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PHEAA Student Loan Trust I Ratings On Three Classes Placed On Watch Positive; Three Others Placed On Watch Negative

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OVERVIEW

- We placed our ratings on three classes from PHEAA Student Loan Trust I on CreditWatch with positive implications.
- At the same time, we placed our ratings on three classes from the same trust on CreditWatch with negative implications.
- The CreditWatch positive placements reflect our view that current credit enhancement levels may be sufficient to support a higher rating.
- The CreditWatch negative placements reflect our view that senior credit enhancement may drop to levels that cannot absorb the 15% haircut to the cash inflows received from the U.S. federal government under the FFELP program under a 'AAA' stress scenario.

NEW YORK (Standard & Poor's) Aug. 28, 2014--Standard & Poor's Ratings Services today placed its ratings on three classes from PHEAA Student Loan Trust I on CreditWatch with positive implications. At the same time, we placed our ratings on three classes from the same trust on CreditWatch with negative implications (see list). PHEAA Student Loan Trust I is a master trust issued under a Dec. 1, 2003, indenture with three issuance: series 2003-1, 2004-1, and 2005-1.

The ratings reflect our views of the collateral's future performance, as well as the current credit enhancement available to support the notes, including

but not limited to overcollateralization (parity), the reserve account, subordination for senior classes, and excess spread. Our analysis also considers secondary credit factors such as credit stability, payment priority, sector- and issuer-specific analysis. and a peer analysis.

We placed our ratings on the senior notes on CreditWatch with negative implications to reflect our view that credit enhancement for the senior notes is expected to decrease and may not be sufficient to support the current ratings. The expected decline in senior note credit enhancement results from a structural feature that calls for 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. Therefore, credit enhancement may drop to levels that cannot 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. Additionally, we expect the trust may soon begin to release available funds now that the LIBOR bonds have been paid in full. Generally, we believe 120% senior parity is needed to support a 'AAA' rating. We will continue to monitor future releases and the amount of paydowns to the subordinate bonds and their effects on remaining credit enhancement.

We placed our ratings on the subordinate notes on CreditWatch with positive implications to reflect our view of the collateral's future performance based on the collateral's seasoning and the FFELP guaranty by the U.S Department of Education (DOE). The strong collateral performance, primarily due to the DOE's guaranty of defaults, has contributed to the structures' ability to increase credit enhancement. Additionally, we expect the subordinate notes will receive principal payments before the senior auction-rate notes subject to certain parity thresholds.

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 |
| 2003-1 | B-1 | 20.000 | 100.00 | ARS | 7/25/2042 |
| 2004-1 | B-1 | 20.000 | 100.00 | ARS | 4/25/2044 |
| 2005-1 | B-1 | 20.000 | 100.00 | ARS | 4/25/2045 |

(i)Current balance and note factor as of July 30, 2014, reporting end period.
ARS--Auction-rate securities.

REPORTED PARITY LEVELS

The following table shows the growth in parity since our last review:

| Class | Parity (%) | |
|-------|------------|---------------|
| | July 2014 | December 2011 |
| | | |

| | | |
|--------|--------|--------|
| Senior | 144.13 | 125.13 |
| Total | 114.27 | 107.56 |

CURRENT PRINCIPAL PAYMENT PRIORITY

The LIBOR notes for this trust have paid in full, with the senior and subordinate auction notes remaining. The trust will distribute available funds to the subordinate notes and then to the senior notes at levels that will maintain required parity ratios of at least 105% senior parity and 101.5% total parity. Generally, we expect the subordinate notes will receive principal payments until the senior parity reaches 105%.

Since our last review, payments have only been made to the senior LIBOR notes. The payments to the LIBOR notes and auction-rate notes are reflected in the change in PHEAA Student Loan Trust I's note factor as follows:

| Class | Note factor (%) | | |
|--------------------------|-----------------|------------------|----------|
| | July 2014 | December 2011 | Decrease |
| Senior ARS | 66.21 | 66.21 | 0.00 |
| Subordinate auction rate | 100.00 | 100.00 | 0.00 |
| Senior LIBOR | 0.00 | 17.59 | (17.95) |
| Total | 25.86 | 36.29 | (10.43) |

ARS--Auction-rate securities.

AUCTION-RATE DEFINITIONS

PHEAA Student Loan Trust I has auction-rate notes that continue to be paid at the maximum auction rate definition. This definition is 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 interest.

FFELP LOAN TYPES

The trust consists of 99.05% FFELP consolidation loans and 0.87% FFELP Stafford loans that are guaranteed by the DOE. At closing, all of the loans were floor income loans. Floor income loans allow the trust to retain the borrower interest in excess of the special allowance payment rate paid by the government, which can increase excess spread in a low interest rate environment.

RELEASING

Generally, the requirements to release are as follows:

| Issuer | Parity (%) | |
|----------------------------|------------|-------------|
| | 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 (%) | 87.48 |
| Deferment (%) | 5.83 |
| Forbearance (%) | 6.58 |
| 30+ day delinquency (%) | 7.91 |

(i) Current values as of July 30, 2014, reporting end period.

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

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- U.S. Government Support In Structured Finance And Public Finance Ratings, Sept. 19, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Upon A Nonmonetary EOD, March 16, 2010
- 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

- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- The Rating Process For Student Loan Transactions, Oct. 1, 2004

RATINGS PLACED ON WATCH POSITIVE

PHEAA Student Loan Trust I Ratings On Three Classes Placed On Watch Positive; Three Others Placed On Watch Negative

PHEAA Student Loan Trust I

U.S. \$400 million student loan asset-backed notes series 2003-1

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

PHEAA Student Loan Trust I

U.S. \$400 million student loan asset-backed notes series 2004-1

| | | Rating | |
|-------|-----------|------------------|--------|
| Class | CUSIP | To | From |
| B-1 | 71722TAH7 | A (sf)/Watch Pos | A (sf) |

PHEAA Student Loan Trust I

U.S.\$400 million student loan asset-backed notes series 2005-1

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

RATINGS PLACED ON WATCH NEGATIVE

PHEAA Student Loan Trust I

U.S. \$400 million student loan asset-backed notes series 2003-1

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

PHEAA Student Loan Trust I

U.S. \$400 million student loan asset-backed notes series 2004-1

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

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