating a higher margin for FMD. To date, there has been only one loan default in the Monogram program.

While the Sun Trust and Kinecta loan programs contribute 300-400 basis points of revenue per loan, the net interest margin is higher for UFSB. At UFSB, the weighted average yield on the education loan portfolio is 6.1%, while funding costs are roughly 100 basis points, leaving a net interest margin of about 5.1%. This is roughly 100-200 basis points larger than the revenue contribution from the SunTrust and Kinecta loan programs.

On both programs, there are additional costs related to defaults and administrative costs. The Company estimates net charge-offs on the UFSB loans at 75-100 basis points and defaults costs on the SunTrust and Kinecta portfolios at 50-75 basis points. In addition, FMD estimates servicing costs on the UFSB loans at 30-50 basis points. While FMD did not disclose administrative and marketing costs for the SunTrust and Kinecta loan programs, we would assume that they are comparable in size to the servicing costs at UFSB.

Clearly, the UFSB loans are more profitable for FMD than either the Sun Trust or Kinecta loan programs. However, lending capacity at UFSB is limited given current regulatory capital constraints, and remains far below the loan capacity of $200 million at Sun Trust and of $75 million at Kinecta.

There are a couple of options available to FMD to increase lending capacity at UFSB. First, FMD could downstream cash from the holding company as a capital contribution to UFSB. With a larger capital base, UFSB could lend more. In fact, this occurred in 2012's second quarter when FMD contributed $4 million of capital to UFSB.

In addition, FMD has been exploring the establishment of a warehouse line of credit at an investment bank, which could house UFSB's education loans until they are ready to be securitized. This would free up capital at UFSB since the loans would be transferred to a warehouse facility.

The investment bank would underwrite the financing and FMD would earn structural and advisory fees for structuring the transaction, though it is unclear if FMD would earn fees similar to those it received in the past. While we sense nothing is imminent, once loan volume at UFSB reaches $50-100 million, it might make sense financially to go the securitization route, recognizing that FMD has been out of the securitization market since the fall of 2007 and initial terms could be somewhat onerous until FMD regains acceptance in this market.

Future growth prospects for the Monogram loan program appear bright. FMD recently added nine people to its sales staff and now has a 16-member sales team that has visited over 1,100 schools across the country. FMD currently has Monogram lending programs approved on 393 lender list positions in 30 states, a 15% increase from 341 lender list positions at the end of the previous quarter in September. This is expected to grow in 2012 due to the addition of UFSB, though it may require a bit of time for UFSB's loan products to gain market acceptance. Moreover, as these Monogram lending programs mature, the likelihood of repeat business increases.

From a macro standpoint, pressure on the US government's budget could cause a reduction in federal student loan programs, which could benefit private student lenders, including First Marblehead. In

addition, as regional banks enter the private student loan sector or expand beyond their lending footprints beyond their territories to enhance diversification, FMD's high-quality Monogram private student education loans could be a good fit.

At TMS, revenues are likely to come in at the upper end of FMD's previously disclosed $25-28 million range in fiscal 2012. TMS accounted for $7.2 million of 2012 first quarter non-interest revenues, with a similar contribution expected in the third quarter. The fourth quarter is likely to total $4-6 million in revenues, with the decline the result of the typical seasonal slowdown in payment processing as the school year winds down.

A new product that FMD began offering in the first quarter is refund management, with its first client to come on board later in the third quarter. Through refund management, which fits nicely with other services offered by TMS, TMS provides a debit card to students to pay for living expenses, relieving colleges of the administrative burden of issuing checks periodically for this purpose. Debit cards are initially being issued by a third-party vendor, though at some point in the future could be issued by FMD's UFSB subsidiary.

FMD expects UFSB to become profitable in 2012's second half following a small loss in the first half. A couple of factors are contributing to this more positive outlook. First, a $40 million deposit related to TMS was transferred from a third party to UFSB in the second quarter. Since it was placed in a noninterest-bearing DDA account, this will reduce UFSB's average cost of funds by about 40 basis points, to 60 basis points from 100 basis points. Just as importantly, the funds were invested in higher interest earning mortgage-backed securities and education loans (as compared to the puny returns earned on cash and other short-term investments). Thus, the net interest margin should benefit from both higher interest income and reduced interest costs.

The $40 million deposit transfer expanded UFSB's balance to about $125 million from $81 million, requiring a $4 million capital contribution from FMD to beef up UFSB's equity so that it continues well capitalized. At December 31, 2011, UFSB's Tier 1 capital ratio was 52.0%, its Total capital ratio was 53.1%, and its Tier 1 core ratio was 11.7%, all well above the required levels. We would expect FMD to make additional capital contributions in the future to keep UFSB well capitalized.

*Financial Review*

On January 31, 2012, the Company reported its fiscal 2012 second quarter results for the period ending December 31, 2011. For the quarter, FMD recorded a net loss from education financing of $3.5 million, or a diluted loss per share of $0.03, including a $0.3 million gain on proceeds from the TERI settlement and a $12.5 million one-time tax benefit related to FMD's settlement with the Massachusetts Appellate Tax Board. Excluding the TERI gain and tax benefit, the net loss was $16.3 million or a diluted operating per share loss of $0.15.

Total net earnings, including the securitization trusts net income of $1.2 billion, was $1.2 billion, or $10.82 per diluted share, including a $1.2 billion gain from the deconsolidation of the NCSLT Trusts when FMD sold its interest in these trusts on November 14, 2011. Sale of these interests simplifies financial statement presentation, leaving only education financing and the GATE Trusts, in which FMD owns 100% of the residual interests, on the balance sheet and income statement. This clarification will go a long way toward improving understanding of the Company, in our opinion.

- Education financing net revenue was $8.0 million, reflecting administrative and other fees of $7.5 million (including those of TMS at $7.2 million) and $0.5 million in net interest income.

- Fiscal first quarter education financing non-interest expense was $24.1 million, down $6.9 million sequentially from the $31.0 million posted in the fiscal first quarter, mainly reflecting $2.7 million in reduced marketing expenses, $2.0 million from seasonality issues

at TMS, and $1.4 million in credits related to sublease income and to the Massachussetts Apellate Tax Board decision.

- At the end of the second quarter on December 31, 2011, the education financing segment had total assets of $498.2 million and stockholders' equity of $237.1 million, down $2.4 million from $239.5 million at the end of the first quarter.

- At December 31, 2011, the Company recorded $217.7 million in cash, cash equivalents, and short-term investments, down $27.7 million sequentially from $245.4 million at the end of September 2011. Of this amount, about $21.6 million was located at Union Federal Savings Bank, with the $196.1 million balance available to FMD for other corporate purposes.

- Overall, net operating cash usage decreased by $2.3 million sequentially, falling to $13.4 million in 2012's fiscal second quarter from $15.4 million for the first quarter ended September 30, 2011, with the improvement largely due to reduced loan acquisition costs.

- As of the earnings release date, the Company held over 393 positions on the lender lists of colleges and universities across the nation, up 15% from 341 at the end of the last quarter.

- FMD began originating Monogram-based private student loans at its UFSB subsidiary on July 1, 2011, the first day of the 2012 fiscal year. Though December 31, 2011, UFSB disbursed $17.4 million of Monogram-based education loans.

Net income from the GATE Trusts, in which FMD owns 100% of the residual interests, was $1.3 million, or $0.01 per share, compared to $1.7 million or $0.02 per share in the prior-year quarter.

*Other News*

On January 6, 2012, FMD confirmed that it had regained compliance with the continued listing standards of the New York Stock Exchange. As previously disclosed on November 2, 2011, the Company ran afoul of this standard when its average closing price fell below the required $1.00 per share over a consecutive 30 trading-day period.

On November 17, 2011, FMD disclosed that the Massachusetts Appellate Tax Board had issued an order (Order) in the cases relating to the Massachusetts tax treatment of GATE Holdings, Inc. In connection with the Order, FMD recognized an income tax benefit during the fiscal second quarter ending December 31, 2011 of approximately $12.5 million. FMD also expects to make net tax payments for GATE's taxable years ended June 30, 2004, 2005 and 2006 of approximately $5.0 million during its fiscal third quarter ending March 31, 2012. FMD could be required to make additional tax payments for GATE's taxable years ended June 30, 2008 and 2009, which could materially adversely affect its liquidity position.

On November 15, 2011, FMD announced it amended its loan program agreement with SunTrust Bank. Key highlights of the new agreement include: (1) increases lending volume through FMD's Monogram platform as all new SunTrust private education lending activity will occur through First Marblehead by the end of the third quarter of fiscal 2012 (previously SunTrust marketed its own private student loan product, in addition to the Monogram product); (2) extends the agreement to January 31, 2015 from April 20, 2012; (3) prohibits SunTrust Bank from marketing non-FMD products through July 1, 2013; (4) increases the Participation Cap and establishes a 54-month waiting period for FMD withdrawals from the Participation Accounts for all loans with applications received on or after July 15, 2012; (5) prohibits FMD from marketing in certain locations exclusive to SunTrust, including the District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, and Tennessee; (6) requires FMD to maintain minimum staffing levels for sales activities in certain states and a minimum amount of sales-related

expenditures for each calendar year for the remaining term of the agreement; and (7) gives FMD the option to securitize or otherwise dispose of education loans made by SunTrust.

On November 14, 2011, FMD announced that it sold to VCG Special Opportunities Master Fund Limited (VCG) its variable interests in its National Collegiate Student Loan Trusts (NCSLT Trusts) for $13 million in cash. Notably, this allowed FMD to deconsolidate the NCSLT Trusts from it financial statements, removing assets of $6.7 billion and liabilities of $7.9 billion, while at the same time booking a $1.2 billion gain on the sale, thereby eliminating the deficit in shareholders' equity related to the NCSLT Trusts. Moreover, this sale provides the Company with $13 million in cash immediately for assets that otherwise would not have generated cash flow until 2025.

We note that the Guaranteed Access to Education (GATE) Trusts were not affected by the NCSLT Trust sale. This means that the GATE Trusts, with approximately $258 million in assets, $266 million in liabilities and generating about $6 million in net income ($0.05 per diluted share) annually, will still be appear on FMD's financial statements.

The Consumer Financial Protection Bureau (CFPB), the agency created by the Dodd-Frank Act to oversee consumer financial affairs in the US, recently announced that it is now seeking comment from the public and the industry on practices related to the private student loan industry, with the view to potentially establishing minimum regulations. We are not sure what impact, if any, this will have on the private student loan industry, in general, and FMD, in particular.

## OVERVIEW

The First Marblehead Corporation (FMD) provides student loan services to financial and education institutions throughout the United States. These services typically consist of helping these institutions design, originate, manage, and finance private education loan programs that further their strategic and financial goals, while also complying with the loan criteria they have established.

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: 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 size is $200 million for SunTrust and $75 million for Kinecta, and have maturities of early 2015 for SunTrust and late 2012 for Kinecta.

Other businesses of FMD include the administration of the National Collegiate Student Loan Trusts (NCSLT Trusts), in which FMD has no ownership interests (their residual interests were sold to a third party in 2009), and the administration of certain other loan trusts and portfolios, for which FMD receives a fee of 0.05-0.20% of the principal loan balance outstanding.

In addition, 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, and payment technology services for colleges, universities, and elementary and secondary schools, operates in 47 states and now serves over 770 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 $25-28 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. FMD had been exploring strategic alternatives for this business, but has retained Union Federal as a vehicle for originating Monogram-based private education loans beginning July 1, 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, assets and liabilities of these 11 entities were deconsolidated in fiscal 2012's second quarter (ending December 31, 2011), leaving only the assets and liabilities of the GATE Trusts, in which FMD retains a 100% ownership interest, still included in the financial statements.

Because of this change, FMD reports two business segments: education financing, which encompasses the fee-for-service operations of the Company, as well as Union Federal Savings Bank; and securitization trusts, which include the 11 NCSLT Trusts (through November 14, 2011) and 3 GATE Trusts. The results for the education financing segment are generally comparable to the financial reporting used by the Company prior to 2011 fiscal year.

## 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 $0.63 in fiscal 2012 and $0.56 in fiscal 2013, an improvement over fiscal 2011's loss per share of $0.87 before a nonoperating gain

FMD's share price has rebounded 72% from a recent low of $0.85 that it hit on November 10, 2011, and is up 24.8% year to date, now selling at $1.46 per share. We're not quite sure what drove the stock price down, but note that FMD's share ran afoul of the continued listing standards of the New York Stock Exchange in early November, 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 and the stock has been climbing steadily ever since.

That said, the stock remains well below its 52-week high of $2.54, 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 0.62X, though this is below FMD's average Price/Book Value of 0.75X for the past couple of years.

Applying the 0.75X ratio to our estimated book value for FMD six months out results in a price target of approximately $1.50. 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** | **24.8** | | | | | **0.62** | **Neg** | **Neg** | **Neg** | **Neg** | **-----** |
| **S&P 500** | **7.4** | **14.3** | **13.2** | **11.9** | **17.2** | **6.3** | **28.5** | | **10.40** | | **2.2** |
| **Median** | **7.9** | **10.1** | **9.0** | **7.2** | **11.4** | **1.34** | **12.2** | **13.82** | **4.29** | **5.2** | **-----** |
| Average | 9.9 | 13.5 | 9.2 | 7.4 | 15.0 | 2.0 | 5.2 | (13.53) | 0.22 | (9.3) | 1.8 |
| High | 35.8 | 37.7 | 14.7 | 14.3 | 64.7 | 7.9 | 41.5 | 40.62 | 31.69 | 31.6 | 11.4 |
| Low | (11.6) | 4.5 | 2.6 | 2.0 | 6.5 | 0.4 | (154.8) | (414.87) | (112.59) | (266.5) | ----- |

*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 | 2.3 | 5.4 |
| Non-interest revenue | 871.3 | (54.0) | (315.1) | 6.4 | 6.8 | 40.1 | 43.6 |
| Total net revenue | 880.7 | (28.4) | (290.0) | 16.3 | 7.5 | 42.4 | 49.0 |
| Loan loss provision (credit) | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | (0.2) | 0.1 |
| Non-interest expense | 253.0 | 358.5 | 260.8 | 232.1 | 93.5 | 109.6 | 109.7 |
| Income tax expense (credit) | 256.4 | (151.8) | (187.8) | (70.3) | 1.1 | 1.4 | 1.2 |
| **Education financing net income before NRI** | **371.3** | **(235.1)** | **(363.0)** | **(145.5)** | **(87.4)** | **(68.4)** | **(62.0)** |
| Securitization trusts net income & eliminations | 0.0 | 0.0 | 0.0 | 0.0 | (140.2) | 1,130.9 | 5.8 |
| Zacks adjusted net income before NRI | 371.3 | (235.1) | (363.0) | (145.5) | (227.6) | 1,062.5 | (56.2) |
| GAAP net income | 371.3 | (235.1) | (363.0) | (145.5) | (221.6) | 1,076.1 | (56.2) |
| **Education financing EPS** | **3.92** | **(2.46)** | **(3.66)** | **(1.46)** | **(0.87)** | **(0.63)** | **(0.56)** |
| Reported EPS | 3.92 | (2.46) | (3.66) | (1.46) | (2.20) | 9.93 | (0.51) |
| 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 | 191.7 | 139.7 |
| Restricted cash & GICs | 0.0 | 0.0 | 0.0 | 1.0 | 124.7 | 150.0 | 150.0 |
| Loans | 37.1 | 508.1 | 360.5 | 113.6 | 6.4 | 35.0 | 75.0 |
| 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 | 112.0 | 112.0 |
| **Total education financing assets** | **1,214.5** | **1,200.9** | **821.3** | **633.4** | **507.5** | **488.7** | **476.7** |
| Securitization trusts assets & eliminations | 0.0 | 0.0 | 0.0 | 0.0 | 7,144.4 | 250.0 | 230.0 |
| Total assets | 1,214.5 | 1,200.9 | 821.3 | 633.4 | 7,651.9 | 738.7 | 706.7 |
| | | | | | | | |
| Deposits | 53.5 | 244.1 | 154.5 | 108.7 | 60.5 | 79.4 | 119.4 |
| Restricted funds due to clients | 0.0 | 0.0 | 0.0 | 0.0 | 121.9 | 150.0 | 150.0 |
| 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 | 55.3 | 65.3 |
| Education financing shareholders' equity | 842.6 | 637.6 | 405.5 | 269.8 | 257.3 | 204.0 | 142.0 |
| **Education financing liabilities and equity** | **1,214.5** | **1,200.9** | **821.3** | **633.4** | **507.5** | **488.7** | **476.7** |
| Securitization trusts liabilities & eliminations | 0.0 | 0.0 | 0.0 | 0.0 | 8,281.7 | 260.0 | 235.0 |
| Securitization trusts equity & eliminations | 0.0 | 0.0 | 0.0 | 0.0 | (1,137.3) | (10.0) | (5.0) |
| Total liabilities and equity | 1,214.5 | 1,200.9 | 821.3 | 633.4 | 7,651.9 | 738.7 | 706.7 |

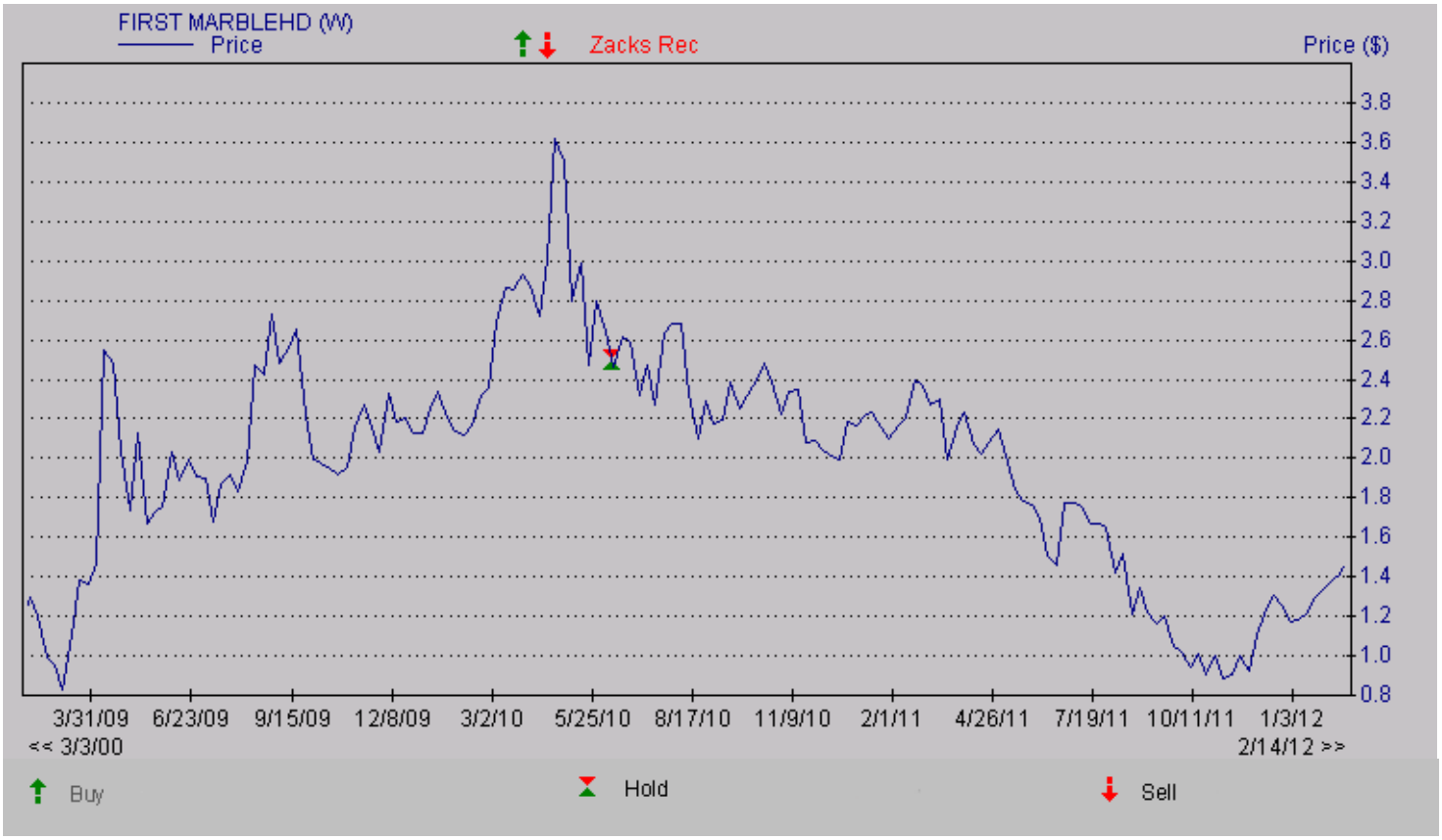
# The First Marblehead Corporation

**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 E** | **Q4 E** |
| Net interest income | 0.1 | 0.2 | 0.4 | 0.1 | 0.3 | 0.5 | 0.7 | 0.8 |
| Non-interest revenue | 5.0 | 9.3 | (15.0) | 7.4 | 12.0 | 7.5 | 10.8 | 9.8 |
| Total net revenue | 5.1 | 9.5 | (14.6) | 7.5 | 12.3 | 8.0 | 11.5 | 10.6 |
| Loan loss provision | 0.1 | 0.2 | 0.0 | 0.0 | (0.2) | (0.1) | 0.0 | 0.0 |
| Non-interest expense | 20.0 | 19.5 | 27.2 | 26.9 | 31.0 | 24.1 | 27.5 | 27.1 |
| Income tax expense (credit) | 1.1 | (0.0) | (0.1) | 0.1 | 0.5 | 0.3 | 0.3 | 0.3 |
| **Education financing net income before NRI** | **(16.1)** | **(10.2)** | **(41.7)** | **(19.5)** | **(19.0)** | **(16.3)** | **(16.3)** | **(16.8)** |
| Securitization trusts net income & eliminations | (48.9) | (29.3) | 2.4 | (64.3) | (69.8) | 1,197.8 | 1.4 | 1.5 |
| Zacks adjusted net income before NRI | (65.0) | (39.5) | (39.3) | (83.8) | (88.8) | 1,181.5 | (14.9) | (15.3) |
| GAAP net income | (65.0) | (33.4) | (39.3) | (83.8) | (88.0) | 1,194.3 | (14.9) | (15.3) |
| **Education financing EPS** | **(0.16)** | **(0.10)** | **(0.41)** | **(0.19)** | **(0.19)** | **(0.15)** | **(0.15)** | **(0.15)** |
| Reported EPS | (0.64) | (0.33) | (0.39) | (0.83) | (0.87) | 10.82 | (0.13) | (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 | 204.7 | 191.7 |
| Restricted cash & GICs | 0.0 | 147.0 | 97.4 | 124.7 | 142.1 | 144.5 | 150.0 | 150.0 |
| Loans | 8.6 | 8.0 | 6.9 | 6.4 | 14.0 | 23.7 | 35.0 | 35.0 |
| Receivables | 21.3 | 14.6 | 2.7 | 2.9 | 0.0 | 12.5 | 0.0 | 0.0 |
| Other assets | 67.1 | 118.1 | 105.7 | 106.2 | 113.8 | 99.8 | 112.0 | 112.0 |
| **Total education financing assets** | **425.6** | **581.5** | **491.4** | **507.6** | **515.3** | **498.2** | **501.7** | **488.7** |
| Securitization trusts assets & eliminations | 7,824.8 | 7,504.1 | 7,347.8 | 7,144.3 | 6,972.9 | 258.3 | 255.0 | 250.0 |
| Total assets | 8,250.4 | 8,085.6 | 7,839.2 | 7,651.9 | 7,488.2 | 756.5 | 756.7 | 738.7 |
| | | | | | | | | |
| Deposits | 79.5 | 55.9 | 57.3 | 60.5 | 66.4 | 68.1 | 79.4 | 79.4 |
| Restricted funds due to clients | 0.0 | 147.0 | 94.7 | 121.9 | 139.5 | 143.9 | 150.0 | 150.0 |
| 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 | 51.6 | 55.3 |
| Education financing shareholders' equity | 317.5 | 314.5 | 274.0 | 257.4 | 239.5 | 237.1 | 220.7 | 204.0 |
| **Education financing liabilities and equity** | **425.6** | **581.5** | **491.4** | **507.6** | **515.3** | **498.2** | **501.7** | **488.7** |
| Securitization trusts liabilities & eliminations | 8,869.6 | 8,578.2 | 8,419.6 | 8,281.7 | 8,178.8 | 266.4 | 265.0 | 260.0 |
| Securitization trusts equity & eliminations | (1,044.8) | (1,074.1) | (1,071.8) | (1,137.4) | (1,205.9) | (8.1) | (10.0) | (10.0) |
| Total liabilities and equity | 8,250.4 | 8,085.6 | 7,839.2 | 7,651.9 | 7,488.2 | 756.5 | 756.7 | 738.7 |

## HISTORICAL ZACKS RECOMMENDATIONS

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