Structured Finance

Asset-Backed
New Issue Report

Pennsylvania Higher Education Assistance Agency, 1995 Series A

Assigned Ratings

$125,000,000 Student Loan Adjustable Revenue Bonds, Variable-Rate Demand Obligations, 1995 Series A	AAA/F1+

Analysts

Emily Lee
+1 212 908-0667
emily.lee@fitchratings.com

Jeffrey Prackup
+1 212 908-0839
jeffrey.prackup@fitchratings.com

Andrea Murad
+1 212 908-0896
andrea.murad@fitchratings.com

Closing Update

The closing date occurred on Dec. 7, 1995. The closing balance was $125,000,000. Please see the press release on May 1, 2008, as well as any surveillance information available on Fitch's Web site at www.fitchratings.com.

Summary

Fitch rates the bonds issued by the Pennsylvania Higher Education Assistance Agency (PHEAA), as listed at left. The 1995 series A bonds were issued pursuant to the trust indenture dated Dec. 1, 1995, as supplemented by an amended and restated trust indenture, dated Dec. 1, 2000, and further supplemented by the first supplemental trust indenture dated as of May 1, 2008, by and between PHEAA and Manufacturers and Traders Trust Company, the trustee.

The ratings reflect the ability of the trust to pay the bonds' principal by their legal final maturity and pay timely interest when due, in accordance with Fitch's cash flow stress scenarios commensurate with the ratings assigned to the bonds. Fitch's long-term rating on the 1995 series A bonds reflects the underlying performance of the trust collateral; the current credit enhancement, and the strength of the financial and legal structure of the transaction. The short-term rating of the bonds is based upon the liquidity facility, provided by Morgan Stanley Bank (MSB), which possesses a short-term issuer default rating (IDR) of 'F1+'.

Although the 1995 series A bonds benefit from a financial guaranty provided by Ambac Assurance Corporation (Ambac), this rating assigned by Fitch does not rely upon or give credit to the bond insurance policy. However, Ambac still remains obligated to insure timely interest and principal payments to the bondholders. Ambac carries a Fitch insurer financial strength (IFS) of 'AA', Outlook Negative.

The rating assigned by Fitch is based on the following:

- The high credit quality of the Federal Family Education Loan Program (FFELP) student loan collateral.
- The credit enhancement consists of:
  - A debt service reserve fund in the form of a surety bond provided by Ambac, sized at 2% of the outstanding bond balance.
  - Excess spread.
  - Overcollateralization.
- The strength of AES, the loan servicing division of PHEAA.
- The sound legal structure.
- The ability of the transaction to pass Fitch's cash flow stress tests at the desired rating level.

As of May 8, 2008, the remarketing date, the trust's total parity ratio is 103.0%, excluding the debt service reserve fund. Excess spread may be released from the trust with bond insurer consent and rating agency notification if the total asset parity is greater than 103.0%, and if overcollateralization is equal to or greater than $1,000,000.

Transaction Characteristics

(As of Feb. 29, 2008)

Series	Current Balance ($)	Interest Rate (%)	Tax Status	Legal Final Maturity	Assigned Rating	CE (%)*	Parity Ratios (%)*
1995 Series A	125,000,000	Seven-Day VRDO	Tax-Exempt	12/1/25	'AAA'/'F1+'	2.91	103.0

*Represents the first-dollar loss and is calculated as a percentage of the asset balance (the student loan portfolio balance and capitalized interest, excluding the reserve balance). CE – Credit enhancement. VRDO – Variable-rate demand obligation.

Strengths

- The trust's collateral, consisting of 100% FFELP student loans, benefits from at least 97% guarantee of principal and accrued interest by the U.S. Department of Education (ED).
- As of February 2008, approximately 43.9% of the student loans were in repayment, providing the trust with sufficient liquidity. The debt service reserve fund is in the form of a surety bond provided by Ambac and is sized at 2.0% of the outstanding bond balance. The debt service reserve fund provides additional liquidity for loans not in repayment.
- Although Fitch's rating on the 1995 series A bonds does not rely upon or give any credit to the bond insurance policy, the financial guarantee provided by Ambac still insures the timely payment of interest and principal payments on the bonds.
- American Education Services (AES), the loan servicing division of PHEAA, is a well established servicer and services 100% of the student loans in the trust.

Concerns and Mitigants

- The trust is subject to basis risk, as approximately 94% of the tax-exempt student loans have special allowance payment (SAP) rates indexed to the 90-day commercial paper (CP) rates, and the remaining 6% of the student loans are indexed to the 91-day U.S. Treasury Bill, while the interest rates on the liabilities are indexed to the weekly tax-exempt variable rate. The variable rate trades similar to the SIFMA.
  - — Approximately 47% of the trust will receive floor income from the fixed interest rate paid by the borrower in a declining rate environment for loans originated prior to April 1, 2006.
  - — The trust is financed with 100.0% tax-exempt debt, which traditionally has a lower cost of funds than taxable debt.
  - — Basis risk was stressed in Fitch's cash flow stress scenarios.
- FFELP loans to be acquired during the recycling period may include loans originated on or after Oct. 1, 2007 (post-Oct. 1, 2007 loans), and therefore will receive lower SAP income. The ability of the trust to acquire loans during the recycling period through July 2009 creates potential origination risk and negative carry depending on if and when loans are acquired by the trust.
  - — PHEAA is a not-for-profit corporation and receives a SAP rate 15 basis points higher than its for-profit counterparts.
  - — PHEAA has demonstrated a history of strong originations.
  - — Cash flows assumed only post-Oct. 1, 2007 loans were purchased at a premium during the recycling period.
  - — Origination risk and negative carry are addressed in the cash flow stress scenarios.
- The trust's loan portfolio consists of approximately 92.9% Stafford and PLUS loans. As a result, the potential for increased prepayments exists due to borrower consolidations.
  - — Prepayments were stressed in Fitch's cash flow stress scenarios.
- The borrower benefit programs reduce the amount of available excess spread. These programs include interest rate reductions for using the Automated Clearing House (ACH) and making on-time payments for a qualifying period, as well as a principal reduction for making on-time payments for a qualifying period.
  - — Delinquent borrowers become disqualified for principal and interest rate reduction benefits requiring a period of on-time payments.
  - — Rebate arbitrage from the tax-exempt debt helps to offset the cost of borrower benefits.
  - — The borrower benefits were stressed in the cash flow scenarios at levels above current utilization rates.

Transaction Participants

Role	Name	Fitch Rating
Issuer	Pennsylvania Higher Education Assistance Agency (PHEAA)	NR
Originator	Pennsylvania Higher Education Assistance Agency (PHEAA)	NR
Indenture Trustee	Manufacturers and Traders Trust Company	'A–'/'F1'
Remarketing Agent	Morgan Stanley	'AA–'/'F1+'
Liquidity Provider	Morgan Stanley Bank	'AA–'/'F1+'
Bond Insurer	Ambac Assurance Corporation (Ambac)	'AA'/'F1+' Outlook Negative
Servicer	American Education Services (AES), a division of PHEAA	NR
Rating Agency	Moody's and Standard and Poor's	NR
Bond Counsel	Cozen & O'Connor	NR

NR – Not rated.

Issuer Overview

PHEAA is a public corporation and government instrumentality created pursuant to P.L. 549, the Pennsylvania Higher Education Assistance Agency Act of Aug. 7, 1963 (the act), to improve higher education opportunities of eligible students accepted for enrollment or attending approved institutions. PHEAA is authorized under the act to issue bonds or notes for the purpose of purchasing, making loans to student or parents, or guaranteeing loans to students, parents, lending institutions or post-secondary institutions. PHEAA has been a guarantor since 1964 and has been financing student loan transactions for over 11 years.

Trust Legal Structure

The trust is structured to be an on-balance-sheet transaction. PHEAA is a state agency that cannot be filed into involuntary bankruptcy. In the event of bankruptcy, the trust has a first perfected security interest in its assets and will have priority over any of the trust's creditors. The property of the trust consists entirely of FFELP student loans, including all interest subsidies, SAP, claim reimbursements; trust accounts; and investment earnings from all trust funds.

Servicing

American Education Services (AES), the loan servicing division of PHEAA, services all of the student loans in the trust. PHEAA provides both primary and third-party servicing for student loans. AES is headquartered in Harrisburg, PA. AES receives per annum the primary servicing fee equal to 1.00% of the outstanding principal amount of the trust student loans to service the portfolio. As servicer, AES will maintain custody of and make collections on the student loans.

In order to receive the ED reimbursement on default claims filed, servicers in the FFELP must comply with all origination, disbursement, servicing and filing requirements as established by the ED. FFELP servicers are subject to external audits by a major public accounting firm assessing their adherence to ED guidelines and due diligence procedures.

Portfolio Collateral Quality

The portfolio of student loans collateralizing the bonds consists entirely of FFELP loans authorized for origination under the Higher Education Act of 1965. The Key Collateral Highlights table on page 4 profiles PHEAA's 1995 series A collateral pool as of Feb. 29, 2008, by loan type, school type and loan status. The expected performance of the pool, claim rates and delinquencies essentially are driven by these portfolio characteristics and used to establish stress assumptions for the cash flows.

As of Feb. 29, 2008, the total student loan balance is approximately $126.2 million and has a weighted-average borrower interest rate of 6.8%. The average borrower indebtedness (ABI) of $5,369 is relatively moderate. Portfolios with a higher ABI may experience a higher level of prepayments due to borrower consolidations. Approximately 75% of the collateral pool consists of loans of students who are attending four year institutions, which have historically experienced lower default levels. Additionally, approximately 43.9% of the loans are in repayment which will provide liquidity to the trust as collections will be available to pay interest and principal on the bonds.

Approximately 97% of the loans in the portfolio were originated prior to Oct. 1, 2007, which will benefit from higher SAP payments.

In addition, the recycling period was extended from July 2008 to July 2009 which will provide additional revenue to the transaction. However, its important to note that during the recycling period, the trust can purchase pre-Oct. 1, 2007 loans at a 3.50% premium and post-Oct. 1, 2007 loans at a 1.50% premium. The trust is restricted from purchasing any Consolidation loans, regardless as to when they were originated. PHEAA has temporarily suspended originating FFELP loans, which include Stafford, Parent PLUS, Graduate PLUS, and Consolidation loans.

Collateral Characteristics

The FFELP loans in the trust consist of subsidized and unsubsidized Stafford, PLUS and Consolidation loans.

Key Collateral Highlights

(As of Feb. 29, 2008)

Aggregate Principal Balance ($)	126,218,946
Number of Borrowers	23,509
Average Borrower Balance ($)	5,369
Number of Loans	41,321
Average Principal Balance Per Loan ($)	3,055
WA Repayment Term (Months)	121
WA Interest Rate (%)	6.8
FFELP Collateral (%)	
Loan Type	
Subsidized Stafford	42.8
Unsubsidized Stafford	36.9
SLS	0.8
PLUS	11.3
PLUS Grad	1.1
Consolidation	7.1
School Type (%)	
Four-Year Institution	75.0
Two-Year Institution	12.9
Proprietary and Vocational	12.1
Other/Unknown	0.0
Loan Status (%)	
In-School/Grace	33.3
Deferment	11.8
Forbearance	10.7
Repayment	43.9
Claim	0.1
Loan Interest Rate Index (%)	
Fixed	53.6
91-Day T-Bill	44.9
One-Year CMT (Constant Maturity Treasury)	1.5
SAP Index (%)	
Three-Month Commercial Paper	94.0
91-Day T-Bill	6.0
Origination Period (%)	
Before 4/1/06	47.1
After 4/1/06– Before 10/1/07	49.8
After 10/1/07	3.1

Servicer: American Education Services (AES), a division of Pennsylvania Higher Education Assistance Agency (PHEAA).
WA – Weighted average. FFELP – Federal Family Education Loan Program. SLS – Supplemental Loans for Student.

Subsidized Stafford loans, which comprise approximately 42.8% of the total collateral, are made to undergraduate and graduate students who meet a financial needs test. The ED makes quarterly interest subsidy payments on behalf of borrowers while the borrowers are in in-school, grace and deferment periods. As a result, interest is not capitalized during those periods. The grace period is six months and begins once the borrower graduates or ceases to be enrolled.

Repayment, which follows the grace period, is generally 10 years with a level monthly payment schedule. For loans disbursed prior to July 1, 2006, the borrower's rate is variable, not to exceed 8.25%, and is adjusted annually each July 1 based on the 91-day Treasury bill (T-bill) auction occurring the prior June 1. The borrower's rate is equal to the 91-day T-bill plus 1.7% while in in-school, grace or deferment and 2.3% while in repayment or forbearance. Loans disbursed after July 1, 2006, have a 6.8% fixed rate during all statuses.

Unsubsidized Stafford loans, which comprise approximately 36.9% of the total collateral, are made to undergraduate and graduate students who do not qualify for subsidized Stafford loans or have financial needs beyond the subsidized Stafford loan limits. The ED does not make any interest subsidy payments on unsubsidized Stafford loans, as the borrower has the option to begin paying interest 60 days after disbursement or capitalize the interest during periods of in-school, grace or deferment. The repayment terms and interest rate determination are the same as those for subsidized Stafford loans.

PLUS/PLUS Graduate loans, which comprise approximately 13.2% of the total collateral, are made to graduate students or parents of eligible dependent students who have financial needs beyond the Stafford loan limits. In addition to meeting the same requirements for the Stafford loan, the student borrower or parental borrower must not have an adverse credit history, as determined by the ED. Since repayment begins 60 days after disbursement, the ED does not make any interest subsidy payments on PLUS loans.

PLUS loans also have 10-year repayment terms and a variable interest rate. Similar to the Stafford loan, for loans disbursed prior to July 1, 2006, the borrower's interest rate adjusts annually each July 1 based on the 91-day T-bill plus a margin of 3.10%. For loans disbursed after July 1, 2006, the borrower's interest rate is fixed at 8.5% for loans disbursed under the FFELP.

Consolidation loans, which comprise approximately 7.1% of the total collateral, combine subsidized and unsubsidized Stafford and PLUS loans into one new loan. The borrower's interest rate becomes fixed and is calculated as the weighted-average interest rate on the underlying loans rounded up to the nearest one-eighth percent. The Consolidation loan term may be extended to 30 years depending on the loan's principal balance. Consolidation loans have deferment and forbearance terms similar to Stafford loans and will receive the same interest subsidy payments from the ED if any or all of the underlying loans are subsidized.

Holders of FFELP loans receive quarterly SAP only when the SAP rate exceeds the borrower's interest rate. For Stafford loans disbursed after Jan. 1, 2000, the SAP is equal to the 90-day CP rate plus 1.74% while in in-school, grace and deferment and the 90-day CP rate plus 2.34% while in repayment and forbearance statuses. PLUS and Consolidation loans originated after Jan. 1, 2000, receive SAP based on the 90-day CP rate plus 2.64%. In addition, for loans originated after April 1, 2006, the trust is required to rebate to the ED floor income, which is the excess between the borrower interest payments and the ED SAP payments. Consolidation loans are subject to a 1.05% annual rebate.

For post-Oct. 1, 2007 loans, the not-for-profit SAP rate for Stafford loans is equal to the 90-day CP rate plus 1.34% during in-school, grace and deferment periods, and the 90-day CP rate plus 1.94% during in repayment and forbearance periods. PLUS and Consolidation loans receive SAP based on the 90-day CP rate plus 1.94% and 2.24%, respectively.

For additional information on Stafford and PLUS loans, please see the criteria report "Rating U.S. Federal Family Education Loan Program Student Loan ABS," dated April 11, 2008, available on Fitch's Web site at www.fitchratings.com.

■ Transaction Overview

Credit Enhancement

The credit enhancement for the trust will consist of excess spread and a debt service reserve fund in the form of a surety bond provided by Ambac. Funds in the debt service reserve fund will be used to pay bond principal at maturity and accrued interest. Additionally, Ambac provides a bond insurance guarantee which will be available to pay timely interest when due and principal payments on the bonds at final maturity. The trust also benefits from liquidity, provided by MSB, which has entered into a Standby Bond Purchase Agreement, dated Nov. 23, 2005, with PHEAA, the issuer, and Manufacturers and Traders Trust Company, the trustee, to purchase the bonds that bear interest at a weekly rate that are not remarketed upon certain tenders by the holders of such bonds.

Liquidity Facility

Morgan Stanley Bank (MSB), an indirect wholly owned subsidiary of Morgan Stanley, a Delaware Corporation, is the liquidity provider, which has an aggregate commitment amount of $132,520,548, consisting of the available principal commitment of $125 million plus the available interest commitment of $7,520,548, representing 183 days interest on the bonds at a rate of 12% per annum. The available commitment amount will be adjusted according to the bond principal reduction or bonds purchased by the liquidity provider. The liquidity provider receives a premium computed as 32 basis points per annum based on the aggregate commitment amount. The liquidity facility commitment is scheduled to terminate on Nov. 15, 2011, and is subject to extension or termination prior to such date.

Bonds held by the liquidity provider, generally bear materially higher interest rates than other bonds. MSB will receive bond interest at the bank rate for any unremarketed bonds purchased by it based on the number of days held by MSB. The base rate is equal to the higher of (1) the prime rate and (2) the federal funds rate plus 0.50%, with a maximum rate of 25%.

Number of Days Held	Bank Rate
1–30 Days	Base Rate
31–90 Days	Base Rate + 0.50%
91+ Days	Base Rate + 1.00%

Flow of Funds

For tax-exempt financings, arbitrage earnings in the trust that exceed the 2% interest income allowance will be rebated back to the U.S. government. The issuer is required to rebate any excess SAP to the ED for loans originated after April 1, 2006. Any rebates to the ED will be allocated prior to making any payments with regard to the flow of funds listed below.

On each distribution date, available funds in the revenue will be allocated by the trustee in the following order of priority:

1. Bond insurance premiums and fees and liquidity provider commitment fees.
2. Bond interest and additional charges under the Standby Purchase Agreement.
3. Maturing bond principal.
4. Supplemental Cost (servicing fee, trustee fee, reserve fund credit facility fee, remarketing agent fee, and liquidity facility fee (excluding fees in item 1 listed above).
5. Deposits to the debt-service reserve fund for the amount drawn from the reserve fund credit facility.
6. Allocation of future program expenses on a quarterly basis.
7. To acquire loans during the recycling period through July 1, 2009, for the purchase of student loans. Afterwards, to the Redemption Fund for bond principal redemption.
8. Cash release to the issuer, provided the trust's total parity is greater than 103% and the overcollateralization is at least $1,000,000, and Bond Insurer's consent and favorable opinion of bond counsel are required.

Bond Interest

The 1995 series A bonds are payable semiannually on each June 1 and Dec. 1. The 1995 series A bonds were issued as VRDOs bearing interest at the weekly variable rate determined by a remarketing agent. While bearing interest at a weekly rate, the bonds are subject to a tender for purchase on demand of the holder on any business day upon written notice to the tender agent, at least seven calendar days prior to the proposed purchase. All or a portion of the 1995 series A bonds may be converted to bear interest at an auction rate, fixed rate or a variable rate other than the daily, weekly or monthly rate period, whereby the bonds will be subject to mandatory tender for purchase

The maximum interest rate for all bonds is calculated as the lower of the 12% per annum while a standby purchase agreement is in place, any other maximum interest rate as specified in an alternative liquidity facility, and if no liquidity facility is in place, the maximum interest rate applicable by law. As long as the bond insurer continues to provide an insurance policy, the maximum interest rate will be no greater than 25%.

Optional and Mandatory Tender for Purchase

During any weekly rate period, the 1995 series A bonds are subject to optional tender for purchase at the discretion of the holder of the bonds upon seven days' notice to the trustee at a price equal to principal plus accrued interest. The 1995 series A bonds are also subject to mandatory tender for purchase at the discretion of the holder of the bonds at a price equal to principal plus accrued interest during any conversion of the interest rate from a weekly rate to a different interest mode.

Events of Default

Events of default under the indenture include the failure to pay note interest, principal or derivative payments when due; the failure to perform or observe any covenants, agreements, or conditions contained in the indenture for 45 days; and the commencement of a voluntary bankruptcy proceeding by the trust or an involuntary bankruptcy proceeding against the trust. In an event of default, the trustee may take possession of the trust estate; pay principal and accrued interest on all outstanding notes due and payable; or if no bonds remain outstanding, sell the remaining loans at the best attainable price.

■ Cash Flow Stress Scenarios

Fitch reviewed cash flow stress scenarios to gauge the ability of the transaction to pay timely interest and principal by the legal final maturity dates. These scenarios test the ability of the trust to pay required debt service at each rating category, as cash flows withstand credit losses and liquidity lags in a high interest-rate environment, coupled with wider spreads between the different bases. Interest rates were increased according to the stressed LIBOR curves, and spreads were stressed according to the basis risk criteria. (For more information on Fitch's basis risk criteria, please see the criteria report "Basis Risk in Structured Finance Transactions: T-Bill, CP and Prime versus USD LIBOR," dated Sept. 15, 2006, available on Fitch's Web site at www.fitchratings.com.)

These scenarios also assume higher-than-expected borrower payment lags and resulting defaults. As the loans have higher defaults and borrower delinquencies, borrower benefit utilization is lower. Interest subsidy and SAP are payments made by the ED in time frames mandated by federal legislation. Fitch assumes standard payment lags in all cash flow scenarios.

Fitch also reviewed a cash flow scenario that tests the trust's ability to pay required debt service when the collateral is performing as expected, in a relatively flat interest-rate environment. This stress assumes that credit losses are low and all borrowers are current, which results in borrower benefit utilization at or above historical levels.