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Favorable bond ratings maintained despite financial market upheaval

Frankfort, Ky. (February 16, 2009) — Kentucky's only public nonprofit student loan provider has been notified by Fitch Ratings that it has maintained its original, favorable ratings on over \$1 billion of its student loan revenue bonds despite the upheaval in the financial markets and student loan liquidity crisis over the past year.

After a thorough review by Fitch Ratings, in which the potential existed for a rating downgrade, The Student Loan People maintained "AAA" ratings on its senior bonds and "A" ratings on its subordinate bonds. Fitch also removed the "negative watch" designation it assigned in October 2008 to The Student Loan People's subordinate bonds with auction rate exposure.

Although the auction rate securities reviewed by Fitch are not currently being traded, collateral supporting the bonds consists of Federal Family Education Loans guaranteed by the Kentucky Higher Education Assistance Authority (KHEAA) for 97 percent of the principal and accrued interest, depending on the loan origination date, and reinsured by the U.S. Department of Education for up to the same amounts.

The Student Loan People and other student loan providers traditionally issued bonds (taxable and tax-exempt) in the form of auction rate securities to finance student loans; however, the credit crisis essentially closed the auction rate securities market, leaving lenders searching for a new student loan financing method. The method for Kentucky students was made possible by a collaboration of federal and state government.

Federal legislation, along with \$50 million in bridge financing provided by the Commonwealth of Kentucky, allows The Student Loan People to continue financing new student loans through the Department of Education's Loan Participation Purchase Program. Currently, participation interests in the loans are being sold to the U.S. Department of Education, and the proceeds are being recycled into additional loans to fully meet the student loan demand in Kentucky. This process will continue throughout the 2009-2010 academic year until credit and capital markets return to normal.

The Student Loan People was created by the Kentucky General Assembly in 1978 to ensure higher education funding would be available to Kentuckians by making, purchasing, and financing Federal Family Education Loans.

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