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Ratings Raised On Nine Classes And Affirmed On Five Classes From NorthStar Education Finance Inc.

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OVERVIEW

- We raised our ratings on nine classes of notes from three NorthStar Education Finance Inc. transactions to 'AAA (sf)' from 'AA+ (sf)'.
- At the same time, we affirmed our 'AA+ (sf)' ratings on five classes of notes from the same transactions.
- The rating actions follow the publication of our criteria for analyzing transactions subject to payment priority changes upon a nonmonetary event of default.

NEW YORK (Standard & Poor's) Aug. 27, 2015--Standard & Poor's Ratings Services raised its ratings on six classes of senior LIBOR notes and three class of senior reset-rate notes from student loan asset-backed securities (ABS) transactions issued between 2004 and 2007 by NorthStar Education Finance Inc. At the same time, we affirmed the ratings on five classes of senior auction-rate notes from the same transactions (see list).

These transactions were issued from a master indenture that was amended and restated in October 2005 (NorthStar FFELP master trust). The master trust is collateralized by student loans originated through the U.S. government Department of Education's (ED's) Federal Family Education Loan Program (FFELP).

Today's rating actions follow the publication of our criteria for analyzing transactions subject to payment priority changes upon a nonmonetary event of default (EOD; see "Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD," published March 2, 2015).

In determining the likelihood of a payment priority change upon a nonmonetary EOD, we consider factors such as applicable remedies, cure periods, and investor voting provisions, according to our criteria. In addition, the criteria consider the creditworthiness, operational capabilities, track records, and incentives of the transaction parties that are obligated to minimize the likelihood of a nonmonetary EOD or remedy an event that could lead to a nonmonetary EOD.

The rating actions also reflect our views regarding future collateral performance, as well as the current credit enhancement available to support the notes, including overcollateralization (parity), the trust-specific reserve accounts, and excess spread. Our analysis also incorporated secondary credit factors, such as credit stability, payment priority, and sector- and issuer-specific analyses.

CURRENT CAPITAL STRUCTURE(i)

Series	Class	Current balance ($)	Note factor	Coupon	Maturity date
2002	A-2	51,250,000	78.2%	Auction rate	April 2042
2002	A-3	65,500,000	100.0%	Auction rate	April 2042
2002	A-4	65,500,000	100.0%	Auction rate	April 2042
2002	A-5	51,250,000	78.2%	Auction rate	April 2042
2004-2	A-2	217,000	0.1%	3mo LIBOR+0.14%	Jan. 2017
2004-2	A-3	280,000,000	100.0%	3mo LIBOR+0.17%	July 2018
2004-2	A-3	249,500,000	100.0%	3mo LIBOR+0.23%	July 2021
2005-1	A-2	73,000,000	61.7%	3mo LIBOR+0.13%	July 2027
2005-1	A-3	227,900,000	100.0%	3mo LIBOR+0.17%	Oct. 2030
2005-1	A-4	210,700,000	100.0%	3mo LIBOR+0.23%	April 2030
2005-1	A-5	67,342,000	26.9%	3mo LIBOR+0.75%(ii)	Oct. 2045
2007-1	A-1	193,000,000	100.0%	3mo LIBOR+0.10%	April 2030
2007-1	A-2	200,000,000	100.0%	3mo LIBOR+0.75%(ii)	Jan. 2046
2007-1	A-3	235,000,000	100.0%	3mo LIBOR+0.75%(ii)	Jan. 2046
2007-1	A-4	82,050,000	100.0%	Auction rate	Jan. 2046
2007-1	A-5	82,050,000	100.0%	Auction rate	Jan. 2046
2007-1	A-6	82,050,000	100.0%	Auction rate	Jan. 2046
2007-1	A-7	82,050,000	100.0%	Auction rate	Jan. 2046
2007-1	A-8	82,050,000	100.0%	Auction rate	Jan. 2046
2000	B	9,500,000	100.0%	Auction rate	Nov. 2040
2002	B-1	37,000,000	100.0%	Auction rate	April 2042
2004-1	B-1	30,000,000	100.0%	Auction rate	Dec. 2044
2004-2	B	25,500,000	100.0%	Auction rate	Dec. 2044
2005-1	B	20,000,000	100.0%	Auction rate	Oct. 2045
2007-1	B	32,200,000	100.0%	Auction rate	Jan. 2047

(i)As of June 2015. (ii)Reset-rate notes. 3mo--Three-month.

The auction-rate notes are paying interest at their maximum auction-rate definitions. Generally, these definitions are based on the 91-day Treasury bill rate plus a rating-dependent margin. Except for the series 2000 and 2002 notes, the auction-rate definitions are capped at the lowest of the 91-day Treasury bill-based rate, 18%, a LIBOR-based cap rate, and the net loan rate of the assets. (The 2000 and 2002 notes do not have a LIBOR-based cap rate, and the 2000 notes also do not have a net loan rate.) We view these auction-rate definitions, typically found in taxable auction-rate notes, more favorably than we do the ones relating to tax-exempt auction-rate notes. This is because in many instances, the latter notes' definitions contain a multiplier formula with no cap to limit the effect of rising interest rates. The series 2005-1 class A-5 notes and series 2007-1 class A-2 and A3 notes are reset-rate notes; each has reached its initial reset date and currently pays interest at its failed remarketing rate of LIBOR plus 0.75%. The remaining notes in the trust are LIBOR floating-rate notes that pay principal based on a targeted amortization schedule.

KEY STRUCTURAL FEATURES

Based on the transaction's waterfall provisions, the principal payment priority first allocates certain funds to the retirement account to pay the LIBOR floating-rate notes down to balances according to each note's targeted quarterly schedule. Any remaining funds deposited to the retirement account for principal payments are next allocated to the reset-rate notes because their remarketing has failed and then to the senior auction-rate notes. After the senior reset-rate notes and senior auction-rate notes are paid in full, LIBOR floating-rate notes can then receive additional principal payments from the retirement account in excess of their targeted balances. The subordinate notes cannot be redeemed until all of the senior LIBOR floating-rate notes and reset-rate notes have been paid in full. Additionally, the subordinate notes cannot be redeemed before the senior auction-rate notes unless rating agency confirmation is provided.

Generally, funds are not allowed to be released to the issuer until the trust reaches targeted senior parity of 105.0% and total parity of 100.75%. Before the trust can release funds to the issuer at the bottom of the transaction waterfall, the transaction documents require allocations of available funds to the retirement account to maintain the targeted balances for the LIBOR floating-rate notes. The transaction is currently above these parity requirements and has been releasing.

COLLATERAL SUMMARY

The trust is backed by a pool of student loans that were originated under FFELP and are at least 97%-guaranteed by the ED. The collateral pool has a strong credit profile based on its loan obligor composition. The loan pool contains a high proportion of graduate student loans (90% of the loan balance), the majority (69% of the loan balance) of which are loans to medical/health professional students, which generally have lower lifetime default expectations than other student loan obligors. In addition, a high percentage of the loans in the collateral pool are floor income loans. These allow the trust to retain the borrower interest that exceeds the special allowance payment rate paid by the government, which can increase excess spread when interest rates are low.

As of June	2015	2014	2013	2012
Repayment (current) %	90.3	86.2	82.4	78.1
Repayment (30+ delinquent) %	1.4	1.6	1.5	2.2
Defermen t%	4.0	6.4	8.2	9.9
Forbearance %	4.1	5.6	7.5	9.3

CREDIT ENHANCEMENT

All of the notes benefit from a reserve fund that must be maintained at an amount equal to 0.75% of the outstanding principal of notes, with a floor of $2.5 million. The notes also benefit from excess spread, and the class A notes benefit from the class B notes' subordination.

Since this master trust's last issuance in 2007, available hard credit enhancement (overcollateralization) to support the notes--as measured by parity levels--has grown, which is primarily attributable to the trust's excess spread being used to pay down the senior notes. In our view, excess spread for this trust is robust because of the low percentage of loans in nonpaying status (delinquent, deferment, or forbearance) and a high percentage of floor income loans in the pool. In addition, required parity thresholds and targeted principal payments to the LIBOR floating-rate notes have limited the trust's ability to release excess spread.

As of June	2015	2014	2013	2012
Senior parity %	109.3	108.2	106.8	105.4
Total parity %	102.6	102.1	101.2	100.4

CASH FLOW MODELING ASSUMPTIONS

We ran cash flow models at various 'AAA' stress assumptions to test if the senior notes will receive timely interest and principal by the legal final maturity. The following are some of the major assumptions we modeled:

- Default rates at 0%, 25%, 50%, and 75%;
- Six- and seven-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 delay on special allowance payments and an interest rate subsidy of two months;
- A 15% haircut to payments received from ED;
- A flat voluntary prepayment speed of 3% annually and ramped voluntary prepayment speeds (ramped voluntary prepayments speeds start at 3% and increase annually over seven years to a maximum of 10% after which the rate is held constant);
- Forbearance rates of 7% for 36 months;
- Deferment rates of 6% for 48 months;
- One-month LIBOR interest rate paths (high and low) based on those that we publish;
- Other indices that are stressed using their relationship to one-month

LIBOR as a benchmark; and
- Failed auctions for each transactions' life with auction-rate coupons based on their maximum rate definitions.

RATING ACTION RATIONALE

Based on our nonmonetary EOD criteria, we believe the likelihood of a payment structure change because of a nonmonetary EOD is sufficiently remote. Accordingly, we differentiated the ratings among the class A senior notes based on our criteria, the transaction's principal payment priority, the credit enhancement available to each class, and the results of our cash flow modeling analysis.

We continue to apply our criteria for treating the U.S. government in its role as an insurer or guarantor, as well as government agency loan-level support in structured finance transactions (see "U.S. Government Support In Structured Finance And Public Finance Ratings," published Sept. 19, 2011). Based on the result of the cash flow models and the strong credit profile of the loan pool for this transaction, the credit enhancement available to the senior LIBOR notes and senior reset-rate notes was sufficient to absorb the 15% haircut to cash inflows received from the U.S. federal government under FFELP in our 'AAA' stress scenarios. The performance of the senior LIBOR notes is supported by the required payments per their targeted balance schedules and the senior position of those payments in the transaction's waterfalls. The senior reset-rate notes are also supported by their senior position in the transaction's waterfall relative to the senior and subordinate auction-rate notes. Based on our review of the credit quality of the collateral pool, the transactions' key structural features, and the results of the cash flow modeling analysis, we raised our ratings on the senior LIBOR notes and the senior reset-rate notes to 'AAA (sf)'.

We affirmed the ratings on the senior auction-rate notes to reflect our view that the current credit enhancement levels are consistent with the 'AA+ (sf)' ratings. Based on the cash flow model results under our 'AAA' assumptions, the current available credit enhancement would not be sufficient to absorb the 15% haircut to cash inflows received from the U.S. federal government under FFELP in a 'AAA' stress scenario.

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

RELATED CRITERIA AND RESEARCH

Related Criteria
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction, May 29, 2015
- Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- U.S. Government Support In Structured Finance And Public Finance Ratings,

Dec. 7, 2014
- Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- U.S. Interest Rate Assumptions Revised for May 2012 And Thereafter, April 30, 2012
- 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: Evaluating Risk In Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Rating Methodology For Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Structural Elements In Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Student Loan Programs, Oct. 1, 2004

Related Research
- Economic Research: U.S. Economic Forecast: The Terrible Twos, June 26, 2015
- Certain U.S. Student Loan ABS Ratings Placed Under Criteria Observation Due To Updated Nonmonetary EOD Criteria, March 2, 2015
- Ratings Raised On Four Classes Of Notes From NorthStar Education Finance Inc., Feb. 6, 2015
- 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

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; " Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; " Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

RATINGS RAISED

NorthStar Education Finance Inc.

US$1 bil student loan asset-backed notes series 2004-2

Rating

Class	CUSIP	To	From
A-3	66704JBB3	AAA (sf)	AA+ (sf)
A-4	66704JBC1	AAA (sf)	AA+ (sf)

US$1.02 bil student loan asset-backed notes series 2005-1

		Rating	
Class	CUSIP	To	From
A-2	66704JBF4	AAA (sf)	AA+ (sf)
A-3	66704JBG2	AAA (sf)	AA+ (sf)
A-4	66704JBH0	AAA (sf)	AA+ (sf)
A-5	66704JBJ6	AAA (sf)	AA+ (sf)

US$1.07 bil student loan asset-backed notes series 2007-1

		Rating	
Class	CUSIP	To	From
A-1	66704JBT4	AAA (sf)	AA+ (sf)
A-2	66704JBU1	AAA (sf)	AA+ (sf)
A-3	66704JBV9	AAA (sf)	AA+ (sf)

RATINGS AFFIRMED

NorthStar Education Finance Inc.

US$1.07 bil student loan asset-backed notes series 2007-1

Class	CUSIP	Rating
A-4	66704JBW7	AA+ (sf)
A-5	66704JBX5	AA+ (sf)
A-6	66704JBY3	AA+ (sf)
A-7	66704JBZ0	AA+ (sf)
A-8	66704JCA4	AA+ (sf)