Zacks Small-Cap Research

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The First Marblehead Corporation (FMD-NYSE)

FMD: Third Quarter – Cleaning Up Legacy Issues and Progress with Expense Cuts

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	06/10/2010
Current Price (05/11/12)	$1.01
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	**$1.86**
52-Week Low	**$0.85**
One-Year Return (%)	**-45.11**
Beta	**2.00**
Average Daily Volume (sh)	**120,548**
Shares Outstanding (mil)	**102**
Market Capitalization ($mil)	**$103**
Short Interest Ratio (days)	**20.46**
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	**2**

Risk Level	**Above Average**
Type of Stock	**Small-Value**
Industry	**Fin-Cons Loans**
Zacks Rank in Industry	**4 of 7**

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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THIRD QUARTER

On May 2, 2012, the Company reported its fiscal 2012 third quarter results for the period ending March 31, 2012. For the quarter, FMD recorded net income from education financing of $1.7 million, or diluted earnings per share of $0.02, including $1.2 million of severance costs and a $12.6 million gain on sale of First Marblehead Data Services, Inc. (FMDS) for $13.7 million in cash on March 2, 2012. Excluding the FMDS gain and severance costs, the net loss from education financing was $9.6 million or a diluted operating loss per share of $0.09.

Total net earnings, including the securitization trusts net income of $2.3 million was $9.9 million, or $0.09 per diluted share after eliminations, and included a $10.9 million noncash gain on deconsolidation of the GATE Trusts. The GATE trusts were deconsolidated effective March 31, 2012, following the FMDS sale and other related transactions. This removed $258.4 million of assets, $260.1 million of liabilities, and net stockholders' interests of a $1.7 million loss from FMD's balance sheet at the end of the third quarter. That said, the third quarter income statement includes these operations until their disposals.

This means that all securitization trusts assets, liabilities, and accumulated deficit have now been deconsolidated from FMD's balance sheet (the NCSLT Trusts were deconsolidated in the second quarter when FMD sold its variable interests in these trusts on November 14, 2011).

On a prospective basis, FMD's financial statements will reflect only the operations of the education financing segment. This simplification will go a long way toward improving understanding of the Company.

During the third quarter, FMD expanded its Monogram lending program to 704 approved lender list positions, a 79% increase from 393 lender list positions at the end of the previous quarter in December. The timing is propitious as this expansion occurred prior to the peak lending season, which begins this summer.

Our third quarter loss estimate for the education financing segment was $16.3 million, or a loss of $0.15 per diluted share, as revenues were higher and expenses were lower than we had anticipated.

On the revenue side, the primary reason for the difference were $2.5 million in revenues from additional structural advisory fees, asset servicing fees, and residual trust updates, which compares with our estimate of $0.0 million. Most other revenue line items were above our estimates as well, so that net revenues of $15.2 million were well above our $11.5 million estimate.

TMS posted administrative fee revenue of $7.7 million during the third quarter on a 2% advance in tuition payments processed to $3.5 billion. This is up $0.5 million from 2012's second quarter, and TMS is still on track to post revenues for the year of $26-27 million.

As to expenses, noninterest expense was $24.3 million (excluding $1.2 million of severance costs), $3.2 million better than our $27.5 million estimate, primarily reflecting lower-than-expected general and administrative expenses.

FMD has already begun on a significant cost-cutting program, primarily related to legacy operations of the now-sold NCSLT and GATE Trusts. This includes reduced headcount, though no cutbacks are expected in the marketing staff for the Mongram program or at TMS. FMD expects annual compensation expense to be reduced by about $7 million and annual general and administrative expenses to be reduced $6.6 million, stemming from outsourcing operations and TMS's call center, to begin in fiscal 2013's second quarter. In total, annual cash operating usage is expected to be reduced by $13.6 million, or 26%, when all cuts have been implemented by the end of fiscal 2013 (ending June 30, 2013).

We are changing our education financing diluted per share loss estimates to $0.58 from $0.73 for fiscal 2012, ending June 30, 2012, and to $0.45 from $0.56 for fiscal 2013, ending June 30, 2013, largely reflecting lower expenses than we had previously estimated, related to FMD's cost-cutting program. This compares to an education financing net loss of $87.4 million (excluding a $6 million nonoperating gain) in fiscal 2011, or a $0.87 loss per diluted share.

Below we discuss 2012 fiscal third 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 78,000 private student loan applications representing $780 million in loans, of which it has approved $175 million, or about 22% of the $780 million total. Of the total $175 million approved, $61 million has been booked to date, and $59 million disbursed.

The table below shows Monogram lending statistics broken down by segment for the ten months ending April 30, 2012. As can be seen, FMD's bank subsidiary UFSB accounts for about two-thirds of approved loan applications and about 60% of booked and disbursed loans.

Ten Months ending 4/30/12	Partnered Lending	Union Federal Savings Bank	Total
Total Applications ($ Mil)	$173.0	$509.0	$682.0
Approved Applications ($ Mil)	$50.3	$97.2	$147.5
Booked Loans ($ Mil)	$20.7	$33.6	$54.4
Disbursed Loans ($ Mil)	$21.1	$32.6	$53.6

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, 60% are in immediate repayment; and 94% have repayment terms of 15 years or less.

UFSB's Monogram loans had similar characteristics through the nine months ending March 31, 2012: a weighted-average credit score of 747, 86% are cosigned, and 46% are in immediate repayment. At March 31, 2012, 1.6% of these loans were delinquent and there were no defaults. Nonaccrual loans plus past due loans greater than 90 days and still accruing interest were $69,000, or 0.21% of outstanding education loans.

The high credit quality of the education loan portfolio reflects both the Monogram program, a well as the fact that here are no loans made to for-profit and two-year colleges, which tend to display higher default rates than four-year private and public colleges and universities do. In addition, the loan portfolio is not yet seasoned, as USFB just began making education loans this fiscal year beginning on July 1, 2011, meaning that all loans are less than one year old. As the loan portfolio matures, we expect asset quality metrics to deteriorate somewhat from current exceptionally strong levels, though still remain solid.

Specific loan loss reserves are established for loans greater than 180 days past due but not yet charged off, while the general loan loss allowance is based upon historical loss experience. Since Monogram's loan history is limited, FMD has used the historical results of the securitization trusts for loans that have

similar characteristics to the Monogram loan portfolio. The general loss reserve for education loans was $1.3 million or 3.9% of outstanding education loans at March 31, 2012, and there were no specific loan loss reserves at that date.

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 an estimated 6.3-6.5%, while funding costs are roughly 90-100 basis points, leaving a net interest margin of about 5.4-5.6%. This is roughly 150 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 probably larger than 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. At present, we estimate that UFSB could add roughly $100 million in loans and still be well capitalized pursuant to federal regulations, assuming no other changes in its balance sheet. After that, UFSB would have to stop lending or pursue other options, such as obtaining additional capital or securitization.

In the first option, 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 third 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 (likely in fiscal 2013), 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.

We note that approximately 50% of UFSB's mortgage loans and all of its education loans had variable interest rates at March 31, 2012. Although these variable interest-rate assets generally reprice more frequently and have longer duration than FMD's deposits, interest-rate risk with respect to net interest income is mitigated by similarities in the interest-rate and market risks underlying loan and deposit pricing. That said, the balance sheet remains asset sensitive, meaning that FMD's net interest income and net interest margin should benefit in a rising interest-rate environment.

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 1,200 schools across the country in the last year, including 440 campuses in the third quarter. FMD currently has Monogram lending programs approved on 704 lender list positions, a 79% increase from 393 lender list positions at the end of the previous quarter in December (the timing is propitious as this expansion occurred prior to the peak lending season, which begins this summer).

This reflects consolidation of all Sun Trust student loan products onto the Monogram platform, the diligent effort of FMD's sales force, and the superiority of the Monogram loan product, which represents a new generation of student loan product. Monogram offers its customers enhanced flexibility in structuring

student loans, improved disclosure about terms and costs of the loan for easier comparison with other loan programs, and better pricing. In fact, for the most creditworthy customers, students can borrow money at a cheaper rate than through the major federal student loan programs.

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.

More importantly, future results will benefit from repeat business, known as serialization. Approximately 65% of Monogram loans were extended either to lower classmen (i.e., freshman, sophomores, and juniors) or to K-12 customers, providing the opportunity to capture increasingly greater share of this market in the years ahead.

At TMS, revenues are likely to come in at the upper end of FMD's previously disclosed $26-27 million range in fiscal 2012. TMS accounted for $7.7 million of 2012 third quarter noninterest revenues. 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 TMS began offering in the second quarter is refund management, with its first client on board in the third quarter. Through refund management, which is expected to be a key driver of growth going forward, 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. Revenues are generated through fees for subscriptions, transactions, merchant interchange, and ATM usage. The sales pipeline for refund management continues strong, as 70% of schools still process refunds manually.

Two ancillary businesses launched in February 2012 by TMS that will add to revenue growth in the coming years include:

- TMS Campus Advantage, which allows schools to manage 100% of their student loan receivables though TMS, and

- a marketing agreement with School and Student Services by the National Association of Independent Schools (SSS by NAIS) that will promote TMS to more than 2,100 subscriber schools as the exclusive preferred tuition payment plan provider and the prepGATE Loan Program as the exclusive preferred K-12 education loan provider.

UFSB became profitable in 2012's third quarter posting net income for the quarter of $134,000, 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 sheet to about $125 million (now $132 million due to additional loans) from $81 million, requiring a $4 million capital contribution in the third quarter from FMD to beef up UFSB's equity so that it continued to be well capitalized. At March 31, 2012, UFSB's Tier 1 capital ratio was 32.1%, its Total capital ratio was 33.1%, and its Tier 1 core ratio was 11.8%, all well above the required levels of 6%, 10%, and 5%, respectively, to be well-capitalized

pursuant to federal regulations. We would expect FMD to make additional capital contributions or take other steps to keep UFSB well capitalized.

Financial Review

On May 2, 2012, the Company reported its fiscal 2012 third quarter results for the period ending March 31, 2012. For the quarter, FMD recorded net income from education financing of $1.7 million, or diluted earnings per share of $0.02, including $1.2 million of severance costs and a $12.6 million gain on sale of First Marblehead Data Services, Inc. (FMDS) for $13.7 million in cash on March 2, 2012. Excluding the FMDS gain and severance costs, the net loss from education financing was $9.6 million or a diluted operating loss per share of $0.09.

Total net earnings, including the securitization trusts net income of $2.3 million was $9.9 million, or $0.09 per diluted share after eliminations, and include a $10.9 million noncash gain on deconsolidation of the GATE Trusts. The GATE trusts were deconsolidated effective March 31, 2012, following the FMDS sale and other related transactions. This removed $258.4 million of assets, $260.1 million of liabilities, and net stockholders' interests of a $1.7 million loss from FMD's balance sheet at the end of the third quarter. That said, the third quarter income statement includes these operations until their disposals.

- Education financing net revenue was $15.2 million, reflecting administrative and other fees of $14.2 million (including those of TMS at $7.7 million), $0.8 million in net interest income, and $0.2 million of loan loss recoveries related to non-Monogram education loans transferred to the Parent from UFSB in 2009.

- Fiscal first quarter education financing noninterest expense was $24.3 million (excluding $1.2 million of severance costs), up $0.2 million sequentially from the $24.1 million posted in the fiscal second quarter.

- At the end of the third quarter on March 31, 2012, the Company recorded $210.5 million in cash, cash equivalents, and short-term investments, down $7.2 million sequentially from $217.7 million at the end of December 2011. Of this amount, about $19.8 million was located at Union Federal Savings Bank, with the $190.7 million balance available to FMD for other corporate purposes.

- Overall, net operating cash usage decreased by $0.9 million sequentially, falling to $12.5 million in 2012's fiscal third quarter from $13.4 million for the second quarter ended December 31, 2011.

Other News

On March 30, 2012, the new third party owner of FMDS terminated the agreement with First Marblehead Education Resources, Inc. (FMER) for the special servicing of the GATE Trusts. As a result of the termination of the agreement, FMD deconsolidated the assets and liabilities of the GATE Trusts as of March 31, 2012, and recorded a noncash gain of $10.9 million in its financial statements upon deconsolidation.

On March 2, 2012, FMD announced the sale of First Marblehead Data Services, Inc. (FMDS), its legacy trust administration business, to Route 66 Ventures, Inc., d/b/a Goal Structured Solutions (GS2), for $13.7 million in cash. The Company recorded a gain of approximately $12.5 million in the quarter ending March 31, 2012 related to this transaction.

On February 9, 2012, FMD announced that its subsidiary Tuition Management Systems LLC (TMS) entered into a marketing agreement with School and Student Services by the National Association of Independent Schools (SSS by NAIS). The agreement creates a joint marketing relationship for the promotion of TMS payment plans, the prepGATE® Loan Program funded by FMD's UFSB bank

subsidiary, and SSS By NAIS, a financial aid management service offered to NAIS member and non-member schools. SSS By NAIS will promote TMS to more than 2,100 subscriber schools as its exclusive preferred tuition payment plan provider, and the prepGATE Loan Program as its exclusive preferred K-12 education loan. In turn, TMS will promote SSS By NAIS as its exclusive financial aid management service provider.

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 made net tax payments for GATE's taxable years ended June 30, 2004, 2005 and 2006 of $5.1 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.

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. Its first report is expected in late July 2012. While there has been talk of allowing student loans to be dischargeable in bankruptcy (currently this is prohibited), we are not sure what the final report will conclude, nor what impact, if any, this report 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 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 size is $200 million for SunTrust and $75 million for Kinecta, and have maturities of early 2015 for SunTrust and late 2012 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, 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 $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. 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 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 19% from a recent low of $0.85 that it hit on November 10, 2011, it is down 13.7% year to date and also down from 2012's high of $1.47 reached on February 13,

2012, and now sells at $1.01 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 well below its 52-week high of $1.86, 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 0.52X, 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 $1.25. 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	**(13.7)**					**0.52**	**Neg**	**Neg**	**Neg**	**Neg**	**-----**
S&P 500	**7.6**	**14.0**	**13.2**	**12.4**	**17.1**	**8.2**	**29.0**		**9.84**		**2.1**
Median	**1.3**	**10.0**	**8.9**	**8.1**	**10.9**	**1.24**	**12.2**	**13.23**	**4.75**	**4.5**	**-----**
Average	13.9	12.6	9.3	7.9	14.9	1.9	8.9	(12.60)	3.06	(8.2)	1.9
High	61.1	32.0	12.7	11.5	64.3	7.5	48.4	41.49	37.16	32.3	12.0
Low	(13.7)	4.9	3.4	3.4	6.2	0.4	(118.4)	(355.32)	(55.13)	(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

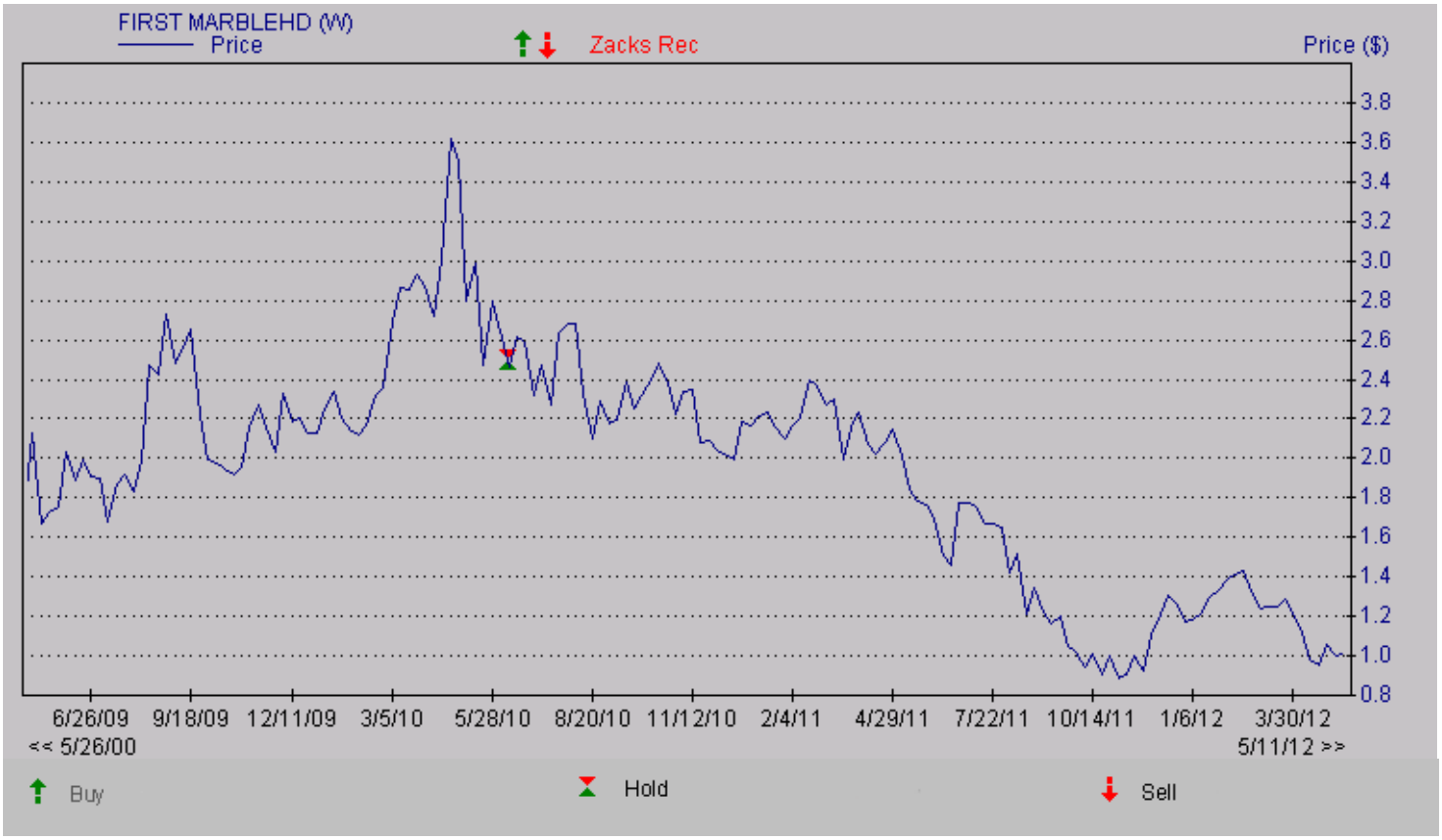
The First Marblehead Corporation

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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