



**Moody's Investors Service**

**Global Credit Research**

**Rating Action**

3 APR 2009

**Rating Action: Pennsylvania Higher Education Assistance Agency (1999 Indenture - First Issuance)**

**Moody's reviews for possible downgrade the ratings of two classes of PHEAA student loan revenue bonds**

**Approximately \$225 million of asset-backed securities affected**

New York, April 03, 2009 -- Moody's Investors Service has placed on review for possible downgrade the long-term and short-term ratings of two classes of Variable Rate Demand Notes (VRDNs) issued by two Pennsylvania Higher Education Assistance Agency (PHEAA) trusts. Although these bonds have been remarketed successfully, the interest rates involved have exceeded Moody's original assumptions and led to negative excess spread. Multi-notch downgrades are likely for the long-term ratings.

The bonds are guaranteed by Ambac Assurance Corporation, whose insurance financial strength rating is Baa1, on review for possible downgrade. The ratings of the bonds reflect Moody's practice of rating insured securities at the higher of the guarantor's insurance financial strength rating and the underlying rating, based on Moody's modified approach to rating structured finance securities wrapped by financial guarantors. The underlying ratings reflect the intrinsic credit quality of the bonds in the absence of the financial guarantee.

Both trusts are funded by VRDNs. According to the most recent information provided to Moody's, the remarketing agents have been able to remarket the bonds issued in both transactions. However, the interest rates, at which they have been remarketed, have consistently exceeded Moody's original interest rate assumptions, contributing to a negative excess spread for the transactions. A negative excess spread means that cash collections are not fully covering required debt service, causing a decline in the parity levels. Accordingly, total parity of the PHEAA 1995 trust has declined from 103.13% as of June 30, 2008 to 102.85% as of December 31, 2008; and total parity of the PHEAA 1999 trust has declined from 103.18% to 102.96% during the same period. Due to the continued deterioration of the trusts' economics, the long-term ratings are likely to experience multi-notch downgrades.

Moody's analysis takes into consideration the current level of available credit enhancement, projected excess spread and structural features of the transactions. Other methodologies and factors that may have been considered in the process of rating this issue can also be found at [www.moodys.com](http://www.moodys.com) in the Credit Policy & Methodologies directory.

The complete rating actions are as follows:

**Issuer: Pennsylvania Higher Education Assistance Authority (1995 Indenture - Remarketed 1995 Series A)**

Ser. A, Aaa and Placed Under Review for Possible Downgrade; previously on 3/3/2009 Upgraded to Aaa

Ser. A, VMIG 1 and Placed Under Review for Possible Downgrade; previously on 12/1/2000 Assigned VMIG 1

**Financial Guarantor: Ambac Assurance Corporation (Baa1 on review for possible downgrade)**

**Issuer: Pennsylvania Higher Education Assistance Agency (1999 Indenture - First Issuance)**

Series A, Aaa and Placed Under Review for Possible Downgrade; previously on 3/3/2009 Upgraded to Aaa

Series A, VMIG 1 and Placed Under Review for Possible Downgrade; previously on 6/30/1999 Assigned VMIG 1

**Financial Guarantor: Ambac Assurance Corporation (Baa1 on review for possible downgrade)**

For more information please see [www. Moodys.com](http://www.Moodys.com)

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