Zacks Small-Cap Research

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The First Marblehead Corporation (FMD-NYSE)

FMD: Zacks Initiation Report - NEUTRAL

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	06/10/2010
Current Price (05/24/11)	$1.77
Six- Month Target Price	**$2.00**

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 recent acquisition of TMS, and will begin using its Union Federal Savings Bank 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 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 $0.81 in fiscal 2011 and $0.52 in fiscal 2012. Fortunately, FMD has strengthened its balance sheet, and has an available cash cushion of about $225 million at present, though it is burning cash at the rate of $12-13 million per quarter.

SUMMARY DATA

52-Week High	**$2.85**
52-Week Low	**$1.73**
One-Year Return (%)	**-30.59**
Beta	**2.14**
Average Daily Volume (sh)	**201,826**
Shares Outstanding (mil)	**101**
Market Capitalization ($mil)	**$178**
Short Interest Ratio (days)	**27.42**
Institutional Ownership (%)	**40**
Insider Ownership (%)	**31**
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 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**5**

Risk Level	**Above Average**
Type of Stock	**N/A**
Industry	**Fin-Cons Loans**
Zacks Rank in Industry	**12 of 12**

ZACKS ESTIMATES

Net Revenue*
(in millions of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2009	(84.9)A	(86.1)A	(130.6)A	11.6A	(290.0)A
2010	13.5A	10.1A	(16.8)A	9.5A	16.3A
2011	5.1A	9.5A	(14.6)A	13.9E	13.9E
2012					59.9E

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

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2009	$(0.94)A	$(0.94)A	$(1.42)A	$(0.36)A	$(3.66)A
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	$(0.13)E	$(0.81)E
2012					$(0.52)E

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

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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: Sun Trust 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 Sun Trust and $75 million for Kinecta, with both programs having initial two-year terms that are expected to run through late 2012.

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.

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 serves over 1,100 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 $31 million of total revenues to operating results, and to be cash-flow positive during the first year and accretive to earnings in the second year.

FMD also owns a small federally chartered thrift, Union Federal Savings Bank of New Providence, Rhode Island (acquired in November 2006), that offers residential and commercial mortgage loans, and retail savings, money market and time deposit products. FMD had been exploring strategic alternatives for this business, but just announced that it intends to retain Union Federal as a vehicle for originating Monogram-based private education loans beginning in early fiscal 2012.

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. This occurred even though FMD has no ownership interest in, or liability or responsibility for the loans and debt of 11 of these trusts (FMD does have an ownership interest in a small $300 million portfolio of loans, related to the Guaranteed Access to Education—GATE—Trusts).

Because of this change, FMD now reports two business segments: education financing, which encompasses the fee-for-service operations of the Company, as well as Union Federal Savings; and securitization trusts, which include the 11 NCSLT Trusts and 3 GATE Trusts. The results for the education financing segment are generally comparable to the financial reporting used by the Company prior to this fiscal year. Given this, in this report we will be focusing on the education financing operations.

HISTORY

FMD was founded in 1991 and went public on November 5, 2003, following an initial public offering of its common stock at a price of $16.00 per share. Initially, FMD's business model primarily relied upon earning revenue through the structuring of securitizations of private education loans for clients that did not intend to hold these loans on their balance sheets. These clients were typically financial institutions, and included JP Morgan Chase Bank, Bank of America, and RBS Citizens.

The majority of revenues were recognized at the time of origination of the securitization, though FMD continued to receive additional structural advisory fees from the trusts as well as administrative, asset servicing, certain residuals, and other fees, following origination. However, beginning in fiscal 2008, the performance of the loans in the securitized transactions was much worse than expected, causing substantial write-downs on FMD's balance sheet to the estimated fair value of its service receivables and its portfolio of private education loans held for sale and contributed to large losses on its income statement.

This was complicated by several other factors. First, conditions of the debt capital markets generally, and the asset-backed securities (ABS) market specifically, rapidly deteriorated during the second quarter of fiscal 2008, and the ability to finance private education loans through securitization continued to be constrained through fiscal 2009 and, to a lesser extent, fiscal 2010. In fact, FMD has not participated in any new securitization transactions since September 2007.

Second, the April 2008 Chapter 11 bankruptcy filing of The Education Resource Institute, Inc. (TERI), the guarantor of the performance of the private loans held by the NCSLT Trusts, hurt FMD in a couple of ways. FMD did not receive compensation for services performed for TERI prior to bankruptcy. More importantly, TERI was no longer available to absorb losses generated by the loans underlying the NCSLT Trusts, sounding the death knell for this particular method of credit enhancement.

As a result of capital market disruptions and the TERI bankruptcy, many FMD clients ended their contractual relationships with FMD. Consequently, FMD has not earned any revenue from new securitizations in fiscal 2009, fiscal 2010, and fiscal 2011 to date compared to $320.4 million and $684.1 million in revenues from new securitizations during fiscal 2008 and 2007, respectively.

RESTRUCTURING

It was clear by now that the business model FMD had been using was broken. The Company took a number of steps to restructure its operations and start anew. First, FMD brought back its former CEO, Mr. Daniel Meyers, in September 2008 to help the Company get back on its feet.

In the succeeding two and one-half years, Mr. Meyers initiated and oversaw the following changes to strengthen the balance sheet and improve profitability:

- The sale of the NCSLT Trust Certificate in fiscal 2009 and subsequent October 2009 receipt of tax refunds of $176.6 million in cash related to operating losses for fiscal 2009 and sale of the Certificate. In particular, the sale of the Trust Certificate eliminated certain future tax and other liabilities for FMD, though FMD continues to receive structural advisory fees and ongoing asset servicing fees from the NCSLT Trusts and structural advisory fees and residuals from certain trusts other than the NCSLT Trusts.

- The sale of 88% of Union Federal's portfolio of private education loans held for sale in October 2009 for $121.6 million, with the balance sold one month later to a newly formed statutory trust owned by a subsidiary of FMD. Importantly, this sale freed up $30 million of

cash that FMD had on deposit at Union Federal, following termination of a supervisory agreement with FMD by the Office of Thrift Supervision (OTS). These actions were necessary in order to put Union Federal on the block, as had been originally planned. In addition, in October 2010, the OTS approved a cash dividend from Union Federal to FMD of up to $29.0 million, which Union Federal paid to FMD in November 2010.

- The successful resolution of certain securities litigation during the first quarter of fiscal 2010. This included the dismissals of a consolidated class action lawsuit and state and federal shareholder derivative lawsuits.

- Significant reductions in operating costs, particularly through the reduction of headcount, which dropped almost 80% to 219 employees at fiscal 2010 yearend from 1,028 employees at June 30, 2007.

- Completion of the initial stages of the development of the Monogram platform in August 2009.

- The disbursal of the first loans based upon FMD's Monogram platform during the first quarter of fiscal 2011.

- The December 2010 acquisition of TMS, a large player in the tuition planning, billing and payment technology services industry.

CURRENT BUSINESS MODEL

The current business model diversifies the Company's product offerings so that FMD is less reliant on any one product. Moreover, FMD seeks to build a revenue stream that emphasizes fee for service, rather than strictly depend upon structuring securitizations and third-party credit enhancement.

The initial steps FMD took beginning in fiscal 2009 involved recognizing and charging fees for services that FMD had always performed for its clients, but for which it had never been compensated separately in its previous business model. These services include portfolio management, asset servicing, default prevention, and trust administration, among others. FMD's clients include 19 variable-interest enterprises (VIEs) that are not consolidated on its balance sheet, as well as the NCSLT and Gate Trusts and the third-party owner of the Trust Certificate (though these revenues are eliminated upon consolidation).

In fiscal 2010, FMD completed the initial development of its Monogram product. Monogram offers a suite of fully integrated services, including program design, marketing support, loan origination, and portfolio management, to national and regional financial and educational institutions for designing and implementing education loan programs.

Monogram enables a lender to customize those service offerings needed based on its established risk control and return objectives. Specifically, the lender can customize the range of loan terms offered to its qualified applicants, such as borrower repayment options, repayment terms, and borrower pricing.

Monogram is based upon FMD's proprietary credit risk analytics models, which utilize more than 20 years of education loan data. Monogram assigns a credit score to each applicant based upon borrower and cosigner attributes, as well as distribution channel variables. This credit score governs the loan terms and loan features offered.

These school-certified loan programs are designed to be marketed through educational institutions or to prospective student borrowers and their families directly and to generate portfolios intended to be held by the originating lender or financed in the capital markets. In "make and hold" loan programs, lenders

finance the loans on their balance sheet and generally intend to hold the loans through scheduled repayment, prepayment, or default. In "make and sell" loan programs, lenders intend to hold the loans on their balance sheet for some limited period of time before disposing of the loans in a capital markets transaction.

What makes Monogram different than previous FMD education loans are the ability to target higher credit quality applicants and the elimination of exposure to nontraditional and non-Title IV schools, as well as non-school certified loan programs. In fact, loans in the Monogram program are generally of higher credit quality than those loans contained in the NCSLT Trusts of 2006 and 2007.

Preliminary credit quality data on the first two Monogram programs, initiated this fiscal year with Sun Trust Bank and Kinecta, are promising. Although only about 4,000 loan applications (about $4 million in volume) have been processed to date (in part, reflecting the timing of the contract signing with Sun Trust and Kinecta Federal Credit Union), loan credit quality statistics include: 85% are cosigned; a weighted average FICO score of 762; a weighted average life of 4.9 years, and 88% of the total are in some form of immediate of repayment.

As part of the Monogram product, FMD will continue to monitor the performance of loan accounts after origination and tailor risk mitigation strategies in line with the performance of those accounts. In addition, FMD provides ongoing analysis and comprehensive reporting of loan performance data over the life of the loans, which can be as long as 20 years following the date of origination.

FMD has offered credit enhancement for its first two Monogram programs by funding deposits in participation interest accounts that serve as first-loss reserves for defaulted loans. The size of the deposits in the participation accounts are pre-determined based upon expected performance of the loan portfolio, the characteristics of which are determined by the lender. For providing this enhancement, FMD receives a portion of the net interest income generated by the loans in the program. These participation accounts are updated quarterly for actual performance. To the extent that performance is better than expected, FMD would be eligible to receive a monthly release of funds beginning in July 2014, in the case of SunTrust, and following expiration of the term of its loan program agreement, in the case of Kinecta.

Importantly, FMD’s liability for credit losses is limited to the amount in the participation accounts. That said, FMD’s position as first-loss obligor underscores its commitment to the quality of its new Monogram proprietary scoring models and risk mitigation and pricing strategies and will likely serve as an important marketing tool going forward. In addition, the high quality of the Monogram loans could prove to be the stepping stone for FMD’s reentry into the education loan securitization market.

Another part of FMD’s business model includes returning to the education loan securitization market at some point in the future, though in a more limited fashion than was true of the early-to-mid-2000s. FMD has the staff and capabilities in house that could be deployed in structuring loan securitization transactions for clients. However, FMD does not yet have sufficient loan volume to get involved yet. As the Monogram programs mature and loan volumes increase, this could be the source of future loans needed for securitization transactions.

The $47 million TMS acquisition broadens FMD’s service offerings to include tuition planning, billing, and payment technology services for education institutions. TMS adds $31 million in annual net revenue, 168 new employees, and $47 million of intangible assets to FMD’s balance sheet.

FMD is also seeking to acquire a loan servicer, and an earlier agreement to purchase a loan servicer was terminated during the third quarter of fiscal 2010. Currently, Pennsylvania Higher Education Assistance Agency (PHEAA) services the majority of private education loans held by the securitization trusts that FMD administers and is the sole loan servicer for the Monogram programs. FMD believes that ownership of a loan servicer could complement its overall strategy and reduce the risks associated with potential inadequate or untimely services of a third-party servicer.

EARNING POWER

FMD's current business model generates revenue from three primary sources: (1) fee-for-service, which includes a set of vertically integrated fee-based loan products and services based upon Monogram, such as portfolio management, asset servicing, default prevention, and trust administration, as well as tuition payment services, which are operated and managed by FMD and TMS, respectively; (2) partnered lending, in which FMD and financial institutions team up to offer private education loans to students, for which FMD earns fees for marketing and origination, as well as a portion of net interest income generated by the loans in exchange for FMD providing credit enhancement in the form of cash reserves (known as participation accounts); and (3) capital markets, which involves the securitization or other disposition of loans for financial institutions, for which FMD earns advisory fees, spread income on the loans before they are disposed, and residual interest fees.

As shown in the following table, there has been a significant deterioration in education financing net revenue since reaching a peak in the fiscal year ending June 30, 2007. Net revenue dropped from $880.7 million in fiscal 2007 to a loss of $290.0 million in fiscal 2009, a negative swing of $1.2 billion, before rising to $16.3 million in fiscal 2010 and falling to breakeven through the first nine months of fiscal 2011. The three primary reasons for the decline include the implosion of the asset-backed securitization market in 2007-08, the bankruptcy of TERI, and the poor performance of loans in previously issued securitization trusts, which necessitated large write-offs.

(Dollars in Millions)	6/06	6/07	6/08	6/09	6/10	1Q'11	2Q'11	3Q'11
Net interest income	5.5	9.4	25.6	25.1	9.9	0.1	0.2	0.4
Asset servicing fee income	0.0	0.0	0.0	2.4	6.9	1.0	0.8	0.2
Asset servicing fee updates	0.0	0.0	0.0	0.0	(3.5)	0.1	(1.1)	(5.1)
Additional structural advisory fees	243.1	502.7	159.3	(57.2)	(19.8)	0.9	4.5	(21.5)
Residuals	205.6	212.3	(371.9)	(283.3)	2.8	(1.6)	1.0	0.0
Administrative & other fees	117.4	156.3	158.5	23.0	20.0	4.6	4.1	11.4
Total net revenue	571.6	880.7	(28.5)	(290.0)	16.3	5.1	9.5	(14.6)
Loan loss provision	-----	-----	-----	-----	-----	0.1	0.2	0.0
Compensation and benefits	89.2	111.4	96.7	42.2	43.1	7.9	8.2	11.6
General and administrative expenses	98.6	141.6	254.4	80.4	58.1	12.1	11.3	15.6
Losses on loans held for sale	0.0	0.0	7.4	138.2	130.9	0.0	0.0	0.0
Total expenses	187.8	253.0	358.5	260.8	232.1	20.1	19.7	27.2
Pretax income	383.8	627.7	(387.0)	(550.8)	(215.8)	(15.0)	(10.2)	(41.8)
Income tax expense (credit)	147.8	256.4	(151.9)	(187.8)	(70.3)	1.1	(0.0)	(0.1)
Education financing net income before NRI	236.0	371.3	(235.1)	(363.0)	(145.5)	(16.1)	(10.2)	(41.7)
Securitization trusts net income & eliminations	0.0	0.0	0.0	0.0	0.0	(48.9)	(29.3)	2.4
Zacks adjusted net income before NRI	236.0	371.3	(235.1)	(363.0)	(145.5)	(65.0)	(39.5)	(39.3)

Going forward as the Company continues in turn-around mode, we expect recurring fees from services to gain increasing importance in the revenue mix. This was demonstrated in fiscal 2011's third quarter when the TMS acquisition added $7.1 million to administrative and other fees, accounting for the bulk of the $7.3 million in sequential growth from the second quarter. Moreover, as education loan volume in partnered lending begins to ramp up to its typical seasonal peak in the first fiscal quarter of 2012 (ending September 30, 2012), we could see even more of an impact on administrative and other fees, as well as net interest income.

FMD estimates that its current partnered lending programs with SunTrust and Kinecta generate 310-490 basis points per year of revenues over the 6 to 7-year average lives of the loans. This means that FMD could earn roughly $8 ½ - 13 ½ million of revenue annually should the entire $275 million of Sun Trust and Kinecta loan programs be funded.

Another new source of revenue stems from FMD's decision to retain ownership of Union Federal Savings Bank, and to use it to originate private education loans under the Monogram platform, for which it would generate larger amounts of net interest income than it does currently. Given current capital conditions at Union Federal, we estimate this could add roughly $1 million to net interest income annually.

Although we are encouraged by the initial progress FMD has achieved in its turn around, it is apparent that any meaningful pickup in revenues will be dependent upon a significant ramp-up in partnered lending loan origination and the re-entry of FMD into the securitization market. For example, to achieve $100 million in revenues from partnered lending at current margins, it would take $2-3 billion of loan origination volume, far in excess of what is currently being generated by FMD's existing loan programs under the Monogram platform.

As to securitization, we believe that as the Monogram platform expands and ages, establishing a history of good asset quality, and as the asset-backed securitization market for private education finance loans normalizes and improves, there may be good opportunities for FMD to participate in this market once again in the years ahead. However, the timing of such a step is not predictable at this point.

On the expense side, total expenses have mirrored the decline in revenues, falling from $358.5 million in fiscal 2008 to the $20 million level in fiscal 2011's first two quarters, before rising to $27.2 million in the most recent quarter. The primary reason for the decline through 2011's first half was an 80% drop in headcount, as well as the absence of large losses on education loans held for sale at Union Federal as occurred in fiscal 2008 ($138.2 million) and 2009 ($130.9 million). Operating expenses rose over $7 million sequentially in fiscal 2011's third quarter, largely due to the TMS acquisition, which added 168 employees to the total. All in all, we are satisfied that FMD management has done a good job in cutting operating expenses.

Despite good cost control efforts, the Company continues to operate at a net loss due to sharp deterioration in FMD's revenue stream. Education financing net income peaked at $371.3 million in fiscal 2007, reached a trough at a net loss of $363.0 million two years later in fiscal 2009, and generated a $68.0 million net loss through fiscal 2011's first nine months. Including results of the securitization trusts, the total net loss was $143.8 million for the nine months ending March 31, 2011.

FINANCES

FMD's financial reporting became more complex with the fiscal 2011 adoption of Accounting Standards Update 2009-16 (ASU 2009-16), Accounting for Transfers of Financial Assets, and Accounting Standards Update 2009-17 (ASU 2009-17), Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs). This required the consolidation of 14 securitizations trusts (11 NCSLT Trusts and 3 GATE Trusts) that had previously been accounted for off balance sheet. Thus as of July 1, 2010, $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. These numbers have since been reduced as proceeds from education loan payoffs were used to pay down securitization trusts debt. At the end of the third fiscal quarter on March 31, 2011, securitization trusts assets, primarily education finance loans, were about $7.3 billion, nonrecourse trusts debt was $8.4 billion, and securitization trusts equity was a negative $1.1 billion.

Despite this change in financial reporting, nothing has changed for FMD from both an operational and a legal liability standpoint. FMD has no ownership interest in the 11 NCSLT Trusts, which account for about 96% of total securitization trusts assets and liabilities. This means that the NCSLT Trusts assets and liabilities are essentially ring-fenced and relate only to the owners and obligors of the NCSLT Trusts. In fact, the only economic exposure FMD has to the NCSLT Trusts is a $15.9 million service revenue receivable as of March 31, 2011.

We note that FMD owns 100% of the residual interests in the 3 GATE Trusts, which have about $300 million in assets and $310 million in debt liabilities. However, the GATE Trusts have been performing well, and contributed net income of $1.7 million to fiscal third quarter earnings.

(Dollars in Millions)	6/06	6/07	6/08	6/09	6/10	1Q'11	2Q'11	3Q'11
Cash & short-term investments	143.0	234.9	221.1	181.5	385.5	332.9	297.8	282.3
Restricted cash & GICs	0.0	0.0	0.0	0.0	1.0	0.0	147.0	97.4
Loans	0.0	37.1	508.1	360.5	113.6	8.6	8.0	6.9
Receivables	551.6	809.7	411.2	233.9	73.3	34.1	14.6	32.0
Other assets	75.7	132.8	60.5	45.4	60.0	50.0	114.1	72.8
Total education financing assets	**770.3**	**1,214.5**	**1,200.9**	**821.3**	**633.4**	**425.6**	**581.5**	**491.4**
Securitization trusts assets & eliminations	0.0	0.0	0.0	0.0	0.0	7,824.8	7,504.1	7,347.8
Total assets	770.3	1,214.5	1,200.9	821.3	633.4	8,250.4	8,085.6	7,839.2
Deposits	0.0	53.5	244.1	154.5	108.7	79.5	55.9	57.3
Restricted funds due to clients	0.0	0.0	0.0	0.0	0.0	0.0	147.0	94.7
Short-term borrowings	0.0	0.0	242.9	230.1	218.1	0.0	0.0	0.0
Long-term borrowings	8.8	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0
Other liabilities	185.3	318.4	76.3	31.2	36.8	28.6	64.1	65.4
Education financing shareholders' equity	576.2	842.6	637.6	405.5	269.8	317.5	314.5	274.0
Education financing liabilities and equity	**770.3**	**1,214.5**	**1,200.9**	**821.3**	**633.4**	**425.6**	**581.5**	**491.4**
Securitization trusts liabilities & eliminations	0.0	0.0	0.0	0.0	0.0	8,869.6	8,578.2	8,419.6
Securitization trusts equity & eliminations	0.0	0.0	0.0	0.0	0.0	(1,044.8)	(1,074.1)	(1,071.8)
Total liabilities and equity	770.3	1,214.5	1,200.9	821.3	633.4	8,250.4	8,085.6	7,839.2

Other notable changes in the balance sheet relate to FMD's exit from the securitization market, the December 2010 acquisition of TMS, and the gain in cash balances.

Following the implosion of the asset-backed securities in September 2007, FMD was unable to structure or sell any education loan securitizations, which resulted in large write-offs of education loans held for sale. In addition, Union Federal sold 88% of its portfolio of private loans in the second quarter of fiscal 2010 for gross proceeds of $121.6 million. In combination, these steps reduced the balance in the education loan account from a peak of $508.1 million at the end of fiscal 2008 to $113.6 million two years later at the end of fiscal 2010, before this account and related debt of $218.1 million were eliminated via the fiscal 2011 deconsolidation of UFSB Private Loan SPV, LLC (UFSB-SPV), the Company's securitization vehicle.

At the same time, the performance of education loans in previously issued trusts began to deteriorate dramatically, which necessitated large write-offs of receivables related to structural advisory fees and residuals of approximately $754 million. These write-offs, as well as roughly $46 million in cash payments received from the trusts, reduced the balances in these accounts from a peak of $809.7 million at June 30, 2007 to $9.8 million at March 31, 2011.

The TMS acquisition on December 31, 2010 added $195 million to the balance sheet, largely consisting of $147 million in restricted cash and guaranteed investment contracts (now $97 million) and a corresponding liability (restricted funds due to clients) in the same amount, as well as $47 million in goodwill and intangible assets, which amount was increased by $3 million due to revaluation of the deferred revenue liability during the fiscal 2011 third quarter, raising the total to $50 million.

As to cash and short-term investments, the Company has done an excellent job in raising large amounts of cash in the past couple of years. FMD received tax refunds of $176.6 million in October 2009 and $45.1 million in October 2010 (of which $21.2 went to Union Federal under a tax-sharing agreement with FMD). The largest single cash outflow was for the $47 million purchase of TMS, though FMD continues to burn cash at the rate of $12-13 million per quarter to fund operations. (We note that cash and short-term investments include $57.7 million at Union Federal at March 31, 2011, which is not available for use by FMD.

This leaves a remaining cash balance of about $225 million, which can be used for general corporate purposes at FMD.)

As to Union Federal, we present a snapshot of the Company's financial statements for the quarter ending March 31, 2010 below. As can be seen, Union Federal has total assets of $71.7 million at March 31, 2011, $57.7 million of which are invested in lower risk (primarily risk weightings of 0% and 20%) cash and short-term investments. With FMD's decision to retain ownership of Union Federal and use it to originate Monogram-based private education loans, a portion of these assets will gradually shift into higher risk (100% risk weightings) private education loans. Given current capital constraints, FMD estimates that it will be able to originate approximately $30 million in education loans.

This will have an impact on Union Federal's exceptionally strong capital adequacy ratios, which at March 31, 2011 include a Core Tier 1 ratio of 16.88%, a Tier 1 ratio of 104.39%, and a Total capital ratio of 105.64%, far in excess of federal requirements for well-capitalized banks and thrifts. As Union Federal ramps up its education loan operations, we would expect these ratios to return to levels more typical of lending institutions, though Union Federal should continue well capitalized pursuant to federal regulations.

Union Federal Savings Bank ($ in Millions)	3/31/11 Quarter
Cash & short-term investments	57.7
Mortgage loans	7.0
Other assets	7.0
Total assets	71.7
Deposits	57.6
Other liabilities	0.9
Shareholders' equity	13.2
Total liabilities and equity	71.7
Core Tier 1 ratio	16.88%
Tier 1 ratio	104.39%
Total Capital ratio	105.64%
Net loss	$(1.0)

We note that there have been several intercompany cash transactions between FMD and Union Federal in recent years. Union Federal refunded a $30.0 million deposit to FMD following sale of Union Federal's portfolio of education loans in November 2009. In addition, Union Federal upstreamed a $29.0 million dividend to FMD in November 2010 following Union Federal's receipt of a $21.2 million tax refund. Future transactions between FMD and Union Federal (including dividend payments) must be approved by federal regulators prior to occurrence.

RECENT NEWS

On May 16, 2011, the Company reported its fiscal third quarter results for the period ending March 31, 2011. For the quarter, FMD recorded a net loss from education financing of $41.7 million, or a diluted loss per share of $0.41. The total net loss, including the securitization trusts net income of $2.3 million, was $39.3 million, or a $0.39 loss per diluted share. This compares to a restated net loss for the prior-year quarter of $40.5 million, or a $0.41 loss per diluted share.

Education financing results included for the first time and for the full quarter the impact of the December 31, 2010 acquisition of Tuition Management Systems (TMS). TMS added $7.1 million in net revenue and $7.7 million in expenses, for a net loss of $0.6 million. However, we note that TMS was cash flow positive during the quarter, generating $0.5 million of cash flow after capital expenditures.

- Education financing net revenue was a negative $15.0 million (a $0.26 loss per share), largely due to $26.6 million of noncash charges related to a reduction in recovery assumptions for defaulted loan from the NCSLT Trusts. Positively, administrative and other fees increased $7.3 million to $11.4 million, with the bulk of the increase attributable to TMS.

- Fiscal third quarter education financing non-interest expense was $27.2 million, a $7.8 sequential increase from the second quarter and reflected the TMS acquisition. This was partially offset by reductions in depreciation and amortization (down $1.2 million), the result of an increase in the fully depreciated fixed asset base, and occupancy (down $1.7 million), stemming from renegotiated leases and the absence of one-time charges as occurred in the prior-year quarter.

- At March 31, 2011, the Company recorded $278.7 million in cash, cash equivalents, and short-term investments, down $15.1 million at the end of December 2010. Of this amount, about $60 million was located at Union Federal Savings Bank, with the balance available for to FMD for other corporate purposes.

- Overall, net operating cash usage increased by $1.6 million sequentially, rising to $13.1 million in 2011's fiscal third quarter from $11.5 million for the quarter ended December 31, 2010.

- As of the earnings release date, the Company was on the lender list of over 200 colleges and universities across the nation, up from 119 at the end of the last quarter.

- FMD announced it decision to retain ownership of Union Federal, which will begin to originate Monogram-based education loans in early fiscal 2012.

For the fiscal third quarter, the securitization trusts reported net income of $2.3 million, or $0.02 per diluted share. Total net revenue was a negative $7.5 million, as $64.4 million of net interest income was more than offset by a $73.3 million provision for loan losses, which declined $51.2 million sequentially, or 41%, from the December 2010 quarter. In addition, expenses benefitted from a $21.6 million gain stemming from the revaluation of the liability for advisory payable fees.

In other news, FMD restated results for the first two quarters of fiscal 2011, ending September 30, 2010 and December 31, 2010, due to a change in accounting for 11 NCSLT Trusts.

This was the second accounting change that occurred this fiscal year. The first occurred when FMD adopted on July 1, 2010 Accounting Standards Update 2009-16 (ASU 2009-16), Accounting for Transfers of Financial Assets, and Accounting Standards Update 2009-17 (ASU 2009-17), Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs). At that time, the 11 NCSLT Trusts were consolidated into FMD's financial statements, even though FMD does not own any of the residual interests in these trusts. Results of these 11 NCSLT Trusts were reported separately and attributed to non-controlling interests in both the income statement and the balance sheet, following consultation with KPMG LLP, FMD's auditors.

However on May 9, 2011, KPMG LLP opined to FMD's Board of Directors and Audit Committee that non-controlling-interest treatment of the 11 NCSLT Trusts was not consistent with generally accepted accounting principles (GAAP). Rather the results of the 11 NCSLT Trusts should be allocated to FMD until either the Trusts are deconsolidated or the Trust liabilities extinguished, even though the assets and debt liabilities of the Trusts are nonrecourse to FMD.

Data in this report for the first two quarters of fiscal 2011 have been restated to reflect these changes and changes related to accounting for deferred taxes.

MANAGEMENT

Below is a list of top management of The First Marblehead Corporation, as contained in the Company's fiscal 2010 Form 10-K.

Daniel Meyers, 47, has served as FMD's Chief Executive Officer and President and as a Director since September 2008, and as Chairman of the Board of Directors since May 2010. Mr. Meyers also served as FMD's Chief Executive Officer and Chairman of the Board of Directors from FMD's incorporation in 1994 to September 2005 and as FMD's President from November 2004 to September 2005. From 1980 to 1991, Mr. Meyers was involved in arbitrage and derivatives trading at EF Hutton, Prudential Bache Securities, LF Rothschild Unterberg Towbin and Commodities Corporation, each of which were financial services firms. He began working on ABS financings in 1986. He currently serves as the Chair of the Board of the Curry School of Education Foundation at the University of Virginia and as the Chairman of the Board of Caritas Physician Network, a unit of Caritas Christi Health Care, a New England-based healthcare system. He is also currently a member of the International Institute for Strategic Studies and serves on the Board of the Forum for the Future of Higher Education. Mr. Meyers received an A.B. from Brandeis University and completed the Owner President Management Program at the Harvard Graduate School of Business Administration.

Kenneth Klipper, 51, has served as FMD's Chief Financial Officer and a Managing Director since September 2008 and as FMD's Treasurer since November 2006 and Chief Accounting Officer From November 2006 through April 2011. Mr. Klipper served as FMD's Senior Vice President, Finance from March 2005 to September 2008. From January 2003 to April 2003, Mr. Klipper served as the Chief Financial Officer of Brown Co., an online brokerage firm owned by JPMorgan at the time, and as the Chief Executive Officer from April 2003 to March 2005. From May 2002 to January 2003, Mr. Klipper served as the Chief Financial Officer and Chief Operating Officer of Park Street Capital, a private equity firm. From January 2000 to April 2002, Mr. Klipper served as the Chief Financial Officer of Tucker Anthony Sutro, Inc., a publicly traded securities brokerage firm. Prior to joining Mr. Klipper served for five years as both the Chief Financial Officer and Controller for the securities brokerage unit of Fidelity Investments, and he held positions with KPMG LLP, a registered public accounting firm, for 11 years. Mr. Klipper received a B.S. from the University of Richmond and is a Certified Public Accountant.

Ryan Brenneman, 50, has served as the Chief Accounting Officer since April 2011 and as a Managing Director of the Corporation since March 2011. From March 2009 to April 2010, Mr. Brenneman served as Controller, Multifamily Accounting for the Federal Home Loan Mortgage Corporation, also known as Freddie Mac, a financial services company that provides liquidity to the U.S. housing market. From March 2007 to March 2009, Mr. Brenneman served as Controller, Investments and Capital Markets Accounting, at Freddie Mac. From August 2005 to March 2007, Mr. Brenneman was a Principal at Booz Allen Hamilton Inc., a strategy and systems consulting firm. From 2003 to 2005, he held positions at Protiviti, Inc., a consulting and internal audit firm, including as a senior project manager for Sarbanes-Oxley Section 404 compliance, internal controls and IT improvement projects for Fortune 500 financial services companies. Mr. Brenneman also previously served as the Chief Financial Officer of two privately-held technology companies, as an accountant for PricewaterhouseCoopers LLP, a registered public accounting firm, and as an associate in the tax departments of Sonnenschein, Nath & Rosenthal LLP and Baker & McKenzie, each of which are law firms. He currently serves as Adjunct Professor of Accounting and Business Law at The George Washington University School of Business. Mr. Brenneman received an A.B. from Bowdoin College, a M.S. from the London School of Economics, a M. Acct. from The George Washington University and a J.D. from Georgetown University. He is licensed in Washington, D.C. as a Certified Public Accountant.

William P. Baumer, 49, *has* served as FMD's Chief Risk Officer since September 2007, as a Managing Director since September 2008 and as the Chief Executive Officer of Union Federal since July 2010. Mr. Baumer served as Senior Vice President, Compliance from July 2004 to September 2007. From 2003 to June 2004, Mr. Baumer served as the Compliance Manager for the nationwide mortgage operations at

Bank of America, N.A. From 2000 to 2003, Mr. Baumer was the Compliance Director-Core Banking for Fleet Boston Financial Corporation, a bank which was acquired by Bank of America, and was responsible for regulatory compliance programs in Fleet's consumer, commercial and administrative staff units. He joined Fleet in 1984 and held various leadership positions in the Compliance, Audit, Credit and Retail Banking business units. Mr. Baumer received a B.S. from Franklin Pierce College and has earned Certified Regulatory Compliance Manager, Certified Internal Auditor and Certified Anti-Money Laundering Specialist certifications.

Seth Gelber, 31, has served as FMD's Chief Administrative Officer since March 2010 and a Managing Director since September 2008. He served as Senior Vice President, Corporate Development from August 2008 to September 2008. From October 2006 to August 2008, Mr. Gelber served as President of Sextant Holdings, LLC, a private investment firm, the sole member of which is Mr. Meyers. From 2001 to 2006, Mr. Gelber held various positions at First Marblehead in the Capital Markets and Product Strategy groups. From 1997 to 2001, Mr. Gelber served as a Legislative Assistant to Congressman Jack Quinn (NY), primarily focused on education, telecommunication and banking legislation. Mr. Gelber received a B.A. from The George Washington University.

Michael Plunkett, 53, has served as FMD's Managing Director, Loan Operations and Information Technology since September 2008. From May 2003 to September 2008, Mr. Plunkett held various positions in FMD's serving most recently as a Senior Vice President. Prior to joining First Marblehead, Mr. Plunkett served over 24 years in the U.S. Navy and retired with the rank of Captain in July 2003. While in the Navy, Mr. Plunkett served in a variety of ashore and afloat positions, including serving as the primary assistant to the Deputy Chief of Naval Operations, Fleet Readiness and Logistics. Mr. Plunkett received a B.S. from Saint John Fisher College, an M.S. from the Naval Postgraduate School and an M.A. from the Naval War College.

Gary F. Santo, Jr., 43, has served as FMD's Head of Capital Markets since July 2010 and as a Managing Director since September 2008. From September 2008 to July 2010, Mr. Santo served as Co-Head of Capital Markets. From July 2007 to September 2008, Mr. Santo served as a Managing Director in the Structured Finance Group at Fitch, Inc., a global ratings agency. While at Fitch, Mr. Santo managed the Consumer ABS Group, which was responsible for the credit rating analysis of privately and publicly placed asset-backed securities, including those backed by student loans, credit card receivables and tobacco settlements. From January 1996 to June 2007, Mr. Santo held various positions at First Marblehead in the Capital Markets and Investors Relations groups. Mr. Santo served as a Financial Aid Officer at Mount Ida College from January 1993 to January 1996, and at Boston University from September 1991 to January 1993. Mr. Santo received a B.A. from Boston University.

Gregory M. Woods, 36, has served as a Managing Director since September 2008, as FMD's General Counsel since August 2008 and as FMD's Secretary since November 2006. From April 2006 to August 2008, Mr. Woods served as Senior Vice President, Corporate Law. From June 2004 to April 2006, Mr. Woods was a Junior Partner at Wilmer Cutler Pickering Hale and Dorr LLP, a law firm, and from October 1999 to May 2004, Mr. Woods was an associate at WilmerHale. While at WilmerHale, Mr. Woods practiced general corporate and securities law, with an emphasis on public equity offerings, SEC compliance and corporate governance matters. Mr. Woods received an A.B. from Brown University and a J.D. from Georgetown University.

OWNERSHIP AND INSIDER TRADING

Insiders own roughly 31% of the Company's total shares outstanding.

Institutional holders own about 40% of outstanding shares and about 61% of the float. In the prior quarter, institutional shareholders were sellers of 2.6 million shares, or about 7% of total institutional shares held.Top institutional holders are shown below.

Short interest is a relatively high 27.4 days.

Holder	Shares	% Out	$ Value	Reported
Prescott Group Capital Management, LLC	9,401,041	9.29	20,682,290	Mar 31, 2011
Goldman Sachs Group Inc.	5,996,450	5.93	13,192,190	Mar 31, 2011
Guggenheim Capital, LLC	4,384,154	4.33	9,645,138	Mar 31, 2011
Vanguard Group, Inc. (The)	3,285,194	3.25	7,227,426	Mar 31, 2011
BlackRock Institutional Trust Company, N.A.	2,217,800	2.19	4,879,160	Mar 31, 2011
Dimensional Fund Advisors LP	2,156,407	2.13	4,744,095	Mar 31, 2011
Davis Selected Advisers, LP	1,930,844	1.91	4,247,856	Mar 31, 2011
BlackRock Fund Advisors	1,328,528	1.31	2,922,761	Mar 31, 2011
State Street Corporation	1,239,744	1.23	2,727,436	Mar 31, 2011
Chicaksaw Capital Management, LLC	946,900	0.94	2,083,180	Mar 31, 2011

Source: Yahoo! Finance

PROJECTIONS

Our annual and quarterly projections are shown on pages 17 and 18, respectively. We are estimating a diluted loss per share of $0.81 in 2010 and of $0.52 in 2011. Key projection highlights include:

- Expansion of net interest income due both to gains in partnered lending programs with Sun Trust and Kinecta, as well as an initial contribution from the origination of private education loans at Union Federal.

- No impact from the potential addition of new partnered lending programs. Should FMD sign any new lenders to its partnered lending platform, the major impact would occur in the first quarter of fiscal 2013 during the typical peak origination period for education loans, which is beyond the forecast period.

- No FMD involvement in any securitization transactions through the end of fiscal 2012.

- The full-year inclusion of TMS, which should add about $30 million in net revenue and slightly more to non-interest expense.

- Continuing net losses in the securitization trusts operating segment.

- Operating cash usage running at about $13 million per quarter, resulting in declining cash balances.

- Continuing declines in education financing shareholders' equity, though at a slower rate than in previous years.

- No dividend payments over the forecast period (the dividend was eliminated in the fiscal 2008's second quarter) as the company needs to preserve capital.

Major risks to the Company include:

- Competitors are larger and have greater financial resources than does First Marblehead. Competitors in the education loan market include SLM Corporation (Sallie Mae), Nelnet, Inc., JPMorgan Chase Bank, N.A., Wells Fargo & Company, and Discover Financial Services. In tuition payment servicing, major competitors to TMS include Sallie Mae, Nelnet, Inc. and Higher One Payments, Inc.

- FMD is in the initial stages of a turnaround and is relying on an untested business model to generate revenues. It is not yet clear to what degree Monogram will be successful in this endeavor. In particular, regulatory and legislative changes regarding education loans could make them unattractive to lending institutions, hindering FMD's ability to generate new business.

- There is an ongoing dispute with TERI regarding control over FMD's proprietary loan database, which could hurt FMD's business model. While FMD believes that TERI does not have the right to sell, license, or transfer the database that it provided to TERI in 2008, the Bankruptcy Court ruled otherwise in November 2010. From a practical perspective, the database in TERI's possession has not been updated since its bankruptcy filing on May 31, 2008, and therefore, is unlikely to be of much use to others.

- A significant portion of the cash on FMD's balance sheet stems from the sale of the Trust Certificate, which generated a cash refund of income taxes previously paid of $189.3 million. The IRS is currently reviewing FMD's tax returns for fiscal years 2007, 2008, 2009,

and 2010, including a review of the tax treatment of the sale of the Trust Certificate. In addition, the Massachusetts Appellate Tax Board made additional assessments of tax, along with accrued interest, of approximately $20.0 against the GATE trusts and FMD. Adverse rulings in these tax cases would substantially impair FMD's balance sheet.

- Changes in federal regulations could hurt FMD's operations. For example, the SEC has proposed new rules governing asset-backed securities (ABS) issuance that, due to the requirements for risk retention, may affect the desirability of issuing ABS as a funding strategy.

VALUATION

FMD's stock valuation metrics are depressed. Although FMD is in the initial stages of a turnaround and we are encourage 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 $0.81 in fiscal 2011 and $0.52 in fiscal 2012.

This is reflected in FMD's stock price. FMD shares have declined 18.4% year-to-date price, compared to a median increase of 0.8% for credit service companies in the Zacks small-cap index, as shown in the following table.

Turning to Price/Book Value, FMD is valued at 0.65X , well below the industry median of 1.41X. It is also below FMD's average Price/Book Value of 0.83X for the past year or so.

Applying the 0.83X ratio to our estimated book value for FMD six months out results in a price target of approximately $2.00. This is a bit above FMD's current stock price. Therefore, we recommend a Neutral on FMD shares.

Industry Comparables- Small-cap Credit Services

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2011E	2012E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
First Marblehead	**(18.4)**					**0.65**	**Neg**	**Neg**	**Neg**	**Neg**	**-----**
S&P 500	**6.8**	**18.3**	**14.0**	**12.9**	**17.9**	**3.7**	**26.1**	**N/A**	**8.96**	**N/A**	**1.8**
Median	**0.8**	**12.5**	**11.1**	**8.7**	**12.1**	**1.41**	**12.6**	**14.73**	**4.28**	**5.4**	**-----**
Average	0.1	18.9	10.9	8.5	15.3	1.7	9.9	8.96	4.94	3.6	1.5
High	34.0	100.0	25.7	13.9	62.1	4.9	36.5	33.74	17.28	12.7	10.5
Low	(51.6)	4.0	4.8	4.6	7.8	0.4	(78.4)	(62.58)	(6.42)	(13.0)	-----

*Trailing twelve months

The First Marblehead Corporation

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	06/06	06/07	06/08	06/09	06/10	06/11 E	06/12 E
Net interest income	5.5	9.4	25.6	25.1	9.9	1.1	4.6
Non-interest revenue	566.1	871.3	(54.0)	(315.1)	6.4	12.8	55.3
Total net revenue	571.6	880.7	(28.4)	(290.0)	16.3	13.9	59.9
Loan loss provision	0.0	0.0	0.0	0.0	0.0	0.3	0.1
Non-interest expense	187.8	253.0	358.5	260.8	232.1	94.1	110.2
Income tax expense (credit)	147.8	256.4	(151.8)	(187.8)	(70.3)	0.9	2.5
Education financing net income before NRI	**236.0**	**371.3**	**(235.1)**	**(363.0)**	**(145.5)**	**(81.4)**	**(52.9)**
Securitization trusts net income & eliminations	0.0	0.0	0.0	0.0	0.0	(127.3)	(144.0)
Zacks adjusted net income before NRI	236.0	371.3	(235.1)	(363.0)	(145.5)	(208.7)	(196.9)
GAAP net income	236.0	371.3	(235.1)	(363.0)	(145.5)	(202.7)	(196.9)
Education financing EPS	**2.45**	**3.92**	**(2.46)**	**(3.66)**	**(1.46)**	**(0.81)**	**(0.52)**
Reported EPS	2.45	3.92	(2.46)	(3.66)	(1.46)	(2.01)	(1.95)
Dividends per share	0.32	0.58	0.40	0.00	0.00	0.00	0.00
Cash & short-term investments	143.0	234.9	221.1	181.5	385.5	269.3	217.3
Restricted cash & GICs	0.0	0.0	0.0	0.0	1.0	100.0	100.0
Loans	0.0	37.1	508.1	360.5	113.6	7.0	17.0
Receivables	551.6	809.7	411.2	233.9	73.3	30.0	30.0
Other assets	75.7	132.8	60.5	45.4	60.0	80.0	78.0
Total education financing assets	**770.3**	**1,214.5**	**1,200.9**	**821.3**	**633.4**	486.3	442.3
Securitization trusts assets & eliminations	0.0	0.0	0.0	0.0	0.0	7,191.5	6,551.5
Total assets	770.3	1,214.5	1,200.9	821.3	633.4	7,677.8	6,993.8
Deposits	0.0	53.5	244.1	154.5	108.7	58.1	58.3
Restricted funds due to clients	0.0	0.0	0.0	0.0	0.0	100.0	100.0
Short-term borrowings	0.0	0.0	242.9	230.1	218.1	0.0	0.0
Long-term borrowings	8.8	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	185.3	318.4	76.3	31.2	36.8	67.6	76.3
Education financing shareholders' equity	576.2	842.6	637.6	405.5	269.8	260.6	207.7
Education financing liabilities and equity	**770.3**	**1,214.5**	**1,200.9**	**821.3**	**633.4**	486.3	442.3
Securitization trusts liabilities & eliminations	0.0	0.0	0.0	0.0	0.0	8,314.8	7,818.8
Securitization trusts equity & eliminations	0.0	0.0	0.0	0.0	0.0	(1,123.3)	(1,267.3)
Total liabilities and equity	770.3	1,214.5	1,200.9	821.3	633.4	7,677.8	6,993.8

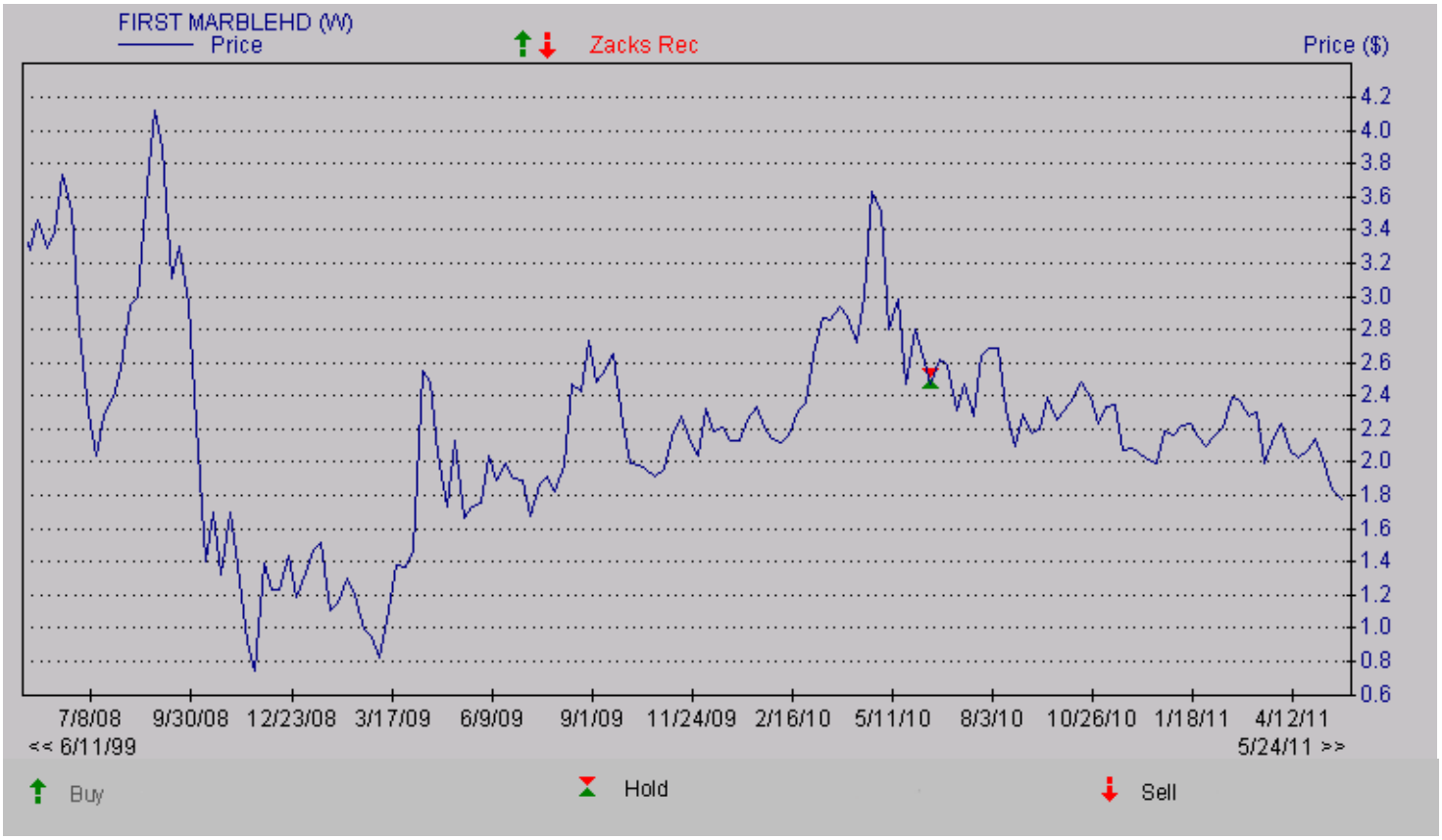
The First Marblehead Corporation

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2010				2011			
	Q1 A	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 E**
Net interest income	4.4	1.5	0.7	3.3	0.1	0.2	0.4	0.4
Non-interest revenue	9.1	8.6	(17.5)	6.2	5.0	9.3	(15.0)	13.5
Total net revenue	13.5	10.1	(16.8)	9.5	5.1	9.5	(14.6)	13.9
Loan loss provision	(0.1)	0.0	0.0	0.0	0.1	0.2	0.0	0.1
Non-interest expense	150.3	31.2	28.0	22.7	20.0	19.5	27.2	27.2
Income tax expense (credit)	(42.6)	(9.4)	(15.4)	(2.8)	1.1	(0.0)	(0.1)	(0.0)
Education financing net income before NRI	**(94.1)**	**(11.7)**	**(29.4)**	**(10.4)**	**(16.1)**	**(10.2)**	**(41.7)**	**(13.4)**
Securitization trusts net income & eliminations	0.0	0.0	0.0	0.0	(48.9)	(29.3)	2.4	(51.5)
Zacks adjusted net income before NRI	(94.1)	(11.7)	(29.4)	(10.4)	(65.0)	(39.5)	(39.3)	(64.9)
GAAP net income	(94.1)	(11.7)	(29.4)	(10.4)	(65.0)	(33.4)	(39.3)	(64.9)
Education financing EPS	**(0.95)**	**(0.12)**	**(0.30)**	**(0.10)**	**(0.16)**	**(0.10)**	**(0.41)**	**(0.13)**
Reported EPS	(0.95)	(0.12)	(0.30)	(0.10)	(0.64)	(0.33)	(0.39)	(0.64)
Dividends per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash & short-term investments	187.7	456.0	430.0	385.5	332.9	297.8	282.3	217.3
Restricted cash & GICs	0.0	0.0	0.0	1.0	0.0	147.0	97.4	100.0
Loans	241.3	111.4	108.1	113.6	8.6	8.0	6.9	17.0
Receivables	230.0	75.0	56.0	73.3	34.1	14.6	32.0	30.0
Other assets	77.7	65.6	73.5	60.0	50.0	114.1	72.8	78.0
Total education financing assets	**736.7**	**708.0**	**667.6**	**633.4**	**425.6**	**581.5**	**491.4**	442.3
Securitization trusts assets & eliminations	0.0	0.0	0.0	0.0	7,824.8	7,504.1	7,347.8	6,551.5
Total assets	736.7	708.0	667.6	633.4	8,250.4	8,085.6	7,839.2	6,993.8
Deposits	156.4	145.0	127.4	108.7	79.5	55.9	57.3	58.3
Restricted funds due to clients	0.0	0.0	0.0	0.0	0.0	147.0	94.7	100.0
Short-term borrowings	229.5	228.9	227.9	218.1	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	38.7	32.3	38.3	36.8	28.6	64.1	65.4	76.3
Education financing shareholders' equity	312.1	301.8	274.0	269.8	317.5	314.5	274.0	207.7
Education financing liabilities and equity	**736.7**	**708.0**	**667.6**	**633.4**	**425.6**	**581.5**	**491.4**	442.3
Securitization trusts liabilities & eliminations	0.0	0.0	0.0	0.0	8,869.6	8,578.2	8,419.6	7,818.8
Securitization trusts equity & eliminations	0.0	(0.0)	(0.0)	0.0	(1,044.8)	(1,074.1)	(1,071.8)	(1,267.3)
Total liabilities and equity	736.7	708.0	667.6	633.4	8,250.4	8,085.6	7,839.2	6,993.8

HISTORICAL ZACKS RECOMMENDATIONS



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