



## Fitch Affirms PHEAA Student Loan Trust 2013-2

Fitch Ratings-New York-19 October 2016: Fitch Ratings has affirmed the PHEAA Student Loan Trust 2013-2 Trust Indenture (PHEAA 2013-2) notes at 'AAAsf'. The Rating Outlook remains Stable.

The affirmation is due to the notes passing both Fitch's credit and maturity stresses at the commensurate rating level.

### KEY RATING DRIVERS

**U.S. Sovereign Risk:** The trust collateral comprises 100% Federal Family Education Loan Program (FFELP) loans, with guaranties provided by eligible guarantors and reinsurance provided by the U.S. Department of Education (ED) for at least 97% of principal and accrued interest. The U.S. sovereign rating is currently 'AAA'/Outlook Stable by Fitch.

**Collateral Performance:** Fitch assumes a base case default rate of 13.75% and a 41.25% default rate under the 'AAA' credit stress scenario. The base case default assumption of 13.75% implies a constant default rate of 4.6% (assuming a weighted average life of 8.9 years), consistent with the trailing 12 month (TTM) average constant default rate utilized in the maturity stresses. Fitch applies the standard default timing curve. The claim reject rate is assumed to be 0.25% in the base case and 2% in the 'AAA' case.

The trailing 12 month average of deferment, forbearance, Income-based repayment (prior to adjustment) and constant prepayment rate (voluntary and involuntary) are 12.2%, 13.1%, 12% and 17.6%, respectively, which are used as the starting point in cash flow modeling. Subsequent declines or increases are modeled as per criteria. The borrower benefit is assumed to be approximately 0.32%, based on information provided by the sponsor.

**Basis and Interest Rate Risk:** Fitch applies its standard basis and interest rate stresses to this transaction as per criteria.

**Payment Structure:** Credit enhancement (CE) is provided by excess spread and overcollateralization (OC). As of August 2016, total parity is 105.76% (5.45% CE). Liquidity support is provided by a reserve account sized at the greater of 0.25% of the pool balance and \$509,562, currently equal to the floor. The trust can release any excess cash as long as the specified overcollateralization amount of the sum of (a) 1.7% of the current adjusted pool balance and (b) 1.9% of the initial adjusted pool balance is met.

**Maturity Risk:** Fitch's SLABS 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.

**Acceptable Servicing Capabilities:** Day-to-day servicing is provided by Pennsylvania Higher Education Assistance Agency (PHEAA). Fitch believes PHEAA to be an acceptable servicer of FFELP student loans.

### CRITERIA APPLICATION

For transactions in surveillance, Fitch will treat certain assets such as claims filed as short-term assets in its cash flow analysis. Given that Fitch's current criteria is silent on the treatment of such assets, this treatment is considered a criteria variation. Fitch does not believe such variation has a measurable impact upon the ratings assigned.

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