FitchRatings

Fitch Affirms PHEAA 2006 Trust Indenture; Outlook Stable

Fitch Ratings-New York-30 June 2016: Fitch Ratings affirms the Pennsylvania Higher Education Assistance Agency (PHEAA) 2006 Trust Indenture senior and subordinate notes at 'AAAsf'. The Rating Outlook on both notes remains Stable.

KEY RATING DRIVERS

High Collateral Quality: The trust collateral consists of 100% Federal Family Education Loan Program (FFELP) loans. The credit quality of the trust collateral is high, in Fitch's opinion, based on the 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 currently rates the U.S. 'AAA' with a Stable Outlook.

Credit Enhancement: Credit Enhancement is provided by overcollateralization and excess spread, and for the class A notes, subordination provided by the class B notes. As of the March 2016 distribution report, senior parity is 114.3% and total parity is 104.5%. The trust can release any excess cash.

Adequate Liquidity Support: Liquidity support is provided by a reserve account sized at the greater of 0.25% of the pool balance and $729,541. As of March 31, 2016, the reserve fund balance is at its floor balance of $729,541.

Acceptable Servicing Capabilities: Day-to-day servicing is provided by PHEAA. Fitch believes PHEAA to be an acceptable servicer at this time due to the long history of servicing FFELP loans.

In certain LIBOR-down interest rate stress scenarios the basis spread may be compressed, as Fitch would apply a floor to 1-month LIBOR at a negative rate level in accordance with Fitch's 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds' (May 2016). Since the updated interest rate stresses are not addressed yet in existing FFELP criteria, this represents a criteria variation. Use of the criteria variation did not have a measurable impact upon the ratings assigned.

Under the 'Counterparty Criteria for Structured Finance and Covered Bonds', dated May 14, 2014, Fitch looks to its own ratings in analyzing counterparty risk and assessing a counterparty's creditworthiness. The definition of the permitted investment for this deal allows possibility of using investments not rated by Fitch, this represents a criteria variation. Since the only available funds to invest in are those held in the Collection Account and the funds can only be invested for a short duration of three months given the payment frequency of the notes, Fitch doesn't believes such variation have a measurable impact upon the ratings assigned.

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.

DUE DILIGENCE USAGE
No third-party due diligence was provided or reviewed in relation to this rating action.

Fitch has affirmed the following ratings:

PHEAA 2006 Trust Indenture
--Class A-3 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. 14 May 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158&cft=0)
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 17 May 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879815&cft=0)
Criteria for Servicing Continuity Risk in Structured Finance (pub. 17 Dec 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875586&cft=0)
Exposure Draft: Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria (pub. 04 Dec 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=874971&cft=0)
Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=883130&cft=0)
Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria (pub. 23 Jun 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750530&cft=0)

Additional Disclosures
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