S&P Global
Ratings

Research

Presale:

Kentucky Higher Education Student Loan Corporation Student Loan Asset-Backed Notes Series 2020-1

November 12, 2020

PRIMARY CREDIT ANALYST

Matthew Monaco
New York
+ 1 (212) 438 6263
matthew.monaco
@spglobal.com

SECONDARY CONTACT

Sierra Kalb
Centennial
+ 303-721-4833
sierra.kalb
@spglobal.com

Preliminary Ratings

Class	Preliminary rating	Interest rate(ii)	Preliminary amount (mil. $)
A-1A/A-1B(i)	AA+ (sf)	Fixed-rate/one-month LIBOR + a spread	415.64
B	A (sf)	One-month LIBOR + a spread	7.00

Note: This presale report is based on information as of Nov. 12, 2020. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)The class A-1 notes' aggregate initial principal balance will be equal to $415,640,000, including $207,820,000 in A-1A fixed-rate notes and $207,820,000 in A-1B floating-rate notes. (ii)The interest rates on the notes will be determined on the pricing date.

Profile

Expected closing date	Nov. 25, 2020.
Collateral	A pool of student loans that are at least 97% reinsured by the U.S. federal government.
Issuer, servicer, and administrator	Kentucky Higher Education Student Loan Corporation.
Backup servicer	Nelnet Servicing LLC.
Trustee	US Bank N.A.
Underwriters	BofA Securities Inc.

Rationale

The preliminary ratings assigned to Kentucky Higher Education Student Loan Corporation's (KHESLC's) $422.640 million student loan asset-backed notes series 2020-1 reflect our view of:

- The transaction's expected initial class A-1 (senior) parity of approximately 105.65%. Senior parity is defined as the percentage of total assets divided by the balance of the class A-1 notes.
- The transaction's expected initial total parity of approximately 103.90%. The total parity is

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.
2553933

defined as the percentage of total assets divided by the total note balance.

- The approximate 1.66% class B note subordination available for the class A-1 notes. Subordination is defined as the class B note balance divided by the total note balance.
- Our weighted average seasoned-adjusted base case default rate assumption for this pool, which is approximately 30% higher than it would have been absent the COVID-19 pandemic's uncertain macroeconomic environment. Most of the increase in defaults is expected to be reimbursed through the Department of Education's (ED's) guarantee of defaults (see the Credit Analysis section below). The guarantee reimbursement, when received by the trust, functions similar to a loan prepayment.
- The reserve account, which equals 0.25% of the initial pool balance ($1,087,594) at closing and is required to be maintained at 0.25% of the current pool balance. The reserve has a floor equal to 0.15% of the initial pool balance ($652,556).
- The transaction's payment structure, which is designed to build and maintain overcollateralization (O/C) at the greater of 5.50% of the current adjusted pool balance and $8,000,000 (1.82% of the initial adjusted pool balance), from approximately 3.75% at closing. O/C is defined as the excess of the adjusted pool balance over the total notes, divided by the adjusted pool balance. The adjusted pool balance is defined as the pool balance plus reserve and capitalized interest funds.
- The U.S. federal government's reinsurance of at least 97% of the loans' principal and interest.
- The timely interest and principal payments made by the legal final maturity dates in the cash flow runs that simulated our 'AA+' and 'A' threshold rating credit stress and liquidity scenarios (see the Stressed And Liquidity Cash Flow Results section below).
- A ratings stability scenario analysis that indicates that the preliminary 'AA+ (sf)' ratings would not decline more than one rating category and that the preliminary 'A (sf)' ratings would not decline more than two rating categories in the first year under moderately stressful economic conditions, which is consistent with our views on credit stability for the assigned ratings.
- The transaction's legal structure.

On Aug. 5, 2011, S&P Global Ratings lowered its long-term sovereign credit rating on the U.S. to 'AA+' from 'AAA'. The 'AA+' rating was affirmed on April 2, 2020, and the outlook remains stable. Our preliminary ratings on the KHESLC 2020-1 notes partially rely on our long-term sovereign rating on the U.S. federal government because ED supports Federal Family Education Loan Program (FFELP) loans, which secure the series 2020-1 notes. We view ED as an integral part of the U.S. federal government (see "U.S. Government Support In Structured Finance And Public Finance Ratings," published Dec. 7, 2014). ED supports the KHESLC 2020-1 notes by reinsuring at least 97% of the principal and accrued interest on properly serviced defaulted loans and providing special allowance payments (SAP) to loan holders and, in some circumstances, interest rate subsidies to borrowers. Applying these criteria to the transaction supports the preliminary ratings on the notes.

In addition to various cash flow runs incorporating higher defaults and/or stressed levels of forbearance and deferral, which all paid timely interest and principal payments by the legal final maturity date, we conducted further liquidity analysis to assess the effect of a temporary decrease in loan principal and interest payments over the next several months as a result of the pandemic. Based on this analysis, we believe the transaction has sufficient liquidity to cover bond interest and expenses during this time. We are monitoring the government proposals that are intended to provide relief to student loan obligors by reducing or temporarily delaying obligors'

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page. 2553933

student loan payments. We will continue to monitor these proposals as they develop and assess their impact on the transaction.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research at www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Transaction Summary

At closing, the trust will issue $422.640 million of senior and subordinate notes according to the series 2020-1 indenture. The series 2020-1 note proceeds will be used to make initial deposits of approximately $3.0 million and $1.1 million to the capitalized interest and reserve funds, respectively, and to refinance student loans originated under FFELP. In addition, KHESLC will make an equity contribution to the trust of $16.485 million.

The transaction includes the following features:

- The trust will issue senior class A-1 notes (approximately 98.3% of total issuance) rated 'AA+ (sf)' that are a mix of fixed- and floating-rate notes and subordinate floating-rate class B notes (approximately 1.7% of total issuance) rated 'A (sf).' Class A-1A will be fixed-rate notes, and class A-1B, floating-rate notes. All of the floating-rate notes will be indexed to one-month LIBOR.
- The floating-rate class A-1B and class B notes will be referenced to the one-month LIBOR plus a fixed margin. In 2017, the Financial Conduct Authority, which oversees the LIBOR administration, announced that it will not compel banks to continue providing LIBOR quotes after December 2021. In 2019, the Federal Reserve's Alternative Reference Rates Committee published recommended guidelines for fallback language in new securitizations, and the language in this transaction is generally consistent with its key principles: trigger events, a list of alternative rates, and a spread adjustment. We will continue to monitor reference rate reform and take into account changes specific to this transaction when appropriate.
- Excess spread, a reserve fund, and O/C provide credit and liquidity support. The initial senior and total parities are approximately 105.65% and 103.90%, respectively;
- O/C, starting at 3.75%, is designed to build to and be maintained at the greater of 5.50% of the then-current adjusted pool balance and $8,000,000 (1.82% of the initial pool balance). O/C is the excess of the adjusted pool balance plus the reserve fund and capitalized interest fund, over the total debt. The $8,000,000 component of the target provides a non-amortizing O/C floor to the transaction. When the floor is reached, O/C will grow as a percentage of the amortizing loan balance for the life of the transaction.
- Available funds will be used to retire notes until the O/C target is reached. Prior to November 2028, after meeting this target and paying certain fees, remaining available funds may be released. After November 2028, or if the pool factor is less than 10%, releases are terminated and all available funds will be used to retire notes.
- The reserve fund initially fully funded at $1,087,594 must be maintained at the greater of 0.25% of the then-current pool balance and 0.15% of the initial pool balance. The amount in the

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page. 2553933

reserve fund will generally be available to pay fees, timely interest, and principal on the notes' legal final maturity dates. The reserve fund may be replenished on each distribution date according to the priority of payments (see the Payment Structure section below). As the collateral pays down, the amount in the reserve fund will decrease until it reaches the required floor amount of approximately $652,556 (0.15% of the initial pool balance). The debt service reserve fund floor provides additional credit support during the later stages of the transaction.

- The loan pool will comprise approximately 62.1% Stafford loans, 36.0% Consolidation loans, 2.0% PLUS loans. Approximately 58.2%, 41.5%, and 0.3% of the loans are 97%, 98%, and 100% federally reinsured, respectively. The collateral is seasoned with 84.4% of the pools in repayment status and generating cash flow, with the remaining obligors either in deferment (6.5%), non-disaster forbearance (4.9%), disaster forbearance (4.1%), or in-school and grace (de minimis amount).
- Approximately 19.7% of the loan pool consists of rehabilitated (rehab) loans, which are FFELP loans that previously defaulted and have subsequently been "rehabilitated" according to the Higher Education Act's guidelines. To be considered a rehab loan and eligible for the FFELP program's benefits, the obligor must make at least nine consecutive payments on time. The performance data we reviewed indicates that rehab loans default at a much higher default frequency than other FFELP loan types. Nonetheless, rehab loans retain the initial pre-default 97%, 98%, or 100% guarantee by the guarantee agency and ED.
- The capitalized interest fund, initially funded at $3,000,000, will step down to $2,000,000 on Nov. 25, 2021, and $1,000,000 on Nov. 25, 2022, and the remaining amount will be transferred to the collection fund on Nov. 25, 2023. Capitalized interest fund amounts are available to cover the first six items in the payment waterfall before any amounts are transferred from the reserve fund. The capitalized interest fund will not be replenished.
- Based on a Dec. 23, 2011, amendment to the Higher Education Act, KHESLC converted the index for calculating SAP for its FFELP loans disbursed after Jan. 1, 2000, to the one-month LIBOR index from the three-month commercial paper rate, effective April 1, 2012. As a result, most of the loan pool (approximately 97%) has a SAP interest rate index of one-month LIBOR.
- KHESLC will service the loans.

Payment Structure

The trust will make payments on the notes from collections on a pool of student loans on the 25th day of each month or the following business day, the distribution date, beginning January 2021. The trust will make the payments in a specified order of priority (see table 1).

Table 1

Payment Waterfall

Priority	Payment(i)
1	Payments required under any existing indenture and to make any deposits to the department rebate fund.
2	To the trustee, due and any unpaid trustee fees(i)
3	To the servicer, due and any unpaid servicing fees(ii).
4	To the administrator, due and any unpaid administration fees(ii).
5	Pro rata, interest payments to the class A-1A and A-1B noteholders.
6	Interest payments to the class B noteholders.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 1

Payment Waterfall (cont.)

Priority	Payment(i)
7	If necessary, replenish the reserve account to the required level.
8	The principal distribution amount to the class A-1A and A-1B noteholders pro rata, until paid in full, and then the principal distribution amount to the class B noteholders until paid in full(iii).
9	On or after November 2028, supplemental payments of principal to the noteholders, to the class A-1A and A-1B noteholders, principal pro rata, until paid in full, and then to the class B noteholders, until paid in full.
10	Trustee expenses that have not been paid according to footnote(i).
11	To the servicer and the administrator, any deferred fees.
12	On and after the optional release date, additional principal payments to the noteholders, to the class A-1A and A-1B noteholders, principal pro rata, and then to the class B noteholders.
13	Pay to the issuer remaining funds.

(i)The trustee fee is an amount equal to 1/12 of 0.005% of the aggregate outstanding amount of the notes, payable monthly, subject to a minimum monthly amount of $500. (ii)The servicing and administration fee is equal to the sum of: 1/12 of the product of 0.85% and the pool balance payable monthly; and an annual amount, payable each November, of $100,000 (iii)The principal distribution amount (item 8 in the payment waterfall) is designed to maintain the notes' overcollateralization amount at the target of 5.50% of the current pool balance (approximately 3.75% at closing). Additionally, the target overcollateralization is subject to a floor of $8,000,000.

KHESLC will have the option to release all of the loans from the indenture lien when the pool balance is equal to or less than 10% of the initial pool balance. To exercise the option, the issuer must deposit an amount in the collection fund sufficient to redeem all of the notes and pay any administration fees, servicing fees, program expenses, and trustee fees due (less any amounts on deposit in other funds).

Transaction Overview

The trust estate securing the notes issued under the indenture consists of:

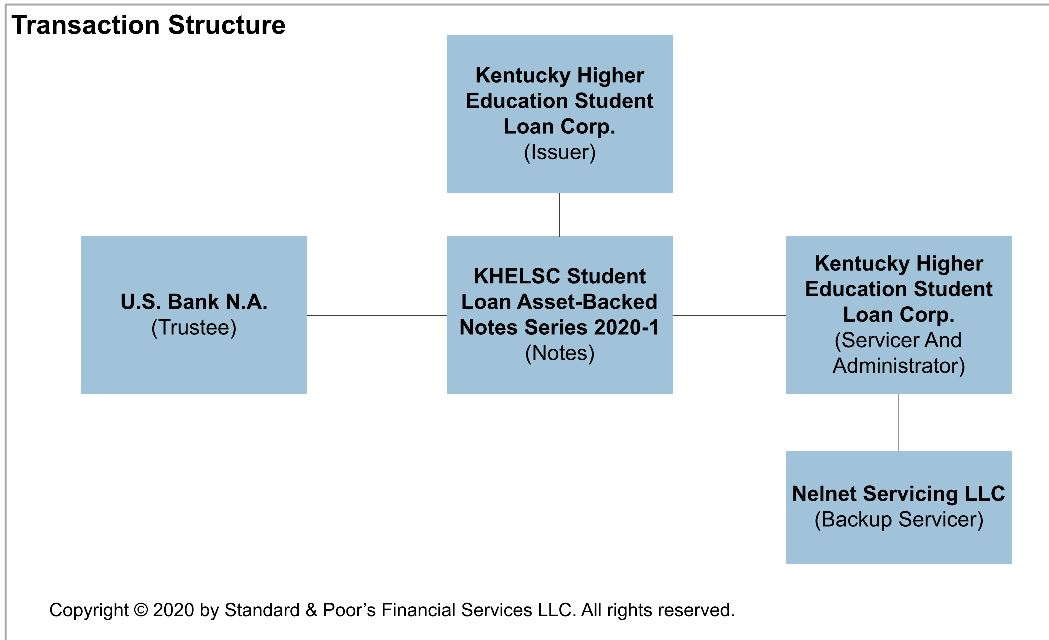
- Student loans originated under FFELP and pledged under the indenture;
- Collections and other payments received on account of the financed student loans; and
- Money and investments held in funds created under the indenture.

In rating this transaction, S&P Global Ratings will review the legal matters it believes are relevant to its analysis, as outlined in its criteria.

The transaction structure is outlined in chart 1.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page. 2553933

Chart 1



Pool Analysis

The notes will receive payments primarily from collections on a FFELP loan pool. The loan pool consists of approximately 36.0% Consolidation loans, 62.1% Stafford loans, and 2.0% PLUS loans. 84.4% of the loans are in active repayment status (see table 2 for the transaction's loan pool characteristics as of Sept. 30, 2020).

Table 2

Series Loan Pool Characteristics

Aggregate outstanding principal balance ($)	435,037,488
No. of borrowers	27,578
Avg. outstanding principal balance per borrower ($)	15,775
Weighted avg. gross borrower interest rate (%)	5.31
Weighted avg. remaining term (mos.)	118
SAP indexed to one-month LIBOR (%)	96.8
Rehabilitated loans (%)	19.7
Loan type (%)	
Consolidation	36.0
Stafford	62.1
PLUS/SLS	2.0

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page. 2553933

Table 2

Series Loan Pool Characteristics (cont.)

Payment status (%)	
In school	0.1
Grace	(i)
Deferment	6.5
Non-disaster forbearance	4.9
Disaster forbearance	4.1
Repayment	84.4
School type (%)	
Four-year college/graduate	55.8
Consolidation	36.0
Two-year college	0.7
Proprietary/vocational/technical	6.7
Unknown/other	0.8
Delinquency status (%)	
0-30 days	92.1
31-60 days	2.4
61-90 days	2.0
91-120 days	1.9
121-150 days	0.8
151-180 days	0.6
ED reinsurance (%)	
97	58.2
98	41.5
100	0.3

(i)Represents a percentage greater than 0.00% but less than 0.05%. SAP--Special allowance payments. PLUS--Parent Loans to Undergraduate Students. SLS--Supplemental Loans for Students. ED--U.S. Department of Education.

Student loan borrowers are experiencing temporary economic hardship due to the COVID-19 pandemic. For borrowers who continue to be adversely affected by the pandemic and request it, KHESLC will provide short-term extended forbearance relief from payments through Dec. 31, 2020 ("COVID-19 extended forbearance"). During the COVID 19 extended forbearance, unpaid interest on loans accrues but is not capitalized. This forbearance period does not count toward the 36 months of total forbearance permitted over the life of the loan.

FFELP loans that utilize FFELP options to delay or modify their payment (i.e., through income-based repayment plans) may delay default and subsequent ED reinsurance payments, causing cash flow liquidity issues, as opposed to credit-related issues, for transactions. Generally, we expect that more borrowers will utilize available FFELP relief that allows a reduction or delay in payments for a longer period of time as borrowers seek more flexibility in managing their financial resources during this uncertain time.

Over time and in certain situations, forbearance has been an effective default prevention tool that

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

allows student loan borrowers experiencing temporary economic hardship to avoid default and resume their regular loan payments several months later. However, given the unique economic environment caused by the COVID-19 pandemic, it remains unclear how borrowers that utilize COVID-19 pandemic forbearance will ultimately perform.

S&P Global Ratings' Expected Default Rate: 22.0%-24.0%

We analyzed industry performance data compiled by ED and originator-specific static pool performance data segmented by school and loan types to determine our default benchmarks for loans with similar attributes. Our expected default benchmarks for loan and school types are then applied to the specific pool mix to project the expected default percentage for a pool of loans. Our expected default rates for loan types also reflect our assessment of the economy and recently graduated students' employment prospects.

We also considered the macroeconomic conditions caused by the COVID-19 pandemic, which will likely present employment challenges for some student loan borrowers and result in higher levels of delinquencies and defaults. Our weighted average seasoned-adjusted base case default rate assumption for this pool is approximately 30% higher than it would have been in the absence of the uncertain macroeconomic environment that student loan borrowers will be exposed to over the next 12 months. Most of this increase is expected to be repaid through the federal reinsurance.

Based on our analysis of historical default rates by loan and school type, current macroeconomic conditions caused by the COVID-19 pandemic, as well as the seasoning of the loans, our expected base case cumulative default rate for the loan pool is 22.0%-24.0%.

Cash Flow Modeling Assumptions And Results

We modeled the KHESLC 2020-1 transaction to simulate stress scenarios that we believe are commensurate with the assigned preliminary ratings (see tables 4 and 5).

Table 4

Stressed Cash Flow Modeling Assumptions For 'AA+' Scenarios

Preliminary rating	AA+ (sf)
Default rate--all FFELP loans (% of collateral balance entering repayment)	64
Cumulative default timing (fast curve)--consolidation loans (approximate % per year)	25/25/20/10/10/10
Cumulative default timing (slow curve)--consolidation loans (approximate % per year)	20/20/20/10/10/10/10
Cumulative default timing (fast curve)--non-consolidation loans (approximate % per year)	40/30/20/10
Cumulative default timing (slow curve)--non-consolidation loans (approximate % per year)	20/20/20/10/10/10/10
Servicer claims rejection rate (%)	2.75
Voluntary prepayments--all loans except non-rehab consolidation and rehab loans (in addition to defaults)	30/25/20 for remaining life
Voluntary prepayments--non-rehab consolidation loans (in addition to defaults)	3/4/5/6/7/8/9 for remaining life
Voluntary prepayments--all rehab loans (in addition to defaults)	0.0% for life

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 4

Stressed Cash Flow Modeling Assumptions For 'AA+' Scenarios (cont.)

Deferral (upon entering repayment, % of loans defer payment for years)	9% for 36 months
Forbearance (upon entering repayment, % of loans forbear payment for years)	7% for 51 months
Delay after default of ED claim reimbursement	630 days
Special allowance payments and interest rate subsidy delays	Two months

FFELP--Federal Family Education Loan Program. ED--U.S. Department of Education.

Table 5

Stressed Cash Flow Modeling Assumptions For 'A' Scenarios

Preliminary rating	A (sf)
Default rate--all FFELP loans (% of collateral balance entering repayment)	51
Cumulative default timing (fast curve)--consolidation loans (approximate % per year)	25/25/20/10/10/10
Cumulative default timing (slow curve)--consolidation loans (approximate % per year)	20/20/20/10/10/10/10
Cumulative default timing (fast curve)--non-consolidation loans (approximate % per year)	40/30/20/10
Cumulative default timing (slow curve)--non-consolidation loans (approximate % per year)	20/20/20/10/10/10/10
Servicer claims rejection rate (%)	2.00
Voluntary prepayments--all loans except non-rehab consolidation and rehab loans (in addition to defaults)	25/20/15 for remaining life
Voluntary prepayments--non-rehab consolidation loans (in addition to defaults)	2/3/4/5/6/7/8 for remaining life
Voluntary prepayments--all rehab loans (in addition to defaults)	0.0% for life
Deferral (upon entering repayment, % of loans defer payment for years)	9% for 36 months
Forbearance (upon entering repayment, % of loans forbear payment for years)	7% for 51 months
Delay after default of ED claim reimbursement	630 days
Special allowance payments and interest rate subsidy delays	Two months

FFELP--Federal Family Education Loan Program. ED--U.S. Department of Education.

We used a credit rating model based on the Cox-Ingersoll-Ross framework (the CIR model) to simulate interest rate scenarios for the stress levels commensurate to the rating of the liabilities. Each rating scenario employs two patterns:

- Rising then falling interest rates (up/down curve), and
- Falling then rising interest rates (down/up curve) (see charts 2 and 3).

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page. 2553933

Chart 2

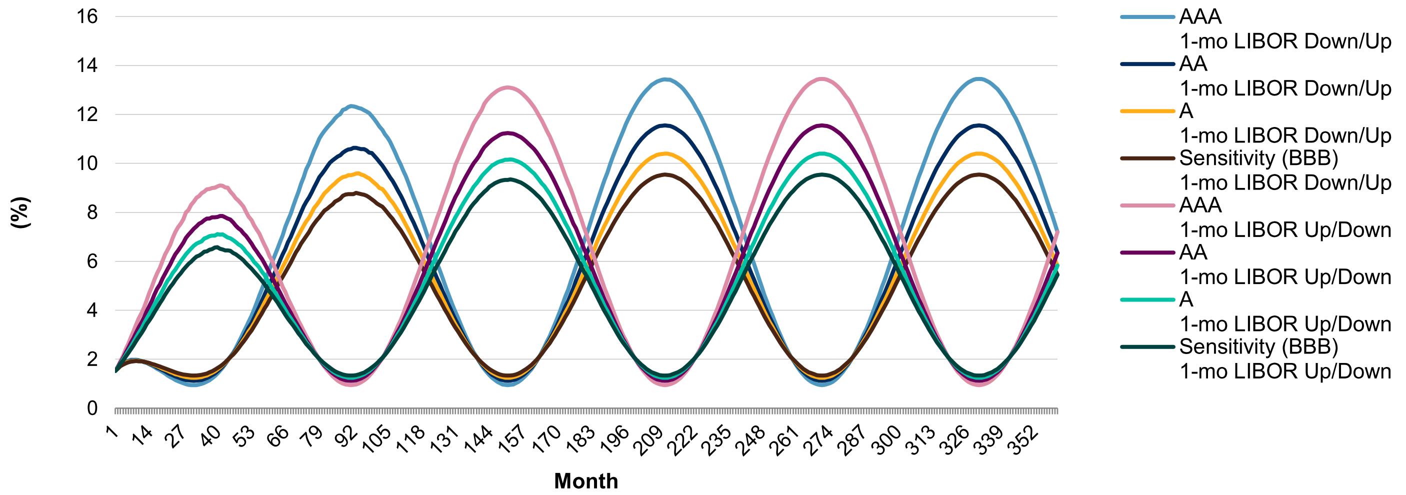
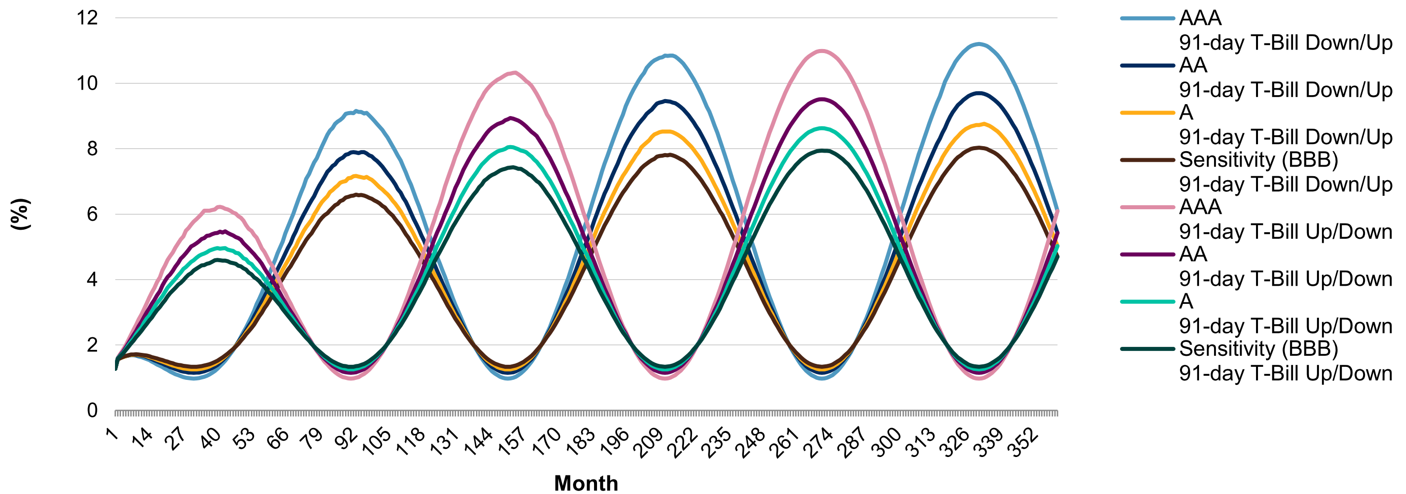


Chart 3



Basis Risk

As noted above, we based our 'AA+ and A scenarios on two interest rate paths. Approximately 97% of the loans in the KHESLC 2020-1 pool have SAP interest rates indexed to one-month LIBOR, and the remaining 3% of loans have SAP interest rates indexed to 91-day T-bill. Approximately 51% of the total notes are indexed to one-month LIBOR, and the remaining 49% of the notes bear interest at fixed rates. To stress the basis risk in this transaction, we ran additional stress scenarios where

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page. 2553933

we assumed LIBOR was equal to 0% for the transaction's life with the fast default curve and other assumptions corresponding to our 'AA+' and 'A' stresses. In these additional cash flow scenarios, the class A-1 and B notes received interest payments due on every distribution date and principal payments by the notes' maturity dates.

Stressed And Liquidity Cash Flow Results

We stressed the cumulative default rates for the pool at approximately 64% and 51% according to the assigned preliminary 'AA+ (sf)' and 'A (sf)' ratings for the class A-1 and class B notes, respectively. All timely interest payments and principal payments by legal maturity were made for the class A-1 and class B notes in the 'AA+' and 'A' stressed cash flow modeling scenarios, respectively.

The primary risk in a FFELP student loan transaction is the guarantor's and ED's rejection of reimbursement claims for noncompliance with servicing standards. Rejected claims lose both the guarantor's and ED's insurance coverage, resulting in a full principal loss to the issuer on the rejected loans. In evaluating this risk, we used information regarding historical servicer claims payments and rejection rates. We then adjusted the data for the preliminary ratings as we considered appropriate. We also stressed the recovery lags and the deferment and forbearance periods in our cash-flow scenarios. Under these stressed cash flow scenarios, the transaction paid all timely interest and note principal by the legal final maturity dates.

In addition, we ran cash-flow scenarios that had zero prepayments and zero default rates, as well as zero prepayments and an expected level of default rates with fast and slow default curves (we left all other assumptions unchanged) to ensure that all of the notes are retired by their maturity dates.

Credit Stability Cash-Flow Analysis

In addition to the stressed cash flows, we ran cash-flow scenarios to assess the assigned preliminary ratings' stability under moderate stress conditions (a 'BBB' stress scenario). We assumed moderate stresses for cumulative defaults, coupled with slightly less stressful servicer claims rejection and voluntary prepayment assumptions than in the stress runs (see table 6 and charts 4 and 5).

Table 6

Sensitivity Cash Flow Modeling Assumptions

Default rate--all FFELP loans (% of collateral balance entering repayment)	40
Cumulative default timing (fast curve)--consolidation loans (approximate % per year)	25/25/20/10/10/10
Cumulative default timing (slow curve)--consolidation loans (approximate % per year)	20/20/20/10/10/10/10
Cumulative default timing (fast curve)--non-consolidation loans (approximate % per year)	40/30/20/10
Cumulative default timing (slow curve)--non-consolidation loans (approximate % per year)	20/20/20/10/10/10/10
Servicer claims rejection rate (%)	1.75
Voluntary prepayments--all loans except non-rehab consolidation and rehab loans (in addition to defaults)	20/15/10 for remaining life
Voluntary prepayments--non-rehab consolidation loans (in addition to defaults)	1/2/3/4/5/6/7 for remaining life

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

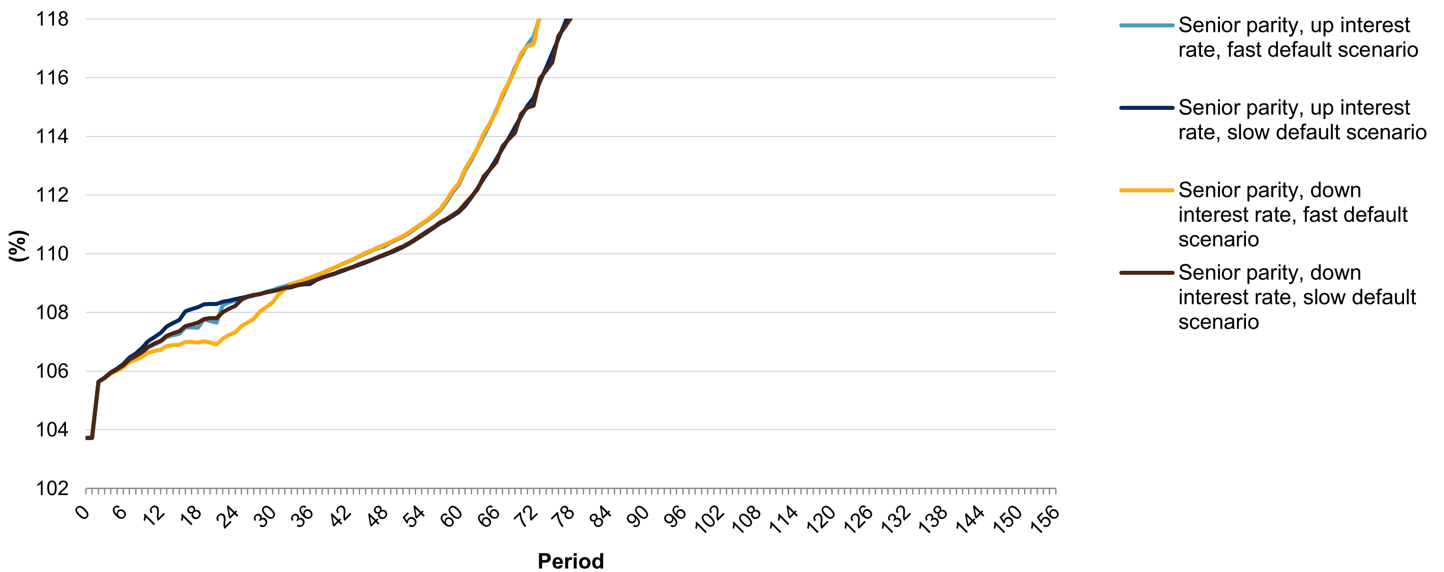
Table 6

Sensitivity Cash Flow Modeling Assumptions (cont.)

Voluntary prepayments--all rehab loans (in addition to defaults)	0.0% for life
Deferral (upon entering repayment, % of loans defer payment for years)	9% for 36 months
Forbearance (upon entering repayment, % of loans forbear payment for years)	7% for 51 months
Delay after default of ED claim reimbursement	630 days
Special allowance payments and interest rate subsidy delays	Two months

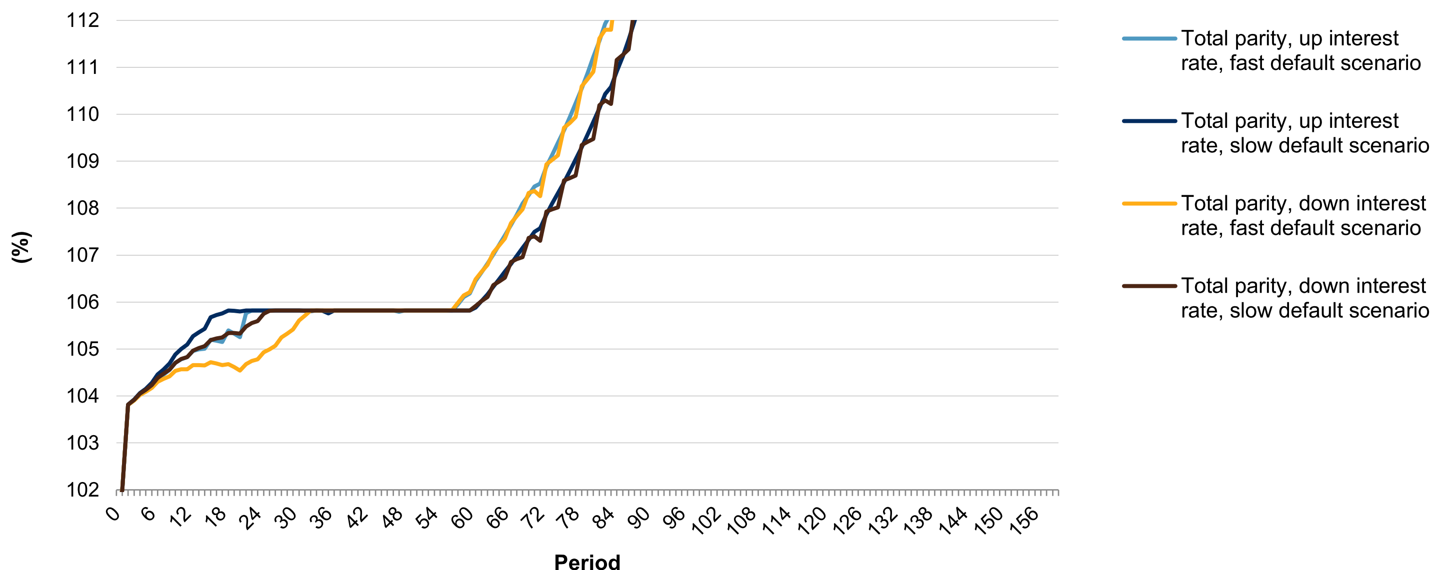
FFELP--Federal Family Education Loan Program. ED--U.S. Department of Education.

Chart 4



© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Chart 5



In the sensitivity scenarios, senior parity began at approximately 105.7% and then rose steadily for the transaction's life. The total parity began at approximately 103.9% and, depending on the interest rate scenario, remained steady for about five years, thereafter rising steadily for the rest of the transaction.

Based on these scenario results, the federal guarantee of at least 97% on the collateral, the relatively stable servicer reject rates in this asset type, and the stresses applied to the reimbursement lags, we would expect our ratings on the class A-1 notes to remain within one rating category of our preliminary 'AA+ (sf)' ratings and our rating on the class B notes to remain within two rating categories of our preliminary 'A (sf)' rating.

Kentucky Higher Education Student Loan Corp.

KHESLC is an independent de jure municipal corporation and political subdivision of the commonwealth that was established in 1978 pursuant to the Corporation Act to provide a program of financing, making, and purchasing student loans in the commonwealth.

The Kentucky Higher Education Assistance Authority (KHEAA), the guarantee agency for this transaction, was established in 1966 as the commonwealth's agency for improving higher education opportunities by insuring student loans for eligible students, providing loans and grants, etc., to qualified Kentucky students, and providing information to Kentuckians that allow them to achieve their higher education goals.

KHEAA and KHESLC maintain combined operations to maximize the efficiency of loan guarantee and servicing operations. All senior management positions have responsibilities related to both KHEAA and KHESLC.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

KHESLC's and KHEAA's headquarters are in Louisville and Frankfort, Kentucky, respectively.

The board of directors is composed of 10 governor-appointed and five ex-officio members.

Gene Hutchins, the former CFO of the New Jersey Higher Education Student Assistance Authority with 25 years of industry service, serves as both the executive director and CEO for the corporation and also serves as an executive director of KHEAA.

Related Criteria

- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | ABS: U.S. FFELP Student Loan ABS: Methodology And Assumptions, April 4, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Methodology And Assumptions For Stressed Reinvestment Rates For Fixed-Rate U.S. Debt Obligations, Dec. 22, 2016
- Criteria | Structured Finance | General: 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
- General Criteria: U.S. Government Support In Structured Finance And Public Finance Ratings, Dec. 7, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- U.S. Biweekly Economic Roundup: October Jobs Picture Is Encouraging On Most Fronts As Healing Continues, Nov. 6, 2020

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

2553933

- U.S. Business Cycle Barometer: Still Signs Of Life, Nov. 2, 2020
- COVID-19 Is Testing The Resilience Of Global Structured Finance, May 18, 2020
- Effects Of COVID-19 On U.S. Student Loan ABS, April 30, 2020
- U.S. 'AA+/A-1+' Sovereign Ratings Affirmed; Outlook Remains Stable, April 2, 2020
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2020 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.