

**Rating Action: Moody's announces rating actions on student loan ABS backed by FFELP student loans following the update of its rating methodology**

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Global Credit Research - 14 Jun 2016

**Approximately \$84.3 billion of asset-backed securities affected**

New York, June 14, 2016 -- Moody's Investors Service took rating actions on 403 tranches of asset-backed securities (ABS) backed by student loans made under the Federal Family Education Loan Program (FFELP) and ABS backed by mixed pools of loans, i.e., collateral pools that include both FFELP and private student loans. The rating actions follow Moody's initial assessment of the securities under the updated methodology Moody's Approach to Rating Securities Backed by FFELP Student Loans, published on June 14, 2016. FFELP student loans backing the securitizations are guaranteed by the US Department of Education for a minimum of 97% of defaulted principal and accrued interest. Private student loans do not benefit from a US government guarantee.

Moody's placed 266 tranches in 141 transactions (\$44.9 billion) on review for downgrade, 89 tranches in 59 transactions (\$3.1 billion) on review for upgrade and 45 tranches in 34 transactions (\$2.8 billion) on review with direction uncertain. Moody's also confirmed the ratings on three tranches (\$1.5 billion).

In addition, 101 tranches (\$30.7 billion) previously placed on review for downgrade will remain on review for downgrade and four tranches (\$1.4 billion) previously placed on review for upgrade will remain on review for upgrade.

We expect to conclude our reviews of the affected ratings within six months from the date of publication of the updated FFELP methodology.

Please click on this link [http://www.moody's.com/viewresearchdoc.aspx?docid=PBS\\_SF433968](http://www.moody's.com/viewresearchdoc.aspx?docid=PBS_SF433968) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

**RATINGS RATIONALE**

Moody's conducted cash flow modeling analysis of FFELP transactions using the assumptions detailed in its updated approach for rating FFELP securities.

**Reviews for downgrade**

Reviews for downgrade were prompted by analysis that projects expected losses that exceed the loss benchmarks set by Moody's idealized loss tables for the corresponding rating level. For most tranches, Moody's projects cash inflows to be less than sufficient to repay the notes by their final maturity. However, only a small number of tranches will incur any ultimate loss due to the government guarantee and the fact that payments from underlying loans will continue to be applied to pay down notes after their final maturity dates. We project that a small number of tranches will incur a loss because the amount of available credit enhancement is not sufficient to protect them against credit and interest-rate basis risk.

The elevated risk of failure to repay a tranche by its maturity date is a result of low payment rates on the underlying securitized pools of FFELP student loans, driven by persistently high combined levels of loans to borrowers in non-standard payment plans, such as deferment, forbearance, Income-Based Repayment (IBR) and extended repayment, as well as relatively low rates of voluntary prepayments. FFELP loans in deferment, forbearance and IBR currently average approximately 26% for consolidation loan pools and approximately 43% for non-consolidation loan pools. Borrowers in these payment plans either suspend repayment on their student loans or make substantially reduced payments. Although the average level of FFELP loans in deferment and forbearance has declined over the last two years, the level of loans to borrowers in IBR has increased by approximately the same amount.

**Reviews for upgrade**

Reviews for upgrade were prompted by Moody's projections that the affected tranches will either incur no

losses or that their expected losses will be lower than the expected loss benchmarks from Moody's idealized loss tables for the corresponding rating level for the current rating. Most of these tranches are either subordinated Class B notes or Class A notes. Some of the tranches have sufficiently paid down relative to their initial balance and some will begin paying down soon. Most of the tranches are highly seasoned, with a current pool factor of less than 50%. In addition, many of the tranches placed on review for upgrade benefit from higher-than-average levels of credit enhancement.

#### Other actions

Moody's placed on review with direction uncertain 13 tranches and on review for downgrade six Aaa-rated tranches from eight transactions that are backed by mixed collateral pools, i.e., pools that contain both FFELP and private student loans. The updated FFELP methodology may affect our analysis of these transactions because they are backed by collateral pools that include FFELP loans. Moody's is currently requesting market feedback on its revised approach to rating securities that are backed by such mixed pools of loans. The publication is available at [http://www.moody.com/viewresearchdoc.aspx?docid=PBS\\_SF432388](http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF432388).

29 tranches were placed on review with direction uncertain and 72 Aaa-rated tranches were placed on review for downgrade from 37 transactions, pending finalization of new cash flow models for these transactions.

Twelve tranches in six transactions -- Massachusetts Educational Financing Authority (2008 Indenture), JPMorgan Student Loan Trust 2007-A, Pennsylvania Higher Education Assistance Agency (2005 Indenture), U.S. Education Loan Trust III, LLC (2004 Indenture), Arkansas Student Loan Authority (2010 Indenture) and PHEAA Student Loan Trust I (2003 Indenture) -- were either placed on review with direction uncertain or on review for downgrade (for Aaa tranches) because Moody's awaits receipt of complete current data on the underlying loan collateral pools from the transaction sponsors. Moody's will need complete current data on the underlying loan pools in order to maintain its ratings on these transactions.

#### Ratings confirmations

We confirmed the ratings of three tranches in three transactions that previously were under review for downgrade because Moody's analysis indicates an expected loss of zero on these tranches. Two of these tranches currently receive principal amortization payments and their balances have substantially declined since closing and one tranche's final maturity date was recently extended.

During the review period, Moody's will conduct detailed cash flow analysis and examine operational, legal and structural factors that can affect credit quality of the transactions, while giving credit to support provided by the sponsors.

The principal methodology used in these ratings was "Moody's Approach to Rating Securities Backed by FFELP Student Loans," published on June 14, 2016. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

The performance expectations for a given variable indicate Moody's forward-looking view of the likely range of performance over the medium term. From time to time, Moody's may, if warranted, change these expectations. Performance that falls outside the given range may indicate that the collateral's credit quality is stronger or weaker than Moody's had anticipated when the related securities' ratings were issued. Even so, a deviation from the expected range will not necessarily result in a rating action nor does performance within expectations preclude such actions. The decision to take (or not take) a rating action is dependent on an assessment of a range of factors including, but not exclusively, the performance metrics.

Factors that would lead to an upgrade or downgrade of the rating:

#### Up

Declining borrower usage of deferment, forbearance and IBR, increasing voluntary prepayment rates, prepayments with proceeds from sponsor repurchases of student loan collateral.

#### Down

Continued low levels of voluntary prepayments, growing borrower usage of deferment, forbearance and IBR, declining credit quality of the US government.

#### REGULATORY DISCLOSURES

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- Loss and Cash Flow Analysis
- Stress Scenarios

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

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