FitchRatings

# Fitch Affirms PHEAA 2009-2 Indenture; Outlook Stable

Fitch Ratings-New York-12 August 2016: Fitch Ratings affirms the Pennsylvania Higher Education Assistance Agency (PHEAA) 2009-2 Indenture, senior A-2 note at 'AAAsf' with a Stable Outlook.

KEY RATING DRIVERS

U.S. Sovereign Risk: The trust collateral is comprised of 100% Federal Family Education Loan Program (FFELP) loans, 2.93% of which are rehab 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' with a Stable Outlook by Fitch.

Collateral Performance: Fitch assumes 11.75% base case default rate and 35.00% under 'AAA' credit stress scenario. The claim reject rate is assumed to be 0.25% in base case and 2.00% in 'AAA' case. Fitch applies the standard default timing curve, as well as the trailing 12 month constant default rate (CDR) and prepayment levels as assumptions for FFELP loans in it cash flow analysis. Current level of deferment, forbearance and IBR are 10.75%, 10.42%, and 10.40%, 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 0.25% for the entire portfolio, primarily from the consolidation loans, 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: Cash flow scenarios for the 2009-2 notes were satisfactory under 'AAAsf' stress using Fitch's Student Loans ABS cash flow model (SLABS). Total credit enhancement (CE) is provided by overcollateralization and excess spread, with total parity at 124.17%. Liquidity support for the 2009-2 notes is provided by a reserve fund currently sized at $410.251, with a specified reserve requirement of 0.25% of the outstanding pool balance with a floor balance of 0.15% of the original pool balance. Excess spread cannot be release from the trust until all the notes are paid in full.

Maturity Risk: Fitch's SLABS cash flow model indicates that the notes are paid in full on or prior to the legal final maturity of July 25, 2029 in a 'AAA' maturity stress scenario.

Operational Capabilities: PHEAA is the servicer of the 2009-2 portfolio, servicing approximately 100% of the portfolio. PHEAA is also the administrator. Fitch deems PHEAA as an acceptable servicer of FFELP loans.

CRITERIA VARIATIONS

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.

Under the 'Counterparty Criteria for Structured Finance and Covered Bonds', dated July 18, 2016, Fitch looks to its own ratings in analyzing counterparty risk and assessing a counterparty's creditworthiness. The definition of permitted investments for this deal allows for the possibility of using investments not rated by Fitch, which 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 believe such variation has 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.

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 ratings:

PHEAA 2009-2 Indenture:
--Class A-2 at 'AAAsf'; Outlook Stable.

Contact:

Primary Analyst
Emily Lee
Director
+1-212-908-0667
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Committee Chairperson
Aoto Kenmochi
Senior Director
+1-212-908-0867

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at www.fitchratings.com.

**Applicable Criteria**
Counterparty Criteria for Structured Finance and Covered Bonds (pub. 18 Jul 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=884963)
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)
Criteria for Servicing Continuity Risk in Structured Finance (pub. 17 Dec 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875586)
Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=883130)

Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria (pub. 26 Jul 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=881705)

**Additional Disclosures**
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1010367)
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