MOODY'S

INVESTORS SERVICE

Rating Action: Moody's confirms ALG Student Loan Trust II subordinate notes ratings

Global Credit Research - 07 May 2010

Approximately $88 million of Asset-Backed Securities affected.

New York, May 07, 2010 -- Moody's has concluded its review and confirmed the ratings of two subordinate tranches from ALG Student Loan Trust II (2007 Indenture) sponsored by PCG Academic Loan Group, Inc (formerly Academic Loan Group, Inc). The underlying collateral consists of loans originated under the Federal Family Education Loan Program (FFELP), i.e. government guaranteed student loans. The review action was prompted by Moody's revised basis risk methodology, entitled "Methodology Update on Basis Risk in FFELP Student Loan-Backed Securitizations," where we assume a higher spread (compared to our prior assumptions) between LIBOR and CP, as well as more frequent and severe spread spikes.

When the subordinate notes were placed on review on December 19, 2008, the total parity (the ratio of total assets to total liabilities) of the transaction was 96.40% and the trust was generating approximately 50 bps (basis points) of excess spread per annum. 71% of the trust's liabilities were LIBOR notes and the remaining notes were taxable auction rate securities (ARS). Over the review period, the total parity of the transaction has increased to 98.97% as of March 2010, and expected excess spread per annum has increased to approximately 77 bps, driven primarily by the sponsor's successful execution of a multistep restructuring plan for this trust.

Moody's has confirmed the ratings based on the fact that the benefit of the restructuring outweighs the more stressful assumptions from the revised basis risk methodology.

In October 2009, the sponsor used cash available among the trusts assets to purchase $20 million in subordinate ARS at discounted secondary market prices, and subsequently cancelled the notes. That process reduced the face amount of the liabilities by more than the face amount of the assets, improving the collateralization of the trust. As a result of this redemption, the trust experienced a 1.1% increase in total parity from 96.75% as of September 30, 2009 to 97.82% as of October 31, 2009. To further restructure the trust, in February 2010 ALG Trust II sold $42 million in loans to ALG Trust I, a trust with a higher collateralization, at a 2% premium over face amount and used the proceeds from the loan sale to purchase and subsequently cancelled $50 million in senior ARS at discounted secondary market prices. Parity increased to 98.90% as a result of this additional redemption in February 2010.

Finally, the sponsor was able to reduce the fees paid by the trust by replacing certain parties to the transaction. The administration, back-up administration, and broker dealer fees were all lowered. The new contracts were negotiated in the first and fourth quarter of 2009. The new administrator, back-up administrator, and broker dealer for this transaction are PCG Academic Loan Group Inc., ACS Asset Management Inc., and Kildare Capital, respectively. The increase in the excess spread from about 50 bps before the restructuring to about 77 bps expected after the restructuring was driven by the combination of the reduced fees, the lower cost of funds (as the ARS that were redeemed carry a higher coupon than the other outstanding notes), and the higher parity. The latter contributes to excess spread as it increases the balance of the yield-generating loans relative to that of the coupon-paying liabilities.

The performance expectations that are included in this press-release -- projected excess spread per annum - indicate Moody's forward-looking view of the likely performance over the medium term. From time to time, Moody's may, if warranted, change these expectations. Performance that significantly deviates from these estimates may indicate that the collateral's credit quality is stronger or weaker than Moody's had anticipated when the related securities ratings were issued. Even so, a deviation from the expected levels will not necessarily result in a rating action nor does performance within expectations preclude such actions. The decision to take (or not take) a rating action is dependent on an assessment of a range of factors including, but not exclusively, the performance metrics. The primary source of assumption uncertainty in FFELP securitizations is basis risk, which is in turn a function of the general level of interest rates as well as the spreads between those rates.

PRINCIPAL METHODOLOGY

In rating securitizations backed by student loans originated under FFELP, Moody's assesses both the liquidity and credit risk of the transaction. The drivers that affect the performance of a transaction include defaults, servicer guarantee rejection rates, voluntary prepayments, basis risk, borrower benefit utilization, and the number of borrowers in non-repayment status, such as deferment and forbearance. As part of our analysis to understand the risk of the underlying collateral, we examine historical FFELP static pool performance data. To the extent that performance data is available from a specific issuer, that information is used to arrive at our cash flow assumptions for that particular issuer. If an issuer's data are either limited or unavailable, our assumptions are based on FFELP performance data received from other participants. Although FFELP loans are a standardized asset, we will assume additional volatility in certain assumptions for those issuers that have limited or no data. In addition, historical interest rates and spreads are analyzed to evaluate the basis risk between the interest rate to which the bonds are indexed and the interest rate to which the FFELP loans are indexed. This historical data is used to derive an expected, or most likely, outcome for each variable. These expected defaults, prepayments, interest rates, and other assumptions are then stressed in accordance with the rating categories requested by the issuer. Factors that influence the stress levels include the availability of relevant issuer-specific performance data, the seasoning of the loans, collateral concentrations (school types, loan programs), the financial strength and stability of the servicer, and the general economic environment. These stressed assumptions are then incorporated into a cash flow model that takes into account the FFELP loan characteristics as well as structural (e.g., starting parity, cash flow waterfall, bond trenching, etc.) and pricing features of the transaction. The cash flow model outputs are analyzed to determine whether the transaction as structured by the issuer has sufficient credit protection to pay off the bonds by their legal final maturity dates. In certain circumstances where cash flow runs are not available, we rely on model results from similar transactions. We also analyze the liquidity risk of the transaction given that borrowers can be in non-repayment status while in school, grace, deferment or forbearance status, and the transaction can experience delays in default reimbursement and other payments. Basis risk is the primary credit risk in FFELP student loan ABS. Moody's Aaa stressed basis risk assumption between LIBOR and the CP Rate is 25 basis points with certain periods in which the spread increases to 150 basis points. This is based on an analysis of historical spreads between the two indices. For additional information, please see "Methodology Update on Basis Risk in FFELP Student Loan-Backed Securitization," on moodys.com.

Other methodologies and factors that may have been considered in the process of rating these transactions can also be found in the Rating Methodologies sub-directory on Moody's website. In addition, Moody's publishes a weekly summary of structured finance credit ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

RATING ACTIONS

The complete rating actions are follows:

Issuer: ALG Student Loan Trust ll (2007 Indenture)

Expected Excess Spread Per Annum: 0.77%

2007-1 B-1, Confirmed at A2, previously on December 19, 2008 Placed Under Review for Possible Downgrade

2007-1 B-2, Confirmed at A2, previously on December 19, 2008 Placed Under Review for Possible Downgrade

New York
Luisa De Gaetano
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Chantel Moses
Associate Analyst
Structured Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE