

## 117 Ratings On 70 FFELP ABS Senior Bonds Cut To 'AA+ (sf)'; 1 Sub Bond Cut To 'AA (sf)'; 32 Affirmed After US Downgrade

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### OVERVIEW

- On Sept. 19, 2011, Standard & Poor's published criteria for the treatment of the U.S. government in its role as an insurer or guarantor, and government agency loan-level support in structured finance transactions.
- In light of these criteria, we lowered our ratings on 118 classes and affirmed our ratings on 32 classes across 70 student loan ABS transactions issued between 2008 and 2011 that are collateralized by student loans originated through the government's FFELP program. These rating actions also reflect our view of each transaction's collateral characteristics and structural features.
- The lowered ratings reflect our view that these transactions are not able to absorb the 15% haircut (outlined in our Sept. 19 criteria) to the cash inflows received from the U.S. federal government under the FFELP program under a 'AAA' stress scenario.
- The affirmations of the ratings on the 32 senior classes of bonds reflect our view of either the relatively short expected remaining life of those classes, based on the class' remaining balances (we expect these classes to be fully repaid within the next 12 months) or our assessment of the likely continuation of a sequential-pay structure within the class A

notes following a nonmonetary event of default.

NEW YORK (Standard & Poor's) Oct. 7, 2011--Standard & Poor's Ratings Services today lowered its ratings on 118 classes of bonds from 70 student loan asset-backed securities (ABS) transactions that were issued between 2008 and 2011. At the same time, we affirmed our ratings on 32 classes from the same transactions. We removed all ratings, with the exception of those from one transaction that is outlined in further detail below, from CreditWatch negative, where they were placed on July 15, 2011 (see list). The underlying collateral of all of the transactions includes student loans originated under the Federal Family Education Loan Program (FFELP), and therefore benefit from the U.S. federal government's reinsurance of at least 97% of the loans' principal and accrued interest.

The complete rating list is available in "U.S. ABS Classes Affected By The Oct. 7, 2011, Rating Actions," published today on RatingsDirect on the Global Credit Portal, at [www.globalcreditportal.com](http://www.globalcreditportal.com). The list is also available on Standard & Poor's Web site, at [www.standardandpoors.com](http://www.standardandpoors.com). On the home page, under Ratings Resources, click on Ratings Actions, then select Structured Finance.

We affirmed our ratings on subordinate bonds issued out of these transactions on Aug. 30, 2011, after lowering our long-term credit rating on the United States of America to 'AA+' with a negative outlook from 'AAA' and removing the long-term and short-term ratings from CreditWatch negative (see "United States of America Long-Term Rating Lowered To 'AA+' On Political Risks And Rising Debt Burden; Outlook Negative," published on Aug. 5, 2011). The affirmations reflected the fact that the subordinate bonds were rated lower than the rating on the U.S. (see "239 Student Loan ABS Ratings Affirmed Following U.S. Sovereign Downgrade; 118 Remain On Watch Negative," published Aug. 30, 2011).

#### CRITERIA DEVELOPED

On Sept. 19, 2011, we published new criteria that describes our methodology for the treatment of partial loan-level support to loans backing 'AAA' rated securities, where U.S. government agencies or entities rated by Standard & Poor's provide such support, or with a credit estimate in the case of an agency or entity that we do not rate (see "U.S. Government Support In Structured Finance And Public Finance Ratings"). Because the FFELP loans backing the bonds issued by these transactions are supported by the U.S. Department of Education (ED) in the form of a guarantee, special allowance payments (SAP), and interest subsidy payments (ISP), the Sept. 19 criteria are applicable in reviewing the 'AAA (sf)' ratings on the senior bonds. Moreover, because Standard & Poor's views the ED as an integral part of the U.S. federal government, we view any of its obligations as having the same creditworthiness as other U.S. ('AA+') obligations.

#### APPLICATION OF CRITERIA AND ANALYSIS UNDERTAKEN

According to the applicable criteria, the degree of support provided by the government prior to its default is a function of the rating on the government entity relative to the rating on the obligation. As such, as outlined in the

newly issued criteria, we assume that a guarantor rated in the 'AA' category will pay 85% of its obligations in a 'AAA' stress scenario. Based on this, we utilized recent cash flows and imposed the 15% haircut on government-supported cash inflows to determine the impact to these transactions under various 'AAA' stressed scenarios.

In conjunction with the application of our criteria, we also examined each transaction's collateral characteristics and its structural features. In general, we believe that transactions backed by consolidation loans have a longer loss curve than those backed by Stafford loans, and as such, have a greater exposure period to U.S. reimbursement obligations under the FFELP program. Transactions issued between 2008 and 2011 also generally had a higher cost of funds than those issued before 2008 and we expect such transactions to generate less excess spread in a stressed scenario, and have less excess cash available to cover the 15% haircut on the government-supported cash inflows. We view transactions that allow excess spread to be released out of the trust as weaker from a structural perspective relative to full turbo structures that utilize excess cash flow to amortize the bond balance. Credit enhancement in a transaction with a turbo structure will grow as bonds amortize while credit enhancement in transactions that release will be capped at the release threshold. Additionally, we view transactions that permit subordinate bonds to be redeemed or that contain step-down features as weaker from the standpoint of credit enhancement available for the senior bonds.

We also reviewed the impact of the nonmonetary event of defaults (EODs) on the transactions' payment priorities to determine whether or not to treat the subclasses within the class A bonds as a single class of securities and assign the same rating to each subclass, or to differentiate the ratings within class A. We published criteria in March 2010 that provided a global methodology for assessing structured finance transactions that have provisions for changing the payment priority to subclasses within a specific class of notes from sequential to pro rata following a nonmonetary EOD (see "Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Upon A Nonmonetary EOD," published March 16, 2010). As outlined in the criteria article, for transactions in which additional actions are required to change the payment priority to pro rata from sequential following a nonmonetary EOD, we evaluate the incentives for the noteholders to take such action to decide whether or not to differentiate the ratings we assign to each subclass according to their payment priority.

Based on the totality of the above analysis, we believe that, for the majority of the transactions we reviewed, the credit enhancement available is insufficient to maintain the 'AAA (sf)' ratings after considering the newly imposed 15% haircut against the U.S. reimbursement cash flow obligation based on our recently published criteria.

The ratings on the class A-4B and class B notes from SLC Student Loan Trust 2008-1 remain on CreditWatch negative because the existing counterparty documentation is not consistent with our updated counterparty criteria. The class A-4B note is a Euro-denominated class, which benefits from a currency

swap with Credit Suisse International ('A+/A-1'). We will resolve the CreditWatch placement affecting these notes as part of the counterparty review. Further, we lowered our rating on the subordinate class B note from SLC Student Loan Trust 2008-1 to 'AA(sf)' from 'AA+(sf)' to reflect the class' subordinate position in the capital structure after we lowered the ratings on the senior class A-4A and A-4B notes to 'AA+' from 'AAA'(sf).

Six of the 32 rating affirmations were associated with current pay senior classes of notes. We based these affirmations on our view of the relatively short remaining life of these notes (based on the remaining class balances) and our view that these classes are expected to be fully repaid within the next 12 months.

Our ratings on 885 classes from 225 transactions rated 'AAA' (senior bond) and 'AA+' (mezzanine/sub bond) remain on CreditWatch negative. We will continue to review these remaining FFELP student loan-backed transactions and take rating actions as we deem appropriate. Pending completion of our review, we expect that we will lower some of the 'AAA' ratings to 'AA+'. Further, if we downgrade the 'AAA' senior bonds within transactions that contain 'AA+' rated mezzanine/sub-bonds, we may also lower the 'AA+' mezzanine/sub-bond ratings to reflect the bonds' subordinate positions in the capital structure.

#### RELATED CRITERIA AND RESEARCH

- U.S. Government Support In Structured Finance And Public Finance Ratings, published Sept. 19, 2011.
- 239 Student Loan ABS Ratings Affirmed Following U.S. Sovereign Downgrade; 118 Remain On Watch Negative, published Aug. 30, 2011.
- Structured Finance Ratings On CreditWatch Negative Following U.S. Sovereign Downgrade, published Aug. 8, 2011.
- United States of America Long-Term Rating Lowered To 'AA+' On Political Risks And Rising Debt Burden; Outlook Negative, published on Aug. 5, 2011.
- 599 Structured Finance Ratings Put On CreditWatch Negative Following U.S. Sovereign CreditWatch Placement, published July 15, 2011.
- United States of America 'AAA/A-1+' Ratings Placed On CreditWatch Negative On Rising Risk Of Policy Stalemate, published July 14, 2011.
- Principles of Credit Ratings, published Feb. 16, 2011.
- Standard & Poor's Ratings Definitions, published April 27, 2011.
- Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Upon A Nonmonetary EOD, published March 16, 2010.
- Standard & Poor's To Explicitly Recognize Credit Stability As An Important Rating Factor, published Oct. 15, 2008.
- Student Loan Criteria: Student Loan Programs, published Oct. 1, 2004.
- Student Loan Criteria: The Rating Process For Student Loan Transactions, published Oct. 1, 2004.
- Student Loan Criteria: Evaluating Risk In Student Loan Transactions, published Oct. 1, 2004.
- Student Loan Criteria: Structural Elements In Student Loan Transactions,

published Oct. 1, 2004.

- Student Loan Criteria: Rating Methodology For Student Loan Transactions, published Oct. 1, 2004.
- Student Loan Criteria: Legal Considerations For Student Loan Transactions, published Oct. 1, 2004.

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