



Moody's Investors Service

Global Credit Research
Rating Action
23 FEB 2009

Rating Action: Pennsylvania Higher Education Assistance Agency (1997 Indenture)

Moody's downgrades 111 classes of PHEAA student loan revenue bonds

Approximately \$7.4 billion of asset-backed securities affected

New York, February 23, 2009 -- Moody's Investors Service has downgraded 96 classes of senior bonds and 15 classes of subordinate bonds issued from the Pennsylvania Higher Education Assistance Agency (PHEAA) 1997 Indenture. The underlying collateral consists of 100% FFELP (i.e. government-guaranteed) student loans and the trust is funded by 100% auction rate securities.

The rating actions are prompted by the increase of funding costs due to the continuing and prolonged dislocation of the auction rate securities market. As most student loan collateral is indexed to the Financial Commercial Paper rate ("CP" rate), trusts that are funded primarily by auction rate securities have suffered significant excess spread compression as the yield on the assets has not increased in tandem with the cost of the liabilities.

In the case of the PHEAA 1997 Indenture, the total parity, or the ratio of total assets to total liabilities, was 100% as of September 30, 2008. The senior parity or the ratio of total assets to total senior notes outstanding balance was 103.1%. At the failed auction rate, the trust is expected to generate 15bps to 20bps excess spread per annum. However, under Moody's current stress assumptions, the trust is expected to generate negative excess spread. As a result, the current total credit enhancement available for senior and subordinate bonds including subordination, overcollateralization, reserve fund and other cash accounts, and excess spread generated under the stress scenario, is not sufficient to support the bonds' original ratings.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found at www.moody.com in the Credit Policy & Methodologies directory.

The complete rating actions are as follows:

A-Ctfs, Downgraded to A3; previously on 9/1/1985 Assigned Aaa

B-Ctfs, Downgraded to Baa3; previously on 9/1/1985 Assigned A1

C-Ctfs, Downgraded to A3; previously on 9/1/1985 Assigned Aaa

Series D, Downgraded to A3; previously on 11/20/1998 Assigned Aaa

Series E, Downgraded to Baa3; previously on 11/20/1998 Assigned A1

Sr. Ser. 2000F-1, Downgraded to A3; previously on 10/20/2000 Assigned Aaa

Sr. Ser. 2000F-2, Downgraded to A3; previously on 10/20/2000 Assigned Aaa

Sr. Ser. 2000F-3, Downgraded to A3; previously on 10/20/2000 Assigned Aaa

Sub. Ser. 2000G, Downgraded to Baa3; previously on 10/20/2000 Assigned A1

Sr. Ser. 2000H, Downgraded to A3; previously on 10/25/2000 Assigned Aaa

Sub. Ser. 2000I, Downgraded to Baa3; previously on 10/25/2000 Assigned A1

<http://moody.com/moody/cust/research/MDCdocs/23/2007400000577805.asp?namedEnt...> 2/23/2009

Sr. Ser. 2000J-1, Downgraded to A3; previously on 12/1/2000 Assigned Aaa
Sr. Ser. 2000J-2, Downgraded to A3; previously on 12/1/2000 Assigned Aaa
Sr. Ser. 2000J-3, Downgraded to A3; previously on 12/1/2000 Assigned Aaa
Sr. Ser. 2000J-4, Downgraded to A3; previously on 12/1/2000 Assigned Aaa
Sub. Ser. 2000K, Downgraded to Baa3; previously on 12/1/2000 Assigned A1
Sr. Ser. 2001L-1, Downgraded to A3; previously on 2/1/2001 Assigned Aaa
Sr. Ser. 2001L-2, Downgraded to A3; previously on 8/7/2001 Assigned Aaa
Sub. Ser. 2001-M, Downgraded to Baa3; previously on 8/7/2001 Assigned A1
Senior Ser. 2002N-1, Downgraded to A3; previously on 2/15/2002 Assigned Aaa
Senior Ser. 2002N-2, Downgraded to A3; previously on 2/15/2002 Assigned Aaa
Sub. Ser. 2002O, Downgraded to Baa3; previously on 6/27/2002 Assigned A1
Senior Sub Ser. P-1, Downgraded to A3; previously on 8/26/2002 Assigned Aaa
Senior Sub Ser. P-2, Downgraded to A3; previously on 8/26/2002 Assigned Aaa
Sub. Ser. Q, Downgraded to Baa3; previously on 8/26/2002 Assigned A1
Senior Ser. 2002-R-1, Downgraded to A3; previously on 12/3/2002 Assigned Aaa
Senior Ser. 2002-R-2, Downgraded to A3; previously on 2/15/2002 Assigned Aaa
Sub. Ser. 2002-S, Downgraded to Baa3; previously on 2/15/2002 Assigned A1
Senior Ser. 2002T-1, Downgraded to A3; previously on 12/3/2002 Assigned Aaa
Senior 2002-T-2, Downgraded to A3; previously on 12/3/2002 Assigned Aaa
Senior Ser. 2002-T-3, Downgraded to A3; previously on 12/3/2002 Assigned Aaa
Senior Ser. 2002-T-4, Downgraded to A3; previously on 12/3/2002 Assigned Aaa
Senior 2002-T-5, Downgraded to A3; previously on 12/3/2002 Assigned Aaa
Senior Ser. 2002-U, Downgraded to Baa3; previously on 12/3/2002 Assigned A1
Senior Ser. 2002V-1, Downgraded to A3; previously on 12/23/2002 Assigned Aaa
Senior Ser. 2002-V-2, Downgraded to A3; previously on 12/23/2002 Assigned Aaa
Senior Ser. 2002-V-3, Downgraded to A3; previously on 12/23/2002 Assigned Aaa
Senior Ser. 2002-V-4, Downgraded to A3; previously on 12/23/2002 Assigned Aaa
Sr. 2003-W-1, Downgraded to A3; previously on 8/26/2003 Assigned Aaa

Sr. 2003-W-2, Downgraded to A3; previously on 8/26/2003 Assigned Aaa

Sub. 2003-X, Downgraded to Baa3; previously on 8/26/2003 Assigned A1

2003Y-1, Downgraded to A3; previously on 10/3/2003 Assigned Aaa

2003Y-2, Downgraded to A3; previously on 10/3/2003 Assigned Aaa

2003Y-3, Downgraded to A3; previously on 10/3/2003 Assigned Aaa

2003Y-4, Downgraded to A3; previously on 10/3/2003 Assigned Aaa

2004-Z1, Downgraded to A3; previously on 8/6/2004 Assigned Aaa

2004Z-2, Downgraded to A3; previously on 8/6/2004 Assigned Aaa

2004Z-3, Downgraded to A3; previously on 8/6/2004 Assigned Aaa

2004Z-4, Downgraded to A3; previously on 8/6/2004 Assigned Aaa

2004AA-1, Downgraded to A3; previously on 8/11/2004 Assigned Aaa

2004AA-2, Downgraded to A3; previously on 8/11/2004 Assigned Aaa

2004AA-3, Downgraded to A3; previously on 8/11/2004 Assigned Aaa

2004BB-1, Downgraded to A3; previously on 12/8/2004 Assigned Aaa

2004BB-2, Downgraded to A3; previously on 12/8/2004 Assigned Aaa

2004BB-3, Downgraded to A3; previously on 12/8/2004 Assigned Aaa

2004BB-4, Downgraded to A3; previously on 12/8/2004 Assigned Aaa

2005CC-1, Downgraded to A3; previously on 9/12/2005 Assigned Aaa

2005CC-2, Downgraded to A3; previously on 9/12/2005 Assigned Aaa

2005CC-3, Downgraded to A3; previously on 9/12/2005 Assigned Aaa

2005DD-1, Downgraded to A3; previously on 9/22/2005 Assigned Aaa

2005DD-2, Downgraded to A3; previously on 9/22/2005 Assigned Aaa

2005EE-1, Downgraded to A3; previously on 12/15/2005 Assigned Aaa

2005EE-2, Downgraded to A3; previously on 12/15/2005 Assigned Aaa

2005EE-3, Downgraded to A3; previously on 12/15/2005 Assigned Aaa

2005EE-4, Downgraded to A3; previously on 12/15/2005 Assigned Aaa

2005FF, Downgraded to Baa3; previously on 12/15/2005 Assigned A1

2005GG-1, Downgraded to A3; previously on 12/27/2005 Assigned Aaa

2005GG-2, Downgraded to A3; previously on 12/27/2005 Assigned Aaa
2005GG-3, Downgraded to A3; previously on 12/27/2005 Assigned Aaa
2005GG-4, Downgraded to A3; previously on 12/27/2005 Assigned Aaa
2005GG-5, Downgraded to A3; previously on 12/27/2005 Assigned Aaa
2005GG-6, Downgraded to A3; previously on 12/27/2005 Assigned Aaa
2006HH-1, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-10, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-2, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-3, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-4, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-5, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-6, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-7, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-8, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006HH-9, Downgraded to A3; previously on 5/22/2006 Assigned Aaa
2006II-1, Downgraded to Baa3; previously on 5/22/2006 Assigned A1
2006JJ-1, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-10, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-2, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-3, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-4, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-5, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-6, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-7, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-8, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006JJ-9, Downgraded to A3; previously on 6/28/2006 Assigned Aaa
2006KK, Downgraded to Baa3; previously on 6/28/2006 Assigned A1
2007LL-1, Downgraded to A3; previously on 4/26/2007 Assigned Aaa

2007LL-10, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-2, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-3, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-4, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-5, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-6, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-7, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-8, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007LL-9, Downgraded to A3; previously on 4/26/2007 Assigned Aaa
2007MM-1, Downgraded to A3; previously on 6/21/2007 Assigned Aaa
2007MM-2, Downgraded to A3; previously on 6/21/2007 Assigned Aaa
2007MM-3, Downgraded to A3; previously on 6/21/2007 Assigned Aaa
2007MM-4, Downgraded to A3; previously on 6/21/2007 Assigned Aaa
2007MM-5, Downgraded to A3; previously on 6/21/2007 Assigned Aaa
2007MM-6, Downgraded to A3; previously on 6/21/2007 Assigned Aaa
2007NN, Downgraded to Baa3; previously on 6/21/2007 Assigned A1

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