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## Fourteen Ratings Affirmed, 2 Raised, 4 Placed On CreditWatch Positive From NorthStar Education Finance Inc.

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**OVERVIEW**

- The upgrades reflect our expectation that the classes will be paid in full within the next 12 months.
- The affirmations reflect our view that the credit enhancement levels are sufficient to support the current ratings.
- The CreditWatch placements reflect our view that the expected collateral performance and minimum target credit enhancement levels may be sufficient to support a higher rating.

NEW YORK (Standard & Poor's) Aug. 12, 2014--Standard & Poor's Ratings Services today raised its ratings on two classes of notes and affirmed its ratings on 14 classes of notes issued by NorthStar Education Finance Inc. between 2004 and 2007. At the same time, we placed our ratings on four classes of notes from the same trust on CreditWatch with positive implications (see list).

Each series of notes was issued pursuant to a master indenture that was amended and restated in October 2005 (NorthStar FFELP master trust). The trust is an asset-backed securities (ABS) trust collateralized by student loans

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originated through the U.S. Department of Education's (ED's) Federal Family Education Loan Program (FFELP).

The rating actions also reflect our views regarding historical and future collateral performance as well as the current credit enhancement available to support the notes, including overcollateralization, subordination for the senior notes, the reserve account, and excess spread. Our analysis also incorporated secondary credit factors such as credit stability, payment priority, and sector- and issuer-specific analyses as well as a peer analysis.

The NorthStar FFELP master trust has notes outstanding from six separate issuances including series 2000, 2002, 2004-1, 2004-2, 2005-1, and 2007-1. Standard & Poor's did not rate the notes from the 2000 and 2002 issuances.

CURRENT CAPITAL STRUCTURE

As of June 2014

Series	Class name	Current bal. (\$)	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	144,682,000	96.5%	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-1	34,348,000	17.8%	3mo LIBOR+0.10%	Oct 2026
2005-1	A-2	118,300,000	100.0%	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%*	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%*	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	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

\*Reset-rate notes.

The auction-rate notes pay interest at their maximum auction-rate definitions. Generally, these definitions are based on a 91-day Treasury bill (T-Bill) plus a rating-dependent margin or LIBOR. Additionally, most of the auction-rate

notes are capped at the assets' net loan rate. We view these definitions favorably compared to maximum auction-rate definitions we have seen in other structures, which contain a multiplier formula that causes the rate to increase faster in a higher interest rate environment. The series 2005-1 class A-5 notes and series 2007-1 class A-2 and A3 notes are reset-rate notes. Each of these classes 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 indenture's waterfall provisions, the 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 are deposited into the retirement account until the trust reaches a senior and total parity of 105.0% and 100.75%, respectively, and then they may be released at the option of the issuer. After paying the LIBOR floating-rate notes to their targeted balances, funds in the retirement account are next used to pay the reset rate notes since their remarketing has failed, and then to the senior auction-rate notes. After the senior auction-rate notes are paid in full, the LIBOR notes can then receive additional payments over those needed to meet their targeted balances. No funds may be allocated to the subordinate auction-rate notes until all of the senior notes have been paid in full.

**COLLATERAL SUMMARY**

The trust is backed by a pool of FFELP student loans at least 97% guaranteed by the ED. The collateral pool has a relatively strong credit profile based on its composition, including a high proportion of graduate student loans and loans to medical/health professional students which, in our view, generally have lower lifetime default expectations than other student loan types. The current distribution of the collateral pool is as follows:

Type\*

	June			
	2014	2013	2012	2011
Consolidation	89.6%	88.9%	87.9%	86.9%
Stafford	10.0%	10.7%	11.5%	12.5%
PLUS	0.4%	0.5%	0.5%	0.6%

Student\*

	June			
	2014	2013	2012	2011
Med/health	69.1%	68.6%	68.0%	67.3%
Law/MBA	17.1%	17.2%	17.3%	17.5%
Other grad	6.6%	6.7%	6.8%	6.9%
Undergrad	7.2%	7.5%	7.8%	8.2%

Status\*

June

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	2014	2013	2012	2011
Repayment	87.9%	84.1%	80.5%	71.7%
Delinquency	1.8%	1.8%	2.7%	2.7%
Deferment	6.4%	8.2%	9.9%	10.1%
Forbearance	5.6%	7.5%	9.3%	17.6%

\*Percentages of the pool balance excluding accrued interest.

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 note principal, with a \$2.5 million floor. The notes also benefit from excess spread and overcollateralization. Additionally, the senior notes benefit from the subordination of the class B notes.

Class Parity\*

	June			
Class	2014	2013	2012	2011
Senior	108.2%	106.8%	105.4%	104.4%
Subordinate	102.1%	101.2%	100.4%	99.8%

\*Senior parity is defined as the pool balance including accrued interest plus the cash in trust accounts, divided by the outstanding balance of the class A notes. Subordinate parity is defined as the pool balance including accrued interest plus the cash in trust accounts, divided by the outstanding balance of the total notes.

SENIOR NOTE RATINGS

We treated the class A notes as a single class of securities and assigned the same rating to each class. Our reason for doing so is that the transaction documents for each series indicate that if a nonmonetary event of default (EOD) occurs, the transaction's payment priority for the class A notes could shift from receiving principal sequentially to receiving principal pro rata, as determined by a majority noteholder vote. After assessing the incentives for the noteholders to do that at this time, we assumed that a nonmonetary EOD occurs, the noteholders vote to accelerate, and that all class A notes receive principal pro rata (see "Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Upon A Nonmonetary EOD," published March 16, 2010).

Series 2004-2's class A-2 notes and series 2005-1's class A-1 notes are being upgraded to 'AAA (sf)' because we expect that these classes will be paid in full within 12 months based on their principal payment priorities and targeted balance schedules.

The affirmations on the remaining senior notes reflect our view that the current credit enhancement levels are consistent with the 'AA+ (sf)' ratings. The credit enhancement supporting the senior notes has grown since our last review, as reflected in an increase in senior parity. However, 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). In our view, the current available credit enhancement would not be sufficient to absorb the haircut to cash inflows received from the U.S. federal government under FFELP in a 'AAA' stress scenario.

#### SUBORDINATE NOTE RATINGS

We placed our rating on the class B notes on CreditWatch positive to reflect the growth in available hard credit enhancement since the last issuance in 2007 to the transaction's current parity levels above its release requirements. When we resolve the CreditWatch placements, we will consider in our final review the current level of available hard credit enhancement as well as the impact of the transaction's ability to release if targeted balances and required parity thresholds are maintained.

Today's rating actions also reflect our outlook on asset performance based on a review of historical collateral data and the FFELP guaranty of at least 97% by the ED.

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

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- U.S. Government Support In Structured Finance And Public Finance Ratings, Sept. 19, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Upon A Nonmonetary EOD, March 16, 2010
- 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

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- Student Loan Criteria: Rating Methodology For Student Loan Transactions, Oct. 1, 2004

Related Research

- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Student Loan Criteria: The Rating Process For Student Loan Transactions, Oct. 1, 2004

RATINGS RAISED

NorthStar Education Finance Inc.

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

Rating			
Class	CUSIP	To	From
A-2	66704JBA5	AAA (sf)	AA+ (sf)

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

Rating			
Class	CUSIP	To	From
A-1	66704JBE7	AAA (sf)	AA+ (sf)

RATINGS AFFIRMED

NorthStar Education Finance Inc.

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

Class	CUSIP	Rating
A-3	66704JBB3	AA+ (sf)
A-4	66704JBC1	AA+ (sf)

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

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

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

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

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RATINGS PLACED ON CREDITWATCH POSITIVE  
NorthStar Education Finance Inc.

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

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

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

Rating			
Class	CUSIP	To	From
B	66704JBD9	A (sf)/Watch Pos	A (sf)

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

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

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

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

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