From:	Redacted by HELP Committee
To:	Dan Fitzpatrick at HQ
CC:	Redacted by HELP Committee
Sent:	11/18/2009 1:58:10 PM
Subject:	PEAKS
Attachments:	Default Graph.doc

Dan,

In structuring the PEAKS deal we have used the observable federal loan default measure, or cohort default rate (CDR), to extrapolate a longer term expected net loss rate. CDR is the default rate on Title IV loans over the first two years of repayment for all students entering repayment in a given year. Generally, you would apply a recovery assumption of at around 20% to the CDR to get a net loss rate (i.e. 10% CDR X 80% = 8% net loss). Our net loss amount is a more conservative metric in a few ways:

a. We have assumed 0% recovery, so 100% of defaults translate into losses
b. CDR measures only the initial two year period. We have further extrapolated to assume defaults over the cumulative life of the loans.
c. CDR measures all students coming into repayment, including first year students. These first year students have a higher likelihood of leaving school prior to completing that year or not return for a second year. Leaving school subsequently sets them into repayment on their loans prior to having graduated and obtained a degree or certificate. The PEAKS program only allows returning students to apply for loans. These students have a far higher graduation rate and thus a lesser likelihood defaulting.

ITT's average CDR rate is about 12%. If we assume that 60% of all defaults happen within the first two years, this translates into a 20% cumulative default rate. We have assumed no recoveries and applied this cumulative loss rate along a slightly more conservative distribution of 40% in year 1, 25% in year 2, 20% in year 3, 10% in year 4, and 5% in year 5. This means we have a 65% of the distribution, or 13% net loss rate, over the first two years. Under this loss distribution, it would require a 40% loss rate (i.e., 2x the expected loss rate) before a payment on the guaranty would be required. You can see both the 20% and 40% scenarios represented graphically on page 15 of the investor presentation. I have included the chart from pg 15 below as well.

(See attached file: Default Graph.doc)

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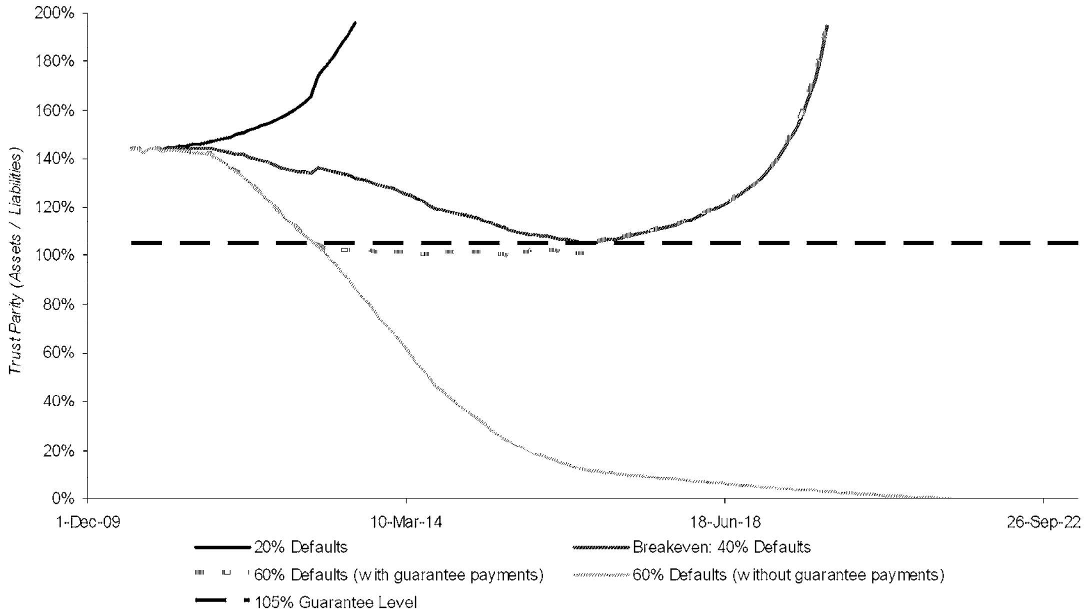

200%
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
Trust Parity (Assets / Liabilities)
1-Dec-09
10-Mar-14
18-Jun-18
26-Sep-22
20% Defaults
Breakeven: 40% Defaults
60% Defaults (with guarantee payments)
60% Defaults (without guarantee payments)
105% Guarantee Level