Ratings On Two Classes From PHEAA Student Loan Trust I Raised; Three Others Affirmed And One Discontinued

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OVERVIEW

- We raised our ratings to 'AAA (sf)' from 'A (sf)' on two subordinate classes from PHEAA Student Loan Trust I's series 2004-1 and 2005-1 and we removed them from CreditWatch positive.
- We affirmed our 'AAA (sf)' ratings on three senior classes from series 2003-1 and 2004-1 out of the same trust and we removed them from CreditWatch negative.
- We discontinued our 'A (sf)/Watch Pos' rating on the class B-1 notes from series 2003-1 after they were paid in full.
- The rating actions reflect our view that the collateral performance and the current credit enhancement levels support the ratings.

NEW YORK (Standard & Poor's) Feb. 26, 2015--Standard & Poor's Ratings Services today raised its ratings on two subordinate classes from PHEAA Student Loan Trust I's series 2004-1 and 2005-1 and removed them from CreditWatch, where they were placed with positive implications on Aug. 28, 2014. At the same time, we affirmed our ratings on three senior classes from series 2003-1 and 2004-1 out of the same trust and removed them from CreditWatch, where they were placed with negative implications on Aug. 28, 2014 (see list). We discontinued our 'A (sf)/Watch Pos' rating on the class B-1 notes from series 2003-1 after they were paid in full. PHEAA Student Loan Trust I is a master trust issued under a Dec. 1, 2003, indenture with three issuances: series 2003-1, 2004-1, and 2005-1.

The rating actions reflect our views of the collateral's historical and future performance, as well as the current credit enhancement available to support the notes, including but not limited to overcollateralization (parity), subordination for the senior classes, the reserve account, and excess spread. We also considered secondary credit factors such as credit stability, payment priority, sector- and issuer-specific analysis, and a peer analysis.

We previously placed the ratings on the senior notes on CreditWatch with negative implications because senior credit enhancement levels, as measured by parity, have been decreasing. The decline in senior note credit enhancement has resulted from a structural feature that calls for mandatory principal payment to the subordinate notes (subject to certain parity thresholds), in lieu of senior note principal payments, once the senior LIBOR notes are paid in full. The remaining senior LIBOR notes recently paid off. The payment to the subordinate notes is not optional.

We expect the subordinate notes will pay in full within the next year. We believe the senior credit enhancement, without benefitting from the subordination of the class B-1 notes, can absorb the 15% haircut to the cash inflows received from the U.S. federal government under the Federal Family Education Loan Program (FFELP) program under a 'AAA' stress scenario. Generally, our stressed cash flow runs show that senior parity decreases to approximately 120% from 144% as of July 2014 and then increases thereafter until the senior notes are paid in full. In all of our scenarios, the senior notes were paid in full by the end of 2027, well before their legal maturity dates.

We previously placed our ratings on the subordinate notes on CreditWatch with positive implications because the subordinate class credit enhancement has grown significantly since closing. Generally, as long as senior parity is greater than 105.0% and subordinate parity is greater than 101.5%, the subordinate notes will receive all of the principal payments to the notes, essentially locking out principal payments to the senior class. Since placing the class B-1 notes on CreditWatch, the series 2003-1 class B-1 notes are paid in full. Payments will now be allocated sequentially to the series 2004-1 class B-1 and then the series 2005-1 class B-1.

Based on the last six months of principal payments to the subordinate notes, we expect the subordinate classes to be paid in full within a year. In our stressed runs, the subordinate notes were paid in full by the end of 2016. We are raising the ratings to 'AAA (sf)' on the subordinate notes because the class B-1 subordinate notes are the current paying notes and are expected to pay in full within a year, and because we do not believe the parity levels will decrease below the parity trigger, which would revert the trust to sequentially pay all of the class A notes prior to the class B-1 notes.

The strong collateral performance for this trust is primarily due to the Department of Education (ED)'s guaranty of defaults and to low servicer rejects of defaulted loans.

CURRENT CAPITAL STRUCTURE

Series	Class name	Current balance (mil. $)(i)	Note factor (%)	Coupon	Maturity date
2003-1	A-3	58.350	64.83	ARS	7/25/2042
2004-1	A-2	90.000	100.00	ARS	4/25/2044
2004-1	A-3	90.000	100.00	ARS	4/25/2044
2004-1	B-1	18.750	93.75	ARS	4/25/2044
2005-1	B-1	20.000	100.00	ARS	4/25/2045

(i)Current balance and note factor as of Dec. 31, 2014, reporting end period.
ARS--Auction-rate securities.

REPORTED PARITY LEVELS
The following table shows the change in parity since our last review:

Class	Parity (%)		
	December 2014	July 2014	December 2011
Senior	135.74	144.13	125.13
Total	116.00	114.27	107.56

CURRENT PRINCIPAL PAYMENT PRIORITY
The senior LIBOR notes for this trust have been paid in full, with only the senior and subordinate auction notes remaining. The trust will distribute available funds, as principal payments, to the subordinate notes and then to the senior notes at levels that will maintain required parity ratios of at least 105.0% senior parity and 101.5% total parity. Generally, we expect the subordinate notes will receive all principal payments until the subordinate notes pay in full. The subordinate note pool factor has decreased to 65% from 100% since the reporting period ended July 31, 2014.

AUCTION-RATE DEFINITIONS
PHEAA Student Loan Trust I has auction-rate notes that continue to be paid at the maximum auction rate definition, based on LIBOR or the 91-day U.S. Treasury bill rate plus a rating-dependent margin, which is capped at the assets' net loan rate. We view this definition favorably compared to those in other structures, which contain a multiplier that allows for a rapid escalation in the maximum rate in a higher interest rate environment, therefore stressing excess spread.

FFELP LOAN TYPES
The trust consists of 99.06% FFELP consolidation loans and 0.82% FFELP Stafford loans that are guaranteed by the ED. At closing, all of the loans were floor income loans. Floor income loans allow the trust to retain the borrower interest exceeding the special allowance payment rate paid by the government, which can increase excess spread in a low interest rate environment. At closing, the majority of the loans receive 98% reimbursement on defaulted loans from the ED.

RELEASING

Generally, the requirements to release are as follows:

	Parity (%)	
Issuer	Senior	Subordinate
PHEAA Student Loan Trust I	105.00	101.50

LOAN STATUSES

The trust continues to have a high percentage of loans in non-paying status (deferment, forbearance, and delinquency):

	% of pool(i)
Repayment	79.17
Deferment	5.51
Forbearance	6.72
30+ day delinquency	8.60

(i)Current values as of the reporting period ended Dec. 31, 2014.

CASH FLOW MODELING ASSUMPTIONS

We ran various 'AAA' cash flow scenarios to test the senior and subordinate notes' ability to receive timely interest and principal no later than legal final maturity. The following are some of the major assumptions we modeled:

- Remaining cumulative defaults of 0%, 25%, 50% and 75%;
- Six-year default curves;
- A servicer claims rejection rate of 3.0%;
- A delay after a default of a U.S. ED claim reimbursement of 630 days;
- A two-month delay on special allowance payments and interest rate subsidies;
- Flat 3% and ramped voluntary prepayment speeds (ramped voluntary prepayment speeds starting at 3% and increasing annually over seven years to 10%, after which the rate was held constant);
- Deferment rates of 9.25% for 48 months;
- Forbearance rates of 12% for 36 months;
- Stressed interest rate vectors for the various indices; and
- Failed auctions for each transaction's life, with auction rate coupons based on their maximum rate definitions.

We will continue to monitor the performance of the student loan receivables backing this transaction relative to our ratings and the trust's available credit enhancement.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com

RELATED CRITERIA AND RESEARCH

Related Criteria

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- U.S. Interest Rate Assumptions Revised For May 2012 And Thereafter, April 30, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009
- Legal Criteria For U.S. Structured Finance Transactions: Criteria Related To Asset-Backed Securities, Oct. 1, 2006
- Student Loan Criteria: Student Loan Programs, Oct. 1, 2004
- Student Loan Criteria: Evaluating Risk In Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Structural Elements In Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Rating Methodology For Student Loan Transactions, Oct. 1, 2004

Related Research

- PHEAA Student Loan Trust I Ratings On Three Classes Placed On Watch Positive; Three Others Placed On Watch Negative, Aug. 28, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Pennsylvania Higher Education Assistance Agency; General Obligation, Dec. 10, 2013
- Pennsylvania Higher Education Assistance Agency; General Obligation, Sept. 12, 2012
- The Rating Process For Student Loan Transactions, Oct. 1, 2004

RATINGS RAISED AND REMOVED FROM CREDITWATCH

PHEAA Student Loan Trust I

$400 million student loan asset-backed notes series 2004-1

		Rating	
Class	CUSIP	To	From

B-1	71722TAH7	AAA (sf)	A (sf)/Watch Pos

PHEAA Student Loan Trust I
$400 million student loan asset-backed notes series 2005-1

		Rating	
Class	CUSIP	To	From
B-1	71722TAL8	AAA (sf)	A (sf)/Watch Pos

RATINGS AFFIRMED AND REMOVED FROM CREDITWATCH

PHEAA Student Loan Trust I
$400 million student loan asset-backed notes series 2003-1

		Rating	
Class	CUSIP	To	From
A-3	71722TAB0	AAA (sf)	AAA (sf)/Watch Neg

PHEAA Student Loan Trust I
$400 million student loan asset-backed notes series 2004-1

		Rating	
Class	CUSIP	To	From
A-2	71722TAF1	AAA (sf)	AAA (sf)/Watch Neg
A-3	71722TAG9	AAA (sf)	AAA (sf)/Watch Neg

RATING DISCONTINUED
PHEAA Student Loan Trust I
$400 million student loan asset-backed notes series 2003-1

		Rating	
Class	CUSIP	To	From
B-1	71722TAC8	NR	A (sf)/Watch Pos

NR--Not rated.