

Fitch Ratings

Fitch Affirms PHEAA Student Loan Trust 2013-3

Fitch Ratings-New York-18 October 2016: Fitch Ratings affirms the outstanding senior note and subordinate note of PHEAA Student Loan Trust 2013-3 at 'AAAsf' and 'AAsf', respectively. The Rating Outlooks remain Stable for both notes. The affirmations are due to the notes passing both Fitch's credit and maturity stresses at the commensurate rating level. A full list of rating actions follows at the end of this rating action commentary.

KEY RATING DRIVERS

U.S. Sovereign Risk: The trust collateral consists of Federal Family Education Loan Program (FFELP) loans, with guarantees provided by the transaction's eligible guarantors and reinsurance provided by the U.S. Department of Education (ED) for at least 97% of principal and accrued interest. Fitch's U.S. sovereign rating is currently rated 'AAA', Outlook Stable.

Collateral Performance: Fitch assumes a base case default rate of 18.25% and a 54.75% default rate under the 'AAAsf' credit stress scenario. The base case default assumption of 18.25% implies a constant default rate of 3.2% (assuming a weighted average life of 5.6 years), lower than the trailing 12-month (TTM) constant default rate, utilized in the maturity stresses, of 4.8%. Fitch applies the standard default timing curve in its credit stress cash flow analysis. The claim reject rate is assumed to be 0.25% in the base case and 2% in the 'AAAsf' case.

The TTM average levels of deferment, forbearance, income-based repayment (before adjustment) and constant prepayment rate (voluntary and involuntary) are 8.3%, 10.1%, 12.7% and 12.1%, respectively, which are used as the starting point in cash flow modelling. Subsequent declines or increases are modelled as per criteria. The borrower benefit is assumed to be approximately 0.36%, based on information provided by the sponsor.

Basis and Interest Rate Risk: Fitch applies its standard basis and interest rate stresses to this trust as per the agency's criteria.

Payment Structure: Credit Enhancement (CE) is provided by excess spread, overcollateralization, and, for the class A note, the subordination of the class B note. As of the September 2016 distribution date, senior parity is 107.3% (6.8% CE) and total parity is 102.7% (2.6% CE). Liquidity support is provided by a reserve account and a capitalized interest account currently sized at \$878,622 and \$2,000,000, respectively. The reserve account balance is required to be maintained at the greater of (i) 0.25% of the Pool balance and (ii) 0.15% of the Initial Pool Balance, or \$758,492. All amounts remaining in the capitalized interest account will be released on the November 2016 distribution date. A target overcollateralization amount of 1.9% of the initial Adjusted Pool Balance plus 1.7% of the current Adjusted Pool Balance needs to be reached before excess cash can be released to the issuer.

Maturity Risk: Fitch's student loan ABS cash flow model indicates that the notes are paid in full on or prior to the legal final maturity dates under the commensurate rating scenario.

Operational Capabilities: Pennsylvania Higher Education Assistance Agency (PHEAA) provides day-to-day servicing for the trust's entire portfolio. Fitch believes PHEAA is an acceptable servicer of FFELP student loans.

CRITERIA VARIATIONS

Under Fitch's criteria 'Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria', dated July 26, 2016, Fitch does not address the process by which it gives certain credit to short-term assets in its cash flow analysis, and it is therefore considered a criteria variation.

RATING SENSITIVITIES

Since the FFELP student loan ABS relies on the U.S. government to reimburse defaults, 'AAAsf' FFELP ABS ratings will likely move in tandem with the 'AAA' U.S. sovereign rating. Aside from the U.S. sovereign rating, defaults, basis risk, and loan extension risk account for the majority of the risk embedded in FFELP student loan transactions. Additional defaults, basis shock beyond Fitch's published stresses, lower than expected payment speed, and other factors could result in future downgrades. Likewise, a buildup of CE driven by positive excess spread given favorable basis factor conditions could lead to future upgrades.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

Fitch has affirmed the following:

PHEAA Student Loan Trust 2013-3:

--Class A note at 'AAAsf'; Outlook Stable.

--Class B note at 'AAAsf'; Outlook Stable.

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Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016)

(<https://www.fitchratings.com/site/re/886006>)

Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 17 May 2016) (<https://www.fitchratings.com/site/re/879815>)

Global Structured Finance Rating Criteria (pub. 27 Jun 2016)

(<https://www.fitchratings.com/site/re/883130>)

Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria (pub. 26 Jul 2016)

(<https://www.fitchratings.com/site/re/881705>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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