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Ratings Raised On Four Classes Of Notes From NorthStar Education Finance Inc.

Primary Credit Analysts:

Ronald G Burt, New York (1) 212-438-4011; ronald.burt@standardandpoors.com

Frank J Trick, New York (1) 212-438-1108; frank.trick@standardandpoors.com

OVERVIEW

- We raised our ratings on four classes of notes from NorthStar Education Finance Inc. transactions to 'AA (sf)' from 'A (sf)'.
- The upgrades reflect our view that the collateral performance and the structure's target minimum credit enhancement levels are sufficient to support a higher rating.

NEW YORK (Standard & Poor's) Feb. 6, 2015--Standard & Poor's Ratings Services today upgraded four classes of subordinate notes from student loan asset-backed securities (ABS) transactions issued between 2004 and 2007 by NorthStar Education Finance Inc. (see list). At the same time, Standard & Poor's removed these ratings from CreditWatch, where they were placed with positive implications on Aug. 12, 2014.

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) Federal Family Education Loan Program (FFELP).

The upgrades reflect our views regarding the trust's historical and expected collateral performance as well as the available credit enhancement, including overcollateralization, a reserve fund, and excess spread. Our analysis also incorporated secondary credit factors, such as credit stability, payment priority, and sector- and issuer-specific analysis.

The NorthStar FFELP master trust has notes outstanding from six separate issuances: series 2000, 2002, 2004-1, 2004-2, 2005-1, and 2007-1. We did not rate the notes from the 2000 and 2002 issuances.

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CURRENT CAPITAL STRUCTURE

As of December 2014

Series	Class	Current balance	Note factor	Coupon	Maturity date
2002	A-2	\$51,250,000	78.2%	Auction rate	Apr 2042
2002	A-3	\$65,500,000	100.0%	Auction rate	Apr 2042
2002	A-4	\$65,500,000	100.0%	Auction rate	Apr 2042
2002	A-5	\$51,250,000	78.2%	Auction rate	Apr 2042
2004-2	A-2	\$74,552,000	49.7%	3mo LIBOR+0.14%	Jan 2017
2004-2	A-3	\$280,000,000	100.0%	3mo LIBOR+0.17%	Jul 2018
2004-2	A-3	\$249,500,000	100.0%	3mo LIBOR+0.23%	Jul 2021
2005-1	A-2	\$106,202,000	89.8%	3mo LIBOR+0.13%	Jul 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%	Apr 2030
2005-1	A-5	\$67,342,000	26.9%	3mo LIBOR+0.75%*	Oct 2045
2007-1	A-1	\$193,000,000	100.0%	3mo LIBOR+0.10%	Apr 2030
2007-1	A-2	\$200,000,000	100.0%	3mo LIBOR+0.75%*	Jan 2046
2007-1	A-3	\$235,000,000	100.0%	3mo LIBOR+0.75%*	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	Apr 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

*Reset rate notes.

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 i) the 91-day Treasury bill-based rate, ii) 18%, iii) a LIBOR-based cap rate, and iv) the net loan rate of the assets. (The 2000 and 2002 notes don't have a LIBOR-based cap rate, and the 2000 notes also don't 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 in many 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 A-5 notes and 2007-1 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 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 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. Thereafter, the subordinate notes cannot be redeemed 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%. Parity levels are above these release levels, but 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.

COLLATERAL SUMMARY

As of December	2014	2013	2012	2011
Repayment (Current)%	89.2	85.5	81.3	74.3
Repayment (30+ Delinquent)%	1.6	2.0	2.4	3.2
Deferment%	4.4	6.5	8.9	10.2
Forbearance%	4.6	6.0	7.3	12.5

The trust is backed by a pool of student loans that were originated under the 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 (93% of the total balance), the majority (69%) 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.

CREDIT ENHANCEMENT

As of December	2014	2013	2012	2011
Senior Parity%	109.0	107.5	106.2	104.9
Total Parity%	102.5	101.7	100.8	100.1

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.

CASH FLOW MODELING ASSUMPTIONS

We ran cash flows at various 'AA' stress assumptions to test the ability of

the subordinate notes to receive timely interest and principal no later than legal final maturity. The following are some of the major assumptions we modeled:

- Six- and seven-year default curves;
- A servicer claims rejection rate of 2.5%;
- A delay after a default of a U.S. ED claim reimbursement of 630 days;
- A delay on special allowance payments and interest rate subsidy of two months;
- Flat and ramped voluntary prepayment speeds (ramped voluntary prepayments speeds start at 3% and increase annually over seven years to a 9%, after which the rate was held constant);
- Forbearance rates of 7% for 36 months;
- Deferment rates of 6% for 48 months;
- Stressed interest rate vectors for the various indices; and
- Failed auctions for the life of each transaction, with auction rate and reset rate coupons based on their maximum rate definitions.

RATING ACTION RATIONALE

Since the last issuance from this master trust in 2007, available hard credit enhancement (overcollateralization) to support the subordinate notes--as measured by parity levels--has grown. The growth in parity 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 due to the low percentage of the loans in non-paying 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. We also believe the back-end cost of funds for the subordinate notes is a relative strength for the trust due to the net loan rate cap on most of the auction rate liabilities. In each of our 'AA' stress cash flow scenarios, the subordinate notes we rated are paid in full by their legal final maturity dates and do not experience any interest shortfalls. Based on the results of our cash flow analysis and the aforementioned qualitative attributes of the collateral pool and back-end cost of funds, we raised our rating on each of the subordinate notes by one full rating category to 'AA (sf)'.

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.

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

- U.S. Government Support In Structured Finance And Public Finance Ratings, Dec. 7, 2014
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Methodology: Credit Stability Criteria, May 3, 2010
- 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: 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

- NorthStar Education Finance Inc. Series 2004-1 'A (sf)' Rating Remains On CreditWatch Positive, Dec. 11, 2014
- Fourteen Ratings Affirmed, 2 Raised, 4 Placed On CreditWatch Positive From NorthStar Education Finance Inc., Aug. 12, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- The Rating Process For Student Loan Transactions, Oct. 1, 2004

RATINGS RAISED AND REMOVED FROM CREDITWATCH

NorthStar Education Finance Inc.

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

Rating			
Class	CUSIP	To	From
B-1	66704JAY4	AA (sf)	A (sf)/Watch Pos

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

Rating			
Class	CUSIP	To	From

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B 66704JBD9 AA (sf) A (sf)/Watch Pos

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

Class	CUSIP	To	From
B	66704JBK3	AA (sf)	A (sf)/Watch Pos

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

Class	CUSIP	To	From
B	66704JCB2	AA (sf)	A (sf)/Watch Pos

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