

Fitch Ratings

Fitch Maintains Rating Watch on Senior Note of PHEAA 2012-1 Ratings Endorsement

Policy

28 Oct 2013 2:58 PM (EDT)

Fitch Ratings-New York-28 October 2013: Fitch Ratings maintains the Negative Rating Watch on the senior note currently rated 'AAAsf' issued by PHEAA Student Loan Trust 2012-1.

On Oct. 16, Fitch placed 766 'AAAsf' rated tranches of U.S. FFELP student loan ABS on Rating Watch Negative following the revision of the U.S. sovereign rating on Oct. 15. For further details, see the press release dated Oct. 16, 2013, 'Fitch Places 'AAAsf' Rated U.S. FFELP Student Loan Tranches on Rating Watch Negative'.

The note for PHEAA 2012-1 is currently rated at 'AAAsf' and the Rating Watch Negative is maintained due to the current rating action taken on the U.S. sovereign rating.

Key Rating Drivers

High Collateral Quality: The trust collateral consists of 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.

Sufficient Credit Enhancement (CE): CE is provided by overcollateralization (OC; the excess of trust's asset balance over bond balance) and excess spread. Current parity is 103.12% and total CE is about 3.02%. The trust has to build OC to 1.72% of current Adjusted Pool Balance + 1.89% of original Adjusted Pool Balance before any cash be released from the trust.

Adequate Liquidity Support: Liquidity support is provided by a reserve account and a capitalized interest account. The reserve is sized equal to the greater of 0.25% of the outstanding notes, and 0.15% of the initial note balance. The capitalized interest account, sized at \$5,456,509, will be released on Nov. 25, 2013.

Satisfactory Servicing Capabilities: Pennsylvania Higher Education Assistance Agency, as servicer, is responsible for servicing the trust. Fitch believes PHEAA is an acceptable servicer of FFELP student loans.

Rating Sensitivities

Since FFELP student loan ABS rely 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 and basis risk account for the majority of the risk embedded in FFELP student loan transactions. Additional defaults and basis shock beyond Fitch's published stresses could result in future downgrades. Likewise, a buildup of credit enhancement driven by positive excess spread given favorable basis factor conditions could lead to future upgrades.

Fitch has taken the following rating action:

PHEAA Student Loan Trust 2012-1:

-- Class A-1 note Rating Watch Negative maintained.

A comparison of the transaction's representations, warranties, and enforcement mechanisms (RW&Es) to those of typical RW&Es for FFELP asset-backed securities is available in the presale appendix. This presale appendix and Fitch's special report on "Representations, Warranties, and Enforcement Mechanisms on Global Structured Finance Transactions," may be accessed via the links provided below.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Global Structured Finance Rating Criteria' dated May 24, 2013;
--'Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria' dated May 17, 2013;
--'PHEAA Student Loan Trust 2012-1 Appendix' dated Nov. 6, 2012
--'Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions - Amended' dated April 17, 2012

Applicable Criteria and Related Research:

Rating U.S. Federal Family Education Loan Program Student Loan ABS Criteria -- Effective April 1, 2013 to May 7, 2013
Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions -- Amended
Global Structured Finance Rating Criteria
PHEAA Student Loan Trust 2012-1 Appendix

Additional Disclosure

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