

NEW ISSUE: DTC BOOK-ENTRY ONLY

RATINGS: (See "RATINGS" herein.)

In the opinion of Best & Flanagan LLP, of Minneapolis, Minnesota, Bond Counsel, under federal and State of Minnesota laws, regulations, rulings and decisions in effect on the date of delivery of the Series 2008B Bonds, assuming compliance with the covenants set forth in the Indenture, the interest on the Series 2008B Bonds is not includable in gross income for federal income tax purposes or in taxable net income for the purpose of Minnesota income taxes, except for Minnesota corporate and bank excise taxes measured by income. Interest on the Series 2008B Bonds is an item of tax preference for purposes of federal and State of Minnesota alternative minimum tax ("AMT") applicable to the recipient. Interest on the Series 2008A Bonds is not excludable from gross income for federal or State of Minnesota income tax purposes. See "TAX MATTERS" herein.

**\$100,000,000****Minnesota Office of Higher Education****Adjustable Rate Supplemental Student Loan Program Revenue Bonds***consisting of:***\$66,700,000 2008 Series A (Taxable)****\$33,300,000 2008 Series B (Tax Exempt)**

CUSIP: 60416M AD5

CUSIP: 60416M AE3

**Price of all Bonds: 100%****Dated Date: Date of Issuance****Due: December 1, 2043**

The Minnesota Office of Higher Education (the "Issuer") Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable) (the "Series 2008A Bonds") and Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt) (the "Series 2008B Bonds") and together with the Series 2008A Bonds, the "Series 2008 Bonds") are special, limited obligations of the Issuer payable solely from the money and investments held by U.S. Bank National Association, as trustee (the "Trustee"), pursuant to a General Indenture dated as of December 1, 2008 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture dated as of December 1, 2008 (the "First Supplemental Indenture," and together with the General Indenture, the "Indenture"), between the Issuer and the Trustee. The Series 2008 Bonds are being offered initially as Weekly Rate Bonds as more fully described herein. This Official Statement only describes the Series 2008 Bonds while in a Weekly Rate Mode (as defined herein).

The Series 2008 Bonds will be issued in fully registered form in denominations of \$100,000 and in integral multiples of \$5,000 in excess thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC is to act as securities depository for the Series 2008 Bonds. Individual purchases of the Series 2008 Bonds are to be made in Book-Entry Form only. Purchasers of the Series 2008 Bonds will not receive certificates representing their interest in Series 2008 Bonds purchased. See "APPENDIX C—Book-Entry Only System" herein.

The Series 2008 Bonds are to initially bear interest at a Weekly Rate (as defined herein). While outstanding as Weekly Rate Bonds, the Series 2008 Bonds are subject to mandatory tender for purchase on certain dates, are subject to tender for purchase at the option of the Owners thereof and are subject to redemption, all as described herein. Interest on the Series 2008A Bonds bearing interest at a Weekly Rate is initially payable on the first Business Day of each month, commencing January 2, 2009, until maturity or earlier redemption, if applicable. Interest on the Series 2008B Bonds bearing interest at a Weekly Rate is payable semiannually on the first Business Day of each June and December, commencing June 1, 2009, until maturity or earlier redemption, if applicable. The initial Remarketing Agent for the Series 2008 Bonds shall be RBC Capital Markets Corporation. See "WEEKLY RATE BONDS."

The payment of the principal of, interest on and purchase price of the Series 2008 Bonds bearing interest at a Weekly Rate are payable from funds drawn under two irrevocable, direct pay letters of credit (collectively, the "Letter of Credit") issued by U.S. Bank National Association (the "Bank"). See "THE BANK" herein.



The direct pay letters of credit provide, respectively, that the Trustee shall be entitled to draw up to an amount sufficient to pay the principal of and (i) up to 45 days of accrued interest on the Series 2008A Bonds bearing interest at a Weekly Rate (at a maximum rate of 15% per annum) and (ii) up to 198 days of accrued interest on the Series 2008B Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used (a) to pay the principal of and interest on the respective Series 2008 Bonds when due, and (b) to pay the purchase price of the respective Series 2008 Bonds tendered by the holders thereof and not remarketed. The Letter of Credit expires on December 16, 2011 or on the earlier occurrence of certain events. The Letter of Credit may be extended upon such terms and conditions as may be agreed by the Bank and the Issuer. See "LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" herein. The failure of the Issuer to maintain the Letter of Credit throughout the term of the related Series 2008 Bonds is not an event of default, and there is no assurance that the Letter of Credit will remain in effect throughout the term of the respective Series 2008 Bonds. The Letter of Credit only covers Series 2008 Bonds bearing interest at a Weekly Rate or a Monthly Rate.

The Series 2008 Bonds are being issued to provide the Issuer with funds to (i) finance or refinance Student Loans originated under its Supplemental Student Loan Program (the "Program") and (ii) fund the Debt Service Reserve Fund. See "SOURCES AND USES OF FUNDS" herein.

The Indenture provides that Bonds may be issued by Class as to security and priority of payment, with Class I being the highest priority and descending in priority as the numerals increase. The Series 2008 Bonds are designated as Class I Bonds under the Indenture. The Series 2008 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture. The Indenture permits the issuance of Additional Bonds under the Indenture payable on a parity with or subordinate to the Series 2008 Bonds.

THE SERIES 2008 BONDS AND INTEREST THEREON DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OF MINNESOTA (THE "STATE"), OR A GENERAL OR MORAL OBLIGATION OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE ISSUER, THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF. NEITHER THE FAITH NOR CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF (INCLUDING THE ISSUER) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2008 BONDS. THE ISSUER HAS NO TAXING POWER.

The Series 2008 Bonds are offered when, as and if issued and received by RBC Capital Markets Corporation (the "Underwriter" or "RBC Capital Markets"), subject to prior sale and to the approval of legality by Best & Flanagan LLP, Minneapolis, Minnesota, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Underwriter by its counsel, Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, and for the Bank by its counsel, Dorsey & Whitney LLP. It is expected that the Series 2008 Bonds will be available for delivery at DTC on or about December 18, 2008 (the "Closing Date").

The date of this Official Statement is December 17, 2008.

**RBC Capital Markets**

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, sales representative or other person has been authorized by the Issuer or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer or the Underwriter. The information contained in this Official Statement has been obtained from the Issuer, the Bank, DTC, Firstmark Services LLC (the “Servicer” or “Firstmark”) and other sources that are believed to be reliable. Except for information concerning the Issuer, such information is not to be construed as a representation by the Issuer. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the nature, contents, accuracy, fairness or completeness of the information set forth in this Official Statement or other offering materials.

References in this Official Statement to laws, rules, regulations, agreements and any other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices hereto, they will be available for inspection at the principal corporate trust office of the Trustee and, upon request, copies are available from the Underwriter at RBC Capital Markets, 2398 E. Camelback Road, Suite 700, Phoenix, Arizona 85016, Attention: Public Finance Department.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

The Series 2008 Bonds have not been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Series 2008 Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The registration or qualification of these securities in accordance with applicable provisions of securities laws of the jurisdictions in which the Series 2008 Bonds may be registered or qualified and the exemption from registration or qualification in other jurisdictions shall not be regarded as a recommendation thereof. No jurisdiction or any agency of any jurisdiction has passed upon the merits of the Series 2008 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Certain of the parties involved in this financing have agreed to indemnify certain other parties for any untrue statement of a material fact contained in this Official Statement or any omission to state a material fact necessary to be stated in this Official Statement in order to make the statements contained herein not misleading.

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## SUMMARY STATEMENT

*The following information is furnished solely to provide limited introductory information regarding the Series 2008 Bonds and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement.*

<b>Issuer:</b>	The Minnesota Office of Higher Education, an executive branch agency of the State.
<b>The Series 2008 Bonds:</b>	\$66,700,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable) and \$33,300,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt).
<b>Interest Payments:</b>	Interest on the Series 2008A Bonds bearing interest at a Weekly Rate is payable on the first Business Day of each month, commencing January 2, 2009 until maturity or earlier redemption or conversion of the interest rate. Interest on the Series 2008B Bonds while outstanding as Weekly Rate Bonds is payable semiannually on the first Business Day of each June and December, commencing June 1, 2009, until maturity or earlier redemption. The method of computing interest on the Series 2008 Bonds may be converted to another interest rate mode, in which event the Series 2008 Bonds would be subject to mandatory tender prior to conversion. See "WEEKLY RATE BONDS" herein.
<b>Security and Source of Repayment:</b>	The Series 2008 Bonds, as well as all other Bonds that may be issued under the Indenture, are secured by the Issuer's pledge to the Trustee under the Indenture of (i) all Student Loans; (ii) all general intangibles or payment intangibles or electronic chattel paper related to the Student Loans, (iii) all proceeds of the Series 2008 Bonds, Revenues and any other amounts contained in the Funds and Accounts until their use or release from the Funds and Accounts, including amounts in the Debt Service Reserve Fund; (iv) all rights of the Issuer in and to the Servicing Agreement (defined herein) as it relates to Student Loans; (v) any and all other real or personal property, from time to time conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture; and (vi) all proceeds of the foregoing.
<b>Letter of Credit:</b>	The payment of the principal of, interest on and purchase price of the Series 2008 Bonds bearing interest at a Weekly Rate are payable from funds drawn under two irrevocable, direct pay letters of credit, one with respect to the Series 2008A Bonds and one with respect to the Series 2008B Bonds (collectively, the "Letter of Credit") issued by U.S. Bank National Association (the "Bank"). The direct pay letters of credit provide, respectively, that the Trustee shall be entitled to draw up to an amount sufficient to pay principal of and (i) up to 45 days of accrued interest on the Series 2008A Bonds bearing interest at a Weekly Rate (at a maximum rate of 15% per annum) and (ii) up to 198 days of accrued interest on the Series 2008B Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used (a) to pay the principal of and interest on the respective Series 2008 Bonds when due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective Series 2008 Bonds tendered by the holders thereof. The Letter of Credit expires on December 16, 2011

or on the earlier occurrence of certain events. The Letter of Credit may be extended by the Bank in its sole discretion. See “LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT” herein.

**Use of Bond Proceeds:**

The Series 2008 Bond proceeds are to be applied to (i) finance or refinance Student Loans originated under the Program (See “THE SUPPLEMENTAL STUDENT LOAN PROGRAM” herein) and (ii) fund the Debt Service Reserve Fund.

**Redemption and Tender:**

The Series 2008 Bonds are subject to redemption and tender prior to maturity, as described herein.

**Additional Bonds and  
Other Obligations:**

The Series 2008 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture. The Indenture permits the issuance of Additional Bonds under the Indenture payable on a parity with or subordinate to the Series 2008 Bonds.

**Special Limited Obligations:**

The Series 2008 Bonds and interest thereon do not constitute or give rise to a pecuniary liability of the State or a general or moral obligation or a pledge of the full faith and credit of the Issuer, the State or any agency or political subdivision thereof. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision thereof (including the Issuer) is pledged to the payment of the principal of or the interest on the Series 2008 Bonds. The Issuer has no taxing power.

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**\$100,000,000**  
**MINNESOTA OFFICE OF HIGHER EDUCATION**  
**ADJUSTABLE RATE SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**  
**2008 SERIES A (TAXABLE)**  
**2008 SERIES B (TAX-EXEMPT)**

**INTRODUCTORY STATEMENT**

**General**

This Official Statement, including the cover page and the Appendices hereto, sets forth certain information concerning the \$100,000,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, consisting of \$66,700,000 2008 Series A (Taxable) (the "Series 2008A Bonds") and \$33,300,000 2008 Series B (Tax Exempt) (the "Series 2008B Bonds" and together with the Series 2008A Bonds, the "Series 2008 Bonds") to be issued by the Minnesota Office of Higher Education. The Series 2008 Bonds will be issued pursuant to a General Indenture dated as of December 1, 2008 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture dated as of December 1, 2008 (the "First Supplemental Indenture" and together with the General Indenture, the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), and in accordance with the provisions of Minnesota Statutes, Sections 136A.15 to 136A.1785, as amended (the "Act").

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE SERIES 2008 BONDS ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT SPEAKS ONLY AS OF ITS DATE SHOWN ON THE COVER PAGE HEREOF, AND THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE. THIS OFFICIAL STATEMENT DISCUSSES THE SERIES 2008 BONDS IN A WEEKLY RATE MODE ONLY.

The Issuer will use the proceeds of the sale of the Series 2008 Bonds to (i) finance or refinance Student Loans originated under the Program and (ii) fund the Debt Service Reserve Fund. The Issuer will pay Costs of Issuance from sources other than Series 2008 Bond proceeds. See "SOURCES AND USES OF FUNDS" herein.

The payment of the principal of, interest on and purchase price of the Series 2008 Bonds bearing interest at a Weekly Rate are payable from funds drawn under two irrevocable, direct pay letters of credit (collectively, the "Letter of Credit") issued by U.S. Bank National Association (the "Bank" and the Bank and the issuer or provider of any substitute or alternative Letter of Credit provided to the Trustee in compliance with the Indenture are herein referred to as a "Credit Provider"), one with respect to the Series 2008A Bonds and one with respect to the Series 2008B Bonds. The direct pay letters of credit provide, respectively, that the Trustee shall be entitled to draw up to an amount sufficient to pay the principal of and (i) up to 45 days of accrued interest on the Series 2008A Bonds bearing interest at a Weekly Rate (at a maximum rate of 15% per annum) and (ii) up to 198 days of accrued interest on the Series 2008B Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used (a) to pay the principal of and interest on the respective Series 2008 Bonds when due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective Series 2008 Bonds tendered by the holders thereof. The Letter of Credit expires on December 16, 2011 or on the earlier occurrence of certain events. The Letter of Credit may be extended by the Bank in its sole discretion. The Letter of Credit will be issued in favor of the Trustee pursuant to a Reimbursement Agreement dated as of December 1, 2008 (the "Reimbursement Agreement") by and between the Issuer and the Bank. See "LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" herein.

The Student Loans to be held in the Student Loan Fund have been or will have been originated by the Issuer under the Program, are not insured or guaranteed, but do require a co-signer. The Revenues derived from repayments of Student Loans held in the Student Loan Fund, amounts on deposit in the Debt Service Reserve Fund, the Revenue Fund, the Acquisition Fund and the Surplus Fund, and the investment income on these Funds are pledged to the payment of the Series 2008 Bonds and any other Bonds issued under the Indenture.

The Indenture provides that Bonds issued thereunder, including the Series 2008 Bonds, be designated a priority Class, with Class I being the highest priority, and the order of priority decreasing as the Class Roman numeral increases. The Series 2008 Bonds constitute Class I Bonds. The Series 2008 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture and together with Additional Bonds that may be hereafter

issued under the Indenture, are referred to herein as the “Bonds.” See “SECURITY AND SOURCE OF REPAYMENT” herein.

While outstanding as Weekly Rate Bonds, the Series 2008 Bonds are subject to mandatory tender for purchase on certain dates, are subject to tender for purchase at the option of the Owners thereof and are subject to redemption, all as described herein. See “WEEKLY RATE BONDS.”

The principal amount of Bonds that may be issued under the Indenture is not limited. The Issuer may, from time to time, issue additional Bonds in one or more series of one or more classes, subject to the limitation under the Act that the aggregate amount of revenue bonds of all classes issued by the Issuer that are outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed \$850,000,000 (under current law). The Issuer may issue additional Bonds on a parity with the Series 2008 Bonds or of a class with a lower priority than the Series 2008 Bonds. The Issuer has and may also issue bonds pursuant to other trust indentures.

The Series 2008 Bonds are special, limited obligations of the Issuer payable solely from the sources pledged under the Indenture, including the Student Loans held in the Student Loan Fund, and from the money and other investments held by the Trustee pursuant to the Indenture.

This Official Statement and the Appendices hereto contain descriptions of, among other matters, the Series 2008 Bonds, the Issuer, the Program, the Bank, the Letter of Credit, the Reimbursement Agreement and the Indenture. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the documents referred to above are qualified in their entirety by reference to such documents, and references herein to the Series 2008 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of such documents and other documents described herein will be available for inspection at the principal corporate trust office of the Trustee and, upon request, copies of such documents are available during the offering period from the Underwriter at RBC Capital Markets, 2398 E. Camelback Road, Suite 700, Phoenix, Arizona 85016, Attention: Public Finance Department.

All capitalized terms used herein that are not otherwise defined shall have the meanings ascribed thereto in the Indenture and as described in Appendix B hereto, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE.”

### **Bondholders’ Risks**

This Official Statement, including all Appendices hereto, should be read in its entirety for an understanding of the security for and the risks that may be associated with ownership of the Series 2008 Bonds. There follows under this heading a brief summary of selected factors that may be of particular significance to an investor in making an investment decision with respect to the Series 2008 Bonds. Such factors are not intended to be a complete list of all factors which may be material to such decision.

Letter of Credit as Source of Payment. The payment of the principal of and interest on the Series 2008 Bonds is supported by the Letter of Credit. Although the Series 2008 Bonds are secured as described herein, prospective purchasers of the Series 2008 Bonds are advised to rely on the Letter of Credit for payment of principal of, interest on and purchase price of the Series 2008 Bonds bearing interest at a Weekly Rate. The obligation of the Bank under the Letter of Credit is a general obligation of the Bank and ranks equally in priority of payment and in all other respects with all other unsecured obligations of the Bank. In the event of insolvency of the Bank, the Owners of such Series 2008 Bonds supported by the Letter of Credit would have to depend entirely on the ability of the Issuer to pay the principal of and interest on such Series 2008 Bonds.

Defaults and Delinquencies on the Student Loans. The Revenues derived by the Issuer from payments of principal of and interest on the Student Loans could be materially and adversely affected by increases in defaults and delinquencies on payments of principal of and interest on the Student Loans. Significant increases in college tuition experienced over the last several years have significantly increased the average amount of outstanding loans for each student. The Indenture requires the Issuer to purchase or replace Defaulted Student Loans (as defined below)



pledged under the Indenture (see Appendix B hereto, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—SUMMARIES OF DOCUMENTS—THE FIRST SUPPLEMENTAL INDENTURE—Deposits into Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2008 Bonds; and Use and Disbursements of Funds—Purchase of Defaulted Student Loans”) but there is no assurance that sufficient replacement Student Loans or sufficient other funds will be available to the Issuer to effect such purchases or replacements if rates of default increase materially. A Defaulted Student Loan is a Student Loan with respect to which (a) a Default Claim has been filed, (b) any installment of principal or interest was not paid when due and remains unpaid for 150 days or longer, (c) the borrower of which is the debtor in a bankruptcy proceeding or is deceased or disabled, (d) the Cosigner of which is the debtor in a bankruptcy proceeding or (e) the indebtedness represented thereby has been deemed uncollectible by the Issuer or the Servicer or written off by the Issuer. The Reimbursement Agreement may contain more restrictive covenants with regard to Defaulted Student Loans than those contained in the Indenture.

Limited Obligations of the Issuer. The Series 2008 Bonds and interest thereon do not constitute or give rise to a pecuniary liability of the State or a general or moral obligation or a pledge of the full faith and credit of the Issuer, the State or any agency or political subdivision thereof. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision of the State (including the Issuer) is pledged to the payment of the principal of or the interest on the Series 2008 Bonds. The Issuer has no taxing power.

No assurance can be given that sufficient Revenues will be derived from the Student Loans held in the Student Loan Fund, or any other moneys or investments held under the Indenture which are part of the Trust Estate and available for such purpose, to make payments of the principal of and interest on the Series 2008 Bonds. The Student Loans held under the Indenture are not subject to acceleration of principal in the event of any such deficiency. Although the Issuer is obligated to pay certain Program Expenses from sources other than the Trust Estate, if it should fail to do so, the Trustee will be required to pay such Program Expenses from amounts in the Trust Estate that would otherwise be used to pay principal of and interest on the Series 2008 Bonds. See “SECURITY AND SOURCE OF REPAYMENT—Cash Flow Projections” herein.

The Remarketing Agent is Paid by the Issuer. The Remarketing Agent’s responsibilities include determining the interest rate from time to time, and using best efforts to remarket Series 2008 Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), as further described in this Official Statement. The Remarketing Agent is appointed by the Issuer and is paid by the Issuer for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2008 Bonds.

The Remarketing Agent Periodically Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, periodically purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2008 Bonds for its own account and, in its sole discretion, may acquire such tendered Series 2008 Bonds in order to achieve a successful remarketing of the Series 2008 Bonds (i.e., because there otherwise are not enough buyers to purchase the Series 2008 Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2008 Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2008 Bonds by purchasing and selling Series 2008 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2008 Bonds. The Remarketing Agent may also sell any Series 2008 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008 Bonds. The purchase of Series 2008 Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2008 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008 Bonds being tendered in a remarketing.

Series 2008 Bonds May be Offered at Different Prices on Any Date, Including a Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2008 Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable date the interest rate on the Series 2008 Bonds shall be determined (the “Rate Determination Date”). The interest rate is to reflect, among other

factors, the level of market demand for the Series 2008 Bonds (including whether the Remarketing Agent is willing to purchase Series 2008 Bonds for its own account). There may or may not be Series 2008 Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Series 2008 Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2008 Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2008 Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2008 Bonds for its own account, it may, in its sole discretion, in a secondary market transaction outside the tender process, offer such Series 2008 Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Series 2008 Bonds other than through the Tender Process may be Limited. The Remarketing Agent may buy and sell Series 2008 Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2008 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2008 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008 Bonds other than by tendering the Series 2008 Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series 2008 Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease their remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Financial Condition of the Issuer. The Issuer's audited basic financial statements as of and for the years ended June 30, 2008 and June 30, 2007 are attached hereto as Appendix A. An investor, in making an investment decision with respect to the Series 2008 Bonds, should examine this financial information carefully with the knowledge that none of the assets of the Issuer (other than the Trust Estate held under the Indenture) have been pledged to be used by the Issuer to make principal and interest payments in respect of the Series 2008 Bonds. However, the Indenture requires that the Issuer pay for costs of issuance, certain Program Expenses and purchases or replacements of Defaulted Student Loans.

Ratings of the Series 2008 Bonds. It is a condition to the issuance of the Series 2008 Bonds that Moody's Investors Service, Inc. ("Moody's") assigns the Series 2008 Bonds ratings of "Aa1/VMIG 1" and Fitch Ratings ("Fitch") assigns the Series 2008 Bonds ratings of "AA-/F1+," with the understanding that the Bank will deliver the Letter of Credit securing payment of the principal and interest on, and the purchase price at tender of, the Series 2008 Bonds. These ratings are based solely on the credit of the Bank and not on the Trust Estate held under the Indenture. A rating is not a recommendation to purchase, hold or sell the Series 2008 Bonds, inasmuch as such rating does not comment as to market price or suitability to a particular investor. See "RATINGS" herein. There is no assurance that the ratings will remain for any given period of time or that any rating will not be lowered or withdrawn entirely. No representation is made that the ratings of the Bank will be maintained.

Interest Rate Risk. Except in certain circumstances described herein, the Series 2008 Bonds will bear interest at a Weekly Rate. Each Weekly Rate will be the rate equal to the minimum rate of interest, which, in the opinion of the Remarketing Agent under the existing market conditions, that would result in the sale of the Series 2008 Bonds at a price equal to the principal amount thereof, plus accrued interest, if any, for a particular Weekly Rate Period. Weekly Rates may change significantly during the period the Series 2008 Bonds are outstanding, subject only to the limitation that such Weekly Rate may not exceed the Maximum Bond Interest Rate. See "WEEKLY RATE BONDS" herein.

The Series 2008 Bonds are secured by Revenues to be derived by the Issuer from SELF II, SELF III and SELF IV Student Loans (further described herein under "MINNESOTA OFFICE OF HIGHER EDUCATION") pledged to the Trustee pursuant to the Indenture and deposited in the Student Loan Fund and other amounts available under the Indenture, including, but not limited to, the Debt Service Reserve Fund. Payments of interest on the Student Loans constitute a portion of such Revenues. The Trustee has been granted a lien on the Trust Estate for the benefit of the Bondholders and the Bank.

The interest rates on the SELF II Student Loans are adjusted quarterly and are currently determined by adding 200 basis points to the quarterly average of the investment interest rates on weekly auctions of 13-week United States Treasury bills. Such Student Loan interest rates are subject to a maximum 200 basis point increase or decrease during any 12-month period.

The interest rates on the SELF III and SELF IV Student Loans are adjusted quarterly and are currently determined by adding 300 basis points to the quarterly average of the three-month London Interbank Offered Rates (“LIBOR”). Such Student Loan interest rates are subject to a maximum 300 basis point increase or decrease during any 12-month period. Student Loan interest rates on future SELF programs may differ from those described herein.

The Revenues received from the Student Loans and other amounts available under the Indenture are expected to exceed the total payments of principal of and interest on the Series 2008 Bonds. There is no assurance, however, that the Weekly Rate will not increase to a level at which the principal of and interest on the Series 2008 Bonds, together with any costs payable from the Trust Estate, will exceed such Revenues. The amount of increases (or decreases) in a Weekly Rate on the Series 2008 Bonds is not limited during any 12-month period but is subject to the Maximum Bond Interest Rate. See Appendix B, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE” herein. The Issuer cannot increase or decrease interest rates on SELF II Student Loans by more than two percent (2%) during any twelve-month period or on SELF III and SELF IV Student Loans by more than three percent (3%) during any twelve-month period. In the event interest on the Series 2008 Bonds and Program Expenses that are expected to be paid from the Trust Estate exceed the interest earnings on the Student Loans plus other Revenues from the Trust Estate for a significant period of time, the Revenues could be insufficient to pay principal of and/or interest on the Series 2008 Bonds. Such a result could lead to an Event of Default under the Indenture.

Condition of Servicer. The Revenues derived by the Issuer from payments of principal of and interest on the Student Loans are dependent upon the ability of the Servicer to properly and promptly collect such amounts. In the event that the Servicer is unable for any reason to properly service the Student Loans, the Revenues to the Issuer could be materially and adversely affected and the Issuer would be required to retain a substitute servicer, whose ability to properly service the student loans cannot be assured.

Enforceability of Remedies. The Series 2008 Bonds are payable from the moneys and investments held under the Indenture and available for such purpose. The ability to compel payment under the Indenture and otherwise to enforce the terms and agreements of the Indenture will depend upon the exercise of various remedies specified by the Indenture. The exercise of these remedies may in many instances require judicial actions, which are often subject to discretion and delay. Under existing law, the remedies specified in the Indenture may not be readily available or may be limited. For example, a court may decide not to order the specific performance of covenants contained in the Indenture. The various legal opinions to be delivered concurrently with the delivery of the Series 2008 Bonds will be qualified as to the enforceability of the Indenture by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors’ rights generally.

Lack of Perfection of Security Interest in Student Loans. The Indenture creates a security interest in favor of the Trustee in all of the assets comprising the Trust Estate, including the Student Loans, to secure payment of, among other things, the principal of and interest on the Series 2008 Bonds. To perfect such security interest in the Student Loans, the Trustee must take (a) possession and/or control of the promissory notes evidencing such Student Loans, either directly or constructively through a custodian or bailee, or (b) file a financing statement. The Servicer will hold or control the original promissory note with respect to each Student Loan as bailee for the Trustee for purposes of perfecting the Trustee’s security interest therein and a financing statement will be filed. However, under the terms of the Servicing Agreement, the Servicer will be permitted (so long as the default rate on all Student Loans held as part of the Trust Estate does not exceed 10%) to relinquish possession of the promissory note and related documentation to the Issuer, for collection purposes, with respect to each Student Loan as to which a payment has been delinquent 120 days or more. If a third-party purchaser for value and without notice obtains possession of the promissory note, the third-party purchaser’s interest would have priority over the security interest of the Trustee. Pursuant to the Indenture, the Issuer will be obligated to purchase or replace any Defaulted Student Loan (which includes any Student Loan as to which a payment has been delinquent 150 days or more) within 30 days after becoming a Defaulted Student Loan. After the release of possession of any Student Loan to the Issuer as described

above, no Event of Default will have occurred under the Indenture unless and until the Issuer fails to purchase or replace such Student Loan within the 30-day period referred to above.

Additional Bonds. The principal amount of Bonds that the Issuer may issue under the Indenture is not limited. However, under the Act, the aggregate amount of revenue bonds of any class issued by the Issuer and outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed \$850,000,000 (under current law). As of November 30, 2008, the Issuer had outstanding \$527,000,000 of Bonds.

In order to (i) acquire, finance or refinance Student Loans, (ii) refund obligations of the Issuer, and (iii) set aside amounts for a reserve, and to pay costs of issuance, the Issuer is authorized to issue Bonds under the Indenture from time to time in one or more series and of one or more classes. The Issuer has not previously issued any other obligations under the Indenture. The Issuer may issue Additional Bonds of a Class on a parity with the Series 2008 Bonds or of one or more Classes of lower priority than the Series 2008 Bonds. While the Letter of Credit is outstanding, the consent of the Bank is required prior to the issuance of any Additional Bonds. The Issuer has previously issued bonds under separate trust indentures (see “MINNESOTA OFFICE OF HIGHER EDUCATION—Financial Information” herein) and can issue bonds in the future under separate trust indentures. Such bonds would not be secured under the Indenture, nor will the assets securing those bonds secure Bonds issued under the Indenture.

Under the Indenture, a Bond Class is a level of priority designated with a Roman numeral, with I being the highest and descending in priority as the numerals increase. The Series 2008 Bonds are Class I Bonds.

Possibility of Reduced Payments from Borrowers Called to Active Military Service. The response of the United States to the terrorist attacks on September 11, 2001, and the current military operations have increased the number of citizens who are in active military service, including persons in reserve status who have been called or will be called to active duty. The Service members Civil Relief Act (the “Relief Act”) limits the ability of a lender to take legal action against a borrower during the borrower’s period of active duty and, in some cases, during an additional three-month period thereafter. The Relief Act prevents a creditor from obtaining a default judgment in court and may limit the interest rate on an alternative loan to 6.00% per annum while the borrower is in military service if the loan was incurred before the borrower’s entry into military service. In addition, as described herein under “THE SUPPLEMENTAL STUDENT LOAN PROGRAM—Program Terms and Conditions—Borrower Benefits,” at the election of the Issuer under certain circumstances, the interest rate on certain Student Loans, including those held under the Indenture, may be reduced still further to 3.00%. Additionally, borrowers called to active military service may be eligible for other Borrower Benefits which could further reduce the interest rate.

Recent Market Disruption. Since the end of 2007, there have been severe disruptions in the United States financial markets. Certain aspects of this market disruption have negatively impacted issuers of bonds backed by student loans, such as the Issuer, including the deterioration of the auction rate securities market, the downgrade of national bond insurers and the limited availability of credit and liquidity support in the market. These events have caused the Issuer to recognize a need to change its debt financing structure. If the Issuer cannot refund or convert the interest rate for its auction rate securities affected by this market disruption, it could experience higher financing costs under the general indentures under which such bonds were issued.

Additionally, in light of this market dislocation including, specifically, the disruption of credit markets, the Issuer may not be able to obtain financing in the future for its Program. If the Issuer is unable to procure financing for its future needs, the Issuer would be limited in its ability to fund new Student Loans. These limitations could result in students and educational institutions borrowing from other sources. These circumstances may adversely impact the long-term viability of the Issuer’s Program and, thus, impair the ability of the Issuer to pay principal of and interest on the Series 2008 Bonds.

## **THE SERIES 2008 BONDS**

### **General**

The Series 2008 Bonds are being issued as Weekly Rate Bonds. While outstanding as Weekly Rate Bonds, the Series 2008 shall bear interest as described below under “WEEKLY RATE BONDS.”

The Series 2008 Bonds are to be dated as of their date of delivery and, subject to the redemption provisions set forth below, are to mature on the date set forth on the cover page of this Official Statement. The Series 2008 Bonds are to be issued initially as Weekly Rate Bonds in authorized denominations of \$100,000 or any integral multiple of \$5,000 above \$100,000, while Outstanding as Weekly Rate Bonds. See “WEEKLY RATE BONDS” herein. The Series 2008 Bonds are to be issued in fully registered form, without coupons, and when issued are to be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Series 2008 Bonds. Individual purchases of the Series 2008 Bonds will be made in Book-Entry Form only in the principal amount of authorized denominations. Purchasers of the Series 2008 Bonds will not receive certificates representing their interests in the Series 2008 Bonds purchased. See “APPENDIX C—BOOK-ENTRY ONLY SYSTEM.”

The Series 2008 Bonds are subject to redemption and tender, as described below in “WEEKLY RATE BONDS.”

### **Places of Payment**

So long as Cede & Co. is the Registered Owner of the Series 2008 Bonds, all payments of principal of and interest on the Series 2008 Bonds are to be made to Cede & Co. as nominee for DTC. Such payments are to be remitted by DTC to its Direct Participants for subsequent disbursements to the Beneficial Owners (defined in Appendix C). See “APPENDIX C—BOOK-ENTRY ONLY SYSTEM.”

The principal of all Series 2008 Bonds shall be payable at the designated office of the Trustee upon presentation and surrender of the Series 2008 Bonds, and payment of the interest on each Series 2008 Bond shall be made on each Interest Payment Date by the Trustee to the Person appearing on the registration records of the Issuer as the Registered Owner thereof, except as otherwise described below under “APPENDIX C—BOOK-ENTRY ONLY SYSTEM” by check or draft mailed on the Interest Payment Date to the Registered Owner at such owner’s address as it appears on such registration records at the close of business on the respective Record Date for such Interest Payment Date. Registered Owners owning at least \$1,000,000 aggregate principal amount of the Series 2008 Bonds may arrange to be paid by wire transfer to the bank account number within the United States filed with the Trustee for such purpose.

### **Exchange and Transfer of Bonds**

At the option of the Registered Owner, Series 2008 Bonds may be exchanged at the designated office of the Trustee for a like aggregate principal amount of fully registered Bonds of the same series, interest rate and Stated Maturity in authorized denominations. Upon surrender for transfer of any Series 2008 Bond at the designated office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing, a new Series 2008 Bond or Series 2008 Bonds of the same interest rate and of like series and aggregate principal amount of the same Stated Maturity are to be delivered in the name of the transferee or transferees.

The Trustee shall require the payment by any Registered Owner requesting exchange or transfer of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

The Trustee shall not be required to transfer or exchange any Series 2008 Bond during the period of fifteen days next preceding the giving of notice of redemption. After the giving of such notice of redemption, the Trustee shall not be required to transfer or exchange any Series 2008 Bond, which Series 2008 Bond or portion thereof has been called for redemption.



Notwithstanding the above, it should be understood that while the Series 2008 Bonds are in the book-entry system, (i) all rights of ownership must be exercised through DTC and the book-entry system and (ii) notices that are to be given to Registered Owners by the Issuer or the Trustee will be given only to DTC. See “APPENDIX C—BOOK-ENTRY ONLY SYSTEM” below.

## **WEEKLY RATE BONDS**

### **General**

The Series 2008 Bonds are being issued as Weekly Rate Bonds. The following discussion of interest on the Series 2008 Bonds relates to the Series 2008 Bonds while outstanding as Weekly Rate Bonds, unless otherwise provided. This Official Statement does not attempt to describe details which would be applicable to the Series 2008 Bonds if they were converted to another interest mode. In such event, the Series 2008 Bonds Outstanding as Weekly Rate Bonds, which would be so converted, would be subject to mandatory tender prior to conversion. See “WEEKLY RATE BONDS—Conversion of the Series 2008 Bonds.” Certain capitalized terms used herein with respect to the Series 2008 Bonds are defined in “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE.”

### **Interest Payments**

Interest on the Series 2008A Bonds is initially payable on the first Business Day of each month, commencing January 2, 2009. Interest on the Series 2008B Bonds is initially payable semiannually on the first Business Day of each June and December, commencing June 1, 2009. Interest on Series 2008A Bonds is to be computed on the basis of a year of 360 days for the actual number of days elapsed. Interest on the Series 2008B Bonds is to be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed, based upon the year in which the interest payment is made. The interest accrual period for the Series 2008 Bonds commences on (and includes) the last Interest Payment Date for which interest has been paid and ends on the day preceding the succeeding Interest Payment Date. Upon conversion to another rate mode, the Series 2008 Bonds interest will be computed as described in the Indenture.

The Maximum Bond Interest Rate on the Weekly Rate Bonds, so long as the Letter of Credit is in effect, is the lesser of (i) (a) with respect to Series 2008A Bonds which are not Bank Bonds, 15% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Letter of Credit) and (b) with respect to Series 2008B Bonds which are not Bank Bonds, 12% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Letter of Credit), or (ii) the maximum lawful nonusurious interest rate permitted under Minnesota law.

### **Establishment of Interest Rates for Weekly Rate Bonds**

The Series 2008 Bonds shall bear interest at a Weekly Rate (as defined below) during any “Weekly Rate Period,” which is a period during which the Series 2008 Bonds bear interest at a Weekly Rate, commencing on a Thursday and ending on Wednesday of the next succeeding week (provided that the final Weekly Rate Period shall terminate at maturity or upon earlier redemption). Prior to conversion to another rate mode, and except as provided in the Reimbursement Agreement for Series 2008 Bonds purchased by the Bank (“Credit Provider Bonds”), the Series 2008 Bonds shall bear interest at the lesser of (1) the applicable Maximum Bond Interest Rate, or (2) the Weekly Rate. With respect to each series of the Series 2008 Bonds, the “Weekly Rate” means a rate equal to the minimum rate of interest, which, in the opinion of the Remarketing Agent under the existing market conditions, would result in the sale of the Series 2008 Bonds at a price equal to the principal amount thereof, plus accrued interest, if any, for a particular Weekly Rate Period. In the event that (i) the Remarketing Agent is required to, but fails or is unable to determine the Weekly Rate for any Weekly Rate Period, (ii) the method by which the Remarketing Agent determines the Weekly Rate with respect to the Series 2008 Bonds shall be held to be unenforceable by a court of law or competent jurisdiction or (iii) if the Remarketing Agent suspends its remarketing efforts as to the Series 2008 Bonds in accordance with the Remarketing Agreement, the rate of interest to be borne by the Series 2008 Bonds for such Weekly Rate Period shall be equal to (i) with respect to the Series 2008A Bonds, 150% of LIBOR, as the same may be adjusted from time to time (but not to exceed the Maximum Bond Interest Rate) or (ii) with respect to the Series 2008B Bonds, 150% of the SIFMA Index (in the event such index no longer



exists, the Remarketing Agent (unless no Remarketing Agent is then functioning as such and then the Trustee) is to select a comparable index of tax exempt seven day tender municipal bonds), as the same may be adjusted from time to time (but not to exceed the Maximum Bond Interest Rate), until such time as a new Weekly Rate can be established by the Remarketing Agent. The Weekly Rate is to be determined by the Remarketing Agent no later than 4:30 p.m., Eastern time, on the Business Day next preceding the first day of each Weekly Rate Period.

From and after a conversion of the Series 2008 Bonds to another interest rate mode, the Series 2008 Bonds shall bear interest as provided in the Indenture.

The initial Remarketing Agent for the Series 2008 Bonds shall be RBC Capital Markets.

### **Purchase of Weekly Rate Bonds on Demand of Owner**

The Registered Owners of Series 2008 Bonds may elect to have their Series 2008 Bonds (or portions of those Series 2008 Bonds in Authorized Denominations) purchased on any Business Day, at a price equal to the Purchase Price, upon the delivery to the Trustee of an Optional Tender Notice by 3:00 p.m., Eastern time on any Business Day that is at least seven (7) days prior to the specified Purchase Date. Interest on any Series 2008 Bond that the Registered Owner thereof has elected to tender for purchase and that is not tendered on the Purchase Date, but for which there has been irrevocably deposited with the Trustee an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the Purchase Date. The Registered Owner of such untendered Series 2008 Bond will not be entitled to any payment other than the Purchase Price for such Series 2008 Bond, and such untendered Series 2008 Bond will no longer be Outstanding or entitled to the benefits of the Indenture, except for payment of the Purchase Price from moneys held by the Trustee for such payment.

### **Redemption and Acceleration Provisions**

The Indenture sets forth the provisions for the acceleration of the Series 2008 Bonds and for the redemption of certain of the Series 2008 Bonds prior to maturity, as described below. The Issuer may elect to redeem such Bonds, as described below, upon notice to the Trustee of the Redemption Date, Class, Series, principal amounts and maturities of such Bonds to be redeemed, and the moneys to be applied to the payment of the Redemption Price. In the event that the Series 2008 Bonds of any Series and maturity are to be redeemed in part, they are to be redeemed only in multiples of then Authorized Denominations, and are to be selected by lot or such other manner as the Trustee shall determine in accordance with the Indenture.

*Optional Redemption.* The Series 2008 Bonds bearing interest at a Weekly Rate shall be subject to optional redemption, in whole or in part on any date, at the option of the Issuer with the consent of the Credit Provider at a Redemption Price of par plus accrued interest, if any. To the extent that there exist any Credit Provider Bonds, the Indenture requires that all of such Credit Provider Bonds be called for optional redemption at or prior to the optional redemption of any other Weekly Rate Bonds.

*Extraordinary Mandatory Redemption.* The Series 2008 Bonds are subject to extraordinary redemption by the Issuer, with the consent of the Credit Provider, in whole or in part on any date, at a Redemption Price equal to the principal amount thereof (and without premium) plus interest accrued, if any, to the date of redemption thereof, from moneys identified to the Trustee by the Issuer, (i) if the Issuer shall suffer unreasonable burdens or excessive liabilities in connection with the operation of its Program due to legislative changes or otherwise, or (ii) to avoid an Event of Default under the General Indenture, all as evidenced by an Issuer Certificate given to the Trustee at least 30 days before the Redemption Date specified therein.

*Notice and Effect of Redemption.* On the date designated for redemption by notice as provided under the Indenture, the Series 2008 Bonds so called for redemption shall become due and payable at the stated redemption price and, to the extent moneys are available therefor, interest shall cease to accrue on such Bonds and such Bonds shall no longer be entitled to any benefit or security under the Indenture. Notice is to be given not less than fifteen (15) nor more than sixty (60) days prior to the date fixed for redemption.

If at the time of mailing of any notice of optional redemption there shall not be on deposit with the Trustee moneys sufficient to redeem all the Series 2008 Bonds called for redemption, such notice shall state that such redemption shall be conditioned upon receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of and interest on such Series 2008 Bonds to be redeemed and that if such moneys shall not have been so received by the redemption date, said notice shall be of no force and effect and the Issuer shall not be required to redeem such Series 2008 Bonds. In the event that such moneys are not so received by the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, one time, in the same manner in which the notice of redemption was given, that such moneys were not so received.

*Acceleration.* Upon any declaration of acceleration of the Series 2008 Bonds after an Event of Default under the Indenture, the principal and the accrued interest on such Bonds through the date of acceleration shall, without further action, become and be immediately due and payable.

### **Mandatory Tender of Series 2008 Bonds**

The Series 2008 Bonds are required to be tendered to the Trustee for purchase at the Purchase Price, without the right of retention, on each of the following dates, but only if the Series 2008 Bonds are in a Weekly Mode and the Letter of Credit is then in effect to pay the Purchase Price of such Series 2008 Bonds (each a “Mandatory Tender Date”).

- (a) any date on which the interest rate mode for the respective Series 2008 Bonds changes,
- (b) any date on which any alternate Credit Facility is substituted for the Letter of Credit,
- (c) the seventh Business Day prior to any expiration date for the Letter of Credit (but there shall be no separate mandatory tender in respect of an expiration date if notice has been given of a mandatory tender that will occur prior to such expiration date and the Series 2008 Bonds will not subsequently be remarketed under the Letter of Credit that is expiring),
- (d) each date established by the Issuer for mandatory tender pursuant to the Indenture, provided that the Bank shall have given its prior written consent thereto, and
- (e) the Business Day after receipt by the Trustee of (i) written notice from the Bank that an event of default under the Reimbursement Agreement has occurred (directing the Trustee to cause the Series 2008 Bonds to be mandatorily tendered) or (ii) written notice from the Bank, following a drawing under the Letter of Credit to pay interest on the Series 2008 Bonds, that the Issuer has not reimbursed the Bank for such drawing, and, that as a consequence the Bank will not reinstate the Letter of Credit with respect to such drawing.

Each Mandatory Tender Date must be a Business Day. If a Mandatory Tender Date described above would not be a Business Day, then the Mandatory Tender Date shall be the immediately preceding Business Day.

### **Bond Purchase Fund**

The Trustee is to establish a separate account of the Bond Purchase Fund for the Series 2008 Bonds (the “Series 2008 Bond Purchase Account”), which shall be held for the exclusive benefit of the Registered Owners of the Series 2008 Bonds who are entitled to be paid the Purchase Price of such Series 2008 Bonds from such Series 2008 Bond Purchase Account and, to the extent of any surplus, the Person who deposited the money into the applicable subaccount of such Series 2008 Bond Purchase Account. A Remarketing Proceeds Subaccount and a Credit Facility Purchase Subaccount are to be established by the Trustee as separate subaccounts within the Series 2008 Bond Purchase Account.

Upon receipt from the Remarketing Agent of the proceeds of any remarketing of a Series 2008 Bond to a Person other than the Issuer on the date such Series 2008 Bond is to be purchased, the Trustee shall deposit such proceeds in the Remarketing Proceeds Subaccount for application to the Purchase Price of the remarketed Series

2008 Bond. Upon receipt from the Bank of immediately available funds to pay the Purchase Price of the Series 2008 Bonds, the Trustee shall deposit such money in the Credit Facility Purchase Subaccount, as applicable, for application to the Purchase Price of the Series 2008 Bonds to the extent that the moneys on deposit in the Remarketing Proceeds Subaccount are insufficient. Amounts held in the Series 2008 Bond Purchase Account by the Trustee shall be held uninvested and separate and apart from all other funds and accounts.

### **Insufficient Funds for Tenders**

If sufficient funds are not available for the purchase of all Series 2008 Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, (i) all such Series 2008 Bonds shall bear interest at the Maximum Bond Interest Rate from the date of such failed purchase until all such Series 2008 Bonds are purchased as required in accordance with the Indenture, and (ii) all tendered Series 2008 Bonds shall be returned to their respective owners. Such failed purchase and return shall not constitute an Event of Default. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Bank.

### **Remarketing of Tendered Series 2008 Bonds**

There shall be a Remarketing Agent appointed by the Issuer with, except in the case of the initial Remarketing Agent, the approval of the Bank. The Remarketing Agent shall remarket the respective Series 2008 Bonds as required by the Indenture, and shall keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the Issuer, each Rating Agency, the Trustee and the Bank at all reasonable times. The Remarketing Agent shall act as such under a Remarketing Agreement to be entered into between the Issuer and the Remarketing Agent.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least thirty (30) days' written notice to the Issuer, each Rating Agency, the Trustee and the Bank; provided, however, that such resignation shall only take effect on the day specified in such notice if a successor Remarketing Agent shall have been appointed and shall have accepted such appointment. Such Remarketing Agent may suspend or terminate its remarketing efforts as set forth in the Remarketing Agreement. With the consent of the Bank, the Issuer may remove the Remarketing Agent at any time upon thirty (30) day's written notice by filing an instrument with the Remarketing Agent and the Trustee; provided, however, that such removal shall only take effect on the day specified in such notice if a successor Remarketing Agent shall have been appointed and shall have accepted such appointment.

### **Conversion of Series 2008 Bonds**

The Indenture permits the Issuer, by complying with certain conditions, to convert the interest rate on the Series 2008 Bonds from a Weekly Rate to another interest rate, including to a different form of adjustable rate, an auction rate, or a rate that is fixed to the maturity of the Series 2008 Bonds, with the consent of the Bank. Upon conversion of the Series 2008 Bonds to any other mode, Registered Owners will be required to tender their Series 2008 Bonds for purchase at the principal amount thereof plus unpaid accrued interest to the tender date, as described under the caption “—Mandatory Tender of Series 2008 Bonds” above. Registered Owners are to be sent notice of such conversion at least 15 days prior to the mode change date. Registered Owners will not have the option to retain Series 2008 Bonds that are required to be tendered due to such mode change.

## **THE BANK**

U.S. Bank National Association (“USBNA” or the “Bank”) is a national banking association organized under the laws of the United States and is the largest subsidiary of U.S. Bancorp. At September 30, 2008, USBNA reported total assets of \$243 billion, total deposits of \$148 billion and total shareholders' equity of \$22 billion. The foregoing financial information regarding USBNA has been derived from and is qualified in its entirety by the unaudited financial information contained in the Federal Financial Institutions Examination Council report Form 031, Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices (“Call Report”), for the quarter ended September 30, 2008. The publicly available portions of the quarterly Call Reports with respect

to USBNA are on file with, and available upon request from, the FDIC, 550 17th Street, NW, Washington, D.C. 20429 or by calling the FDIC at (877) 275-3342. The FDIC also maintains an Internet website at [www.fdic.gov](http://www.fdic.gov) that contains reports and certain other information regarding depository institutions such as USBNA. Reports and other information about USBNA are available to the public at the offices of the Comptroller of the Currency at One Financial Place, Suite 2700, 440 South LaSalle Street, Chicago, IL 60605.

U.S. Bancorp is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the “SEC”). U.S. Bancorp is not guaranteeing the obligations of USBNA and is not otherwise liable for the obligations of USBNA.

Except for the contents of this section entitled “THE BANK,” USBNA and U.S. Bancorp assume no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Official Statement.

## **LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT**

### **The Letters of Credit**

The Bank will issue its irrevocable Letter of Credit (the “Series A Letter of Credit”) to the Trustee concurrently with the original issuance and delivery of the Series 2008A Bonds, and its irrevocable Letter of Credit (the “Series B Letter of Credit”) and, together with the Series A Letter of Credit, the “Letter of Credit”) to the Trustee concurrently with the original issuance and delivery of the Series 2008B Bonds. Each Letter of Credit provides that the Trustee, as beneficiary of the Letter of Credit, may present drawings under the Letter of Credit for the payment of the principal of and accrued interest on the applicable series of Series 2008 Bonds while such Bonds bear interest at either a Weekly Rate or a Monthly Rate, when due, whether by maturity, redemption or upon acceleration, and for the payment of the purchase price of Series 2008 Bonds bearing interest at a Weekly Rate or a Monthly Rate upon optional or mandatory tender for purchase.

The Series A Letter of Credit will be in an initial stated amount equal to the principal of the Series 2008A Bonds plus 45 days’ interest at 15% per annum, calculated on the basis of a 360-day year. The Series B Letter of Credit will be in an initial stated amount equal to the principal of the Series 2008B Bonds plus 198 days’ interest at 12% per annum, calculated on the basis of a 365-day year. Each Letter of Credit will expire on December 16, 2011, unless terminated earlier by the Trustee, as beneficiary, or after the stated amount is reduced to zero and is not reinstated, or as the expiration date may be extended from time to time.

The Letter of Credit stated amount is subject to reduction and reinstatement, as follows: Each drawing under the Letter of Credit reduces the amount of the Letter of Credit by the amount of the drawing, except that drawings made to pay the purchase price of Series 2008 Bonds will be reinstated upon reimbursement of the drawing, and drawings made to pay interest due on the Series 2008 Bonds will be reinstated unless the Bank notifies the Trustee in writing within eight days following the honor of such drawing that the amount drawn will not be reinstated (in which event, the Trustee is required to declare the principal and interest on all of the Series 2008 Bonds to be immediately due and payable. See Appendix B, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—SUMMARIES OF DOCUMENTS—General Indenture—Defaults and Remedies.”)

### **The Reimbursement Agreement**

The Reimbursement Agreement is a contract between the Bank and the Issuer, and all representations, warranties and covenants made by the Issuer in the Reimbursement Agreement are for the sole benefit of the Bank, may be waived or amended from time to time, and neither the Trustee nor any Bondholder has any claim or interest in the Reimbursement Agreement.

Under the Reimbursement Agreement, the Issuer agrees, among other things, to pay the Bank certain letter of credit fees and to reimburse the Bank, with interest, for each drawing under the Letter of Credit. The

Reimbursement Agreement also sets forth various representations and warranties of the Issuer, and contains various affirmative and negative covenants of the Issuer.

In connection with the Reimbursement Agreement, and to secure its obligations thereunder, the Issuer will enter into a pledge and security agreement (the “Pledge Agreement”) pursuant to which the Issuer grants a security interest to the Bank in the pledged Bonds. (The Reimbursement Agreement, the Pledge Agreement and any other related documents are collectively referred to as the “Bank Related Documents.”) Any or all of the Bank Related Documents are for the sole benefit of the Bank and can be amended, modified, waived or released or terminated at any time and in any manner as may be agreed to by the Issuer and the Bank, without notice to or the consent of the Trustee or the Bondowners. Upon the occurrence and continuance of an event of default under the Reimbursement Agreement, the Bank may direct the Trustee to accelerate the Series 2008 Bonds or, in lieu thereof, call them for mandatory purchase, at par.

“Events of Default” under the Reimbursement Agreement initially include the following:

- (a) any amount required to be paid by the Issuer under the Reimbursement Agreement is not paid when due (whether by acceleration or otherwise); or
- (b) any representation or warranty made by the Issuer in the Reimbursement Agreement or in the Pledge Agreement, the Indenture or any other related documents, or in any certificate, financial or other statement furnished by or on behalf of the Issuer pursuant to the Reimbursement Agreement or any related document shall prove to have been untrue or incomplete in any material respect when made; or
- (c) failure of the Issuer to observe, perform or fulfill certain of the covenants, conditions or provisions of the Reimbursement Agreement, including those related to maintenance of existence and material approvals, security interests in collateral, financial reporting, required redemptions after completion of recycling, attributes and servicing of the Student Loans, audits, and specified financial and other covenants; or
- (d) failure of the Issuer to observe, perform or fulfill any of the other covenants, conditions or provisions of the Reimbursement Agreement, and such failure continues for 30 days after whichever of the following dates is the earliest: (i) the date the Issuer gives notice of such failure to the Bank, (ii) the date the Issuer should have given notice of such failure to the Bank pursuant to the Reimbursement Agreement; or (iii) the date the Bank gives notice of such failure to the Issuer; or
- (e) any event of default (however denominated or defined) shall occur and be continuing under the Indenture or any other related document; or
- (f) the Reimbursement Agreement or any of the other related documents to which the Issuer is a party ceases to be valid and binding on the Issuer; the Issuer denies it has any or further liability under the Reimbursement Agreement or any of the related documents to which it is a party; or the Reimbursement Agreement or any of the other related documents is declared null and void by any court or other authority of competent jurisdiction or the validity or enforceability thereof is contested by the Issuer; or
- (g) the Issuer or the Servicer shall
  - (i) apply for or consent to or acquiesce in the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of all or a substantial portion of its property or any such receiver, trustee, liquidator or custodian or the like shall have been appointed,
  - (ii) admit in writing its inability to pay or fail to pay its debts generally as they become due,
  - (iii) make a general assignment for the benefit of creditors,



(iv) call a meeting of its creditors for the purpose of adjusting its debts generally or to effect a composition of its debts,

(v) be adjudicated a bankrupt or insolvent,

(vi) commence a voluntary case under the federal bankruptcy laws of the United States of America or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding, or action shall be taken by it for the purpose of effecting any of the foregoing, or

(vii) allow, without its application, approval or consent, a proceeding to be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or any administrative action shall be taken by any regulatory authority, seeking in respect of it an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, or the appointment for it of a trustee, receiver, liquidator or custodian or the like, or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding or administrative action is being contested by it, in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment, or (B) continue undismissed, or pending and unstayed, for any period of 60 consecutive days; or

(h) a remarketing agent reasonably satisfactory to the Bank, is at any time not acting as a remarketing agent for the Series 2008 Bonds; or

(i) a bank or trust company reasonably satisfactory to the Bank, is at any time not qualified and acting as Trustee under the Indenture; or

(j) judgment for the payment of money in excess of an aggregate of \$100,000 and not fully covered by insurance is rendered against the Issuer and (i) remains undischarged for a period of 30 consecutive days during which execution shall not be stayed or for the payment of which a surety bond or other adequate security has not been obtained in the judgment of the Bank, and (ii) have a material adverse effect on the ability of the Issuer to pay the principal of and interest on the Series 2008 Bonds or any of the Issuer's obligations under the Reimbursement Agreement; or

(k) the trust estate held under the Indenture shall not be held by, or otherwise not be subject to a first priority security interest in favor of the Trustee solely to secure the Series 2008 Bonds and obligations of the Issuer, including the Issuer's obligations under the Reimbursement Agreement; or

(l) interest on the Series 2008B Bonds (other than those pledged to the Bank as Bank Bonds) is declared to be includible in the gross income of the owners thereof for federal income tax purposes; or

(m) the Bank determines that a material adverse occurrence has occurred or a material adverse change in the financial condition of the Issuer's overall student loan portfolio has occurred; or

(n) the student loan default ratio exceeds a specified level.

Upon the occurrence and during the continuance of an Event of Default the Bank may exercise remedies, including causing the acceleration or mandatory purchase of all the Series 2008 Bonds.



## SECURITY AND SOURCE OF REPAYMENT

### Limited Obligations

The Series 2008 Bonds and interest thereon do not constitute or give rise to a pecuniary liability of the State or a general or moral obligation or a pledge of the full faith and credit of the Issuer, the State or any agency or political subdivision thereof. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision of the State (including the Issuer) is pledged to the payment of the principal of or the interest on the Series 2008 Bonds. The Issuer has no taxing power.

### Cash Flow Projections

The Issuer expects that the Revenues to be derived from the Student Loans and other amounts on deposit under the Indenture should be sufficient to pay the principal of and interest on the Series 2008 Bonds when due. This expectation is based upon an analysis of cash flow projections, using assumptions which the Issuer believes are reasonable, regarding (i) the characteristics and expected performance of the Student Loans to be deposited to the Student Loan Fund, (ii) amounts to be deposited in the Debt Service Reserve Fund together with the earnings thereon, and (iii) the occurrence of certain future events and conditions, as described below (the “Cash Flow Projections”). See Appendix E, “LOAN PORTFOLIO COMPOSITION,” for a more complete description of the Student Loans to be deposited to the Student Loan Fund.

Under the Indenture, the Issuer is obligated to pay all Program Expenses from sources other than the Trust Estate. If the Issuer fails to do so, the Trustee will be required to pay such Program Expenses (subject to certain limitations contained in the related Supplemental Indenture) from amounts in the related accounts of the Revenue Fund, the Surplus Fund and the Acquisition Fund prior to the use of such amounts to pay principal of or interest on the Series 2008 Bonds. See “Pledged Funds—Revenue Fund” below. Such Program Expenses include, but are not limited to, fees and expenses of any Servicer, any Trustee and any Credit Provider. The Cash Flow Projections performed in connection with the issuance of the Series 2008 Bonds demonstrate that funds expected to be available under the Indenture should be sufficient to pay the principal of and interest on the Series 2008 Bonds without the payment of Program Expenses by the Issuer from other sources.

### Pledged Funds

The Series 2008 Bonds are secured by the Issuer’s pledge to the Trustee under the Indenture of (i) all Student Loans; (ii) all general intangibles or payment intangibles or electronic chattel paper related to the Student Loans; (iii) all proceeds of the Series 2008 Bonds, Revenues and any other amounts contained in the Funds and Accounts until their use or release from the Funds and Accounts, including amounts in the Debt Service Reserve Fund; (iv) all rights of the Issuer in and to the Servicing Agreement as it relates to Student Loans; (v) any and all other real or personal property, from time to time conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture; and (vi) all proceeds of the foregoing. See Appendix B, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE.”

Revenue Fund. The Revenue Fund shall receive amounts described in the Supplemental Indentures, any other amounts deposited thereto on the Issuer’s order, and all Revenues, which include all payments, proceeds, charges, and other income received by the Issuer on account of any Student Loan and all interest earned or gain realized from the investment of money in the Funds and Accounts (with certain exceptions provided in the Indenture). The Revenue Fund shall also receive all payments of principal and interest, if any, together with any tuition refunds, funds transferred to the Trustee from the Servicer’s or Servicers’ separate bank accounts maintained pursuant to any Servicing Agreement, insurance and guaranty payments and proceeds from the sale of Student Loans.

On each Monthly Payment Date, money in the respective series accounts of the Revenue Fund shall be applied to the respective series according to the terms of the Indenture in the following order of priority, to pay:

1. amounts necessary (if any) to maintain the Rebate Fund (Series 2008B Bonds only) and the Excess Interest Fund (Series 2008B Bonds only) at their respective required levels;
2. any otherwise unpaid Servicer and Trustee fees and expenses;

With regard to the Class I Bonds (including the Series 2008 Bonds):

3. premiums and fees of a Credit Provider relating to Class I Bonds;
4. interest payable on the Series 2008 Bonds and any other Class I Bonds;
5. principal on the Series 2008 Bonds and any other Class I Bonds;
6. amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class I Bonds;
7. any amount necessary to reimburse a Credit Provider for claims or draws on its Credit Facility (i) to pay principal of and interest on Class I Bonds, together with any required interest thereon and (ii) to pay the purchase price of any Class I Bonds, together with any required interest thereon, and to pay any other amounts payable to the Credit Provider pursuant to the Credit Provider Agreement;

Steps (3) through (7) above will repeat for each Class of Bonds subordinate to the Class I Bonds in descending order of priority.

8. any amount necessary to maintain the Debt Service Reserve Fund at the Debt Service Reserve Requirement;
9. amounts to pay termination fees due under an Interest Rate Exchange Agreement relating to the Class I Bonds, the Class II Bonds, the Class III Bonds, the Class IV Bonds and the Class V Bonds, in that order of priority;
10. any Carry-over Amount payable (which shall be paid (i) pursuant to this clause (9) from the Revenue Fund or (ii) from moneys in the Surplus Fund after taking into account all other amounts payable therefrom on such Interest Payment Date), which shall be paid first to the Class I Bonds and then to each Class of Bonds subordinate to the Class I Bonds in order of their priority;
11. at the Issuer's written direction, to purchase or make Student Loans with any remaining money or portion thereof; and
12. to the Surplus Fund any remaining balance.

In the event amounts are payable to more than one Person pursuant to any of the preceding clauses, and the money available is insufficient to pay all such amounts, the available money shall be applied pro rata to the payment of each Person based upon the amount payable thereto.

Debt Service Reserve Fund. The Debt Service Reserve Requirement is an amount equal to the aggregate of amounts specified in each and every Supplemental Indenture authorizing the issuance of a series of Bonds as the amount required to be deposited in the Debt Service Reserve Fund with respect to such series of Bonds. The Debt Service Reserve Requirement for the Series 2008 Bonds is an amount equal to two percent (2.0%) of the principal amount outstanding from time to time; provided, however, that the aggregate Debt Service Reserve Fund Requirement for all Bonds Outstanding shall never be reduced to less than \$500,000, or such lesser percentage or amount as shall be approved by a Rating Confirmation and the Bank. On the Closing Date the Series 2008 Bond Debt Service Reserve Requirement will be equal to \$2,000,000.

Amounts in the Debt Service Reserve Fund will be invested in Investment Securities (as defined in the Indenture).

Amounts held in the Debt Service Reserve Fund shall be applied as necessary to make up on a Bond Payment Date any deficiency in the amounts to pay Bond principal or interest and the other purposes listed above as items (1) through (7) under “Revenue Fund,” but only after application of moneys from, in order, the Revenue Fund, Surplus Fund, and Acquisition Fund. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement, as required under a Supplemental Indenture, the Issuer shall direct the Trustee to transfer the excess and all earnings thereon to the Revenue Fund. The Debt Service Reserve Fund may also be used to pay final installments of principal of and interest on the Bonds. On or before each Monthly Payment Date (or any other date at the Issuer’s request), the Trustee shall value the Debt Service Reserve Fund to determine whether the Debt Service Reserve Requirement has been satisfied and shortfalls shall be replenished from amounts on deposit in the Revenue Fund as described above in “Revenue Fund.” If the Revenue Fund has insufficient funds to so replenish the Debt Service Reserve Fund, moneys available for that purpose in the Surplus Fund may be used. See also Appendix B hereto, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE.”

Acquisition Fund. On the Closing Date, after making the deposits described above to the related accounts of the Revenue Fund and the Debt Service Reserve Fund, remaining net proceeds from the sale of the Series 2008 Bonds in the amount of \$64,700,000, together with \$10,000,000 contributed by the Issuer, will be deposited to the Taxable Account of the Acquisition Fund and \$33,300,000 will be deposited to the Series 2008B Account of the Acquisition Fund. Such moneys are expected to be used within 45 days of the Closing Date to purchase, originate or refinance Student Loans.

Student Loan Fund. All Student Loans transferred to the Trustee by the Issuer, including those financed or refinanced with proceeds from the Series 2008 Bonds or acquired from any Revenues under the Indenture, will be deposited to the related accounts of the Student Loan Fund. The Student Loan Fund shall hold only Student Loans and no other assets of any kind whatsoever.

## SOURCES AND USES OF FUNDS

The following tables set forth the sources and uses of the proceeds of the Series 2008 Bonds, together with certain other available funds provided by the Issuer:

### Sources of Funds

Principal Amount of Series 2008 Bonds .....	\$100,000,000
Issuer Contribution .....	<u>10,000,000</u>
Total .....	<u>\$110,000,000</u>

### Use of Funds

Deposit to Taxable Account of Acquisition Fund .....	\$74,700,000
Deposit to Series 2008B Account of Acquisition Fund .....	33,300,000
Deposit to Taxable Account of Debt Service Reserve Fund .....	1,334,000
Deposit to Series 2008B Account of Debt Service Reserve Fund .....	<u>666,000</u>
Total .....	<u>\$110,000,000</u>

Costs of issuance, including the fees and certain expenses of the Underwriter, the Financial Advisor, the Trustee, the Rating Agencies, Bond Counsel, and printing and other miscellaneous costs, will be paid from separate funds provided by the Issuer.

## **INITIAL ASSET COVERAGE**

Upon the issuance of the Series 2008 Bonds, the Issuer anticipates using approximately \$61 million to refinance previously originated Student Loans from the Loan Capital Fund, and holding the balance in the Acquisition Fund for the refinancing of additional Student Loans within 45 days of the delivery of the Series 2008 Bonds. After giving effect to such financing and refinancing of Student Loans from the Loan Capital Fund, it is anticipated that the aggregate principal amount of Student Loans held in the Student Loan Fund, together with cash and Investment Securities deposited to the Debt Service Reserve Fund, will be equal to approximately 110% of the aggregate principal amount of the outstanding Series 2008 Bonds.

Cash flow projections have been prepared for the Issuer based upon (i) the characteristics and expected performance of the Student Loans to be deposited to the Student Loan Fund and (ii) the investment of the amounts to be deposited in the accounts created under the Indenture, including the Debt Service Reserve Fund. Based upon these assumptions, which the Issuer believes are reasonable, such cash flow projections indicate that a gradual increase in the ratio of pledged funds (including Student Loans) to Series 2008 Bonds should occur.

The Issuer's Loan Capital Fund is not pledged under the Indenture as security for the Series 2008 Bonds. Nevertheless, the Loan Capital Fund is expected to be used to pay certain expenses, including costs of issuance of the Series 2008 Bonds, Program Expenses and to purchase or replace Defaulted Student Loans.

## **MINNESOTA OFFICE OF HIGHER EDUCATION**

### **Description of the Issuer**

The Issuer is an executive branch agency of the State responsible for the coordination and administration of higher education programs among the various public and private institutions of higher education in the State. In addition to its private loan program, known as the Student Educational Loan Fund ("SELF"), the Issuer manages financial aid programs for the State, including scholarship, grant, work study and reciprocity programs.

The Issuer currently has a staff of 67 people, of which 15 full-time equivalent employees are assigned to the administration of the SELF Program. The remaining 52 employees are involved with the Issuer's administration of other financial aid programs, as well as research and facilitation of higher education programs in the State and communication of information to parents and students regarding higher education.

### **History**

In 1965, the Minnesota State Legislature created the Minnesota Liaison and Facilities Commission for Higher Education. In 1967, the name was changed to Coordinating Commission, and in 1975 it became the Minnesota Higher Education Coordinating Board ("MHECB"). In 1995 the agency was restructured and renamed the Minnesota Higher Education Services Office ("MHESO"). In 2003 the Minnesota Legislature gave MHESO cabinet level status as an executive branch agency with a director appointed by the Governor and confirmed by the Senate. In order to better reflect its role as an executive branch agency, effective July 1, 2005, MHESO changed its name to the Minnesota Office of Higher Education.

In 1973, the Coordinating Commission, and subsequently MHECB, was authorized by the State Legislature to establish and operate a statewide program for making federally insured and guaranteed student loans. From 1973 to 1988, MHECB coordinated the State's participation in the Federal Guaranteed Student Loan Program ("GSL"), serving as the State's lender of last resort. During this time MHECB provided funding for over \$640 million of loans to students under the GSL Program. MHECB ceased providing new loans under the GSL Program in 1988, as participation by the private sector lenders and secondary markets had gradually replaced the need for the lender of last resort function.

In 1983, MHECB was authorized by the State Legislature to establish and supervise loan programs other than the federally guaranteed programs. In June 1985, MHECB established a loan program known as the SELF I

Program. Approximately \$52.3 million of loans were originated under the SELF I Program, of which none are outstanding.

In September 1988, MHECB ceased originating SELF I Loans and new loans were made as SELF II Loans. Approximately \$654 million of loans have been originated under the SELF II Program. No new loans are being originated under the SELF II Program. Approximately \$103 million of such loans were outstanding as of October 31, 2008.

In May 2002, MHESO established its SELF III Program. Approximately \$490 million of loans have been originated under the SELF III Program. No new loans are being originated under the SELF III Program. Approximately \$313 million of such loans were outstanding as of October 31, 2008.

In July 2006, the Issuer established its SELF IV Program. Approximately \$322 million of loans have been originated under the SELF IV Program. Approximately \$296 million of such loans were outstanding as of October 31, 2008.

### **The Issuer's Management Team**

The individuals primarily responsible for the overall management and operations of the Issuer's financial aid and student loan programs are as follows:

Susan G. Heegaard, Director, Minnesota Office of Higher Education. Ms. Heegaard was appointed as Director in February 2004 and serves as the Governor's chief advisor on higher education policies and issues. She served as a Senior Policy Advisor to Governor Tim Pawlenty for higher education, health, and human services issues. During the administration of Governor Arne Carlson, she served in a number of capacities, including Director of Education Strategy, Assistant Director of Governor Carlson's Office of Federal Relations in Washington, D.C., and Assistant Director of the Office of Minnesota Planning. She has also directed government and community affairs for the Minnesota Private College Council and worked in Washington, D.C. for U.S. Senator Dave Durenberger.

Ms. Heegaard earned her law degree from William Mitchell College of Law and her bachelor's degree from Skidmore College in Saratoga Springs, New York.

Dr. Mark R. Misukanis, Director of Fiscal Policy and Research. Dr. Misukanis has been with the Issuer since November 2004. His responsibilities include the direction of higher education policy development and research for the Issuer, oversight of the analytical aspects of state grant program and other related aid programs, supervisory responsibilities for the financial management and auditing obligations of the Issuer, and communications concerning policy issues with the State Legislature. Prior to this time he was the Director of the Office of Fiscal Policy in the Minnesota Senate for eight years culminating a total of 20 years in the Senate in related capacities. In that position he managed a staff of eight analysts responsible for the development of a budget of about \$48 billion for the State for a biennial period. This work also included capital budget development.

Dr. Misukanis holds a Ph.D. in Education Administration with a focus on the economics of higher education from the University of Minnesota, has completed masters' coursework in economics at the University of Wisconsin, and holds a B.A. in economics from the University of St. Thomas.

Dr. Cheryl K. Maplethorpe, Director, Division of Student Financial Aid Services. Dr. Maplethorpe has been Director of Student Financial Aid Services for the Issuer since November 1991, after serving as the manager of Minnesota's financial aid, grant, work study and reciprocity programs since 1980. She is responsible for implementation of aid programs established under Minnesota Statutes and efficient operation of the infrastructure supporting the programs. From 1976 to 1980, Dr. Maplethorpe was Assistant Director for the Financial Aid Office at the University of Iowa. Prior to that she taught science at the American School in Kuwait.

Dr. Maplethorpe holds a Baccalaureate Degree in Science Education and a Master's Degree in Counseling, both from the University of Iowa, and a Ph.D. in Higher Education Policy and Administration from the University of



Minnesota. Dr. Maplethorpe served as the 2000-2001 President of the National Association of State Student Grant and Aid Programs (NASSGAP). NASSGAP has been in existence since 1966 and is an association of state grant agencies from across the nation. The association works with the federal government to coordinate student services in areas such as development of financial aid forms that can be utilized at both federal and state levels. NASSGAP also works to influence the federal government to provide increased federal grant aid to students.

Timothy M. Geraghty, Chief Financial Officer. Mr. Geraghty has been employed by the Issuer since February of 1976. He was Accounting Director from November 1989 to December 1997; was the Issuer's Director of Financial Services from 1998 to 2004 and named Chief Financial Officer in 2005. Mr. Geraghty is currently responsible for the accounting functions, agency budget preparation and control, fiscal analysis and data regarding revenue bond issues for the Issuer's supplemental loan programs and internal controls of administrative policies for the Issuer.

Mr. Geraghty received an Associate of Arts Degree from Anoka-Ramsey Community College and a Bachelor's Degree in Business Administration from the University of Minnesota.

Marilyn A. Kosir, Student Loan Programs Manager. Ms. Kosir temporarily assumed the responsibilities of Student Loan Manager in March 1995 and assumed those duties on a permanent basis in September of 1995. She is currently responsible for program operation and administrative responsibilities of the Issuer's supplemental student loan programs, which involves formulation and implementation of rules, regulations, policies and procedures, bond issue preparation and supervision of staff in the loan origination and loan default collection areas. Ms. Kosir is also responsible for overseeing the activities and performance of the Issuer's loan servicer. Prior to assuming her current responsibilities, Ms. Kosir was the Issuer's Senior Accounting Officer from July 1990 to September 1995, and prior to that was a Financial Institutions Examiner for the Minnesota Department of Commerce for seven years.

Ms. Kosir holds a Bachelor's Degree in Finance from St. Cloud State University.

Timothy M. Medd, Audit Manager. Mr. Medd has served as Audit Manager for the Issuer since August of 1984. From 1982 to 1984 he was an Audit Supervisor Senior. Mr. Medd's current duties and responsibilities include directing the audits of post-secondary educational institutions participating in the Issuer's financial aid programs, conducting an annual review of the servicing of the Issuer's SELF Loans and providing guidance in the operation and administrative responsibilities of the SELF program. Prior to his employment with the Issuer, Mr. Medd spent four years as an auditor for the Minnesota Department of Health and five years as a Financial Institutions Examiner for the Minnesota Department of Commerce.

Mr. Medd holds a Master's Degree in Public Administration from Hamline University and a Bachelor's Degree in Business Administration from Minnesota State University-Mankato. He has also taken course work in Accounting from the University of Minnesota.

Danette M. Jerry, Financial Services Manager. Ms. Jerry is responsible for the management of records for the Issuer's Loan Capital Fund. Ms. Jerry's responsibilities include preparation of financial statements and bond compliance reports, management of the Issuer's investment portfolio and monitoring cash needs for the Loan Capital Fund. Ms. Jerry also supervises the Issuer's Accounts Payable and Payroll staff and the Graduated Repayment Income Protection Program. Prior to joining the Issuer in October 1995, Ms. Jerry worked as an Account Technician for the Minnesota Department of Corrections.

Ms. Jerry attended Northwestern College in Roseville, Minnesota and completed the Accounting Program at Brainerd Technical College.

## **Financial Information**

Prior Financing Activities. MHECB has issued \$1.4 billion in aggregate principal amount of revenue bonds under its various loan programs since 1973, almost half relating to its previous lending activities under the GSL Program. MHECB discontinued originating federal loans in 1988, and as of October 31, 2008, there were no outstanding GSL loans in its Loan Capital Fund.



Approximately \$728 million of the revenue bonds previously issued by MHECB, MHESO, and the Issuer is related to its supplemental student loan programs. Of this amount, nine series of bonds aggregating \$527 million in principal amount remained outstanding as of October 31, 2008. These bonds were issued under an indenture other than the Indenture pursuant to which the Series 2008 Bonds are being issued.

The Issuer is authorized to have outstanding an aggregate \$850 million of revenue bonds, exclusive of refunded and defeased bonds, under current State law. Neither bonds issued by the Issuer, nor bonds previously issued by MHECB or MHESO, constitute debt of the State.

Operating Budget. The Issuer's 2008-2009 operating budget, exclusive of its supplemental student loan programs, is \$200,167,839, of which it is anticipated \$5,575,424 will come from federal appropriations, \$193,226,831 from State appropriations, and \$1,365,584 from miscellaneous special appropriations. None of these funds are available for use in the Supplemental Student Loan Program or any other student loan programs. None of these funds are available for the payment of the outstanding bonds referenced above.

General Financial Information. The Loan Capital Fund ("LCF"), which is maintained as an Enterprise Fund of the Issuer, is the funding source for the Issuer's student loan activities, both present and future. Certain summary financial information for the LCF for the past three years is presented in the table below. The Issuer anticipates using loans that qualify as Student Loans pursuant to the terms of the Indenture and money in the LCF to pay certain Program Expenses and costs of issuance, and, under certain circumstances, to replace or repurchase Defaulted Student Loans. However, the LCF is not pledged to pay the Series 2008 Bonds.

#### SUMMARY FINANCIAL DATA FOR THE LOAN CAPITAL FUND

	Fiscal Year Ended June 30,		
	2008	2007	2006
Total assets	\$871,303,988	\$883,533,791	\$790,435,613
Total cash and investments	168,732,424	223,286,214	172,151,277
Total loans outstanding	691,860,016	648,572,873	607,768,933
Allowance for loan losses	6,938,074	6,519,172	6,113,534
Total revenues	54,762,705	58,458,173	47,184,752
Total expenses	37,317,890	35,919,110	30,894,846
Excess of revenues over expenses	17,444,815	22,539,063	16,289,906
Restricted net assets	\$340,877,288	\$323,432,473	\$300,893,410

The LCF is not pledged under the Indenture as security for the Series 2008 Bonds. Nevertheless, the LCF is expected to be used to pay certain expenses, including costs of issuance of the Series 2008 Bonds, Program Expenses, and to purchase or replace Defaulted Student Loans. For more detailed information concerning the LCF, please refer to Appendix A attached hereto.

#### THE SUPPLEMENTAL STUDENT LOAN PROGRAM

##### SELF Program Overview

Background. MHECB, MHESO, and subsequently the Issuer, were authorized by the State Legislature in 1985 to establish and supervise loan programs other than the Guaranteed Student Loan Program ("GSL"). MHECB began originating supplemental loans in June of 1985 under its Student Educational Loan Fund I Program ("SELF I") and completed originations under SELF I in September of 1988. At that time MHECB began originating loans under its Student Educational Loan Fund II Program ("SELF II"). In May 2002 MHESO established its SELF III Program ("SELF III") and in July 2006 the Issuer established its SELF IV Program ("SELF IV"). Currently, all student loans originated by the Issuer are made pursuant to its SELF IV Program.

Together, MHECB, MHESO, and the Issuer have originated approximately \$1,518 million of loans under the SELF Program through October 31, 2008. The following table shows the outstanding principal balance of SELF Loans at the dates indicated:

	(\$ in Thousands)				
	<u>SELF I</u>	<u>SELF II</u>	<u>SELF III</u>	<u>SELF IV</u>	<u>Total</u>
As of <u>October 31, 2008 (Unaudited)</u>	\$0	\$103,451	\$313,270	\$295,786	\$712,507
<u>As of June 30,</u>					
2008	0	114,250	328,321	248,630	691,201
2007	0	151,527	375,487	120,613	647,627
2006	0	194,312	412,123	-	606,435
2005	0	240,386	322,308	-	562,694
2004	1	284,895	205,913	-	490,808
2003	2	330,223	99,346	-	429,571
2002	9	369,839	1,524	-	371,372
2001	32	314,508	-	-	314,540
2000	198	260,922	-	-	261,120
1999	849	209,876	-	-	210,725
1998	2,962	172,788	-	-	175,750
1997	4,093	168,812	-	-	172,905
1996	7,113	168,740	-	-	175,853
1995	11,021	169,468	-	-	180,489
1994	14,909	162,976	-	-	177,885
1993	20,428	154,088	-	-	174,516
1992	24,240	122,809	-	-	147,049
1991	34,286	85,686	-	-	119,972
1990	40,724	49,948	-	-	90,672
1989	46,672	17,993	-	-	64,665

The Issuer finances the origination of SELF Loans with the proceeds of revenue bond issues and amounts available in the Loan Capital Fund. Although the Issuer receives State and Federal appropriations, the SELF Program is required by statute to be self-sustaining, and such appropriations are neither available for use in the SELF Program nor available for the payment of principal of and interest on any of the associated revenue bonds (including the Series 2008 Bonds).

### **Program Terms and Conditions**

The Issuer has promulgated rules and regulations for the administration of the SELF Program, including provisions specifying eligible institutions, eligible students, loan size, costs to the borrower, loan disbursement, loan repayment, security for loan repayment and collections. Many of the terms and conditions relating to SELF Loans are set forth in Minnesota Statutes and Minnesota Regulations.

The following paragraphs describe the current terms, conditions and applicable rules and regulations pertinent to the SELF Program. In the past, the Issuer has modified and supplemented these terms, conditions, rules and regulations, and reserves the right to further modify and supplement them in the future, subject to its receipt of a Credit Confirmation with regard to all Student Loans pledged to secure payment of the Series 2008 Bonds.

**Loan Size.** The size of individual loans is determined by the appropriate campus financial aid administrator after giving consideration to: (i) the cost of attendance as defined by the institution, (ii) other Federal financial aid, including both loans and grants, that have been accepted by the student, (iii) other state and institutional financial aid that has been accepted by the student, and (iv) other financial aid known to have been received by the student from private sources (i.e. private foundations, unions, corporations, etc.). The amount of the SELF Loan, in combination with student aid from all known sources, will not be allowed to exceed the cost of attendance as defined by the enrolling institution.

**Loan Limits.** The minimum SELF Loan amount is \$500. The maximum SELF IV Loan amounts, which are prescribed by statute, are designed to protect students from accumulating unreasonable levels of debt burden,

while also providing the students with an incentive to defer borrowing until absolutely necessary. Such maximum loan amounts are set according to Grade Level (as defined below) as follows:

- \$7,500 per year for undergraduates during Grade Levels 1 through 5; subject to a cumulative maximum of \$37,500; and
- \$9,000 per year for graduate students, subject to a cumulative maximum of \$55,500 (including undergraduate borrowings).

Grade Level. Grade Level indicates the relative status of an eligible student in a degree or certificate granting program and usually corresponds to an academic year. For example, an eligible student in the second year of a four-year program would be in Grade Level 2.

Interest Rates. The interest rate on SELF II Loans is adjusted quarterly, based upon the average of the weekly auction investment rates on 13-week Treasury Bills, plus a margin determined by the Issuer with a Credit Confirmation as applicable (the current margin is 2.00%). The interest rate applicable for the quarter ending December 31, 2008 is 4.50%. The interest rate on SELF II Loans may be adjusted, either upward or downward, but not more than 2.00% during any 12-month period.

The interest rate on SELF III and SELF IV Loans is adjusted quarterly, based upon the average of the three month London Interbank Offered Rates (LIBOR), plus a margin determined by the Issuer (the current margin is 3.00%). The interest rate applicable for the quarter ending December 31, 2008 is 5.90%. The interest rate on SELF III and SELF IV Loans may be adjusted, either upward or downward, but not more than 3.00% during any 12-month period.

Borrower Benefits. The Issuer has the option to offer Borrower Benefits to eligible borrowers. Borrowers may be eligible for multiple Borrower Benefits. For all SELF Loans, the Issuer may offer (a) a reduction of 0.25% in the interest rate on Student Loans for those borrowers who make automatic (“ACH”) payments; (b) a reduced interest rate of 3.00% for borrowers who are called to active military service; and/or (c) forbearance for those borrowers who suffer total disablement for a temporary period of at least four months, but no longer than three years. For SELF IV Loans only, the Issuer will offer a reduction of 0.25% in the interest rate on Student Loans for those borrowers who make on-time payments for a designated period of time. The Issuer may choose to offer additional Borrower Benefits in the future provided that such Borrower Benefits do not exceed the amounts assumed in the most recent Cash Flow Projection satisfying the Cash Flow Condition and are consented to by the Credit Provider. Currently, the Issuer is only offering the temporary disability borrower benefit.

Loan Disbursement. SELF Loans are disbursed in accordance with applicable periods of enrollment. For example, an applicant eligible to receive a \$7,500 SELF Loan and attending a 2-semester school would receive a check for \$3,750 at the beginning of each semester. Likewise, a student attending school on a quarterly schedule would receive \$2,500 at the beginning of each term for an academic year consisting of three quarters. Loan checks are made jointly payable to the borrower and the institution, and each such party must sign the check to negotiate it. Schools may elect to have loan disbursements sent electronically.

Loan Repayment. The repayment provisions for SELF Loans have been developed to provide repayment flexibility for the borrower while in school and to maintain the financial integrity of the Program.

Under the standard repayment plan for SELF II and SELF III Loans, quarterly interest payments begin within 3 months of disbursement. Monthly interest payments are then required for 12 months after the borrower leaves school. Monthly principal and interest payments begin on the 13th month after graduation or termination of study, subject to a maximum repayment term equal to the lesser of: (i) 10 years from graduation/termination, or (ii) 15 years from the first disbursement of their first SELF Loan. For SELF IV Loans, the loans are required to enter repayment no later than seven years after the first disbursement on the loan. If the balance on all the borrowers’ SELF Loans is less than \$18,750, the SELF IV Loans must be paid off within ten years from graduation/termination. If the balances of all SELF Loans is \$18,750 or greater, the SELF IV Loans must be paid off within fifteen years from graduation/termination.

An additional 24-month period of interest only payments after the standard 12-month grace period is available upon request, subject to the same maximum repayment terms described above. There are no penalties assessed for prepayment of loans.

Whenever a borrower is delinquent in interest or principal payments for more than 30 days, the co-signer will be expected to meet the obligation until such time as the borrower may resume payments. The Issuer will accept payments from third parties (e.g., educational institutions, foundations, community organizations or employers) to assist or fulfill student payment obligations. However, the ultimate obligation for repayment of SELF Loans remains that of the borrower and co-signer. A rehabilitation program is available for borrowers who defaulted on their Student Loans on or after June 27, 2008.

Eligible Institutions. An Eligible Institution is defined as a post-secondary institution that either: (i) is operated or regulated by the State, or (ii) if operated publicly or privately in another state, is approved by the U.S. Department of Education, or (iii) is chartered in the Canadian Province of Manitoba. All such institutions are required to have their Chief Executive Officer sign a SELF Participation Agreement (as described below) agreeing to perform certain administrative procedures in loan processing and student counseling. By July 1, 2011, institutions must participate in the federal Pell Grant program to be eligible.

With respect to institutions described in items (ii) and (iii) above, such schools must maintain academic standards substantially equal to those of comparable institutions operated in the State, as determined by the Issuer.

The SELF Participation Agreement requires that institutions make proper certifications and deliver loan funds to student borrowers. Such certifications involve verifying and documenting the identity, eligible enrollment, satisfactory academic progress and cost of attendance of the borrower, calculating maximum allowable loan eligibility and recommending a specific loan amount. Institutions are also required to verify students' prior borrowing histories.

Eligible Borrowers. Borrowers must either be enrolled at an Eligible Institution (as defined above) in the State or be a Minnesota resident enrolled at an Eligible Institution in another state. Borrowers must also:

- be enrolled at least half-time in a program leading to a certificate, associate, baccalaureate, masters, doctorate or other professional degree;
- be making satisfactory progress in an approved course of study;
- not currently be in default under any State, federal or other private student loan program;
- not be delinquent in the payment of principal or interest on any SELF Loan;
- have agreed to the release of information to a consumer credit reporting agency;
- have a creditworthy co-signer, as defined below; and
- be physically attending classes in Minnesota if borrower is a non-resident.

Co-Signer Credit Criteria. The Issuer underwrites each loan and assesses the creditworthiness of the co-signer. The co-signer must be a U.S. citizen or permanent resident, be at least 24 years old, or 18 years old if a sibling of the borrower, and have demonstrated to the satisfaction of the Issuer that he or she has not had difficulty in repaying debts. The Issuer verifies the creditworthiness of co-signers by checking information available through one of several national credit bureaus.

In order to be considered creditworthy, prospective co-signers must meet the following criteria: (i) no credit bureau balances discharged through bankruptcy, (ii) no garnishments, attachments, foreclosures, repossessions or suits, (iii) no delinquent or unsatisfied credit obligations such as tax liens, mechanics liens or other judgments, (iv)

no more than 5% of current credit bureau balances past due. A co-signer may be considered creditworthy if the total amount of unsatisfied credit or payment obligations or past due balances does not exceed \$300.

**Loss and Delinquency Experience for the Student Loan Portfolio**

The tables that follow set forth, with regard to SELF II, SELF III and SELF IV Loans, loan loss and recovery experience, shown on an annual basis for the fiscal years ended June 30, 2002 through 2008 as available, and borrower delinquencies, shown on a monthly basis for the months ended May 2008 through October 2008 as available. There can be no assurance, however, that the loss and recovery experience or borrower delinquencies for the SELF II, SELF III and SELF IV Loans included in the Trust Estate will be similar to the historical experience set forth on the next three pages.

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SELF II PROGRAM  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended June 30, 2008	12 Months Ended June 30, 2007	12 Months Ended June 30, 2006	12 Months Ended June 30, 2005	12 Months Ended June 30, 2004	12 Months Ended June 30, 2003	12 Months Ended June 30, 2002
Average Receivables Outstanding *	\$130,939,869	\$170,508,054	\$215,275,587	\$260,926,638	\$305,482,440	\$349,583,495	\$350,985,915
Gross Losses	1,727,386	2,384,686	3,040,232	3,747,208	4,919,786	5,361,271	3,864,826
Recoveries	2,884,995	3,485,942	3,567,672	4,017,560	3,944,178	3,206,561	2,585,736
Net Losses	(1,157,609)**	(1,101,256)**	(527,440)**	(270,352)**	975,608	2,154,710	1,279,090
Net Losses as Percentage of Average Receivables Outstanding	(0.88%)	(0.65%)	(0.25%)	(0.10%)	0.32%	0.62%	0.36%

\* Average Receivables Outstanding is the arithmetic average of receivables outstanding during the period indicated.  
 \*\* Recoveries were greater than gross losses for the year.

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

	October 31, 2008	September 30, 2008	August 31, 2008	July 31, 2008	June 30, 2008	May 31, 2008
<u>Days Delinquent</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
15-44	\$4,460	\$4,959	\$4,963	\$4,965	\$4,817	\$4,852
	388	380	339	416	342	369
45-59	783	994	1,031	976	1,029	770
60-89	401	424	389	435	270	435
90-119	244	295	247	254	300	239
120 and over						
	6.1%	6.6%	6.4%	6.3%	5.9%	5.7%
Total	\$6,276	\$7,052	\$6,969	\$7,046	\$6,758	\$6,665
	4.3%	4.7%	4.6%	4.4%	4.2%	4.1%
	0.4	0.3	0.3	0.4	0.3	0.3
	0.8	0.9	0.9	0.9	0.9	0.7
	0.4	0.4	0.4	0.4	0.2	0.4
	0.2	0.3	0.2	0.2	0.3	0.2

SELF III PROGRAM  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended June 30, 2008	12 Months Ended June 30, 2007	12 Months Ended June 30, 2006	12 Months Ended June 30, 2005	12 Months Ended June 30, 2004	12 Months Ended June 30, 2003
Average Receivables Outstanding *	\$350,101,688	\$393,632,848	\$382,753,780	\$278,810,605	\$164,504,905	\$59,186,680
Gross Losses	6,030,502	5,269,206	4,055,277	1,777,817	679,370	27,453
Recoveries	3,157,602	2,248,147	1,058,177	388,722	74,158	68
Net Losses	2,872,900	3,021,059	2,997,100	1,389,085	605,212	27,385
Net Losses as Percentage of Average Receivables Outstanding	0.82%	0.77%	0.78%	0.50%	0.37%	0.05%

\* Average Receivables Outstanding is the arithmetic average of receivables outstanding during the period indicated.

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

	October 31, 2008	September 30, 2008	August 31, 2008	July 31, 2008	June 30, 2008	May 31, 2008
<u>Days Delinquent</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
15-44	\$12,594	\$16,456	\$13,771	\$15,183	\$16,580	\$13,609
45-59	388	340	321	426	455	330
60-89	3,461	3,112	3,512	4,128	3,537	3,217
90-119	1,343	1,642	1,803	1,575	1,602	2,163
120 and over	1,089	1,272	1,132	1,216	1,509	1,114
Total	\$18,875	\$22,822	\$20,539	\$22,528	\$23,683	\$20,433
	6.0%	7.2%	6.4%	7.0%	7.2%	6.2%
	4.0%	5.2%	4.3%	4.7%	5.0%	4.1%
	0.1	0.1	0.1	0.1	0.1	0.1
	1.1	1.0	1.1	1.2	1.1	1.0
	0.4	0.5	0.6	0.6	0.5	0.7
	0.4	0.4	0.3	0.4	0.5	0.3

SELF IV PROGRAM  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended <u>June 30, 2008</u>	12 Months Ended <u>June 30, 2007</u>
Average Receivables Outstanding *	\$202,831,219	\$75,442,045
Gross Losses	1,226,217	58,892
Recoveries	87,691	103
Net Losses *	1,138,526	58,789
Net Losses as Percentage of Average Receivables Outstanding	0.56%	0.08%

\* Average Receivables Outstanding is the arithmetic average of receivables outstanding during the period indicated.

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

	October 31, 2008	September 30, 2008	August 31, 2008	July 31, 2008	June 30, 2008	May 31, 2008
<u>Days Delinquent</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
15-44	\$9,552	\$13,228	\$11,329	\$9,792	\$14,431	\$11,587
45-59	1,122	1,556	1,185	1,377	1,798	1,218
60-89	2,442	1,717	1,878	3,039	2,019	1,859
90-119	682	996	1,188	887	888	1,137
120 and over	<u>454</u>	<u>571</u>	<u>473</u>	<u>431</u>	<u>577</u>	<u>392</u>
Total	<u>\$14,252</u>	<u>\$18,068</u>	<u>\$16,053</u>	<u>\$15,526</u>	<u>\$19,713</u>	<u>\$16,193</u>
	4.8%	6.2%	5.9%	6.2%	7.9%	6.6%
	3.2%	4.6%	4.2%	3.9%	5.8%	4.7%
	0.4	0.5	0.4	0.5	0.7	0.5
	0.8	0.6	0.7	1.2	0.8	0.7
	0.2	0.3	0.4	0.4	0.4	0.5
	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>

## LOAN SERVICING AND COLLECTIONS

The Issuer has contracted with Firstmark Services LLC, a subsidiary of Nelnet, Inc. that specializes in servicing alternative loans, to service SELF Loans. While the Issuer's staff is primarily responsible for loan origination processing and defaulted loan collections, the Servicer is responsible for disbursing SELF Loans and for effecting billing procedures, which commence with the first interest payment, and payment processing.

Nelnet, Inc., a Nebraska corporation, has provided third-party education loan servicing operations since the early 1980s, including application processing, underwriting, disbursement of funds, customer service, account maintenance, federal reporting and billing collections, payment processing, default aversion, claim filing and recover/collection services to lenders, secondary market purchasers and guarantee agencies throughout the United States. As of September 30, 2008, Nelnet and its subsidiary companies serviced approximately \$35.9 billion in student loans. Nelnet has offices located in, among other cities, Aurora, Colorado; Lincoln, Nebraska; and Jacksonville, Florida, and, as of September 30, 2008, Nelnet and its subsidiary companies employed approximately 2,250 employees. Nelnet is a public company, traded under the symbol NNI on the New York Stock Exchange. For more information on Nelnet and its services, visit [www.nelnet.com](http://www.nelnet.com).

Firstmark Services LLC ("Firstmark"), a Colorado corporation, began performing third-party alternative education loan origination and servicing operations under the Firstmark brand on March 2, 2002. From 1997 until March 2002, Firstmark performed alternative loan servicing as a division of Nelnet, Inc. Firstmark specializes in the origination and servicing of alternative loans and offers its services to lending institutions. Located in Woodbury, Minnesota, Firstmark is a wholly-owned subsidiary of Nelnet, Inc. and as of September 30, 2008, had approximately 70 employees. As of September 30, 2008, Firstmark services more than \$1.25 billion in alternative student loan volume.

Delinquency Procedures. If a borrower becomes delinquent in the payment of their SELF Loan, the Servicer institutes collection procedures with both the borrower and co-signer, including computer-generated late notices and letters, telephone contact and other collection procedures.

A payment notice is mailed to each borrower at least 20 days prior to the payment due date. If the payment is not received on the due date, the loan is considered late. The following summarizes the steps the Servicer takes to cure a delinquent loan:

<u># of Days Delinquent</u>	<u>Action Performed by Servicer</u>
16 Days Late	Notice is sent to borrower; late fee charged
30 Days Late	Notice is sent to the borrower and co-signer; telephone call to borrower
45 Days Late	Telephone call to borrower and co-signer
60 Days Late	Letter to both borrower and co-signer
75 Days Late	Telephone call to borrower and co-signer
90 Days Late	Notice of demand for payment to borrower and co-signer; telephone call to borrower and co-signer
105 Days Late	Demand letters sent to both borrower and co-signer (printed on Issuer letterhead)
110 Days Late	Telephone call to borrower and co-signer
120 Days Late	Servicer returns loan to the Issuer for claim on borrower and co-signer

Default Collection Procedures. Once a SELF Loan has defaulted, the Issuer will take one or more of the following actions:

- Work to effect repayment through the Minnesota Revenue Recapture Act <sup>1</sup>

<sup>1</sup> Under this law, the borrower and/or the co-signer's state income tax, state lottery winnings and property tax refunds and other refunds may in certain circumstances be diverted to the Issuer to repay amounts owed relating to a defaulted SELF Loan.

- Take legal action against the borrower for repayment
- Take legal action against the co-signer for repayment
- Report the borrower's defaulted loan to the credit bureau
- Report the co-signer's default to the credit bureau
- Turn the account over to a collection agency

## TAX MATTERS

### Series 2008B Bonds

Federal Tax Considerations. As of the date of issuance, in the opinion of Best & Flanagan LLP, Bond Counsel, interest on the Series 2008B Bonds is, under existing law, excluded from gross income for Federal income tax purposes. Interest on the Series 2008B Bonds is an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations. However, the exemption from gross income under the Code may become inapplicable either with respect to Series 2008B Bonds, as of either the date of issuance of the Series 2008B Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (1) the proceeds of the Series 2008B Bonds being expended in a manner or for a use inconsistent with certain applicable requirements of Sections 141 or 144 of the Code or (2) the investment of amounts in "nonpurpose obligations" (as defined in Section 148 of the Code) or the application of the earnings of investments in said "nonpurpose obligations", in each case in a manner contrary to the requirements of Section 148 of the Code. In addition to the foregoing exceptions, the opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer and the Trustee comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2008B Bonds in order that interest thereon be, or continue to be, excluded from gross income for Federal income tax purposes. The Issuer and the Trustee have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2008B Bonds in gross income for Federal income tax purposes to be retroactive to the date of issuance of the Series 2008B Bonds. No opinion is expressed regarding other Federal tax consequences arising with respect to the Series 2008B Bonds. The Series 2008B Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code.

In addition to the foregoing, the Code contains the following provision which affects certain taxpayers:

Interest on the Series 2008B Bonds is an item of tax preference includible in the computation of the alternative minimum tax imposed with respect to individuals and corporations, and interest on the Series 2008B Bonds will be included in the computation of "adjusted current earnings" for the purpose of calculating the alternative minimum tax that may be imposed with respect to corporations.

The Code further provides that interest on the Series 2008B Bonds is includible in the calculation of modified adjusted gross income in determining whether Social Security or railroad retirement payments are to be included in taxable income of individuals.

Minnesota Tax Considerations. It is the further opinion of Bond Counsel that, under existing law, interest on the Series 2008B Bonds is not includible in gross income for the purpose of Minnesota income taxes, except for Minnesota corporate and bank excise taxes measured by income. See "APPENDIX D" for the full text of a form of the opinion proposed to be rendered by Bond Counsel.

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against



interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued.

On May 19, 2008 the U.S. Supreme Court held in *Department of Revenue of Kentucky v. Davis* that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution. In a footnote, however, the Court stated that it had not addressed whether differential treatment of "so-called 'private-activity,' 'industrial-revenue,' or 'conduit' bonds . . . used to finance projects by private entities" violate the Commerce Clause, adding that "we cannot tell with certainty what the consequences would be of holding that Kentucky violates the Commerce Clause by exempting such bonds; we must assume that it could disrupt important projects that the States have deemed to have public purposes. Accordingly, it is best to set this argument aside and leave for another day any claim that differential treatment of interest on private-activity bonds should be evaluated differently from the treatment of municipal bond interest generally."

The Series 2008B Bonds are "private activity bonds." Since the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the outcome of any such challenge cannot be predicted. If Minnesota's treatment of such bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series 2008B Bonds to become taxable by Minnesota and the market value of the Series 2008B Bonds to decline.

#### **Series 2008A Bonds**

Interest on the Series 2008A Bonds is not excludable from gross income for federal or State of Minnesota income tax purposes.

SERIES 2008 BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISOR WITH RESPECT TO THE CALCULATIONS OF ALTERNATIVE MINIMUM TAX OR FOREIGN BRANCH PROFITS TAX LIABILITY, OR THE INCLUSION OF SOCIAL SECURITY OR OTHER RETIREMENT PAYMENTS IN TAXABLE INCOME.

### **UNDERWRITING**

The Underwriter of the Series 2008 Bonds is RBC Capital Markets. The Underwriter will be paid a fee of \$544,453 for underwriting the Series 2008 Bonds. The Issuer has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Federal securities laws.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. (the "Financial Advisor"), Minneapolis, Minnesota, has been retained by the Issuer to serve as financial advisor with respect to the Series 2008 Bonds. The Financial Advisor has assisted the Issuer in matters relating to the planning, structuring, and issuance of the Series 2008 Bonds and various other debt related matters. In assisting with the preparation of the Official Statement, the Financial Advisor has relied upon Issuer officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Series 2008 Bonds.

## LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or contesting the validity of the Series 2008 Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2008 Bonds or the existence or powers of the Issuer.

## RATINGS

The Series 2008 Bonds will be rated “Aa1/VMIG 1” by Moody's and “AA-/F1+” by Fitch, with the understanding that the Bank will deliver the Letter of Credit securing payment of the principal of and interest on, and the purchase price upon tender of, the Series 2008 Bonds simultaneous with the issuance thereof. These ratings are based solely on the credit of the Bank and not on the Trust Estate held under the Indenture. Such ratings reflect only the views of the rating agencies and an explanation of the significance of such ratings can only be obtained from the rating agency furnishing the same. No assurance can be given that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies furnishing the same, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the Series 2008 Bonds.

## LEGAL MATTERS

### Compliance with SEC Rule 15c2-12

The Issuer has provided the Underwriter with a copy of the Official Statement. As of its date, the Official Statement was “deemed final” by the Issuer for the purpose of SEC Rule 15c2-12(b)(1), absent only the types of information in SEC Rule 15c2-12(b)(1).

The Issuer has agreed with the Underwriter in the Bond Purchase Agreement, in compliance with SEC Rule 15c2-12(b)(3), to deliver to the Underwriter, within seven days of the date of the Bond Purchase Agreement, copies of the final Official Statement in sufficient quantity to comply with SEC Rule 15c2-12(b)(4) and the rules of the Municipal Securities Rulemaking Board.

### Continuing Disclosure

The Issuer and the Trustee will enter into a Continuing Disclosure Agreement (the “Disclosure Agreement”) in substantially the form attached hereto as Appendix F to provide for the public availability of information relating to the Series 2008 Bonds and to comply with rules and regulations applicable to the disclosure of information in the municipal bond market. The Disclosure Agreement may be amended from time to time without the consent of Bondholders to the extent the parties thereto deem it necessary or desirable to comply with applicable law, regulations and rules relating to continuing disclosure regarding tax-exempt securities, including rules promulgated by the Securities and Exchange Commission under Rule 15c2-12 or otherwise.

The Trustee is appointed the Dissemination Agent for the purpose of disclosing the information described in the Disclosure Agreement. The Trustee will make available to a Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) or to [www.disclosureusa.org](http://www.disclosureusa.org) (“DisclosureUSA”) all of the information described in the next paragraph of which the Trustee has actual knowledge or which has been reported to the Trustee. The Trustee will supply to any Bondholder who requests such information, any information transmitted to the NRMSIR or to DisclosureUSA.

By 155 days after the Issuer’s fiscal year ending June 30, 2009, the Issuer shall provide the Dissemination Agent with its Annual Financial Information, which shall include:

- A complete audit report and opinion of an Accountant and the Issuer’s financial statements for such fiscal year.

- To the extent not included in the financial statements described immediately above, the following information which may be unaudited but shall be certified as to accuracy and completeness by the Issuer's Chief Financial Officer:

- Information regarding the Issuer's operating budget and the Loan Capital Fund.
- Information regarding the amount of Student Loans originated, the outstanding principal balance of Student Loans and loan loss and recovery experience and borrower delinquencies.

The Issuer shall cause the Dissemination Agent to provide the Annual Financial Information not later than 155 days after the end of the Issuer's fiscal year to each then existing (i) NRMSIR or to DisclosureUSA and (ii) State Information Depository ("SID") for the State.

If a Material Event occurs while any Series 2008 Bonds are outstanding, the Issuer shall provide, or shall provide to the Dissemination Agent for dissemination in a timely manner to each then existing NRMSIR or DisclosureUSA and SID, notice of any such Material Event. Material Events include:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the Series 2008B Bonds;
- Modifications to rights of Series 2008 Bond owners;
- Series 2008 Bond calls;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Series 2008 Bonds; and
- Rating changes.

Failure of the Issuer or the Trustee to comply with any provisions of the Disclosure Agreement shall constitute a default thereunder and any party aggrieved thereby, including the owners of any Series 2008 Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in the Disclosure Agreement.

In no event shall a default under the Disclosure Agreement constitute an event of default under the Indenture.

## **ERISA Considerations**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under section 501(a) of the Code, other than governmental and church plans as defined herein ("Qualified Retirement Plans"), and

on Individual Retirement Accounts (“IRAs”) described in Section 408(b) of the Code (collectively, “Tax-Favored Plans”). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code. Accordingly, assets of such plans may be invested in Series 2008 Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of applicable federal and state law.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that a plan’s investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, “Benefit Plans”) and persons who have certain specified relationships to the Benefit Plans (“Parties in Interest” or “Disqualified Persons”), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Series 2008 Bonds might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the Issuer were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor (the “Plan Assets Regulation”), the assets of the Issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an “equity interest” in the Issuer and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Series 2008 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. However, without regard to whether the Series 2008 Bonds are treated as an equity interest for such purposes, the acquisition or holding of Series 2008 Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer or the Trustee, or any of their respective affiliates, is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by “in-house asset managers”; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts”; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.”

Any ERISA Plan fiduciary considering whether to purchase Series 2008 Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code.

## **Legal Opinions**

The Series 2008 Bonds will be approved as to legality and certain other matters by Best & Flanagan LLP, Minneapolis, Minnesota, as Bond Counsel to the Issuer. All opinions with respect to enforceability of documents will contain an exception as to enforceability thereof being limited by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, moratorium or other laws of general application relating to or affecting enforcement of creditors’ rights.

MINNESOTA OFFICE OF HIGHER EDUCATION

By: /s/ Susan G. Heegaard  
Director

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**APPENDIX A**

**BASIC FINANCIAL STATEMENTS OF THE MINNESOTA OFFICE OF HIGHER EDUCATION**

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# Minnesota Office of Higher Education

Financial Statements as of and for the Years Ended  
June 30, 2008 and 2007, Supplemental Schedules  
for the Years Ended June 30, 2008 and 2007, and  
Independent Auditors' Report

# MINNESOTA OFFICE OF HIGHER EDUCATION

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**Deloitte & Touche LLP**  
 400 One Financial Plaza  
 120 South Sixth Street  
 Minneapolis, MN 55402  
 USA

Tel: +1 612 397 4000  
 Fax: +1 612 397 4450  
[www.deloitte.com](http://www.deloitte.com)

## INDEPENDENT AUDITORS' REPORT

Director  
 Minnesota Office of Higher Education  
 Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Minnesota Office of Higher Education (the "Agency"), a component unit of the state of Minnesota as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Minnesota Office of Higher Education as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 2 through 11 and 33 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

September 15, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of the financial performance of the Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal years ended June 30, 2008 and 2007.

### Introduction

The purpose of the Agency is stated in the agency mission and goals:

Mission:

To achieve the promise of higher education to all Minnesotans and provide the critical information that guides higher education decisions.

Goals:

- Achieve student financial access to postsecondary education;
- Enable students to choose among postsecondary education options;
- Protect and inform educational consumers;
- Produce independent, statewide information on postsecondary education; and facilitate interaction among and collaborate with organizations that share responsibility for education in Minnesota.

The Agency's specific core statutory responsibilities are as follows:

- Administration of state financial aid programs for students;
- Negotiation and administration of statewide interstate tuition reciprocity programs;
- Publication and distribution to students and parents information about academic and financial preparation, including financial aid;
- Approval, registration, and licensure of private colleges and career schools;
- Oversight of statewide library service programs that improve access to information and support cost-effective library operations;
- Collection, maintenance, and analysis of student enrollment and financial aid data and reporting data on students and post-secondary institutions to develop and implement a process to measure and report on the effectiveness of post secondary institutions;
- Administration of statewide federal programs; and
- Prescribing policies, procedures, and rules necessary to administer the programs under the Agency's supervision.



The Agency is authorized to issue bonds up to a total outstanding of \$850 million. The bonds by law are not a debt of the state of Minnesota or any political subdivision thereof.

The Agency's programs and services are provided through different means including:

The Minnesota State Grant Program (which provides more than \$140 million in need-based aid to Minnesota students annually), and other student financial aid programs such as the Post-Secondary Child Care Grant Program, State Work Study Program, the Public Safety Officers' Survivors Benefit Program, Achieve Scholarship Program, Minnesota GI Bill Program, and the American Indian Scholarship Program. Other core programs are the Student Educational Loan Fund (SELF), the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program. These programs enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities.

The Agency's publications, videos, web content, interactive media, and direct contact with students and families enable the agency to provide outreach to communities of color, low-income families, and families with no previous higher education experience. The Get Ready! Program, working in tandem with the federally sponsored GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) and state sponsored Intervention for College Attendance Program Grants, helps to sustain a continuum of contact and service to low-income students from fourth grade through high school as they prepare for college admission and attendance.

The Agency's Web presence includes information for students, parents, educators, and financial aid administrators, enrollment data which can be customized by the user, information concerning private postsecondary institutions licensed or registered by the Agency, online tuition reciprocity applications, and a financial aid estimator.

A portion of the Agency's state appropriations are for the following two programs:

- The MINITEX Library Information Network provides students, scholars, and residents of Minnesota and contiguous states with cost-effective access to a wide range of library resources and information, including delivery of interlibrary loan materials, cooperative licensing, and access to electronic resources. The Minnesota Library Information Network (MnLINK) is a statewide virtual library that electronically links major Minnesota libraries. The MnLINK Gateway connects the online catalogs of 20 Minnesota library systems and selected commercial databases so that they appear to a user as a single source of information. The MnLINK Integrated Library System is a shared library automation system for the University of Minnesota, Minnesota State Colleges and Universities, Minnesota state agencies, and interested private college, public, school and special libraries.
- The Learning Network of Minnesota provides access to educational programs and library resources through telecommunications technology. The Learning Network enables students to have access to learning opportunities that otherwise would be unavailable at their college or in their geographic area.

Through state laws which undergird the registration and licensure of private colleges, universities, and career schools, the Agency provides students with consumer protection by assuring that private post-secondary institutions meet state standards in order to operate legally in Minnesota.

## Financial Highlights

- The Agency's net position increased \$16.4 million or 5.0% from fiscal year 2007 to 2008, and increased \$20.9 million or 6.9% from fiscal year 2006 to 2007. The increase during both years is mainly a result of student loan financing activities.
- Loan receivables in the Loan Capital Fund grew by \$42.8 million or 6.7% during fiscal year 2008 and grew by \$40.4 million or 6.7% during fiscal year 2007.
- The Loan Capital Fund issued 28,302 and 30,577 of new loans in fiscal years 2008 and 2007, respectively, with an average loan amount of \$5,002 and \$4,425, respectively.
- The Agency received \$196.6 million for fiscal year 2008 appropriations in addition to the \$0.5 million carryforward from previous fiscal year. Approximately \$8.0 million will be carried forward to fiscal year 2009. The Agency received \$177.2 million for fiscal year 2007 appropriations in addition to a \$15.0 million carryforward from the previous year. The Agency received legislative approval to enter into interest rate exchange or swap agreements, or other comparable interest rate protection agreements. This option is limited to agreements related to bonds and notes with an aggregate value of no more than \$20 million. As of June 30, 2008, the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.

## Using This Annual Report

This annual report consists of a series of financial statements. The Combined Statements of Net Position and the Combined Statement of Activities (on pages 12, 13, and 14) provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances. Fund financial statements start on page 16. Fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's funds.

## Reporting the Agency as a Whole

### *The Statements of Net Position and the Statement of Activities*

Our analysis of the Agency as a whole begins on page 6. The Combined Statements of Net Position and the Combined Statement of Activities report information about the Agency as a whole and about its activities in a way that helps the reader grasp the Agency's fiscal years 2008 and 2007 financial activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These statements report the Agency's net position and changes in position. You can think of the Agency's net position — the difference between assets and liabilities — as one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the Agency.

In the combined Statements of Net Position and the Statement of Activities, we divide the Agency into two kinds of activities:

**Governmental Activities** — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs and the Work Study Program and the MnLINK program, negotiating and administering reciprocity agreements, publishing and distributing financial aid information and materials, collecting and maintaining student enrollment and financial aid data, and administering various federal grant programs that affect students and postsecondary institutions. Licensing and registration fees finance the cost for administering the registration and licensing of private collegiate and career schools.

- **Business-Type Activities** — The Agency is designated by statute as the administrative agency for the establishment of one or more loan programs. The purpose of the loan programs is to provide financial assistance for the postsecondary education of students. The two loan programs currently being administered by the Agency are the Student Educational Loan Fund (SELF) Program and the Graduated Repayment Income Protection (GRIP) Program.

## Reporting the Agency's Most Significant Funds

### *Fund Financial Statements*

The fund financial statements begin on page 15 and provide detailed information about the most significant funds — not the Agency as a whole. Some funds are required to be established by state law, and the Agency established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for certain grants and pass-through funds (like MINITEX payments to the Ohio College Library Center). The Agency's two kinds of funds — governmental and proprietary — use different accounting approaches.

- **Governmental Funds** — Most of the Agency's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Agency's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs.
- **Proprietary Funds** — When the Agency charges customers for the services it provides — whether to outside customers or to other units of the Agency — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statements of Net Position and the Statements of Activities. In fact, the Agency's enterprise funds are the same as the business-type activities the Agency reports in the government-wide statements but provides more detail and additional information, such as cash flows, for proprietary funds.

### *Reporting the Agency's Fiduciary Responsibilities*

The state of Minnesota performs a fiduciary role for the Minnesota State Retirement System (MSRS), Teachers Retirement Association (TRA), and the Public Employees Retirement Association (PERA). The Agency contributes to the pension plans as an employer but does not act as trustee for any of the pension plans.

## The Agency as a Whole

The Agency's combined net position increased by \$16.4 million or 5.0%. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Agency's governmental and business-type activities.

**Table 1**  
**Net Position**

	<b>2008</b>			<b>2007</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
Assets:						
Current and other assets	\$12,575,468	\$ 868,196,532	\$ 880,772,000	\$ 7,358,605	\$ 880,155,681	\$ 887,514,286
Deferred charges		3,107,456	3,107,456		3,378,110	3,378,110
Total assets	12,575,468	871,303,988	883,879,456	7,358,605	883,533,791	890,892,396
Liabilities:						
Other liabilities	11,360,024	3,426,700	14,786,724	5,097,383	3,101,318	8,198,701
Revenue bonds		527,000,000	527,000,000		557,000,000	557,000,000
Total liabilities	11,360,024	530,426,700	541,786,724	5,097,383	560,101,318	565,198,701
Net position:						
Restricted for debt service		279,327,344	279,327,344		273,709,155	273,709,155
Trust net assets		61,549,944	61,549,944		49,723,318	49,723,318
Unrestricted	1,215,444		1,215,444	2,261,222		2,261,222
Total net position	\$ 1,215,444	\$ 340,877,288	\$ 342,092,732	\$ 2,261,222	\$ 323,432,473	\$ 325,693,695

Net position of the Agency's governmental activities decreased by \$1,045,778 during the current fiscal year versus a \$1,610,860 decrease during the prior fiscal year.

This change in net position is due to the Agency being assigned as the fiscal agent for the Rochester higher education development account in fiscal year 2006. The legislature appropriated \$3.0 million to be placed in a special revenue fund for implementation of activities to expand educational programs or institutions in Rochester. Of the \$3.0 million received in fiscal year 2006, \$1.8 million was spent in fiscal year 2007, and \$1.2 million was spent in fiscal year 2008.

State appropriations are retained for the portion of severance liability and retired employees insurance benefits liability that the Agency has at fiscal year-end. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — decreased from \$2,261,222 at June 30, 2007 to \$1,236,444 at the end of this year.

Net loans receivables have increased by approximately \$42.8 million to \$686.7 million or 6.7%. This increase reflects the impact of tuition increases in higher education and an increase in loan limits. This increase is partially offset by an 8.0% decrease in loan volume.

U.S. Treasury regulations limit the student loan revenue yield over bond expenses to 2% on tax exempt student loan bond issues (bond expenses are limited to the bond interest paid to bondholders, cost of defaulted loans, and credit liquidity). Excess revenue generated from the student loans must either be paid back to the IRS every ten years or lowered through a decrease in the student loan interest rate charged, loan forgiveness

programs and/or borrower benefits. As of June 30, 2008, the agency has accrued \$1,538,071 in excess revenue on the 2005B and 2006 tax exempt bond issues.

In February 2008 the agency redeemed \$30,000,000 of taxable bonds. As the auction rate securities market grew unstable and bond interest costs increased substantially, the agency decided to redeem taxable bonds in an amount that would not negatively impact its ability to disburse student loans in the coming school year.

The excess of revenues over expenses of the Agency's business-type activities was \$17.4 million in fiscal year 2008, which was 46.7% of expenses. In the previous year the excess of revenues over expenses was 62.7% of expenses.

**Table 2**  
**Changes in Net Position**

	<b>2008</b>			<b>2007</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
<b>REVENUES —</b>						
Program revenues:						
Charges for services	\$ 835,362	\$54,762,705	\$ 55,598,067	\$ 796,494	\$58,458,173	\$ 59,254,667
State appropriations	188,775,186		188,775,186	191,749,305		191,749,305
Federal appropriations	4,856,912		4,856,912	4,847,315		4,847,315
Total revenues	<u>194,467,460</u>	<u>54,762,705</u>	<u>249,230,165</u>	<u>197,393,114</u>	<u>58,458,173</u>	<u>255,851,287</u>
<b>PROGRAM EXPENSES:</b>						
General government	8,005,323	8,799,609	16,804,932	9,453,333	9,202,563	18,655,896
State and other grants	185,005,163		185,005,163	187,121,609		187,121,609
Federal grants	2,502,752		2,502,752	2,429,032		2,429,032
Provision for loan losses — net		2,901,736	2,901,736		2,223,197	2,223,197
Amortization		1,808,724	1,808,724		103,307	103,307
Interest expense		23,807,821	23,807,821		24,390,043	24,390,043
Total expenses	<u>195,513,238</u>	<u>37,317,890</u>	<u>232,831,128</u>	<u>199,003,974</u>	<u>35,919,110</u>	<u>234,923,084</u>
(DECREASE) INCREASE IN NET POSITION	<u>\$ (1,045,778)</u>	<u>\$17,444,815</u>	<u>\$ 16,399,037</u>	<u>\$ (1,610,860)</u>	<u>\$22,539,063</u>	<u>\$ 20,928,203</u>

The Agency's total revenues decreased \$6.6 million (or 2.6%) (see discussion within governmental activities below). Net business program revenue decreased \$3.7 million (or 6.3%) due to lower interest rates in the current year.

### *Governmental Activities*

Revenues for the Agency's governmental activities (see Table 2) decreased by \$2.9 million (or 1.5%) to \$194.5 million, while total expenses decreased by \$3.5 million (or 1.8%) to \$195.5 million. The majority of the governmental activities revenue decrease was due to lower state appropriations for student grants. The expenditures decrease was due to lower state appropriations for individual student state grants.

- State grant expenditures decreased by \$2.5 million to \$184.6 million. \$147.4 million was appropriated by legislature. For the state grant program, if the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it. \$400,000 appropriated for fiscal year 2009 was transferred to fiscal year 2008.

The Agency currently received federal grant monies from four different programs within the U.S. Department of Education. These federal grants are designed to assist students in meeting their postsecondary education financial obligations for tuition and other related expenses, improve teacher quality and instructional leadership, and increase college attendance and success of low-income students.

### *Business-Type Activities*

Revenues of the Agency's business-type activities (see Table 2) decreased by 6.5% (\$54,762,705 in 2008 compared to \$58,548,173 in 2007) and expenses increased by 3.9%. In fiscal year 2007, there was a higher return for interest and investment interest income. The current interest rate charged to SELF II, SELF III and SELF IV program student loans is set a rate of 5.00%, 6.00% and 6.00%, respectively. Rates for the SELF II program have decreased 2.00% over the past fiscal year, and rates for the SELF III and SELF IV programs have decreased 1.40% over the past fiscal year. Under the SELF IV program, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV program calculates the interest rate charged to borrowers with the same method as the SELF III program.

- As shown in the statement of cash flows, the financing of operating activities was not offset with cash provided by noncapital financing activities in the current year. Bond redemption activity used additional cash by redeeming \$30 million of debt. In addition, the provision for loan loss increased due to an increase in loans this year. Cash from investing activities decreased this year as investments matured within three months and were reinvested into longer maturity short term investments versus cash and cash equivalents.

### *Governmental Funds Budgetary Highlights*

Over the course of fiscal years 2008 and 2007, changes were made to the Agency's budget. During 2008, other operating costs increased by \$2 million, loans and advances increased \$10 million, aid to school districts increased \$1.9 million, and other payments to individuals decreased \$3.6 million. During 2007, other payments to individuals increased by \$13.1 million, aid to nongovernmental organizations increased by \$0.8 million and aid to higher education decreased by \$0.6 million.

Even with these adjustments, the actual expenditures were \$17.0 million and \$8.2 million during fiscal years 2008 and 2007, respectively, below the total budgeted expenditures. The most significant positive variance occurred in other operating costs where most current-year payments went to higher education institutions.

### **Cash Management**

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investments. Monies in the Loan Capital Fund are managed by the Agency and invested in instruments allowed by state statute, such as U.S. Treasury bills and notes, general obligation municipals, collateralized certificates of deposit, repurchase agreements, federal agency notes, bankers' acceptances, and commercial paper. The Agency's investment policy prohibits the Agency from investing in instruments with maturities in excess of three years. The total investment income, including change in the fair value of investments, was down from 2007 by \$1.8 million. As of June 30, 2008, the fair value of the Agency's investments was greater than cost by \$121,970. The Agency's policy is to hold all securities until maturity; therefore, it is highly unlikely that any differences between cost and market in investments would be realized. All of the Agency's investment securities are held in trust in the Agency's name.



## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

At the end of 2008, the Agency had \$0 invested in equipment. The Agency does not own any land or building capital assets. In fiscal year 2004, the Agency adopted the state of Minnesota's valuation for capital assets to include only equipment purchased for \$30,000 or more unless specific grant or other funding sources require a lower capitalization threshold. More detailed information about the Agency's capital assets is presented in Note 5 to the financial statements.

### *Debt*

At year-end, the Agency had \$527 million in bonds and notes outstanding — as shown in Table 3.

**Table 3**  
**Outstanding Debt at Year-End**  
(in millions)

	2008			2007		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Revenue bonds	\$ -	\$ 527	\$ 527	\$ -	\$ 557	\$ 557

Since 1984, the Agency's revenue bond rating has been AAA, the highest rating possible, in the current year the rating was downgraded to AA as a result of Municipal Bond Insurance Association, Inc.'s (MBIA) downgrade to A2 in the current year.

Other obligations of the Agency include accrued vacation pay and sick leave, which are included in accounts payable and accrued liabilities on the combined statements of net position. More detailed information about the Agency's long-term liabilities is presented in Note 6 to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

The Agency's officials considered many factors when setting the fiscal year 2008 budget, rates, and fees that will be charged for the business-type activities. One of the factors continues to be the current trend within the economy. Student loan borrowing has greatly increased within the past several years. This increase has required the Agency to seek additional funding through the issuance of taxable and tax-exempt (AMT) bonds.

The current SELF II loan program margin rate is set at 2.0%, the highest margin allowed under the SELF II Loan program, to compensate for the additional interest cost and other charges associated with the bonds. In fiscal year 2002, the Agency received approval for the SELF III program that bases the interest rate charged to borrowers on the average of the three-month LIBOR during the calendar quarter immediately preceding the interest rate adjustment date plus a margin. The current SELF III margin is 3.0%. The Agency also received approval to establish other rates or utilize a fixed rate when terms can be obtained at a favorable rate to borrowers. The SELF IV loan program margin is also based on the average of the three-month LIBOR rate and is currently set at the same percentage as the SELF III margin.

Effective July 1, 2007, the undergraduate student annual loan limits for grade levels 1, 2, 3, 4, and 5 have a limit of \$7,500.



The Agency believes its current allowance for losses on all loan types is adequate, however the significant increases in college tuitions experienced over the past few years have significantly increased the average amount of loans outstanding for each student as compared to starting salaries upon graduation. If the national economy enters an economic recession, which negatively impacts college graduate entry level employment, the Agency could be required to increase its allowance for loan losses as discussed in Note 3 to the financial statements.

Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2009. For the current biennium, the private tuition maximums used in the state grant formula is a maximum of \$9,838 for the first year and \$9,838 for the second year for students enrolled in four-year programs and \$6,114 the first year and \$5,808 the second year for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at \$5,900 each year. Grant awards are based on the lesser of the average tuition and fees charged by the institution for the term, or the maximum established by law.

Due to an anticipated shortfall in state revenue for the upcoming fiscal year, Agency appropriations for fiscal year 2009 have been reduced by approximately \$1.4 million.

The maximum annual award for Post-secondary Child Care Grants is set at \$2,600 for the current biennium. This grant program received an additional \$1.25 million per fiscal year for the current biennium.

In 2007, the state legislature added additional scholarship and grant programs to the Agency's responsibilities:

- The Achieve Scholarship Program awards scholarships to low and middle income high school students who complete a set of courses in high school related to science, math, social studies, and foreign language.
- The Minnesota G.I. Bill Program provides up to \$1,000 per academic term to veterans, and the dependents of deceased and disabled veterans, who served in active duty after September 11, 2001.
- The Agency also began administering the Indian Scholarship program. The scholarship is awarded to any Minnesota resident student who is of one-fourth or more Indian ancestry, who has applied for other existing state and federal scholarship and grant programs, and who has the capabilities to benefit from further education.

The Agency implemented an electronic signature process for the SELF student loans. This process allows students and cosigners to sign their promissory note online, expediting the processing of the student loan.

As shown on the Statement of Net Position, the Agency's cash and investment balance decreased \$49.0 million, the loans receivable balance increased \$42.8 million, and \$30.0 million of bonds were retired in the current year. The Agency did not issue bonds in the current year, but intends to issue \$100 million in new bonds and refinance a portion of the current outstanding Auction Rate Securities (ARS) bonds into Variable Rate Demand Obligation bonds

In February 2008 the Agency's current bonds at auctions began to fail, and continue to fail, as the nation's auction process collapsed. For the outstanding taxable ARS bonds, bond documents limit the interest rate to the lesser of LIBOR plus 1%, 17%, or the 91 day average of the three month T-Bill plus an applicable spread of 1.25%. For the outstanding tax-exempt ARS bonds, bond documents limit the interest rate to the lesser of the Applicable Percentage of the Kenny index or the After-Tax Equivalent Rate (the current applicable percentage is 175%), 14%, or the three month average of the three month T-Bill plus an Applicable Spread of

1.25%. MBIA is the insurance provider. If MBIA's rating were to fall below A3, and it is currently at A2, then the applicable spread and applicable percentage increase in the calculations. The greatest applicable percentage allowed is 250% and the greatest applicable spread allowed is 2.00%. On June 30, 2008, the average taxable bond interest rate was 3.47% and the average tax-exempt bond interest rate was 2.79%.

### **Contacting the Agency's Financial Management**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency at (651) 259-3951.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINED STATEMENTS OF NET POSITION AS OF JUNE 30, 2008 AND 2007

	2008			2007		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
CURRENT ASSETS:						
Cash and cash equivalents (Note 4)	\$ 11,074,658	\$ 129,555,672	\$ 140,630,330	\$ 5,981,190	\$ 205,591,245	\$ 211,572,435
Investments (Note 4)		39,176,752	39,176,752		17,694,969	17,694,969
Prepaid expenses		222,683	222,683		232,058	232,058
Receivables — net (Note 3)	<u>1,500,810</u>	<u>5,632,104</u>	<u>7,132,914</u>	<u>1,377,415</u>	<u>6,267,869</u>	<u>7,645,284</u>
Total current assets	12,575,468	174,587,211	187,162,679	7,358,605	229,786,141	237,144,746
NONCURRENT ASSETS:						
Designated cash equivalents (Note 4)		6,938,074	6,938,074		6,519,172	6,519,172
Loans receivable — net (Note 3)		686,671,247	686,671,247		643,850,368	643,850,368
Deferred charges, at cost less accumulated amortization of \$527,811 in 2008 and \$421,092 in 2007		<u>3,107,456</u>	<u>3,107,456</u>		<u>3,378,110</u>	<u>3,378,110</u>
Total assets	<u>12,575,468</u>	<u>871,303,988</u>	<u>883,879,456</u>	<u>7,358,605</u>	<u>883,533,791</u>	<u>890,892,396</u>
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	3,006,913	1,691,600	4,698,513	4,287,758	2,922,198	7,209,956
Deferred revenue	<u>7,979,720</u>		<u>7,979,720</u>	<u>453,354</u>		<u>453,354</u>
Total current liabilities	10,986,633	1,691,600	12,678,233	4,741,112	2,922,198	7,663,310
COMPENSATED ABSENCES PAYABLE — Due beyond one year	373,391	197,030	570,421	356,271	179,120	535,391
EXCESS BOND YIELD PAYABLE		1,538,070	1,538,070			
REVENUE BONDS (Note 6)		<u>527,000,000</u>	<u>527,000,000</u>		<u>557,000,000</u>	<u>557,000,000</u>
Total liabilities	<u>11,360,024</u>	<u>530,426,700</u>	<u>541,786,724</u>	<u>5,097,383</u>	<u>560,101,318</u>	<u>565,198,701</u>
NET POSITION:						
Restricted for debt service		279,327,344	279,327,344		273,709,155	273,709,155
Trust net assets		61,549,944	61,549,944		49,723,318	49,723,318
Unrestricted	<u>1,215,444</u>		<u>1,215,444</u>	<u>2,261,222</u>		<u>2,261,222</u>
TOTAL NET POSITION	<u>\$ 1,215,444</u>	<u>\$ 340,877,288</u>	<u>\$ 342,092,732</u>	<u>\$ 2,261,222</u>	<u>\$ 323,432,473</u>	<u>\$ 325,693,695</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenues		Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	Total
PRIMARY GOVERNMENT:						
Governmental activities:						
State appropriations	\$ 188,775,186	\$ -	\$ 188,775,186	\$ -	\$ -	\$ -
Federal appropriations	4,880,867		4,856,912	(23,955)		(23,955)
Registration and licensing fees and other	<u>1,857,185</u>	<u>835,362</u>	<u></u>	<u>(1,021,823)</u>	<u></u>	<u>(1,021,823)</u>
Total governmental activities	195,513,238	835,362	193,632,098	(1,045,778)	-	(1,045,778)
Business-type activities — loan fund	<u>37,317,890</u>	<u>54,762,705</u>	<u></u>	<u></u>	<u>17,444,815</u>	<u>17,444,815</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 232,831,128</u>	<u>\$55,598,067</u>	<u>\$ 193,632,098</u>			
CHANGE IN NET POSITION				(1,045,778)	17,444,815	16,399,037
NET POSITION — Beginning of year				<u>2,261,222</u>	<u>323,432,473</u>	<u>325,693,695</u>
NET POSITION — End of year				<u>\$ 1,215,444</u>	<u>\$ 340,877,288</u>	<u>\$ 342,092,732</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business- Type Activities	
PRIMARY GOVERNMENT:						
Governmental activities:						
State appropriations	\$ 191,755,316	\$ -	\$ 191,749,305	\$ (6,011)	\$ -	\$ (6,011)
Federal appropriations	4,843,228		4,847,315	4,087		4,087
Registration and licensing fees and other	<u>2,405,430</u>	<u>796,494</u>		<u>(1,608,936)</u>		<u>(1,608,936)</u>
Total governmental activities	199,003,974	796,494	196,596,620	(1,610,860)	-	(1,610,860)
Business-type activities — loan fund	<u>35,919,110</u>	<u>58,458,173</u>			<u>22,539,063</u>	<u>22,539,063</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 234,923,084</u>	<u>\$ 59,254,667</u>	<u>\$ 196,596,620</u>			
CHANGE IN NET POSITION				(1,610,860)	22,539,063	20,928,203
NET POSITION — Beginning of year				<u>3,872,082</u>	<u>300,893,410</u>	<u>304,765,492</u>
NET POSITION — End of year				<u>\$ 2,261,222</u>	<u>\$ 323,432,473</u>	<u>\$ 325,693,695</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BALANCE SHEETS — GOVERNMENTAL FUND TYPES AS OF JUNE 30, 2008 AND 2007

	2008			2007		
	General	Special Revenue	Total	General	Special Revenue	Total
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	\$ 9,762,723	\$1,311,935	\$11,074,658	\$3,635,518	\$2,345,672	\$5,981,190
RECEIVABLES — Net	<u>995,419</u>	<u>505,391</u>	<u>1,500,810</u>	<u>709,404</u>	<u>668,011</u>	<u>1,377,415</u>
TOTAL	<u>\$10,758,142</u>	<u>\$1,817,326</u>	<u>\$12,575,468</u>	<u>\$4,344,922</u>	<u>\$3,013,683</u>	<u>\$7,358,605</u>
<b>LIABILITIES AND FUND BALANCES</b>						
LIABILITIES:						
Accounts payable and accrued liabilities	\$ 2,778,422	\$ 601,882	\$ 3,380,304	\$3,891,568	\$ 752,461	\$4,644,029
Deferred revenue	<u>7,979,720</u>		<u>7,979,720</u>	<u>453,354</u>		<u>453,354</u>
Total liabilities	<u>10,758,142</u>	<u>601,882</u>	<u>11,360,024</u>	<u>4,344,922</u>	<u>752,461</u>	<u>5,097,383</u>
FUND BALANCES —						
Unreserved		<u>1,215,444</u>	<u>1,215,444</u>		<u>2,261,222</u>	<u>2,261,222</u>
Total fund balances		<u>1,215,444</u>	<u>1,215,444</u>	<u>-</u>	<u>2,261,222</u>	<u>2,261,222</u>
TOTAL	<u>\$10,758,142</u>	<u>\$1,817,326</u>	<u>\$12,575,468</u>	<u>\$4,344,922</u>	<u>\$3,013,683</u>	<u>\$7,358,605</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUND TYPES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES:						
State appropriations	\$ 188,775,186	\$ -	\$ 188,775,186	\$ 191,749,305	\$ -	\$ 191,749,305
Federal appropriations		4,856,912	4,856,912		4,847,315	4,847,315
Registration and licensing fees		208,354	208,354		233,737	233,737
Other revenue		627,008	627,008		562,757	562,757
Total revenues	<u>188,775,186</u>	<u>5,692,274</u>	<u>194,467,460</u>	<u>191,749,305</u>	<u>5,643,809</u>	<u>197,393,114</u>
EXPENDITURES:						
General government	3,770,023	4,235,300	8,005,323	4,633,707	4,819,626	9,453,333
State and other grants	185,005,163		185,005,163	187,121,609		187,121,609
Federal grants		2,502,752	2,502,752		2,429,032	2,429,032
Total expenditures	<u>188,775,186</u>	<u>6,738,052</u>	<u>195,513,238</u>	<u>191,755,316</u>	<u>7,248,658</u>	<u>199,003,974</u>
DEFICIT OF REVENUES OVER EXPENDITURES	-	(1,045,778)	(1,045,778)	(6,011)	(1,604,849)	(1,610,860)
FUND BALANCE — Beginning of year		2,261,222	2,261,222	6,011	3,866,071	3,872,082
FUND BALANCE — End of year	<u>\$ -</u>	<u>\$ 1,215,444</u>	<u>\$ 1,215,444</u>	<u>\$ -</u>	<u>\$ 2,261,222</u>	<u>\$ 2,261,222</u>

See notes to financial statements.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION — PROPRIETARY FUND TYPES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Interest on student loans	\$ 46,149,895	\$ 48,056,174
United States government interest allowance (Note 3)		1,904
Total operating revenues	<u>46,149,895</u>	<u>48,058,078</u>
OPERATING EXPENSES:		
General and administrative expenses	8,799,609	9,202,563
Provision for loan losses — net (Note 3)	2,901,736	2,223,197
Amortization	<u>1,808,724</u>	<u>103,307</u>
Total operating expenses	<u>13,510,069</u>	<u>11,529,067</u>
OPERATING INCOME	<u>32,639,826</u>	<u>36,529,011</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	8,612,810	10,400,095
Interest expense	<u>(23,807,821)</u>	<u>(24,390,043)</u>
Total nonoperating expenses — net	<u>(15,195,011)</u>	<u>(13,989,948)</u>
INCREASE IN NET POSITION	17,444,815	22,539,063
NET POSITION — Beginning of year	<u>323,432,473</u>	<u>300,893,410</u>
NET POSITION — End of year	<u>\$ 340,877,288</u>	<u>\$ 323,432,473</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENTS OF CASH FLOWS — PROPRIETARY FUND TYPES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from loan holders	\$ 142,737,256	\$ 140,748,600
Cash paid for loan origination	(141,335,039)	(135,440,463)
Cash paid to employees and suppliers	<u>(9,516,036)</u>	<u>(9,755,689)</u>
Net cash used in operating activities	<u>(8,113,819)</u>	<u>(4,447,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(576,377,503)	(709,533,376)
Proceeds from maturity of investments	554,918,018	697,537,575
Interest received from investments	<u>8,835,725</u>	<u>10,319,475</u>
Net cash used in investing activities	<u>(12,623,760)</u>	<u>(1,676,326)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bonds		70,000,000
Bond issuance costs		(534,594)
Interest paid on bonds	(24,879,092)	(23,819,427)
Bond redemption	<u>(30,000,000)</u>	<u></u>
Net cash (used in) provided by noncapital financing activities	<u>(54,879,092)</u>	<u>45,645,979</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(75,616,671)	39,522,101
CASH AND CASH EQUIVALENTS — Beginning of year	<u>212,110,417</u>	<u>172,588,316</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 136,493,746</u>	<u>\$ 212,110,417</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income	\$ 32,639,826	\$ 36,529,011
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization	106,717	103,307
Defeasement of bond issuance costs	163,935	
Decrease in fair value of investments	(22,295)	(49,130)
Provision for loan loss	9,194,727	8,000,038
Write-off of loans	(8,775,825)	(7,594,400)
Origination of student loans	(141,335,039)	(135,440,463)
Principal payments on student loans	98,095,258	94,664,426
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	825,815	(131,132)
Increase in other receivable and prepaid expenses	(403,589)	(517,708)
Increase in excess bond yield payable	1,538,070	
Decrease in accounts payable and accruals	<u>(141,419)</u>	<u>(11,501)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (8,113,819)</u>	<u>\$ (4,447,552)</u>

See notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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### 1. BASIS OF PRESENTATION

**Nature of Organization** — Effective July 1, 1995, the Minnesota Office of Higher Education (the “Agency”) was created in accordance with laws of Minnesota for 1995 as a component unit of the state of Minnesota. The Agency is responsible for the administration of state of Minnesota financial aid programs to students enrolled in eligible postsecondary institutions. In addition, the Agency is also responsible for administering federal financial aid programs that affect eligible students and institutions on a statewide basis. The director, who is appointed by the governor, oversees the performance of the Agency.

**Government-Wide Basis of Presentation** — The government-wide financial statements (i.e., the combined statements of net position and the statements of changes in net position) report information on all of the nonfiduciary activities of the Agency. Governmental activities, which are supported primarily by state appropriations and federal grants, are reported separately from business-type activities, which rely to a significant extent on fees and charges from student loans.

The statements of activities demonstrate the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function.

Separate financial statements are provided for governmental funds and proprietary funds.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Fund Accounting Basis of Presentation** — The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”). In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* — an amendment of GASB Statement No. 14, the Agency’s financial statements are presented discretely in the state of Minnesota’s Comprehensive Annual Financial Report as a component unit. The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three generic fund types and two broad fund types. A description of the fund types used by the Agency follows.

**Governmental Fund Types** — The focus of governmental fund measurement is on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than on net income. The following is a description of the Governmental Funds used by the Agency:

*General Fund* — The general fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, the General Fund is used to account for the funds received and disbursed for the state of Minnesota's financial aid programs.

*Special Revenue Funds* — Special revenue funds are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal, regulatory, or grant provisions or administrative action. They include the miscellaneous grant and federal grant funds. The Miscellaneous Grant Fund receives and disburses grant funds received from private sources under private financial aid programs. The Federal Grant Fund receives and disburses federal government grants and reimbursements under the federal financial aid programs. The Federal Grant Fund is administered in accordance with grant agreements between the Agency and the federal agencies.

*Proprietary Fund Types* — The focus of proprietary fund measurement is on the determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Agency's sole Proprietary Fund is the Loan Capital Fund (LCF) (see Note 3).

## 2. BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

**Basis of Accounting** — The basis of accounting refers to the time at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, as under accrual accounting.

Proprietary Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. All applicable GASB pronouncements have been applied to Proprietary Funds. Additionally, the following pronouncements issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**Cash and Cash Equivalents** — The Agency considers cash on hand, demand deposits, and highly liquid investments with a maturity at date of purchase of three months or less to be cash equivalents.

**Designated Cash Equivalents** — These amounts represent funds maintained or in transit to the Minnesota Department of Finance and are designated by the Agency to cover loan losses of the LCF.

**Investments** — In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Agency reports investments at fair value in the combined statements of net position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of investments was determined based on quoted market prices as of the reporting date.

**Liabilities** — Governmental Fund types record only short-term liabilities of the funds. Proprietary Fund types record both long- and short-term liabilities of the fund.

**Sick Pay, Severance Pay, and Vacation Pay** — The Agency's employee vacation and sick leave policies provide for granting of a specific number of days for unused sick leave upon retirement if certain conditions are met. This pay is vested when earned. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, sick pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability of the Governmental Fund that will pay it.

The Agency offers to its employees sick pay, which accrues at various rates depending on classification of employment. Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. Sick pay is charged as an expenditure as accrued.

All employees who have provided 5 to 20 years or more, depending on employment contract terms, of continuous state of Minnesota service are entitled to receive severance pay upon any separation, except discharge for just cause from service. Severance is calculated based upon a formula using an employee's unused sick leave balance. Severance pay is charged as an expenditure as earned.

The Agency records vacation pay for applicable employees when the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Agency will compensate the employees through paid time off or some other means. All eligible employees accrue vacation at a rate that varies with length of service. Any employee who has been employed more than six months and who has separated from state of Minnesota service is compensated in cash at his or her current rate at the time of separation. However, no payment shall exceed 280 hours, except in the case of death.

**Excess Bond Yield Payable** — The Agency is restricted on the amount of interest that can be earned on nontaxable loans compared to the interest expense. This limit is 2% and in the current year, the yield exceeded this limit and a liability was recorded (see Note 6).

**Revenues and Deferred Revenue** — Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenues are recognized in the year designated by Minnesota Statutes. Federal revenues are recognized in the year during which the eligible expenditures are made. If the amounts of state or federal revenues cannot be reasonably estimated, or realization is not reasonably assured, they are not recognized as revenue in the current year.

The Agency reports deferred revenue in its combined statements of net position. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to the incurred qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the Agency has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

**Deferred Charges** — Deferred charges consist of bond issuance costs. Deferred charges are amortized over the life of the bonds using a method that produces substantially the same results as the effective interest method.

**Income Taxes** — The Agency is an agency of the state of Minnesota and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

**Use of Estimates** — The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions, such as an allowance for loan losses and vacation and sick accrual, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The Agency invests in various securities, including U.S. government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statements of net position.

### 3. LOAN CAPITAL FUND

The LCF, the enterprise fund of the Agency, is dedicated to supporting the Agency’s student loan activities, both present and future, including and without limitation: the Guaranteed Student Loan Program (GSL), Supplemental Loan programs (SELF II, SELF III, and SELF IV), Graduated Repayment Loan programs (GRIP), and payment of expenses of administering such programs. The Agency is authorized to issue an aggregate amount of outstanding revenue bonds, exclusive of refunded and defeased bonds, of \$850,000,000 at June 30, 2008 and 2007. Bonds issued do not constitute debt of the state of Minnesota.

**Deferred Loan Costs** — In accordance with Financial Accounting Standards Board (FASB) Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases — an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17*, SELF II, SELF III, SELF IV, and GRIP loans are reported at the principal amount outstanding, plus the unamortized amount of costs incurred to originate the loans. The origination costs are amortized over the average life of the loans as a reduction of yield. Interest income is recognized at a constant rate over the life of the loans. For SELF loans, the origination costs are being deferred and the net amount amortized using a method that approximates the effective interest method. Amortization of total deferred loan costs for the years ended June 30, 2008 and 2007, was \$504,215 and \$514,551, respectively, and is included within general and administrative expenses on the proprietary fund type statements of revenues, expenses, and changes in net position.



**Receivables** — Receivables for the Agency’s LCF, including the applicable allowances for uncollectible accounts for the years ended June 30, 2008 and 2007, are as follows:

	2008	2007
Interest	\$ 3,959,676	\$ 5,008,405
Other	<u>1,672,428</u>	<u>1,259,464</u>
Current receivables — net	<u>5,632,104</u>	<u>6,267,869</u>
Loans	693,609,321	650,369,540
Less allowance for uncollectibles	<u>6,938,074</u>	<u>6,519,172</u>
Loans receivables — net	<u>686,671,247</u>	<u>643,850,368</u>
Total receivables — net	<u>\$692,303,351</u>	<u>\$650,118,237</u>

Loans receivable include amounts due within one year and amounts due in more than one year, based upon loan schedules with each student (loan holder). Approximately 15% of the balance is expected to be collected during fiscal year 2009.

**Loans Receivable** — GSL loans were made to students who met certain eligibility requirements under the Federal Higher Education Act of 1965, as amended. Loans bear interest at 7% to 9% annually. The Agency is no longer issuing new GSL loans to students and has sold the remaining outstanding loans to National Education Loan Network, Inc. effective July 27, 2007. The balance at June 30, 2007, was \$61,701.

SELF II loans are no longer being issued by the Agency. The interest rate on the loans is equal to the average of the weekly auction average (investment) interest rate on three-month U.S. Treasury bills, plus a current margin of 2%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 5% and 7% as of June 30, 2008 and 2007, respectively.

SELF III loans, offered for the first time in May 2002, are made to students who meet the eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the London InterBank Offered Rate (LIBOR), plus a current margin of 2.7%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 6% and 7.4% as of June 30, 2008 and 2007, respectively.

SELF IV loans, offered for the first time in July 2006, are made to students who meet the eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the LIBOR, plus a current margin of 2.7%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 6% and 7.4% as of June 30, 2008 and 2007, respectively.

Repayment of interest for SELF loans begins 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or termination. The balance of SELF II, SELF III, and SELF IV loans at June 30, 2008 and 2007, was \$692,949,194 and \$649,419,313, respectively.

GRIP loans were made to borrowers who met certain income and debt standards and had graduated with an eligible medical degree. The LCF makes the required monthly payments on the borrower’s student loans, and the borrower makes monthly payments to the Agency based on the average income for their



medical profession. The borrower's loan payments increase annually in proportion to the growth of the average income for their profession. The interest rate on GRIP loans is fixed at 8%. The Agency is no longer issuing GRIP loans to new participants. The balance at June 30, 2008 and 2007, was \$660,127 and \$888,526, respectively.

Included in general and administrative expenses are fees paid to a third-party service corporation to administer and service the student loans of \$5,986,996 and \$6,119,883 for the years ended June 30, 2008 and 2007, respectively.

**Cash Reserve on Loans** — GSL loans, and the accrued interest thereon, are fully guaranteed by Great Lakes Higher Education Guaranty Corp. ("Great Lakes"). Great Lakes is a nonprofit agency, which has been designated as the guarantee agency for the state of Minnesota. Loans guaranteed by Great Lakes are reinsured by the U.S. government. Therefore, an allowance for uncollectible loans has not been provided.

An allowance for uncollectible SELF II, SELF III, and SELF IV loans is provided for in the financial statements, and an equal amount of the allowance is maintained as designated cash equivalents in the LCF. For loans with loan periods beginning before July 1, 1989, an amount equal to 6.25% of the original loan balance was collected from the students. For loans with loan periods beginning on or after July 1, 1989, the LCF provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1% of the total outstanding loan balance and also designates cash equivalents equal to the balance of the allowance. An allowance for uncollectible GRIP loans equal to 4% of the total outstanding loan balance is maintained as designated cash equivalents in the LCF. The designated cash has been deposited with the Minnesota Department of Finance. Recoveries on defaulted SELF loans are credited to the LCF as revenue in the year received.

The activity for the allowance for losses on all loan types for the years ended June 30, 2008 and 2007, is as follows:

	2008	2007
Beginning balance	\$ 6,519,172	\$ 6,113,534
Provision for loan losses	9,194,727	8,000,038
Write-off of loans	<u>(8,775,825)</u>	<u>(7,594,400)</u>
Ending balance	<u>\$ 6,938,074</u>	<u>\$ 6,519,172</u>

Recovery on defaulted loans of \$6,292,991 and \$5,776,841 for the years ended June 30, 2008 and 2007, respectively, are recognized as a reduction in the provision for loan losses.

**United States Government Allowance** — The U.S. government pays the LCF a special interest allowance quarterly on outstanding guaranteed loans. For loans made prior to October 1, 1980, the allowance is determined from the average yield of 91-day U.S. Treasury bills auctioned during the quarter, less 3.5% on 7% loans, 5.5% on 9% loans, and 4.5% on 8% loans. The allowance for loans made on or after October 1, 1980, is one-half the previous amount, but not less than 2.5% for 7% loans, 0.5% for 9% loans, and 1.5% for 8% loans.

#### 4. CASH AND CASH EQUIVALENTS, DESIGNATED CASH EQUIVALENTS, AND INVESTMENTS

**Deposits** — As of June 30, 2008 and 2007, the carrying amounts of LCF's deposits were \$95,661 and \$42,944, respectively, and the bank balances were \$10,616,249 and \$42,944, respectively. The difference of \$10,520,588 as of June 30, 2008, between the carrying amount and book balance relates to the purchase of an investment prior to June 30, 2008, that was not recorded by the bank until July 2009. All of the deposits are insured, collateralized, registered, or held by the Agency's trustee in the Agency's name.

**Investments** — Investments are made in accordance with the bond resolutions and various Minnesota Statutes.

Cash and cash equivalents, investments, and designated cash equivalents as of June 30, 2008 and 2007, consist of the following:

Investment Type	Weighted-Average Maturity (Years)	2008 Fair Value	2007 Fair Value
Noninterest-bearing cash		\$ 11,074,658	\$ 5,981,191
Interest-bearing cash	0.30	80,086,379	95,611,091
Commercial paper	0.08	63,986,574	105,838,351
Municipal funds	0.08	25,062,508	21,836,771
State treasurer's investment pool	0.31	<u>6,535,037</u>	<u>6,519,172</u>
		<u>\$186,745,156</u>	<u>\$235,786,576</u>
Portfolio weighted average	0.19		
Cash and cash equivalents		\$ 140,630,330	\$ 211,572,435
Investments		39,176,752	17,694,969
Designated cash equivalents		<u>6,938,074</u>	<u>6,519,172</u>
Total		<u>\$186,745,156</u>	<u>\$235,786,576</u>

**Interest Rate Risk** — The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** — State law limits investments in commercial paper, government debt securities, agency securities, repurchase agreements, and certificates of deposits with ratings from nationally recognized statistical rating organizations. The Agency's investment policy requires commercial paper to be rated both A1 and P1 and the remaining fair market value of the portfolio is held in mutual funds and the state treasurers' investment pool and is rated AAA by S&P and Aaa by Moody's.

**Concentration of Credit Risk** — The Agency's investment policy does not allow for more than 70% of investment securities to be held at more than one bank or investment institution. In addition, the policy further limits banker's acceptances to 30% of the portfolio and 10% to any one corporation, certificates of deposits to no more than 30% of the portfolio and 6% to any one bank, repurchase agreements, and reverse repurchase agreements to 10% of the portfolio each. At June 30, 2008, New Center Asset Trust Commercial Paper, accounted for 5.92% of the Agency's portfolio. At June 30, 2007, Rhineland Funding Commercial Paper, accounted for 4.2% of the Agency's portfolio.

**Custodial Risk-Deposits** — The Agency's investment policy limits the use of banks and brokerage firms to those that have net capital excess of \$100,000,000 and must be members of the National Association of Securities Dealers, Inc. and covered by Securities Investor Protection Corporation insurance. Any deposits made by the Agency at a bank or brokerage firm over the \$100,000 Federal Deposit Insurance Corporation insurance limit have pledged collateral to cover the excess.

## 5. CAPITAL ASSETS

There were no additions or disposals during 2008. Capital assets activity for the year ended June 30, 2007, was as follows:

	<b>Primary Government</b>		
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Ending Balance</b>
Governmental activities:			
Equipment	\$ 133,110	\$ -	\$ (94,143)
Less accumulated depreciation for equipment	<u>(127,099)</u>	<u>(6,011)</u>	<u>94,143</u>
			<u>(38,967)</u>
Government activities capital assets — net	<u>6,011</u>	<u>(6,011)</u>	<u>-</u>
Business-type activities:			
Equipment	46,769		(46,769)
Less accumulated depreciation for equipment	<u>(46,769)</u>		<u>46,769</u>
			<u>-</u>
Business-type activities capital assets — net	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets — net	<u>\$ 6,011</u>	<u>\$ (6,011)</u>	<u>\$ -</u>

## 6. SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS

The revenue bonds payable activity within the LCF for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 1999A, due November 2034	\$ 61,200,000	\$	\$	\$ 61,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2002A, due January 2037	68,200,000			68,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2002B, due January 2037	27,100,000			27,100,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2003A, due May 2038	64,700,000			64,700,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2003B, due May 2038	10,300,000			10,300,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2004A, due May 2039	67,000,000			67,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2004B, due May 2039	88,500,000			88,500,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2005A, due May 2040	30,000,000		30,000,000	
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2005B, due May 2040	70,000,000			70,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2006, due May 2041	<u>70,000,000</u>	<u>                    </u>	<u>                    </u>	<u>70,000,000</u>
	<u>\$557,000,000</u>	<u>\$                    </u>	<u>\$30,000,000</u>	<u>\$527,000,000</u>

The issued bonds of the LCF do not constitute debt of the state of Minnesota.

The revenue bonds payable activity within the LCF for the year ended June 30, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 1999A, due November 2034	\$ 61,200,000	\$	\$	\$ 61,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2002A, due January 2037	68,200,000			68,200,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2002B, due January 2037	27,100,000			27,100,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2003A, due May 2038	64,700,000			64,700,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2003B, due May 2038	10,300,000			10,300,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2004A, due May 2039	67,000,000			67,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2004B, due May 2039	88,500,000			88,500,000
Supplemental Student Loan Program Variable Rate Revenue Bonds (taxable), Series 2005A, due May 2040	30,000,000			30,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2005B, due May 2040	70,000,000			70,000,000
Supplemental Student Loan Program Variable Rate Revenue Bonds, Series 2006, due May 2041		70,000,000		70,000,000
	<u>\$487,000,000</u>	<u>\$70,000,000</u>	<u>\$</u>	<u>\$557,000,000</u>

The issued bonds of the LCF do not constitute debt of the state of Minnesota.

Annual debt service requirements to maturity for revenue bonds as of June 30, 2008, are as follows:

Years Ending June 30	Business-Type Activities		
	Principal	Interest	Total
2009		\$ 16,482,001	\$ 16,482,001
2010		16,482,001	16,482,001
2011		16,482,001	16,482,001
2012		16,482,001	16,482,001
2013		16,482,001	16,482,001
2014–2018		82,410,005	82,410,005
2019–2023	72,673,334	79,560,267	152,233,601
2024–2028	142,200,000	62,986,962	205,186,962
2029–2033	152,833,335	39,070,792	191,904,127
2034–2038	130,159,998	15,710,604	145,870,602
2039–2041	29,133,333	1,352,266	30,485,599
	<u>\$527,000,000</u>	<u>\$363,500,901</u>	<u>\$890,500,901</u>

The interest rate on the taxable Series 1999A bonds, taxable Series 2002A bonds, tax-exempt Series 2002B bonds, taxable Series 2003A bonds, tax-exempt Series 2003B bonds, taxable Series 2004A bonds, tax-exempt Series 2004B bonds, taxable Series 2005A bonds, tax-exempt Series 2005B bonds, and tax-exempt Series 2006 bonds are reset every 7, 7, 7, 28, 35, 28, 35, 28, 35, and 35 days, respectively, based on a determination by the auction agent through auction proceedings. The rate cannot exceed the lesser of the applicable LIBOR rate, plus 1% or 17%. The interest rate as of June 30, 2008 and 2007, for the Series 1999A bonds was 3.48% and 5.32%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2002A and 2002B bonds was 3.48% and 5.05% and 2.62% and 3.90%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2003A and 2003B bonds was 3.45% and 5.24% and 2.62% and 3.90%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2004A and 2004B bonds was 3.48% and 5.23% and 2.85% and 3.82%, respectively. The interest rate as of June 30, 2007, for the Series 2005A bonds was 5.28%. The interest rate as of June 30, 2008 and 2007, for the Series 2005B bonds was 2.89% and 3.96%, respectively. The interest rate as of June 30, 2008 and 2007, for the Series 2006 bonds was 2.70% and 3.80%, respectively.

For the Series 1999A, 2002A taxable bonds, 2002B tax-exempt bonds, 2003A taxable bonds, 2003B tax-exempt bonds, 2004A taxable bonds, 2004B tax-exempt bonds, 2005A taxable bonds, 2005B tax-exempt bonds, and 2006 tax-exempt bonds, the Agency maintains liquidity insurance coverage in the amount of \$11,140,000. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, 2002B, and 2006 and 0.14% for Series 2003A and 2003B and 0.125% for Series 2004A, 2004B, 2005A, and 2005B of the outstanding principal amount per year. General and administrative expenses include liquidity insurance fees of \$686,800 and \$664,493 for the years ended June 30, 2008 and 2007, respectively.

In fiscal year 2007, the Agency issued variable rate tax-exempt 2006 bonds for \$70,000,000. In fiscal year 2008, the Agency retired \$30,000,000 of Series 2005A taxable bonds.

All bond series are to be repaid solely from the money and investments held by the trustees. All the bond series are secured by the revenues derived by the Agency from the student loans financed by the proceeds of the bonds. For all bonds, an early repayment provision exists. For the tax-exempt bonds, the Agency must give written notice to exercise its option to redeem bonds at least 45 days prior to the

desired redemption date. The paying agent would notify the Agency in writing of bonds selected for redemption and the principal amount to be redeemed. The Agency would then be required to make satisfactory provision for deposit in the Redemption Fund for the principal and interest accrued. For the taxable bond issue, the Agency must give written notice to the bond trustee and credit provider not less than 20 days but no greater than 65 days prior to redemption.

**Arbitrage Regulations** — The \$265.9 million of tax-exempt bonds issued by the Agency are subject to the 1986 Tax Reform Act regulations relating to arbitrage reporting and rebate. Any earnings in excess of the bond yield must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2008, the Agency accrued a \$1.5 million liability resulting from the excess yield on interest rates. As of June 30, 2007, amounts rebatable relating to such excess earnings were not significant as determined by Public Financial Management, the Agency's financial advisors.

## 7. RESTRICTED NET POSITION — BUSINESS-TYPE ACTIVITIES

Certain net positions are classified in the combined statements of net position as restricted because their use is limited. The business-type activities report restricted net position for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2008, the business-type activities restricted net position are restricted for debt service.

The Agency's business-type activities net position (up to a certain level) are restricted for debt service according to their bond financial covenants. The amount subject to the restriction increases each year and is as follows:

June 30, 2008	\$ 360,000,000
June 30, 2009	380,000,000
June 30, 2010	400,000,000
June 30, 2011	425,000,000
June 30, 2012	450,000,000
June 30, 2013	475,000,000
June 30, 2014	500,000,000
June 30, 2015	525,000,000
June 30, 2016	550,000,000
June 30, 2017 and thereafter	575,000,000

As the Agency's net position is fully less than the required minimum per the bond covenant, the net position is restricted for loan capital fund use as required in the bond financial covenants.

## 8. PENSION PLAN

Employees of the Agency meeting certain age and length of service requirements participate in the State Employees' Retirement Fund (SERF) of the Minnesota State Retirement System (MSRS). The SERF requires contributions by both employers and employees. The Agency's contribution to the SERF for the years ended June 30, 2008 and 2007, was \$169,862 and \$147,817, respectively. The total covered payroll of the Agency for the years ended June 30, 2008 and 2007, was \$3,680,341 and \$3,219,977, respectively.

The SERF is a statewide plan that covers employees of the state of Minnesota, school districts, counties, cities, and other political subdivisions. The SERF is a multiple-employer, cost-sharing defined benefit plan administered by MSRS. Benefits are based on average salary and are fully vested after three years of credited service. Participants are required to contribute 4.25% of their total compensation with a



matching contribution of 4.25%. As of July 1, 2008 the required contribution and matching contribution increased to 4.50%. The contribution rates for the SERF are not actuarially determined, but rather are determined by the state statute.

The pension benefit obligation is a standardized measure of the actuarial present value of credited projected benefits. The measure is intended to help users assess the SERF's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

The unfunded vested benefit liabilities of the SERF are not actuarially segregated by employer unit. As of June 30, 2007 (the most recent information available), the Agency's contributions and employees represented less than 1% of all participating entity contributions and active plan participants in SERF.

The SERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plan at:

Minnesota State Retirement System  
Affinity Plus Building, Suite 300  
175 West Lafayette Frontage Road  
Saint Paul, MN 55107-1425  
(651) 296-2761

As of June 30, 2007, the SERF had a projected benefit obligation of \$8,904,517,000, unfunded liabilities of \$722,788,000, and net position available for benefits, at fair value, of \$9,627,305,000. As of June 30, 2006, the SERF had a projected benefit obligation of \$8,819,161,000, unfunded liabilities of \$332,405,000, and net position available for benefits, at fair value, of \$8,486,756,000. Ten-year historical trend information showing the SERF's progress in accumulating sufficient assets to pay benefits when due is presented in the SERF's June 30, 2007 Comprehensive Annual Financial Report.

## 9. CONTINGENCIES

**General Litigation** — The Agency is involved in litigation arising in the normal course of business. It is management's opinion that these matters will be resolved without material adverse effect on the Agency's financial statements.

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## **SUPPLEMENTAL SCHEDULES**

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Resources (inflows):				
Governmental:				
State appropriations	\$ 190,088,000	\$ 196,578,000	\$ 191,755,316	\$ (4,822,684)
Federal grants	4,760,677	5,984,148	4,684,998	(1,299,150)
Student loan repayments	10,000	10,000	11,120	1,120
Interest on student loans	10,000	10,000	1,755	(8,245)
Private postsecondary registration	105,000	105,000	90,620	(14,380)
Professional career schools registration	150,000	150,000	117,734	(32,266)
All other reimbursements	297,516	413,911	388,473	25,438
Total governmental resources	<u>195,421,193</u>	<u>203,251,059</u>	<u>197,050,016</u>	<u>(6,150,167)</u>
Business-type activities:				
Student loan repayments	14,344,000	14,344,000	15,300,860	956,860
Interest on short-term investments	4,011,000	4,011,000	3,230,017	(780,983)
All other reimbursements	<u>135,005,000</u>	<u>135,005,000</u>	<u>123,680,000</u>	<u>(11,325,000)</u>
Total business-type activities resources	<u>153,360,000</u>	<u>153,360,000</u>	<u>142,210,877</u>	<u>(11,149,123)</u>
Total resources	<u>\$ 348,781,193</u>	<u>\$ 356,611,059</u>	<u>\$ 339,260,893</u>	<u>\$ (17,299,290)</u>
Expenditures (outflows):				
Governmental:				
Salaries and benefits	\$ 3,395,600	\$ 3,636,684	\$ 3,605,350	\$ 31,334
Space rental, maintenance, and utility	398,000	327,588	299,863	27,725
Repairs, alterations, and maintenance	27,000	23,300	5,059	18,241
Printing and advertising	273,000	326,350	202,745	123,605
Professional and technical outside vendors	690,400	1,041,842	710,925	330,917
Computer and systems services	431,000	369,863	280,818	89,045
Communications	101,500	113,676	67,434	46,242
Travel and subsistence — in state	56,500	73,348	49,342	24,006
Travel and subsistence — out state	48,000	55,379	47,357	8,022
Supplies	255,000	332,783	274,284	58,499
Equipment	83,000	139,253	103,936	35,317
Employee development	64,000	98,327	88,677	9,650
Other operating costs	335,000	484,893	336,739	148,154
Agency indirect costs	155,000	260,000	219,581	40,419
Statewide indirect costs	44,400	45,885	41,424	4,461
Attorney general costs	15,000	27,806	17,806	10,000
State agency reimbursement	-	-	(640)	640
Professional and technical agency provided	-	38,990	19,482	19,508
Other payments to individuals	181,238,268	177,650,907	173,107,649	4,543,258
Aid to school districts	-	1,900,000	456,619	1,443,381
Aid to other governments	-	250,000	200,337	49,663
Aid to higher education institutions	13,195,192	13,552,906	13,015,370	537,536
Aid to nongovernmental organizations	1,223,000	1,794,410	1,581,065	213,345
Loans and advances	<u>20,000</u>	<u>20,000</u>	<u>12,875</u>	<u>7,125</u>
Total governmental expenditures	<u>202,048,860</u>	<u>202,564,190</u>	<u>194,744,098</u>	<u>7,820,092</u>

(Continued)

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Expenditures (outflows) (continued):				
Business-type activities:				
Salaries and benefits	\$ 1,348,000	\$ 1,225,900	\$ 1,165,991	\$ 59,909
Space rental, maintenance, and utility	152,000	151,100	111,705	39,395
Repairs, alterations, and maintenance	25,000	24,000	3,125	20,875
Printing and advertising	87,000	87,000	30,077	56,923
Professional and technical outside vendors	365,000	484,000	352,402	131,598
Computer and systems services	34,000	39,000	25,751	13,249
Communications	62,000	62,000	53,508	8,492
Travel and subsistence — in state	16,000	16,000	6,054	9,946
Travel and subsistence — out state	12,000	12,000	9,090	2,910
Supplies	40,000	40,000	19,265	20,735
Equipment	40,000	40,000	19,973	20,027
Employee development	19,000	19,000	6,716	12,284
Other operating costs	17,555,000	19,540,132	15,182,154	4,357,978
Statewide indirect costs	50,000	50,000	44,706	5,294
Attorney general costs	25,000	25,000	9,509	15,491
State agency reimbursement	-	-	(4,796)	4,796
Professional and technical agency provided	20,000	20,000	9,774	10,226
Loans and advances	<u>135,010,000</u>	<u>145,010,000</u>	<u>140,576,037</u>	<u>4,433,963</u>
Total business-type activities expenditures	<u>154,860,000</u>	<u>166,845,132</u>	<u>157,621,041</u>	<u>9,224,091</u>
Total expenditures	\$ 356,908,860	\$ 369,409,322	\$ 352,365,139	\$ 17,044,183

(Concluded)

The previous schedule is supplementary information and was used by the Agency for budgetary purposes based on a cash flow budget. All of the differences between the budgetary schedules and the statement of activities is due to full accrual basis of accounting.

Budgeted amounts are as originally adopted, or as amended by the chief financial officer. The fiscal 2008 revenue budget was amended during the year to increase budgeted revenues by \$7.8 million to reflect additional known revenues. The expenditure budget was amended to increase budgeted expenditures by \$12.5 million due to increases in other operating costs and loans and advances offset by decreases in other payments to individuals.

All other amendments were not material in relation to the original appropriations. Total fund expenditures are the legal level of budgetary control, and expenditures in excess of the adopted budget require approval of the legislature for state governmental activities. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line-item levels.

The actual revenues and expenditures for the year have been compared to the Agency's budget for the fiscal year where applicable. Variances in parentheses ( ) indicate instances where actual revenues were less than budgeted, or expenditures were greater than budgeted.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2007

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Resources (inflows):				
Governmental:				
State appropriations	\$ 177,181,000	\$ 192,210,660	\$ 190,652,422	\$ (1,558,238)
Federal grants	5,034,124	6,204,124	4,655,453	(1,548,671)
Student loan repayments	15,000	15,000	11,171	(3,829)
Interest on student loans	10,000	10,000	9,122	(878)
Private postsecondary registration	89,000	89,000	71,521	(17,479)
Professional career schools registration	125,000	125,000	162,216	37,216
All other reimbursements	248,225	536,141	547,629	11,488
Total governmental resources	182,702,349	199,189,925	196,109,534	(3,080,391)
Business-type activities:				
Student loan repayments	12,346,000	21,346,000	13,543,291	(7,802,709)
Interest on short-term investments	2,310,000	2,310,000	2,941,391	631,391
All other reimbursements	143,372,000	143,372,000	143,570,140	198,140
Total business-type activities resources	158,028,000	167,028,000	160,054,822	(6,973,178)
Total resources	\$ 340,730,349	\$ 366,217,925	\$ 356,164,356	\$ (10,053,569)
Expenditures (outflows):				
Governmental:				
Salaries and benefits	\$ 3,472,084	\$ 3,184,722	\$ 3,101,355	\$ 83,367
Space rental, maintenance, and utility	345,000	280,067	268,282	11,785
Repairs, alterations, and maintenance	29,000	25,061	16,061	9,000
Printing and advertising	361,000	378,086	207,946	170,140
Professional and technical outside vendors	871,446	1,251,620	1,058,024	193,596
Computer and systems services	210,000	241,960	239,435	2,525
Communications	104,700	101,097	63,028	38,069
Travel and subsistence — in state	62,000	57,727	40,293	17,434
Travel and subsistence — out state	64,500	62,201	43,971	18,230
Supplies	194,853	341,557	291,748	49,809
Equipment	93,000	143,392	126,298	17,094
Employee development	60,000	75,521	67,138	8,383
Other operating costs	328,850	377,450	(245,996)	623,446
Agency indirect costs	150,000	265,542	230,375	35,167
Statewide indirect costs	46,732	40,672	29,551	11,121
Attorney general costs	13,000	16,111	6,111	10,000
Professional and technical agency provided	27,000	394,124	366,845	27,279
Other payments to individuals	165,845,653	178,965,338	178,793,882	171,456
Aid to higher education institutions	12,734,766	12,182,596	11,562,065	620,531
Aid to nongovernmental organizations	1,095,766	1,930,102	1,595,522	334,580
Loans and advances	25,000	25,000	20,294	4,706
Total governmental expenditures	186,134,350	200,339,946	197,882,228	2,457,718

(Continued)

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Expenditures (outflows) (continued):				
Business-type activities:				
Salaries and benefits	\$ 1,406,000	\$ 1,266,855	\$ 1,159,526	\$ 107,329
Space rental, maintenance, and utility	172,000	140,400	123,191	17,209
Repairs, alterations, and maintenance	25,000	26,000	3,140	22,860
Printing and advertising	87,000	71,006	35,383	35,623
Professional and technical outside vendors	365,000	454,000	320,957	133,043
Computer and systems services	26,000	36,910	29,124	7,786
Communications	66,000	75,051	56,438	18,613
Travel and subsistence — in state	16,000	16,000	5,512	10,488
Travel and subsistence — out state	12,000	15,314	3,304	12,010
Supplies	42,000	33,210	25,000	8,210
Equipment	40,000	40,000	29,938	10,062
Employee development	18,000	18,969	6,580	12,389
Other operating costs	13,043,000	18,871,816	14,277,830	4,593,986
Statewide indirect costs	50,000	50,000	28,705	21,295
Attorney general costs	-	22,469	22,469	-
State agency reimbursement	-	-	(436)	436
Professional and technical agency provided	-	30,000	25,083	4,917
Loans and advances	135,020,000	136,020,000	135,314,334	705,666
Total business-type activities expenditures	150,388,000	157,188,000	151,466,078	5,721,922
Total expenditures	\$ 336,522,350	\$ 357,527,946	\$ 349,348,306	\$ 8,179,640

(Concluded)

The previous schedule was supplementary information and was used by the Agency for budgetary purposes based on a cash flow budget. All of the differences between the budgetary schedules and the statement of activities is due to full accrual basis of accounting.

Budgeted amounts are as originally adopted, or as amended by the chief financial officer. The fiscal 2007 revenue budget was amended during the year to increase budgeted revenues by \$25.5 million to reflect additional known revenues. The expenditure budget was amended to increase budgeted expenditures by \$21 million for other operating costs and other payments to individuals.

All other amendments were not material in relation to the original appropriations. Total fund expenditures are the legal level of budgetary control, and expenditures in excess of the adopted budget require approval of the legislature for state governmental activities. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line-item levels.

The actual revenues and expenditures for the year have been compared to the Agency's budget for the fiscal year where applicable. Variances in parentheses ( ) indicate instances where actual revenues were less than budgeted, or expenditures were greater than budgeted.

## APPENDIX B

### DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE

The following are brief descriptions of certain provisions of the General Indenture and the First Supplemental Indenture and the definitions of certain terms used therein and herein. Such descriptions do not purport to be comprehensive or definitive. All references herein to the General Indenture or the First Supplemental Indenture are qualified in their entirety by reference to the definitive forms of such documents, copies of which are available for review, at the offices of the Underwriter, and, after issuance, at the office of the Trustee.

#### CERTAIN DEFINITIONS

“Accountant” means any independent certified public accountant as may be selected by the Issuer.

“Acquisition Fund” means the fund by that name created under the General Indenture.

“Act” means Minnesota Statutes, Sections 136A.15 through 136A.1785, as amended.

“Adjustable Rate Bonds” means those Bonds whose terms provide for the adjustment of the interest rate to be borne by such Bonds periodically prior to their stated maturity and may, under the terms of a Supplemental Indenture, provide for mandatory tender or tender optionally upon demand of the Owner thereof.

“Alternate Credit Facility” means a replacement irrevocable direct pay letter of credit containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee in accordance with the First Supplemental Indenture; provided, however, that any amendment, extension, renewal or substitution of the Credit Facility then in effect for the purpose of extending the Expiration Date of such Credit Facility or modifying such Credit Facility pursuant to its terms shall not be deemed to be an Alternate Credit Facility for purposes of the First Supplemental Indenture.

“Alternate Liquidity Facility” means any standby bond purchase agreement, letter of credit, revolving credit agreement, surety bond or other agreement or instrument satisfactory to the Issuer replacing a then existing Liquidity Facility under which any Person undertakes to make or provide funds to make payment of the Purchase Price of tendered Series 2008 Bonds supported by such Liquidity Facility, delivered to and received by the Trustee in accordance with and meeting the requirements of the First Supplemental Indenture.

“Alternate Rate” means (i) with respect to all or any part of the Series 2008 Tax-Exempt Bonds, on any Rate Determination Date, a rate per annum equal to the lesser of (a) the Maximum Bond Interest Rate, and (b) (1) 150% of the SIFMA Index, as the same may be adjusted from time to time, or (2) if such index is no longer available, the comparable index of tax exempt seven day tender municipal bonds selected by the Remarketing Agent (unless no Remarketing Agent is then functioning as such and then the Trustee), and (ii) with respect to the Series 2008 Taxable Bonds, on any Rate Determination Date, a rate per annum equal to the lesser of (a) the Maximum Bond Interest Rate, and (b) 150% of LIBOR, as the same may be adjusted from time to time.

“Auction Agent” means any Person designated as such pursuant to a Supplemental Indenture.

“Auction Mode” means the Mode during which the Series 2008 Bonds bear interest at rates determined by auction procedures described in the Supplemental Indenture to be entered into in connection with the Auction Rate Conversion Date.

“Auction Rate Bonds” means any of the Series 2008 Bonds in any period during which such Bonds are in an Auction Mode.

“Auction Rate Conversion Date” means the date on which any of the Series 2008 Bonds are converted to Auction Rate Bonds, which date shall be an Interest Payment Date.



“Authenticating Agent” means the Trustee or any other Indenture Agent as may be authorized pursuant to a Supplemental Indenture to perform the acts required of such agent in conformance with the provisions of the General Indenture and the related Supplemental Indenture.

“Authorized Denominations” means (a) with respect to the Series 2008 Bonds in a Short Term Mode, \$100,000 and any integral multiple of \$5,000 above \$100,000, (b) with respect to the Series 2008 Bonds in a Long Term Mode, \$5,000 and any integral multiple thereof, (c) the “Authorized Denominations” as defined in the Supplemental Indenture to be entered into in connection with the Auction Rate Conversion Date and (d) the “Authorized Denominations” as defined in Exhibit B to the First Supplemental Indenture with respect to Series 2008 Tax-Exempt Bonds in an Indexed Mode and Exhibit C to the First Supplemental Indenture with respect to Series 2008 Taxable Bonds in an Indexed Mode.

“Authorized Liquidity Termination” means a termination or suspension of the Liquidity Facility before its Expiration Date pursuant to provisions in the Liquidity Facility which provides that the obligations of the Liquidity Provider to purchase tendered bonds shall immediately and automatically terminate or suspend upon the occurrence of certain events set forth therein without giving any advance notice to the Issuer, the Trustee or Registered Owners.

“Authorized Representative” means the Director of the Issuer, or any other person designated by the Director of the Issuer to act as the authorized representative of the Issuer.

“Bailment Agreement” means the Bailment Agreement, dated as of December 1, 2008, among the Issuer, the Trustee and the Servicer.

“Bank Bond Rate” means the interest rate, if any, specified in the Liquidity Facility or Credit Provider Agreement then in effect as the rate at which Bank Bonds shall bear interest, such rate not to exceed the Maximum Bank Bond Interest Rate; provided, however, that if no such rate is specified in the Liquidity Facility or Credit Provider Agreement then in effect, then Bank Bonds shall continue to bear interest and such interest shall accrue and be payable as specified in the First Supplemental Indenture as if such Bank Bonds were not Bank Bonds.

“Bank Bonds” means (i) Series 2008 Bonds registered in the name of the Issuer, held by the Trustee, as custodian for the Bank and pledged to the Bank pursuant to the Pledge Agreement, or (ii) with respect to any Series 2008 Bond registered in the name of DTC, the principal portion thereof the beneficial owner of which is the Corporation subject to a security interest and pledge granted in favor of the Bank pursuant to the Pledge Agreement. Series 2008 Bonds shall be Bank Bonds during the period beginning on the date such Series 2008 Bonds are pledged until the date on which such Series 2008 Bonds are remarketed to a purchaser identified by the Remarketing Agent. Bank Bonds constitute “Class I Bonds” under the General Indenture.

“Beneficial Owner” means, when a Series of Bonds are registered in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond of that Series held by the Securities Depository.

“Bond” means one of the bonds authenticated and delivered pursuant to the General Indenture, including any additional or refunding Bonds issued pursuant to Article II of the General Indenture.

“Bond Counsel” means the firm of Best & Flanagan LLP of Minneapolis, Minnesota, or any other firm of attorneys designated by the Issuer and duly admitted to practice law before the highest court of any state and nationally recognized in the field of municipal finance.

“Bond Payment Date” means the date or dates specified in any Supplemental Indenture for payment of principal of or interest on the Bonds.

“Bond Purchase Fund” means the fund by that name created and established pursuant to the First Supplemental Indenture.

“Bondholder,” when used with reference to a Bond, means the Owner of such Bond.

“Bond Insurer” means MBIA Insurance Corporation, a Credit Provider pursuant to the terms of the Tenth Supplemental Indenture.

“Bond Year” means the period established in each Supplemental Indenture for a Series of Bonds. With respect to the Series 2008 Bonds, “Bond Year” means (a) the period from the Date of Issuance to December 1, 2009 and (b) each succeeding 12-month period ending on December 1 of each year the Series 2008 Bonds are outstanding

“Book-Entry Form” or “Book-Entry System” shall mean a form or system under which (i) the beneficial right to principal and interest may be transferred only through a book entry, (ii) physical securities in registered form are issued only to a Securities Depository or its nominee as registered holder, with the securities “immobilized” to the custody of the Securities Depository, and (iii) the book entry is the record that identifies the owners of beneficial interests in that principal and interest.

“Borrower Benefits” means (a) a reduction in the interest rate on Student Loans contemplated in the Cash Flow Projection delivered to the Credit Provider on the Closing Date, and (b) such other benefits as the Issuer elects to offer as set forth in the most recent Cash Flow Projection satisfying the Cash Flow Condition and are consented to by the Credit Provider, which consent shall not be unreasonably withheld.

“Broker-Dealer” means any Person designated as such pursuant to a Supplemental Indenture.

“Business Day,” when used with reference to the General Indenture, means any day other than a Saturday, Sunday or legal holiday in the State of New York or the State of Minnesota are authorized to close or are closed or rendered inoperable due to natural disaster, or on which the New York Stock Exchange or on which the office designated for presentation by each Credit Provider then providing a Credit Facility or by each Liquidity Provider then providing a Liquidity Facility for any of the related Bonds is closed, as applicable. Any payments required hereunder to be made on any day which is not a Business Day may be made instead on the next succeeding Business Day, and no interest shall accrue on such payments in the interim (except as may otherwise be provided as to a particular Series or Class of Bonds in the related Supplemental Indenture and/or Credit Facility Agreement or Liquidity Facility Agreement) and, when used with reference to the First Supplemental Indenture, means (a) with respect to Series 2008 Bonds outstanding in any Mode other than an Auction Mode or the Fixed Mode, any day other than (i) a Saturday or Sunday or legal holiday on which banking institutions in the State of New York or the State of Minnesota are authorized to be closed, or (ii) any day on which the New York Stock Exchange is closed, and (b) with respect to Series 2008 Bonds outstanding in the Fixed Mode, any day on which banks located in the city in which the Principal Office of the Trustee is located are generally open for business. With respect to Series 2008 Bonds outstanding in an Auction Mode, “Business Day” shall have the meaning set forth in the Supplemental Indenture to be entered into in connection with the Auction Rate Conversion Date.

“By Class in Descending Priority” means any treatment of Bonds or the Owners thereof according to the priority of the Class of such Bonds, regardless of Series, with Class I Bonds being of the highest priority and the order of priority descending as the roman numeral identifying the Class increases. Whenever the General Indenture provides for the consent, permission or direction by Owners on a certain matter “By Class in Descending Priority,” it shall mean that the Owners in the particular percentage of ownership described of the most senior Class of Bonds then Outstanding and affected by the matter under consideration shall effect such consent, permission or direction; provided, however, that matters affecting only one Class of Bonds need be approved only by the Owners of the particular percentage of that Class of Bonds except as otherwise provided herein.

“Calculation Period” means any daily, weekly, monthly, semiannual, annual or other period for which an Adjustable Rate (other than an Auction Rate) is determined while the Series 2008 Bonds bear interest at such Adjustable Rate, as specified in the Conversion Supplement providing for such Adjustable Rate.

“Capital Appreciation Bonds” means those Bonds which, by their terms, do not bear interest, but accrete interest upon the capital portion thereof until stated maturity or earlier redemption.

“Carry-over Amount” means, if and to the extent specifically provided for as such in a Supplemental Indenture with respect to a Series of Adjustable Rate Bonds, the amount, if any, by which (i) the interest payable on

such Series with respect to a given interest period is exceeded by (ii) the interest that otherwise would have been payable with respect to such interest period but for a stated limitation on the interest rate for such interest period. To the extent required by a Supplemental Indenture providing for any Carry-over Amount, interest will accrue on such Carry-over Amount until paid. Any reference to “principal” or “interest” in this Indenture and in the related Bonds shall not include, within the meanings of such words, any Carry-over Amount or any interest accrued on any Carry-over Amount

“Cash Flow Condition” means, with respect to a given action to be taken or satisfied under the General Indenture, that the Issuer has delivered to the Trustee and any Credit Provider a Cash Flow Projection demonstrating that such action will not materially adversely affect the Issuer’s ability to pay Debt Service on the Outstanding Bonds, amounts payable to Credit Providers, Liquidity Providers and Remarketing Agents, Carry-over Amounts (including accrued interest thereon) with respect to Outstanding Bonds, amounts payable under Interest Rate Exchange Agreements, Program Expenses or to make the required deposits to the credit of the Rebate Fund and the Excess Interest Fund.

“Cash Flow Projection” means a projection, acceptable to the Credit Provider, as to future revenues and cash flow through the final stated maturity of the Outstanding Bonds based upon existing facts and, to the extent not so based, upon assumptions accepted by each Rating Agency and each Credit Provider.

“Certificate” means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Indenture and any applicable Credit Facility Agreement or Liquidity Facility Agreement, or (ii) the report of an Accountant or Authorized Representative as to audits or other procedures called for by the General Indenture and any applicable Credit Facility Agreement or Liquidity Facility Agreement, as the case may be.

“Class” means a level of priority of Bonds, among all Series, and of Credit Facilities and Interest Rate Exchange Agreements, as to security and order of payment of principal and interest from the Trust Estate, which shall be further designated by Roman numeral designations, with I being the highest and descending in priority as the roman numerals increase.

“Closing Cash Flow Projection” shall mean the Cash Flow Projection delivered in conjunction with the issuance of a Series of Bonds.

“Closing Date” means the date of issuance of the Series 2008 Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and court decisions promulgated thereunder and pertaining thereto. Such regulations shall also include any successor provision to any existing regulations thereafter promulgated by the Internal Revenue Service pursuant to Section 103 and Sections 141 through 150 of the Code applicable to the Series 2008 Bonds.

“Computation Date” means, with respect to each Series of Bonds which are not Federally Taxable Bonds, a date as of which Rebate Amount is calculated, which shall be no later than the end of the fifth Bond Year after the Issue Date for a Series of Bonds and the end day of each fifth Bond Year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

“Cosigner” means an individual who has entered into an agreement with the Issuer to guarantee a student loan. The Cosigner must be creditworthy, at least 24 years old or, if a sibling of the borrower, be at least 18 years old and must reside in the United States.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Issuer and related to the authorization, sale and issuance of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, any premiums, fees and expenses of any Credit Provider or Liquidity Provider and its counsel, underwriting fees, initial fees and charges of any Indenture Agent, legal fees, including bond counsel fees and expenses and underwriter’s counsel fees and charges (if charged to the Issuer), Trustee’s counsel fees and expenses, fees and disbursements of consultants and professionals, the

Issuer staff travel and expenses related to an issue of Bonds, cost of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

“Credit Confirmation” means a letter from each Credit Provider then providing a Credit Facility for the Bonds, confirming that the action proposed by the Issuer is approved by the Credit Provider.

“Credit Facility,” when used with reference to the General Indenture, means any form of credit enhancement purchased by the Issuer for a Series of Bonds or for one or more Classes within a Series, including, without limitation, a letter of credit, bond insurance or a surety bond, which shall be identified in the Supplemental Indenture for such Series, and may include as part of the same facility, a liquidity component which, if issued separately, would constitute a Liquidity Facility and, when used with reference to the First Supplemental Indenture, means any irrevocable direct pay letter of credit issued in favor of the Trustee by the Credit Provider and all amendments, extensions, renewals or substitutions thereof pursuant to its terms, and upon the effectiveness of any Alternate Credit Facility, such Alternate Credit Facility and, when used therein at a time when there is more than one Credit Facility securing the Series 2008 Bonds, references to the “Credit Facility” shall, unless the context clearly contemplates a reference to all Credit Facilities, be deemed to refer only to a particular Credit Facility

“Credit Facility Agreement” means any agreement between the Issuer and a Credit Provider, pursuant to which the Credit Provider agrees to issue a Credit Facility, as the same may be amended or supplemented.

“Credit Facility Failure” means (a) a wrongful dishonor by the Credit Provider to pay a draw in compliance with the Credit Facility, or (b) the filing or commencement of any bankruptcy, receivership or other insolvency proceedings by or against the Credit Provider (provided, however, that no Credit Facility Failure shall occur as a result of an involuntary bankruptcy, receivership or other insolvency proceeding unless such proceeding has not been dismissed within 90 days after it was commenced), or the Credit Provider shall declare in writing a moratorium on the payment of its unsecured debt obligations or shall repudiate the Credit Facility in writing.

“Credit Facility Purchase Subaccount” means the Subaccount with that name established within the Series 2008 Bond Purchase Account pursuant to the First Supplemental Indenture.

“Credit Provider” means the issuer of a Credit Facility, and upon the effectiveness of an Alternate Credit Facility, the issuer of such Alternate Credit Facility. The initial Credit Provider is U.S. Bank National Association. When used in the First Supplemental Indenture at a time when there is more than one Credit Facility securing the Series 2008 Bonds, references to the “Credit Provider” shall, unless the context clearly contemplates a reference to all Credit Providers, be deemed to refer only to a particular Credit Provider.

“Creditworthy Cosigner” means a Cosigner who has (i) no account balances discharged through bankruptcy, (ii) no garnishments, attachments, foreclosure, repossession, or suit, (iii) no more than \$300 combined total in unsatisfied credit or unsatisfied payment obligations, and (iv) no more than 5% of total credit bureau balances past due, unless the amount past due is \$300 or less.

“Current Mode” means the Mode then prevailing with respect to the Series 2008 Bonds.

“DBRS” means DBRS, its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “DBRS” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Issuer Order, with written notice thereof to the Trustee.

“Date of Issuance” means December 18, 2008.

“Debt Service” means, with respect to any particular Fiscal Year and any particular Series of Bonds, an amount equal to the sum of (i) all interest payable on such Bonds during such Fiscal Year, plus (ii) any Principal Installments of such Bonds during such Fiscal Year, plus (iii) any additional applicable premium payable on such

Bonds during such Fiscal Year, but shall not include the Purchase Price of Bonds or any Carry-over Amounts or interest thereon.

“Debt Service Reserve Fund” means the fund created by that name under Section 5.2 of the General Indenture.

“Debt Service Reserve Requirement” means, as of any date of calculation, an amount equal to the aggregate of the amounts specified in each and every Supplemental Indenture authorizing the issuance of a Series of Bonds as the amount required to be deposited in the Debt Service Reserve Fund with respect to such Series of Bonds.

“Default Claim” means a default claim filed by the Servicer with the Issuer under the Servicing Agreement.

“Defaulted Student Loan” means, as of any date of determination, any Student Loan with respect to which (a) a Default Claim has been filed, (b) any installment of principal or interest was not paid when due (as determined under the related Student Loan without regard to any waiver or forbearance granted by the Issuer or the Servicer; provided that, notwithstanding the foregoing, amounts otherwise payable during a forbearance period for a Student Loan will be deemed to have been paid when due, so long as (i) the first payment after the end of such forbearance period is made when due, and (ii) the principal amount of such Student Loan, together with the aggregate principal amount of all other Student Loans for which payments were so deemed made during the twelve (12) calendar month period ending with the then-current month, does not exceed \$50,000) and has remained unpaid for a period of 150 days or more, (c) the borrower of which is the debtor in a bankruptcy proceeding or is deceased or disabled, (d) the Cosigner of which is the debtor in a bankruptcy proceeding or (e) the indebtedness represented thereby has been deemed uncollectible by the Issuer or the Servicer or written off by the Issuer.

“Depository” means any commercial bank or trust company or national banking association or state banking corporation having trust powers selected by the Issuer or the Trustee as a depository of moneys or securities held under the provisions of this Indenture and may include the Trustee or any Paying Agent.

“Designated Day” means a day of the week designated by the Remarketing Agent (a) in connection with a change in Mode as a day on which a particular action is to occur, or (b) as the first day of an Interest Period. It is recognized that different days of the week may be “Designated Days” for different actions.

“Direct Pay Credit Facility” means a Credit Facility which, by its terms, provides for direct payment of principal and interest on any related Bonds when due.

“DTC” means The Depository Trust Company, a New York corporation, its successors and assigns.

“Eligible Institution” means a postsecondary educational institution that (1) is operated or regulated by the State or the Board of Regents of the University of Minnesota; (2) is operated publicly or privately in another state, is approved by the United States Secretary of Education, and, as determined by the Issuer, maintains academic standards substantially equal to those of comparable institutions operated in the State; (3) is licensed or registered as a postsecondary institution by the Issuer or another State agency; and (4) by July 1, 2011, is participating in the federal Pell Grant program under Title IV of the Higher Education Act of 1965, as amended, or (5) is chartered in a province. All Eligible Institutions are required to have their chief executive officer sign a SELF Participation Agreement with the Issuer agreeing to perform certain administrative procedures.

“Event of Default” means any of the events specified in Section 10.1 of the General Indenture.

“Excess Coverage” means, as of any date of calculation the amount by which the sum of the value of (a) the Student Loans (valued at par plus accrued interest) credited to the Student Loan Fund, other than Defaulted Student Loans, and (b) all cash and Investment Securities held in the Funds and Accounts (valued as set forth herein or in the General Indenture, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds pursuant to Section 12.1 of the General Indenture) shall exceed 110% percent (or (1) such greater percentage as required by the Credit Facility Agreement, or (2) such lesser percentage with a Credit Confirmation and a Rating



Confirmation) of the sum of the principal and accrued interest on all Outstanding Series 2008 Bonds as evidenced in a Certificate of an Authorized Representative to the Trustee.

“Excess Interest” means, as of the date of computation, the smallest amount that, if treated as a payment for the Student Loans (i.e., taken into account in calculating yield) paid on that date, would reduce the yield on the Student Loans financed by a Series of Bonds which are not Federally Taxable Bonds to a yield that is not higher than the yield on the Bonds plus the Permitted Spread. For purposes of this definition only, yield on the Bonds of any Series and yield on the Student Loans financed by any Series of Bonds shall be calculated in accordance with Treas. Reg. §1.148-4 and 1.148-5, respectively, or such other applicable regulations under the Code.

“Excess Interest Fund” means the fund, if any, by that name created in accordance with Section 5.2 of the General Indenture.

“Excess Interest Calculation Date” means, with respect to each Series of Bonds which are not Federally Taxable Bonds, a date as of which Excess Interest is calculated, which shall be no later than ten years after the Issue Date for a Series of Bonds and on the same day of each fifth year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

“Expiration Date” means the stated expiration date of the Liquidity Facility or Credit Facility as it may be extended from time to time.

“Favorable Opinion” means an Opinion of Bond Counsel to the effect that the action proposed to be taken is authorized or permitted by the General Indenture and any applicable Supplemental Indenture and (except with respect to Federally Taxable Bonds) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which are the subject of such opinion.

“Federally Taxable Bonds” means Bonds so designated by the Supplemental Indenture pursuant to which they are issued, the interest on which is not intended to be excludable from gross income for federal income tax purposes.

“First Supplemental Indenture” means the First Supplemental Indenture, dated as of December 1, 2008, between the Issuer and the Trustee, as amended.

“Fiscal Year” means a twelve-month period commencing on the 1st day of July of any year, or such other twelve-month period adopted by the Issuer as its fiscal year for accounting purposes.

“Fitch” means Fitch Ratings, a subsidiary of Fimilac, S.A., its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Issuer Order, with written notice thereof to Trustee.

“Fixed Mode” means a period of time when the Series 2008 Bonds bear interest at the Fixed Rate.

“Fixed Rate” means the per annum interest rate on Series 2008 Bonds in the Fixed Mode determined pursuant to Section 2.8(b) hereof.

“Fixed Rate Bond,” when used with reference to the General Indenture, means those Bonds which, by their terms, bear interest at a specified rate or rates until their stated maturity, payable (except with respect to Capital Appreciation Bonds) semiannually so long as such Bonds are Outstanding, all as may be particularly set forth in a Supplemental Indenture; provided, however, that the first Interest Payment Date for a Series of Fixed Rate Bonds may be for any period up to twelve months from the date of issue thereof, and when used with reference to the First Supplemental Indenture, means a Series 2008 Bond in the Fixed Mode.

“Fixed Rate Period” means, for Series 2008 Bonds in the Fixed Mode, the period from the Mode Change Date upon which such Series 2008 Bonds were converted to the Fixed Mode to but not including the Stated Maturity for such Series 2008 Bonds.

“Funds” means any of the funds created and established pursuant to Section 5.2 of the General Indenture, including the Funds and Accounts, the Rebate Fund and the Excess Interest Fund.

“Funds and Accounts” means the Revenue Fund, the Acquisition Fund, the Surplus Fund, the Student Loan Fund, the Credit Proceeds Fund, the Purchase Fund and the Debt Service Reserve Fund created pursuant to Section 5.2 of the General Indenture.

“GAAP” means the generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“General Indenture” means the General Indenture by and between the Trustee and the Issuer, dated as of December 1, 2008, as amended and supplemented from time to time.

“Governmental Obligations” means direct obligations of the United States and other obligations, the principal and interest of which are guaranteed by the United States as to full and timely payment.

“Grade Level” means the relative status of an eligible student in a degree or certificate granting program and usually corresponds to an academic year. For example, an eligible student in the second year of a four-year program would be in Grade Level 2.

“Gross Proceeds,” when used with respect to a Series of the Bonds that are not Federally Taxable Bonds, means “gross proceeds” of the Series within the meaning of Treas. Reg. 1.148-1(b).

“Indenture” means the General Indenture and any Supplemental Indentures and any amendments thereto made in accordance with their respective terms.

“Indenture Agent” means the Trustee, the Registrar, the Authenticating Agent, any Depository, any Paying Agent, any Auction Agent, any Remarketing Agent, any Broker-Dealer and any Tender Agent, as approved by the Credit Provider, and any such additional agent as may be authorized pursuant to a Supplemental Indenture, as approved by the Credit Provider.

“Indexed Mode” means a period of time when the Series 2008 Bonds bear interest at an Indexed Rate.

“Indexed Rate” means the per annum interest rate on the Series 2008 Bonds in the Indexed Mode determined pursuant to Exhibit B to the First Supplemental Indenture with regard to Series 2008 Tax-Exempt Bonds and Exhibit C to the First Supplemental Indenture with respect to Series 2008 Taxable Bonds.

“Indexed Rate Bond” means a Series 2008 Bond so identified in Exhibit B and Exhibit C to the First Supplemental Indenture.

“Indexed Rate Conversion Date” means the date on which any of the Series 2008 Bonds are converted to Indexed Rate Bonds, which date shall be an Interest Payment Date.

“Indexed Rate Period” means, for Series 2008 Bonds in the Indexed Mode, the period of time as designated in Exhibit B and Exhibit C to the First Supplemental Indenture.



“Initial Credit Provider Agreement” means that certain Letter of Credit and Reimbursement Agreement dated as of December 1, 2008 between the Issuer and the Credit Provider, as the same may be amended from time to time in accordance with its terms.

“Interest Accrual Period” means the period of time a Series 2008 Bond accrues interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date for which interest has been paid (or, if no interest has been paid, from the Date of Issuance of the Series 2008 Bonds) and shall end on the day preceding the succeeding Interest Payment Date.

“Interest Payment Date,” when used with reference to the General Indenture, means any date or dates upon which interest on the Bonds is due and payable in accordance with their terms, as specified in the applicable Supplemental Indenture pursuant to which they were issued and, when used with reference to the First Supplemental Indenture, means each date on which interest is to be paid on any Series 2008 Bonds and is (a) with respect to Bank Bonds, as set forth in the Liquidity Facility or Credit Provider Agreement, as applicable, (b) with respect to Series 2008 Tax-Exempt Bonds other than Bank Bonds, the first Business Day of each June and December, commencing June 1, 2009, (ii) the Stated Maturity, and (iii) each Mode Change Date for such Series 2008 Tax-Exempt Bonds, (c) with respect to Series 2008 Taxable Bonds other than Bank Bonds (i) the first Business Day of each month, commencing January 2, 2009, (ii) the Stated Maturity, and (iii) each Mode Change Date for such Series 2008 Taxable Bonds, and (d) with respect to Series 2008 Bonds which have been converted to the Fixed Mode, as provided in Section 2.13(b)(iv) or the First Supplemental Indenture.

“Interest Period” means, for Series 2008 Bonds in a particular Mode, the period of time that such Series 2008 Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and may be a Weekly Rate Period, a Monthly Rate Period, a Term Rate Period, an Indexed Rate Period or a Fixed Rate Period. Initially, the Interest Period for the Series 2008 Bonds is the Weekly Rate Period.

“Interest Rate Exchange Agreement” means a contract providing for an interest rate cap, floor, swap or other similar instrument entered into pursuant to Section 7.8 of the General Indenture.

“Investment Securities”, when used with reference to the General Indenture, means (to the extent permitted by State law for the investment of funds of the Issuer) the following categories of securities, which may be further restricted by the terms of any Credit Facility Agreement, Liquidity Facility Agreement or any Supplemental Indenture:

(a) Government Obligations. Such obligations shall be valued (i) in the absence of a dispute or disagreement by utilizing the market values provided to the Trustee's mainframe trust accounting system by recognized independent financial services (currently Interactive Data System, Inc.) and (ii) in the event of a dispute or disagreement at the average of the bid and asked price as reported the previous Business Day by The Wall Street Journal (but if such information is unavailable, such obligations shall be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Issuer);

(b) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other depository institution, including the Trustee or any of its affiliates, provided that, at the time of deposit or purchase such depository institution has senior debt rated "Aa2" or higher by Moody's and, if commercial paper is outstanding, commercial paper which is rated "P1" by Moody's and if rated by Fitch "AA" and "F-1+". Such deposits and certificates of deposit shall be valued at par less any withdrawal penalties;

(c) bonds, notes or other evidences of indebtedness rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(d) U.S. dollar-denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of

purchase of “A-1+” by S&P, “P-1” by Moody’s and “F1+” by Fitch and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank). If maturity is more than or equal to 90 days, they must also be rated “Aaa” by Moody’s;

(e) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P, “P-1” by Moody’s and “F1+” by Fitch and which matures not more than 270 days after the date of purchase. If maturity is more than or equal to 90 days, it must also be rated “Aaa” by Moody’s;

(f) repurchase agreements and reverse repurchase agreements with banks (which may include the Trustee or any of its affiliates) which are members of the Federal Deposit Insurance Corporation, whose outstanding, unsecured debt securities are rated “Aaa” by Moody’s;

(g) shares of a fund registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, which shares, at the time of purchase, are rated “Aaa” by Moody’s; or

(h) money market funds having a rating from each nationally recognized securities rating agency rating such fund in the highest investment category granted by such nationally recognized securities rating agency applicable to money market funds, including for which fund the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or subcustodian, notwithstanding that the Trustee charges and collects fees and expenses from such funds for services rendered; or

(i) other forms of investments provided that prior to the acquisition of such investment the Issuer shall give reasonable written notice to the Rating Agencies and the Credit Provider(s) of its intention to so invest and shall deliver to the Trustee a Rating Confirmation and Credit Confirmation;

and, when used with reference to the First Supplemental Indenture, means, (to the extent permitted by State law for the investment of funds of the Issuer) the following categories of securities, which may be further restricted by the terms of any Reimbursement Agreement, Liquidity Facility Agreement or Supplemental Indenture:

(a) Government Obligations. Such obligations shall be valued (i) in the absence of a dispute or disagreement by utilizing the market values provided to the Trustee’s mainframe trust accounting system by recognized independent financial services (currently Interactive Data System, Inc.) and (ii) in the event of a dispute or disagreement at the average of the bid and asked price as reported the previous Business Day by The Wall Street Journal (but if such information is unavailable, such obligations shall be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Issuer);

(b) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other depository institution, including the Trustee or any of its affiliates, provided that, at the time of deposit or purchase such depository institution has senior debt rated “Aa2” or higher by Moody’s and, if commercial paper is outstanding, commercial paper which is rated “P1” by Moody’s and if rated by Fitch “AA” and “F-1+”. Such deposits and certificates of deposit shall be valued at par less any withdrawal penalties;

(c) bonds, notes or other evidences of indebtedness rated “AAA” by S&P, “Aaa” by Moody’s and “AAA” by Fitch issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(d) U.S. dollar-denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of “A-1+” by S&P, “P-1” by Moody’s and “F1+” by Fitch and maturing no more than 360 days

after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank). If maturity is more than or equal to 90 days, they must also be rated “Aaa” by Moody’s;

(e) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P, “P-1” by Moody’s and “F1+” by Fitch and which matures not more than 270 days after the date of purchase. If maturity is more than or equal to 90 days, it must also be rated “Aaa” by Moody’s;

(f) shares of a fund registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, which shares, at the time of purchase, are rated “Aaa” by Moody’s; or

(g) money market funds having a rating from each nationally recognized securities rating agency rating such fund in the highest investment category granted by such nationally recognized securities rating agency applicable to money market funds, including for which fund the Trustee as an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or subcustodian, notwithstanding that the Trustee charges and collects fees and expenses from such funds for services rendered; or

(h) other forms of investment provided that prior to the acquisition of such investment the Issuer shall give reasonable written notice to the Rating Agencies and the Credit Provider(s) of its intention to so invest and shall deliver to the Trustee a Rating Confirmation and Credit Confirmation.

Notwithstanding any provision of the General Indenture, Investment Securities within the Taxable Account of the Debt Service Reserve Fund and the Series 2008B Account of the Debt Service Reserve Fund shall be limited to as provided in the First Supplemental Indenture.

“Investments” has the meaning stated in Treas. Reg. § 1.148-1(b) and includes: (a) any security within the meaning of Code Section 165(g)(2)(A) or (B); (b) any obligation, including United States Treasury bonds, notes, and bills and bank deposits, whether or not certificated or interest bearing, but, except as otherwise provided in Section 148(b)(3)(B) of the Code, excluding obligations the interest on which is, in the Opinion of Bond Counsel, excludable from the gross income of any owner thereof under the Code or the Internal Revenue Code of 1954, as amended to the date of issuance of such obligation; (c) any annuity contract, or any other deferred payment contract acquired to fund an obligation of the Issuer; or (d) any other investment-type property.

“Issue Date” means the date a Series of Bonds is delivered to the initial purchasers in exchange for the purchase price of the Series of Bonds.

“Issuer” means the Minnesota Office of Higher Education or any body, agency or instrumentality which shall hereafter succeed to the powers, duties and functions thereof.

“Issuer Bonds” means any Series 2008 Bond (a) registered in the name of, or the Beneficial Owner of which is, or which the Trustee actually knows is owned or held by, the Issuer or the Trustee or an agent of the Trustee for the account of the Issuer or (b) with respect to which the Issuer has notified the Trustee, or which the Trustee actually knows, was purchased by another Person for the account of the Issuer or by a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer including, but not limited to, Bank Bonds

“Issuer Order” means a written order of the Issuer executed by an Authorized Representative, requiring action on the part of any Indenture Agent, and certifying such action is in accordance with the Indenture and any applicable Credit Facility Agreement or Liquidity Facility Agreement.

“LIBOR” means, as of any date of determination, a rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of one month are offered to prime banks in the London interbank market, which rate appears on Reuters Screen LIBOR01 Page (or such other page as may replace such

page on that service, or such other service as may be nominated by the British Bankers' Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of approximately 11:00 a.m., London time, on the related date of determination. If such rate does not appear on Reuters Screen LIBOR01 Page (or such other page or service), the Trustee will ascertain the rate in good faith from such sources as it shall determine to be comparable to such source

"Liquidity Facility" means any facility designed to provide for the payment of the Purchase Price of any Adjustable Rate Bonds upon tender thereof.

"Liquidity Facility Agreement" means any agreement between the Issuer and a Liquidity Provider, pursuant to which the Liquidity Provider agrees to issue a Liquidity Facility, as the same may be amended or supplemented.

"Liquidity Facility Failure" means (a) a failure of the Liquidity Provider to pay or honor a properly presented and conforming draw, claim or request for advance under the Liquidity Facility, (b) the filing or commencement of any bankruptcy, receivership or other insolvency proceedings by or against the Liquidity Provider (provided, however, that no Liquidity Facility Failure shall occur as a result of an involuntary bankruptcy, receivership or other insolvency proceeding unless such proceeding has not been dismissed within 90 days after it was commenced), or the Liquidity Provider shall declare in writing a moratorium on the payment of its unsecured debt obligations or shall repudiate the Liquidity Facility in writing or (c) there shall have occurred an event resulting in the immediate termination or suspension of the obligation of the Liquidity Provider to purchase Series 2008 Bonds under the terms of a Liquidity Facility.

"Liquidity Facility Purchase Subaccount" means the Subaccount with that name established within the Series 2008 Bond Purchase Account pursuant to Section 3.22 of the First Supplemental Indenture.

"Liquidity Provider" means the provider of a Liquidity Facility, its successors and assigns.

"Long Term Mode" means a Term Mode with a term equal to or greater than nine months or a Fixed Mode.

"Mandatory Tender Date" means each of the following dates (except that in the case of a Series 2008 Bond in the Weekly Mode or Monthly Mode, each of such dates shall be a Mandatory Tender Date only if a Liquidity Facility or Credit Facility is in effect pursuant to which the Liquidity Provider or Credit Provider is obligated to pay or advance funds to pay the Purchase Price of the Series 2008 Bonds tendered on such date):

- (a) for Series 2008 Bonds in the Term Mode, the first Business Day following the last day of each Term Rate Period,
- (b) each Mode Change Date,
- (c) any Substitution Date,
- (d) the seventh Business Day prior to any Expiration Date (but there shall be no separate mandatory tender in respect of an Expiration Date if notice has been given of a mandatory tender that will occur prior to the Expiration Date and the applicable Series 2008 Bonds will not subsequently be remarketed under the Liquidity Facility or Credit Facility that is expiring),
- (e) if a Liquidity Facility is in effect and the Liquidity Provider has given a notice of termination to the Trustee and the Issuer requesting a mandatory tender of the applicable Series 2008 Bonds pursuant to the Liquidity Facility, not later than the Business Day immediately preceding the date of termination specified in such notice, provided such notice has not been rescinded by the Liquidity Provider prior to the applicable Tender Notice Deadline,

(f) each date established by the Issuer for mandatory tender pursuant to Section 3.6(c) hereof, provided that the Liquidity Provider or Credit Provider shall have given its prior written consent thereto to the extent required by the Liquidity Facility or Credit Provider Agreement, and

(g) if a Credit Facility is in effect, the Business Day after receipt by the Trustee (by 9:00 a.m. local time for the Trustee) of (i) written notice from the Credit Provider that an event of default under the Credit Provider Agreement has occurred (directing the Trustee to cause the Series 2008 Bonds to be mandatorily tendered) or (ii) written notice from the Credit Provider, following a drawing under the Credit Facility to pay interest on the Series 2008 Bonds, that the Credit Provider will not reinstate the Credit Facility with respect to such drawing.

Each Mandatory Tender Date must be a Business Day. If a Mandatory Tender Date described above would not be a Business Day, then the Mandatory Tender Date shall be the immediately preceding Business Day. No Mandatory Tender Date shall occur after an Authorized Liquidity Termination.

“Mandatory Tender Notice” means a notice delivered by Electronic Means or in writing to the Registered Owners of all Series 2008 Bonds subject to mandatory tender pursuant to the First Supplemental Indenture that states (a) that all such Series 2008 Bonds are to be purchased, (b) the Mandatory Tender Date on which such Series 2008 Bonds are to be purchased, and (c) applicable instructions with respect to such purchase and the tender of such Series 2008 Bonds for payment of the Purchase Price.

“Maturity” when used with respect to the Series 2008 Bonds, means the date on which the principal thereof becomes due and payable as therein or herein provided, whether at its Stated Maturity, maturity by earlier redemption, by declaration of acceleration or otherwise.

“Maximum Bank Bond Interest Rate” means the lesser of (a) the maximum rate which may be borne by Bank Bonds pursuant to the applicable Liquidity Facility or Credit Provider Agreement and (b) the maximum lawful nonusurious interest rate allowed under applicable law.

“Maximum Bond Interest Rate” means so long as a Liquidity Facility or Credit Facility is in effect, the lesser of either (1) (a) with respect to Series 2008A Bonds which are not Bank Bonds, 15% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Liquidity Facility Agreement or Credit Facility Agreement), and (b) with respect to Series 2008B Bonds which are not Bank Bonds, 12% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Liquidity Facility Agreement or Credit Facility Agreement), or (2) the maximum lawful nonusurious interest rate allowed under applicable law.

“Mode” means, as the context may require, the Weekly Mode, the Monthly Mode, the Term Mode, the Auction Mode, the Fixed Mode, an Indexed Mode or another mode established pursuant to the First Supplemental Indenture. Initially, the Series 2008 Bonds are in the Weekly Mode.

“Mode Change Date” means, with respect to Series 2008 Bonds in a particular Mode, the day on which another Mode for such Series 2008 Bonds begins, and includes a date on which Series 2008 Bonds in the Term Mode are the subject of a change from one Term Rate Period to another Term Rate Period.

“Mode Change Notice” means the notice from the Issuer to the other Notice Parties of the Issuer’s intention to change the Mode with respect to the Series 2008 Bonds.

“Monthly Mode” means the Mode during which the Series 2008 Bonds bear interest at the Monthly Rate.

“Monthly Payment Date” means the fifteenth day of each calendar month, or, if such day is not a Business Day, the next succeeding Business Day.

“Monthly Period” means, with respect to a Monthly Payment Date, the period commencing on such Monthly Payment Date and ending on the last day preceding the next succeeding Monthly Payment Date.



“Monthly Rate” means the per annum interest rate on Series 2008 Bonds in the Monthly Mode determined pursuant to the First Supplemental Indenture.

“Monthly Rate Period” means the period when a Series 2008 Bond in the Monthly Mode shall bear interest at a Monthly Rate, which shall be the period commencing on the applicable Designated Day of each month to, but not including, the applicable Designated Day of the following month, except the first Monthly Rate Period which shall be from the immediately preceding Mode Change Date to, but not including, the applicable Designated Day of the following month and the last Monthly Rate Period which shall be from, but not including, the applicable Designated Day of the month prior to the proposed Mode Change Date to the day next succeeding the proposed Mode Change Date. The Designated Day for the Series 2008 Bonds during the Monthly Rate Period shall be the first Business Day of each month, or such other day as may be established by the Remarketing Agent with the consent of the Issuer and the Liquidity Provider or Credit Provider, as applicable, in connection with the establishment of that rate period.

“Moody’s” means Moody’s Investors Service, its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Issuer Order, with written notice thereof to the Trustee.

“National Repository” shall mean, at the Issuer’s option, either (i) each Nationally Recognized Municipal Securities Information Repository (collectively, the “NRMSIRs”) recognized by the Securities and Exchange Commission from time to time for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, or (ii) any other filing system approved by the Securities and Exchange Commission for transmission of continuing disclosure filings under said Rule 15c2-12(b)(5) for submission to the NRMSIRs (without also separately submitting such filings to the NRMSIRs and any applicable State Information Depositories by some other means), including without limitation the central post office known as DisclosureUSA, managed by the Municipal Advisory Council of Texas and located at the website [www.DisclosureUSA.org](http://www.DisclosureUSA.org) or to the MSRB as provided at <http://www.emma.msrb.org> as required or permitted by Rule 15c2-12(b)(5) promulgated after the date hereof.

“New Mode” means a change from the Mode then prevailing with respect to the Series 2008 Bonds to another Mode.

“Nonpurpose Investments” has the meaning stated in Treas. Reg. §1.148-1(b) and includes any Investment that is not a Student Loan.

“Notice Parties” means the Issuer, each Rating Agency, the Trustee and, to the extent there exists a Person in any of the following capacities with respect to the Series 2008 Bonds, the Remarketing Agent, the Liquidity Provider and the Credit Provider.

“Opinion of Bond Counsel” means a written opinion from an attorney or firm of attorneys of recognized standing with respect to the tax status of obligations of municipal, state and public agencies, selected by the Issuer.

“Opinion of Counsel” means a written opinion of an attorney at law or firm of attorneys selected by the Person obliged to deliver an opinion on the subject in question, reasonably acceptable to the Person who is to receive the same, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Optional Tender Notice” means a notice delivered by electronic means or in writing to the Trustee that states (a) the principal amount of the Series 2008 Bonds to be purchased pursuant to the First Supplemental Indenture, (b) the Purchase Date on which such Series 2008 Bonds are to be purchased, (c) that the notice is irrevocable and (d) applicable payment instructions with respect to the Series 2008 Bonds being tendered for purchase.

“Outstanding” when used with reference to Bonds, shall mean, as of any date, all Bonds, including any Bonds held in custody for the benefit of any Liquidity Provider or Credit Provider, theretofore or thereupon being authenticated and delivered under the General Indenture except: (a) any Bond canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date; (b) on or after any purchase date for Bonds subject to tender pursuant to the provisions of any Supplemental Indenture, all Bonds or portions thereof (excluding any Bonds held in custody for the benefit of any Liquidity Provider or Credit Provider) which are tendered or deemed to have been tendered for purchase, provided that moneys sufficient for such purchase are on deposit with the Trustee or the tender agent; (c) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Sections 3.7, 6.6 or 9.6 of the General Indenture; and (d) any Bond paid or deemed to have been paid as provided in Subsection (b) of Section 12.1 of the General Indenture.

“Owner” or “owner” or words of similar import, when used with reference to a Bond, means (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the books of registry at the close of business on the Business Day immediately preceding such Auction, (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person is a beneficial owner of Series 2008 Bonds, and (iii) for all other purposes, the Person who is the registered owner of such Bond as shown on the registration books maintained by the Registrar.

“Participant” means those broker-dealers, banks and other financial institutions for which DTC from time to time holds a Series of Bonds as Securities Depository.

“Paying Agent” means the Trustee or any other commercial bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the General Indenture, and approved by the Credit Provider.

“Permitted Spread” means the difference between the Yield on the Bonds of a Series and the Student Loans financed with proceeds of the Series as may be required or permitted under the Code.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization or government or any agency, instrumentality or political subdivision thereof.

“Pledge Agreement” means the Pledge and Security Agreement, dated as of the date hereof, among the Issuer, the Credit Provider and the Trustee.

“Potential Owner” means any person, including any Existing Owner, who may be interested in acquiring Bonds bearing interest at an Auction Rate (or, in the case of an Existing Owner thereof, an additional principal amount of Bonds bearing interest at an Auction Rate).

“Principal Installment” means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would have been retired by such future date by reason of the payment when due and application in accordance with the Indenture of Sinking Fund Payments payable before such certain future date, plus (ii) any Sinking Fund Payments due on such certain future date, plus (iii) the principal component of the Redemption Price of the Bonds then having been called for redemption on such certain future date.

“Principal Payment Date” means, with reference to any Series or portion of a Series of Bonds, the date upon which a Principal Installment or Sinking Fund Payment on such Bonds becomes payable.

“Program Expenses” means (i) the fees and expenses of each Indenture Agent, including in connection with a Supplemental Indenture; (ii) the fees and expenses of a Credit Provider or a Liquidity Provider following the date of issuance of any Class or Series of Bonds for which a Credit Facility or Liquidity Facility is in place; (iii) the fees of the Servicer under any servicing agreement; (iv) the fees and expenses of the Issuer incurred in connection with the preparation of Opinions of Counsel and Opinions of Bond Counsel and other authorized reports or statements attributable to the Bonds and the Student Loans acquired under the General Indenture; (v) transfer fees, purchase



premiums and loan origination fees on Student Loans held by the Issuer and acquired (or by the Trustee on behalf of the Issuer); (vi) fees and expenses associated with the delivery of a substitute Credit Facility or Liquidity Facility under a Supplemental Indenture; (vii) fees and expenses associated with (but not payments under) an Interest Rate Exchange Agreement; (viii) the costs of remarketing any of the Adjustable Rate Bonds, which costs shall be limited to (A) fees and expenses of the financial advisors to the Issuer in connection with a remarketing, (B) the fees and expenses of attorneys representing the parties in connection with a remarketing; (C) the cost of printing in connection with a remarketing, (D) the fees and expenses of Accountants in connection with a remarketing, (E) the fees of any Rating Agency then rating the Bonds, (F) travel expenses of officers and members of the Issuer incurred in connection with a remarketing of Adjustable Rate Bonds and the related proceedings taken by the Issuer, and (G) miscellaneous reasonable and customary expenses, in each case, as such costs were incurred; and (ix) expenses incurred for the Issuer's maintenance and operation of its Student Loan Program as a direct consequence of the General Indenture, the Bonds or the Student Loans acquired by the Issuer under the General Indenture; including the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants and other professionals, attributable to such maintenance and operation. Program Expenses shall not include Costs of Issuance.

"Purchase Date" means any date established for the mandatory or optional tender of Adjustable Rate Bonds, established in accordance with the terms of the applicable Supplemental Indenture. With respect to the Series 2008 Bonds, "Purchase Date" means (a) for a Series 2008 Bond in the Weekly Mode or the Monthly Mode, any Business Day selected by the Registered Owner of such Series 2008 Bond pursuant to the provisions of the First Supplemental Indenture, and (b) any Mandatory Tender Date

"Purchase Price" means the price due to a tendering Owner of any Adjustable Rate Bond issued under the General Indenture, being the principal amount thereof, plus interest accrued at the applicable rate or rates to the Purchase Date, unless the Purchase Date is an Interest Payment Date. With respect to the Series 2008 Bonds, "Purchase Price" means, except as provided in Section 3.6(c) of the First Supplemental Indenture, an amount equal to (a) the unpaid principal amount of any Series 2008 Bonds purchased on any Purchase Date, plus (b) in the case of any purchase of Series 2008 Bonds on a date that is not an Interest Payment Date, accrued interest, if any, in each case, without premium.

"Rate Determination Date" means the date shown in a Certificate of the Issuer and thereafter, any date on which the interest rate on the Series 2008 Bonds shall be determined, which after the initial Interest Period means, (a) in the case of a Weekly Mode, no later than (i) in the case of a Mode change, the Business Day prior to the Mode Change Date, and (ii) in all cases, the Business Day next preceding the applicable Designated Day (the initial Designated Day for the Weekly Rate Period being each Wednesday); (b) in the case of a Monthly Mode, no later than the Business Day prior to the Mode Change Date, and thereafter, the Business Day immediately preceding the first day of the applicable Monthly Period; (c) in the case of a Term Mode, a Business Day no earlier than seven Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent and (d) in the case of the Fixed Mode, a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Rating Agency" means Moody's, Fitch, S&P, DBRS and any other nationally recognized securities rating agency to the extent Moody's, Fitch, S&P, DBRS or any such other agency has issued and continues to maintain a rating on the Bonds (without giving effect to any Credit Facility) at the time in question, at the request of the Issuer. Neither all Bonds issued hereunder, nor all Classes of Bonds that may be issued within a certain Series of Bonds, nor all Bonds within a given Class, need be rated by the same rating agency or agencies.

"Rating Confirmation" means a letter from each applicable Rating Agency then providing a rating for particular Bonds, confirming that the action proposed to be taken by the Issuer will not, in and of itself, have the effect of reducing, qualifying or withdrawing the rating then applicable to any Bonds.

"Rebate Amount" means as of any Computation Date, the "rebate amount" with respect to a Series of Bonds which are not Federally Taxable Bonds, determined in accordance with Treas. Reg. §1.148-3.

"Rebate Fund" means the fund, if any, by that name created in accordance with Section 5.2 of the General Indenture.

“Record Date” means the Business Day before an Interest Payment Date with respect to the Series 2008 Bonds.

“Redemption Dates” means the date upon which Bonds are to be called for redemption pursuant to the General Indenture.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any.

“Registrar” means the Trustee, the Authenticating Agent or any other agent of the Issuer at the office of which Bonds may be presented for registration, transfer, or exchange as provided in the General Indenture.

“Remarketing Agent” means RBC Capital Markets Corporation, or any other entity assuming the duties and obligations of the Remarketing Agent as may be appointed by the Issuer with the prior written consent of the Liquidity Provider (if any) or Credit Provider (if any). When used herein at a time when more than one Remarketing Agent is acting under the First Supplemental Indenture, the term “the Remarketing Agent” shall mean, as the context dictates, either all such Remarketing Agents collectively, or only each Remarketing Agent acting with respect to particular Series 2008 Bonds.

“Remarketing Agreement” means the Remarketing Agreement, dated as of December 1, 2008 between the Issuer and the Remarketing Agent, and any amendments or supplements thereto, with the prior written consent of the Liquidity Provider (if any) or Credit Provider (if any).

“Remarketing Proceeds Subaccount” means the Account by that name created in Section 3.22 of the First Supplemental Indenture.

“Request” means a request by the Trustee under the Liquidity Facility for the payment of Purchase Price of Series 2008 Bonds tendered in accordance with the terms hereof.

“Revenue Fund” means the account by that name created under Section 5.2 of the General Indenture.

“Revenues” means all payments, proceeds, charges and other income received by or on behalf of the Issuer from or on account of any Student Loan (including scheduled, delinquent and advance payments of and any insurance proceeds with respect to, interest and principal received by or on behalf of the Issuer with respect to any Student Loan) and all interest earned or gain realized from the investment of amounts in the Funds and Accounts, and all payments received by or on behalf of the Issuer pursuant to an Interest Rate Exchange Agreement.

“S&P” shall mean Standard & Poor’s Rating Service, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by an Authorized Representative, with written notice to the Trustee.

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Supplemental Indenture, or (a) if the then Securities Depository resigns from its functions as depository of the Bonds, or (b) if the Issuer discontinues use of the Securities Depository with the consent of the Credit Provider, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Issuer with the consent of the Trustee and the Credit Provider.

“SELF I” means the Student Educational Loan Fund I Program operated by the Issuer.

“SELF II” means the Student Educational Loan Fund II Program operated by the Issuer.

“SELF III” means the Student Educational Loan Fund III Program operated by the Issuer.

“SELF IV” means the Student Educational Loan Fund IV Program operated by the Issuer.

“Senior Asset Coverage Ratio” means as of any date of calculation, the ratio (expressed as a percentage) of (1) the sum of the value of (a) the Student Loans (valued at par plus accrued interest) credited to the Student Loan Fund, other than Defaulted Student Loans, and (b) all cash and Investment Securities held in the Funds and Accounts (valued as set forth herein or in the General Indenture, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds pursuant to Section 12.1 of the General Indenture) to (2) the sum of the principal and accrued interest on all Outstanding Class I Bonds as defined in the Indenture.

“Series” means all of the Bonds authenticated and delivered upon original issuance in a simultaneous transaction, pursuant to the same Supplemental Indenture and designated as a Series in such Supplemental Indenture regardless of variations in maturity, interest rate, Class, Sinking Fund Payments or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the General Indenture.

“Series 2008 Bond Purchase Account” means the Account by that name within the Bond Purchase Fund created in the First Supplemental Indenture.

“Series 2008 Bonds” means, collectively, the Series 2008A Bonds and the Series 2008B Bonds, authorized by, and at any time Outstanding pursuant to, the Indenture.

“Series 2008A Bonds” means the series of Bonds authorized by the Supplemental Indenture and titled “Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable).” The Series 2008A Bonds shall constitute Class I Bonds.

“Series 2008B Bonds” means the series of Bonds authorized by the Supplemental Indenture and titled “Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt).” The Series 2008B Bonds shall constitute Class I Bonds.

“Series 2008 Tax-Exempt Bonds” mean the Series 2008B Bonds.

“Series 2008 Taxable Bonds” mean the Series 2008A Bonds.

“Serial Bonds” means the Series 2008 Bonds maturing on the Serial Stated Maturities, as determined pursuant to the First Supplemental Indenture.

“Serial Payments” means the payments to be made in payment of the principal of the Serial Bonds on the Serial Stated Maturities.

“Serial Stated Maturities” means the dates on which the Serial Bonds mature, as determined pursuant to the First Supplemental Indenture.

“Servicer” means Firstmark Services LLC, whose principal office is located at 2101B Wooddale Drive, Woodbury, Minnesota 55125, and its successors and assigns, and any successor Servicer appointed by the Issuer and approved by the Credit Provider in its sole discretion.

“Servicing Agreement” means each Servicing Agreement as amended from time to time, among the Issuer and the Servicer under which such Servicer has agreed to service Student Loans.

“Short Term Mode” means the Weekly Mode, the Monthly Mode or a Term Mode with a term less than nine months.

“SIFMA Index” means, with respect to any Series 2008 Bond in the Weekly Mode for which a rate is not set pursuant to Section 2.7 of the First Supplemental Indenture, the rate per annum determined on the basis of the seven day high grade market index published weekly based upon the weekly interest rate resets of tax exempt

variable rate issues included in a database maintained by Municipal Market Data, Boston Massachusetts, a Thompson Financial Services Company, or its successor, which meet specific criteria established by the Securities Industry and Financial Markets Association (formerly known as The Bond Market Association and the Public Securities Association).

“Sinking Fund Payment” means, as of any particular date of calculation, the amount required to be paid by the Issuer on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Issuer by reason of the maturity of a Bond or by call for redemption at the election of the Issuer.

“Special Record Date” has the meaning set forth in the First Supplemental Indenture.

“State” means the State of Minnesota.

“Stated Maturity” means, with respect to the Series 2008 Bonds, December 1, 2043.

“Student Loan” or “Loan” means any loans made by the Issuer to borrowers under its Supplemental Loan Program that are, pursuant to the terms of the Indenture (1) refinanced or originated with moneys in the Acquisition Fund or the Surplus Fund and credited to the Student Loan Fund, (2) received in exchange for other Student Loans upon the sale thereof or substitution therefor in accordance with Section 7.6(e) of the General Indenture or provisions of a Supplemental Indenture and credited to the Student Loan Fund, or (3) otherwise credited to any Fund or Account as part of the Trust Estate; provided, “Student Loan” does not include loans released from the lien of this Indenture and sold or exchanged, as permitted in this Indenture, to any purchaser, including the Issuer.

“Student Loan Fund” means the fund by that name created under Section 5.2 of the General Indenture.

“Student Loan Program” means the program for the financing of the acquisition of supplemental student loans pursuant to the Act.

“Subservicer” means any subservicer of Student Loans designated in a Supplemental Indenture for the purposes of the General Indenture and approved by the Credit Provider, if any.

“Substitution Date” means the date upon which an Alternate Liquidity Facility or Alternate Credit Facility is substituted for the Liquidity Facility or Credit Facility then in effect.

“Supplemental Indenture” means any Indenture supplemental to or amendatory of the General Indenture, executed by the Issuer and the Trustee and effective in accordance with Article VIII of the General Indenture.

“Supplemental Loan Program” means any of the loan programs established by the Issuer under the Act.

“Surplus Fund” means the fund created under Section 5.2 of the General Indenture.

“Tender Agent” means any commercial bank or trust company appointed by the Issuer in accordance with Section 11.2 of the General Indenture to serve as the agent for tender of Adjustable Rate Bonds issued under the General Indenture.

Tender Notice Deadline” means,

(a) with respect to a Mandatory Tender Notice,

(i) no less than fifteen days prior to the Mandatory Tender Date that occurs on a Substitution Date or an Expiration Date (but no notice need be given in respect of an Expiration Date if notice has been given of a mandatory tender that will occur prior to the Expiration Date and the applicable Series 2008 Bonds will not subsequently be remarketed under the Liquidity Facility or Credit Facility that is expiring);

(ii) five days prior to a Mandatory Tender Date that is described in clause (e) of the definition thereof;

(iii) the date of receipt of a written notice from the Credit Provider described in clause (g) of the definition of Mandatory Tender Date; and

(iv) for all other Mandatory Tender Dates, not less than fifteen days prior to the Mandatory Tender Date; and

(b) during the Weekly Rate Period or Monthly Rate Period, with respect to an Optional Tender Notice, 3:00 p.m., Eastern time on any Business Day that is at least seven days prior to the specified Purchase Date.

“Term Mode” means the period of time selected in accordance with Section 2.8(a) of the First Supplemental Indenture when the Series 2008 Bonds bear interest at the Term Rate.

“Term Rate” means the per annum interest rate for Series 2008 Bonds in the Term Mode determined pursuant to Section 2.8(a) of the First Supplemental Indenture.

“Term Rate Period” means, with respect to a Series 2008 Bond in the Term Mode, the period from (and including) the immediately preceding Mode Change Date to (and including) the last day of the Interest Period established by the Issuer pursuant to Section 2.13(a) of the First Supplemental Indenture and, thereafter, the period from (and including) the beginning date of each successive Interest Period selected for such Series 2008 Bonds by the Issuer pursuant to Section 2.8(a) of the First Supplemental Indenture while such Series 2008 Bonds are in the Term Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period.

“Three-Month LIBOR” shall mean, with respect to the interest rate on Student Loans for a given calendar quarter, the average rounded to the nearest tenth of one percent of the arithmetic average of the three-month London Interbank Offered Rates (LIBOR) rate during the calendar quarter immediately preceding the interest rate adjustment date. The LIBOR rate is determined by the British Banker’s Association.

“Trust Estate” means the assets described as such in the granting clauses of the General Indenture.

“Trustee” means U.S. Bank National Association and its successor or successors and any other person at any time substituted in its place pursuant to this Indenture, with the consent of the Credit Provider.

“Undelivered Bonds” means any Converted Bonds which are required to be tendered on a Fixed Rate Conversion Date and which are not delivered on the Fixed Rate Conversion Date, and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such owner an amount of money sufficient to pay the purchase price and any accrued interest owing on the purchase date with respect to such Converted Bonds.

“Variable Mode” means a Weekly Mode or a Monthly Mode.

“Variable Rate” means a Weekly Rate or a Monthly Rate.

“Weekly Mode” means the period of time when the Series 2008 Bonds bear interest at the Weekly Rate.

“Weekly Rate” means the per annum interest rate on Series 2008 Bonds in the Weekly Mode determined pursuant to Section 2.7 of the First Supplemental Indenture.

“Weekly Rate Period” means the period when a Series 2008 Bond in the Weekly Mode shall bear interest at a Weekly Rate, which shall be the period commencing on the applicable Designated Day of each week to, but not including, the applicable Designated Day of the following week, except the first Weekly Rate Period which shall be

from the immediately preceding Mode Change Date or date of initial issuance of such Series 2008 Bond, as applicable, to, but not including, the applicable Designated Day of the following week and the last Weekly Rate Period which shall be from, but not including, the applicable Designated Day of the week prior to the proposed Mode Change Date to the day next succeeding the proposed Mode Change Date. The Designated Day for the Series 2008 Bonds during the Weekly Rate Period shall be Thursday of each week, commencing with the first Thursday that is at least five days after the applicable Mode Change Date, or such other day as may be established by the Remarketing Agent with the consent of the Issuer and the Liquidity Provider (if any) or Credit Provider (if any) in connection with the establishment of that rate period.

“Yield” of (1) any Investment to any date means the actuarial “yield” of such Investment beginning the date such Investment is allocable to Gross Proceeds, as “yield” is defined in Treas. Reg. § 1.148-5 and (2) the Bonds of a Series means the actuarial “yield” of the Bonds of such Series, as defined in Treas. Reg. § 1.148-4.

“Yield Reduction Payment” means the minimum amounts payable to the United States Treasury as described in Treas. Reg. § 1.148-5(c).

## SUMMARIES OF DOCUMENTS

### The General Indenture

In the General Indenture, the Issuer does bargain, assign, pledge and grant a security interest, subject to the use and applications in accordance with the provisions of the Indenture, in order to secure, as therein provided, (i) the payment of the principal or Redemption Price of, and the interest and any Carry-over Amount (and accrued interest thereon) on, the Bonds at any time issued and outstanding under the Indenture according to their tenor and effect, (ii) the performance and observance of all of the covenants and conditions in said Bonds and therein contained, and (iii) the payment of all amounts owing under any Reimbursement Agreement or Interest Rate Exchange Agreement in the following (constituting the “Trust Estate”) to the Trustee: (a) All Student Loans, and all documentation thereof, whether in tangible or intangible form, including all agreements, notes (whether manually or electronically signed) and all other documents or electronic records evidencing such Student Loans or extensions and renewals thereof, (b) all general intangibles or payment intangibles or electronic chattel paper related to the Student Loans, (c) all proceeds of the Bonds, Revenues and any other amounts at any time contained in the Funds and Accounts excluding the Rebate Fund and the Excess Interest Fund (as hereinafter defined) until their use or release from the Funds and Accounts (such Bond proceeds, Revenues and other amounts may take the form of moneys, securities, accounts, chattel paper, instruments, and general intangibles), (d) the rights of the Issuer in and to the Servicing Agreement as the same relates to Student Loans, (e) any and all other real or personal property of every name and nature, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the General Indenture by the Issuer or by anyone on its behalf or with its written consent to the Trustee, which is authorized by the General Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the General Indenture, and (f) all proceeds of the foregoing.

### Terms of Bonds

Limited Obligations of the Issuer. The Bonds are special limited, not general, obligations of the Issuer payable solely from the Trust Estate, subject to the application thereof to the purposes and on the conditions permitted by the General Indenture.

Authorization of Bonds. In order to (i) originate or refinance Student Loans, (ii) obtain funds to originate or refinance additional Student Loans, (iii) refund obligations of the Issuer, and (iv) in connection with the foregoing, to set aside the amount the Issuer determines is necessary for a reserve, and to pay Costs of Issuance and Program Expenses, obligations of the Issuer in the form of Bonds are hereby authorized to be issued from time to time under the General Indenture in one or more Series of one or more Classes without limitation as to amount except as may be provided by law. Bonds may be issued as Federally Taxable Bonds only if so provided in the Supplemental Indenture authorizing such Bonds. No Bonds shall be issued under the General Indenture unless they are part of an issue described in a Supplemental Indenture and until the conditions contained in Section 2.5 of the General Indenture are satisfied.



Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be authenticated and delivered upon Order of the Issuer, but only upon the receipt by the Trustee of:

(a) a copy of the Supplemental Indenture authorizing such Series, duly executed by the Issuer and the Trustee, which shall specify the terms of such Series of Bonds;

(b) an Opinion of Bond Counsel to the effect that (i) the General Indenture and such Supplemental Indenture have been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Issuer (subject to the operation of bankruptcy, insolvency, preferential transfer, fraudulent transfer, fraudulent conveyance or other laws relating to or affecting creditors rights generally, now existing or hereafter enacted, and by the application of general principles of equity including those relating to equitable subordination and judicial discretion); (ii) such Bonds are valid and binding obligations of the Issuer; (iii) pursuant to the Indenture the Issuer has assigned and granted a security interest in, and all necessary action on the part of the Issuer has been taken as required to assign and grant a security interest in, all of the Trust Estate to the Trustee, subject to customary exceptions acceptable to the initial purchasers of the Bonds and the Credit Provider; (iv) that the security interest granted to the Trustee in the Trust Estate has been perfected and is subject to no prior interests or liens, subject to customary exceptions acceptable to the initial purchasers of the Bonds and the Credit Provider; (v) interest on the Bonds is excludable from gross income for federal income tax purposes, in the event that the Bonds are not intended to be Federally Taxable Bonds; (vi) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State and with this Indenture; and (vii) the Bonds will be classified as debt for federal income tax purposes;

(c) a written order as to the delivery of such Bonds, signed by an Authorized Representative;

(d) in the event that there are then other Bonds Outstanding under the Indenture, (i) a Rating Confirmation and Credit Confirmation with respect to all other Bonds Outstanding, and (ii) on the date of issuance and delivery of any Bonds (other than the initial Bonds issued under the General Indenture), a certification of an Authorized Representative to the effect that the Issuer is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture, unless the issuance of such additional Bonds and the application of the proceeds thereof is intended to, and will, cure such default upon the issuance of such additional Bonds; and

(e) such further documents, certificates, instruments and moneys as are required by any Supplemental Indenture entered into pursuant to Article VIII or IX of the General Indenture.

The Trustee shall notify the Issuer of its receipt of proceeds from a Series of Bonds and shall deposit them to the funds provided in the Supplemental Indenture.

#### **Pledge of Indenture, Establishment of Funds and Accounts**

Pledge Effected by Indenture, Priority. The Trust Estate is pledged in accordance with the Recitals and the Granting Clauses of the General Indenture. To the fullest extent provided by applicable law, the money and property pledged shall immediately be subject to the lien of such pledge and such lien shall be valid and binding against all parties having claims in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice of the pledge.

Creation of Funds. The General Indenture creates and establishes the following Funds to be held by the Trustee and maintained in accordance with the provisions of the General Indenture: (a) Student Loan Fund; (b) Revenue Fund; (c) Surplus Fund; (d) Debt Service Reserve Fund; (e) Acquisition Fund; and (f) Credit Proceeds Fund. Upon Issuer Order, the Trustee shall create and establish a Rebate Fund and Excess Interest Fund, both of which shall be held by the Trustee but shall be outside of the Trust Estate, and the Owners, any Credit Provider, any Liquidity Provider, and any provider of an Interest Rate Exchange Agreement shall have no right, title, or interest



therein or thereto. The Trustee is authorized for the purpose of facilitating administration of the Trust Estate to create subaccounts in any of the various Funds established under the General Indenture.

**Student Loan Fund.** The Trustee shall credit all Student Loans transferred to the Trustee from other trust estates of the Issuer or otherwise by the Issuer to the Trustee and all Student Loans made by the Issuer with amounts provided under the General Indenture to the Student Loan Fund. The Student Loan Fund shall hold only Student Loans and no other assets of any kind whatsoever. The Issuer may elect to create two or more subaccounts in the Student Loan Fund. If subaccounts are created to separate Student Loans originated or refinanced with Gross Proceeds derived from one or more Series of Bonds, the Issuer will notify the Trustee which Student Loans should be credited to each subaccount.

The Issuer shall execute and cause to be filed UCC financing statements (and continuation statements) and/or the Issuer and the Trustee shall execute and deliver custodian agreements as directed by the Issuer all as shall be necessary under applicable law to perfect and maintain the security interest created by the General Indenture in the Student Loans. Following the filing of any UCC financing statement with respect to the General Indenture the Issuer shall, prior to the expiration of such filing, file continuation statements as needed.

Student Loans held under the General Indenture shall be sold or exchanged by the Trustee on behalf of the Issuer free from the lien of the General Indenture at any time pursuant to Section 7.6 of the General Indenture or the provisions of a Supplemental Indenture if the Trustee is provided the following: (a) a Certificate signed by the Issuer demonstrating compliance with Section 7.6(c) of the General Indenture and the Credit Facility Agreement, if required; (b) such documentation as may be required by the applicable Supplemental Indenture; and (c) the purchase price or Student Loan to be exchanged therefor, as applicable. The Trustee shall apply such purchase price in accordance with the provisions of Section 5.4 of the General Indenture.

Notwithstanding the foregoing, the Issuer shall not direct the Trustee to sell Student Loans if such sale would have an adverse effect on the exclusion from gross income of interest on the Bonds (other than Federally Taxable Bonds) for federal income tax purposes and shall receive a Favorable Opinion prior to such sale, or if such sale is not then permitted by a Credit Facility Agreement, without a Credit Confirmation.

## **Revenue Fund**

The Trustee shall deposit in the Revenue Fund the amounts described in any Supplemental Indenture, any other amounts deposited thereto on Issuer Order, and all Revenues, including earnings on amounts in the Funds and Accounts (except as specified in the General Indenture), all payments of principal and interest, if any, together with any tuition refunds, funds transferred to the Trustee from the Servicer's or Servicers' separate bank accounts maintained pursuant to any Servicing Agreement, insurance and guaranty payments and proceeds from the sale of Student Loans. Money in the Revenue Fund shall be kept separate and apart from all other Funds.

On each Monthly Payment Date (or on such other date as is specified in a particular clause), money in the Revenue Fund shall be applied in the following order of priority subject to the terms in the Supplemental Indenture:

- (1) amounts which, when added to the amounts already in the Rebate Fund and the Excess Interest Fund, equal the Rebate Amount and the Excess Interest, respectively, as of the most recent date of calculation, shall be transferred to the Rebate Fund and the Excess Interest Fund, as appropriate;
- (2) subject to the limitations, if any, contained in a Supplemental Indenture, an amount if any, then due and payable, representing fees and expenses of the Servicer and the Trustee, together with any required late fees or interest thereon, shall be paid to the Servicer and the Trustee, as applicable;
- (3) subject to the limitations, if any, contained in a Supplemental Indenture, the following amounts due and payable on or with respect to the Class I Bonds during the related Monthly Period in the following order of priority:
  - (a) premiums and fees of a Credit Provider relating to Class I Bonds;

- (b) interest payable on Class I Bonds during the related Monthly Period;
  - (c) principal payable on Class I Bonds during the related Monthly Period, subject to Section 5.5 of the General Indenture;
  - (d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class I Bonds;
  - (e) amounts to reimburse a Credit Provider for any claims or draws on its Credit Facility (i) to pay interest and/or principal on any Class I Bonds, together with any required interest thereon and (ii) to pay the Purchase Price of any Class I Bonds, together with any required interest thereon, and to pay any other amounts payable to the Credit Provider pursuant to the Credit Facility Agreement, in each case when due and payable in accordance with such Credit Facility Agreement;
- (4) subject to the limitations, if any, contained in a Supplemental Indenture, the following amounts due and payable on or with respect to the Class II Bonds during the related Monthly period in the following order of priority:
- (a) premiums and fees of a Credit Provider relating to Class II Bonds;
  - (b) interest payable on Class II Bonds during the related Monthly Period;
  - (c) principal payable on Class II Bonds during the related Monthly Period, subject to Section 5.5 of the General Indenture;
  - (d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class II Bonds;
  - (e) amounts to reimburse a Credit Provider for any claims or draws on its Credit Facility (i) to pay interest and/or principal on any Class II Bonds, together with any required interest thereon and (ii) to pay the Purchase Price of any Class II Bonds, together with any required interest thereon, and to pay any other amounts payable to the Credit Provider pursuant to the Credit Facility Agreement, in each case when due and payable in accordance with such Credit Facility Agreement;
- (5) subject to the limitations, if any, contained in a Supplemental Indenture, the following amounts due and payable on or with respect to the Class III Bonds during the related Monthly period in the following order of priority:
- (a) premiums and fees of a Credit Provider relating to Class III Bonds;
  - (b) interest payable on Class III Bonds during the related Monthly Period;
  - (c) principal payable on Class III Bonds during the related Monthly Period, subject to Section 5.5 of the General Indenture;
  - (d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class III Bonds;
  - (e) amounts to reimburse a Credit Provider for any claims or draws on its Credit Facility (i) to pay interest and/or principal on any Class III Bonds, together with any required interest thereon and (ii) to pay the Purchase Price of any Class III Bonds, together with any required interest thereon, and to pay any other amounts payable to the Credit Provider pursuant to

the Credit Facility Agreement, in each case when due and payable in accordance with such Credit Facility Agreement;

(6) subject to the limitations, if any, contained in a Supplemental Indenture, the following amounts due and payable on or with respect to the Class IV Bonds during the related Monthly period in the following order of priority:

- (a) premiums and fees of a Credit Provider relating to Class IV Bonds;
- (b) interest payable on Class IV Bonds during the related Monthly Period;
- (c) principal payable on Class IV Bonds during the related Monthly Period, subject to Section 5.5 of the General Indenture;
- (d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class IV Bonds;
- (e) amounts to reimburse a Credit Provider for any claims or draws on its Credit Facility (i) to pay interest and/or principal on any Class IV Bonds, together with any required interest thereon and (ii) to pay the Purchase Price of any Class IV Bonds, together with any required interest thereon, and to pay any other amounts payable to the Credit Provider pursuant to the Credit Facility Agreement, in each case when due and payable in accordance with such Credit Facility Agreement;

(7) subject to the limitations, if any, contained in a Supplemental Indenture, the following amounts due and payable on or with respect to the Class V Bonds during the related Monthly period in the following order of priority:

- (a) premiums and fees of a Credit Provider relating to Class V Bonds;
- (b) interest payable on Class V Bonds during the related Monthly Period;
- (c) principal payable on Class V Bonds during the related Monthly Period, subject to Section 5.5 of the General Indenture;
- (d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class V Bonds;
- (e) amounts to reimburse a Credit Provider for any claims or draws on its Credit Facility (i) to pay interest and/or principal on any Class V Bonds, together with any required interest thereon and (ii) to pay the Purchase Price of any Class V Bonds, together with any required interest thereon, and to pay any other amounts payable to the Credit Provider pursuant to the Credit Facility Agreement, in each case when due and payable in accordance with such Credit Facility Agreement;

(8) to the extent necessary to increase the balance therein to the Debt Service Reserve Requirement, a transfer shall be made to the Debt Service Reserve Fund;

(9) amounts to pay termination fees due under an Interest Rate Exchange Agreement relating to the Class I Bonds, the Class II Bonds, the Class III Bonds, the Class IV Bonds, and the Class V Bonds in that order of priority

(10) if, as of any Interest Payment Date, any Carry-over Amount (including any accrued interest thereon) is due and payable with respect to a series of Bonds, as provided in the related Supplemental Indenture, the Trustee shall (to the extent amounts are available therefor (i) pursuant to this

clause, or (ii) in the Surplus Fund after taking into account all other amounts payable therefrom on such Interest Payment Date), an amount equal to such Carry-over Amount (including any accrued interest thereon) shall be paid to the applicable Bondholders of the Class I Bonds, the Class II Bonds, the Class III Bonds, the Class IV Bonds, and the Class V Bonds in that order of priority.

(11) at the written direction of the Issuer, any portion or all of the remaining money shall be applied to the refinancing or making of Student Loans, as more fully set forth in Section 5.9 of the General Indenture; and

(12) any money remaining after the foregoing applications shall be transferred to the Surplus Fund.

In the event amounts are payable to more than one Person pursuant to any one of the preceding clauses, and the money available is insufficient to pay all such amounts pursuant to such clauses, the available money shall be applied pro rata to the payment of each Person based upon the amount payable thereto.

If the Trustee receives notice, either from the Servicer or the Issuer, that amounts described in clause (2) above have not been paid, and moneys available to pay such amounts under this Indenture are insufficient to do so, the Trustee shall immediately notify all Credit Providers in writing.

The Issuer shall provide the Trustee with a Certificate on or before the tenth day of each calendar month setting forth (A) the amounts due and owing as fees and expenses to the Servicer and each Indenture Agent and as premiums, fees and other amounts (other than reimbursement for claims or draws on the related Credit Facility) to each Credit Provider and Liquidity Provider as of the end of the preceding calendar month, and (B) such portions of each such amount as have been previously paid by the Issuer. The Trustee will be entitled to rely on such Certificate in determining whether moneys in the Revenue Fund will be applied to the payment of such amounts in accordance with the foregoing provisions of this Section.

The Issuer may elect to create two or more subaccounts in the Revenue Fund; each for the deposit of Gross Proceeds derived from a Series of Bonds (or portion thereof), as determined by the Issuer. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof (or shall reimburse the Credit Provider for payment of such Debt Service) from that Series' subaccount and to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' subaccount. The creation of such subaccounts are for tracking purposes and all Bonds of the same Class shall be paid on a parity and notwithstanding the foregoing, in the event there are insufficient funds in the Revenue Fund subaccount and Surplus Fund subaccount for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from the Revenue Fund subaccount or Surplus Fund subaccount for another Series of Bonds, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to subaccounts) prior to the amount due, in the order established in the General Indenture, provided, however, that funds for a Credit Facility can only be used to pay Bonds of the Series for which it was issued.

An amount equal to interest on each Series of Bonds shall be accounted for as follows:

(a) to the extent interest on a Series of Bonds is payable during the related Monthly Period, an amount equal to such interest (which, for purposes of estimating such amount only, will be assumed to be at the maximum allowable rate thereon for any portion of such period for which the applicable interest rate has yet to be determined) shall, subject to Section 5.5 of the General Indenture, be applied to the payment of such interest when due; and

(b) to the extent interest on a Series of Bonds will accrue but not be payable during the related Monthly Period, an amount equal to such accruing interest (which, for purposes of estimating such amount only, will be assumed to be at the maximum allowable rate thereon for any portion of such period for which the applicable interest rate has yet to be determined) shall be retained in the Revenue Fund.

To provide for the payment of each installment of principal of the Bonds due at the maturity thereof or on a sinking fund payment date therefor (or to reimburse the Credit Provider (s) for draws on the Credit Facility for the payment of such principal), the Trustee shall make substantially equal monthly deposits to the credit of the Revenue Fund on the last Business Day of each of the 12 calendar months preceding such maturity or sinking fund payment date, to aggregate the full amount of such installment (except that if there are fewer than 12 calendar months between the delivery of the Bonds of a series to the initial purchasers thereof and the first sinking fund payment date with respect to such series of Bonds, or from the last sinking fund payment date to the next sinking fund payment date with respect to such series of Bonds, then the Trustee shall make equal monthly deposits to the credit of the Revenue Fund on the last Business Day of each calendar month beginning with the calendar month following the month in which such Bonds are delivered to the initial purchasers or from the last sinking fund payment date, as the case may be, to aggregate the full amount of such Revenue installment). In making the deposits required to be deposited and credited to the Revenue Fund, all other deposits and credits otherwise made or required to be made to the Revenue Fund shall, to the extent available for such purpose, be taken into consideration and allowed for.

Credit Proceeds Fund. The first source of payment of principal and interest on a Series of Bonds supported by a Direct Pay Credit Facility shall be the designated subaccount in the Credit Proceeds Fund. The Trustee shall deposit into the designated subaccount of the Credit Proceeds Fund the proceeds of each drawing on that Credit Facility (other than drawings to provide the Purchase Price of Tendered Bonds) immediately upon receipt. The Trustee shall draw under such Credit Facility in accordance with its terms in time and amount sufficient to provide for the payment of principal of and interest on the Bonds secured by that Credit Facility on each Bond Payment Date, whether at maturity or upon earlier proceedings for redemption or acceleration, or otherwise, in an amount equal to the full amount of the interest or principal coming due on such date with respect to all such Bonds then Outstanding (except with respect to Bonds then registered to the order or in the name of such Credit Provider or the Issuer). The Trustee shall, following deposit of such proceeds into the Credit Proceeds Fund, apply the amounts in such Fund solely to pay such principal and interest on the related Bonds as they become due. Amounts on deposit in the Credit Proceeds Fund shall not be commingled with any other fund or account established hereunder. The Trustee shall have the sole right of withdrawal from the Credit Proceeds Fund, and the Issuer shall have no legal, beneficial or equitable right, title or interest therein. The Credit Proceeds Fund is established solely for the benefit of the Owners (except the Issuer and the Credit Provider as to Bonds purchased with the proceeds of drawings under that Credit Facility), from time to time, of the Bonds secured by a Credit Facility. The Trustee shall have no lien on amounts on deposit in the Credit Proceeds Fund for payment of its fees or expenses. Notwithstanding anything contained herein to the contrary, the Trustee shall only make payments of principal or Redemption Price or Purchase Price of (to the extent remarketing proceeds are not available for such purposes) and interest on Bonds secured by a Credit Facility that is neither a bond insurance policy nor a standby bond purchase agreement, first, from moneys drawn from the Credit Facility and, if insufficient, then from other moneys in the Funds and Accounts established under the General Indenture. The Trustee shall not require any indemnity as a condition to presenting a draw certificate under the Credit Facility to make payments to Bondholders or to effect a tender, redemption or acceleration.

Surplus Fund. The Trustee shall deposit in the Surplus Fund all amounts required to be transferred thereto from the Revenue Fund and, except as directed in any Supplemental Indenture, all amounts transferred from any other trust estate of the Issuer. The moneys in the Surplus Fund shall be invested in Investment Securities as provided in Section 5.15 of the General Indenture, and any earnings on or income from such investments shall be deposited in the Revenue Fund. Except with respect to Federally Taxable Bonds and as otherwise permitted in a Supplemental Indenture or a tax certificate delivered in connection with the issuance of a Series of Bonds, the Issuer will not direct the Trustee to invest money in the Surplus Fund in any Investment, if as a result of such investment the Yield from the Issue Date of a Series of Bonds of all Investments acquired with money in the Surplus Fund derived from proceeds of such Series, whether then held or previously disposed of, exceeds the Yield of the Series. Notwithstanding the foregoing, money in the Surplus Fund may also be used to refinance Student Loans.

The Trustee shall use the moneys in the Surplus Fund for the following purposes in the following order of priority: (a) make deposits to the Excess Interest Fund and the Rebate Fund to the extent required by Sections 5.10, 5.11 and 5.12 of the General Indenture, as applicable; (b) to the extent there is a required deposit or transfer on any date from the Revenue Fund and the moneys therein are not sufficient therefor, the moneys in the Surplus Fund shall be utilized to satisfy such deficiency (including for the payment of amounts due with respect to the Bonds or to reimburse a Credit Provider for such payments); (c) If a "Term-Out Event" or "Event of Default" is declared in



accordance with the applicable Credit Facility Agreement, to redeem Bonds held by any Credit Provider or to reimburse the Credit Provider for Bonds accelerated or mandatorily redeemed or purchased; (d) on any date, to originate or refinance Student Loans, as more fully set forth in Section 5.9 of the General Indenture and as may be permitted by the Credit Facility Agreement; and (e) to transfer money to the Issuer if permitted pursuant to Section 5.16 of the General Indenture, provided the Issuer gives notice to any Credit Provider and each Rating Agency.

The Issuer may elect to create two or more subaccounts in the Surplus Fund; each for Gross Proceeds derived from a Series of Bonds (or portion thereof) as determined by the Issuer. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof (or shall reimburse the Credit Provider for payment of such Debt Service) from that Series' subaccount and, to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' subaccount. Notwithstanding the foregoing, in the event there are insufficient funds in the Revenue Fund subaccount and Surplus Fund subaccount for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from the Revenue Fund subaccount or Surplus Fund subaccount for another Series of Bonds, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to subaccounts) prior to the amount due, in the order of priority established in Sections 5.4 and 5.6 of the General Indenture.

Debt Service Reserve Fund. The Trustee shall deposit in the Debt Service Reserve Fund the Debt Service Reserve Requirement specified in the Supplemental Indentures and any transfers thereto from the Revenue Fund or Surplus Fund. Amounts on deposit in the Series Subaccount of the Debt Service Reserve Fund shall be applied in conjunction with the final payment of the principal of and interest on the last Outstanding Bonds of a Series. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement, as required under a Supplemental Indenture, the Issuer shall by Corporation Order direct the Trustee to transfer such excess, and all earnings thereon, to the Revenue Fund.

Except as may be set forth in any Supplemental Indenture, the Trustee shall use the moneys in the Debt Service Reserve Fund, to the extent of any deficiency after applying the moneys in the Revenue Fund, the Surplus Fund and the Acquisition Fund, to the same uses as set forth in Section 5.4(b)(1) through (7) of the General Indenture.

Acquisition Fund. Moneys in the Acquisition Fund shall be used to originate or refinance Student Loans and to the extent provided in a Supplemental Indenture to pay Costs of Issuance and initial Program Expenses, at or about the time of issuance of a Series of Bonds.

Purchase Fund. The Purchase Fund is a fund to be held by the Tender Agent. The Tender Agent shall deposit to the credit of the Purchase Fund only the following promptly upon receipt: (a) the Purchase Price of tendered Bonds or Undelivered Bonds sold pursuant to a remarketing agreement (other than to the Issuer), and (b) all amounts derived from a Credit Facility or Liquidity Facility to purchase tendered Bonds or Undelivered Bonds. The Tender Agent shall disburse amounts held for the credit of the Purchase Fund to purchase Bonds, on behalf of the persons purchasing the same.

## **Particular Covenants**

In the General Indenture, the Issuer covenants and agrees with the Trustee and the Owners of the Bonds as follows:

Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid the principal or Redemption Price of every Bond and the interest, if any, thereon and any Carry-Over Amounts (together with interest thereon), at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof.

### Student Loan Program.

(a) The Issuer shall, or through its Servicer shall, diligently collect all principal and interest payments on all the Student Loans held under the Indenture (except to the extent loans are forgiven by the

Issuer), and insurance and guarantee claims, if any, which relate to such Student Loans. The Issuer will comply with the provisions of Act, which apply to the Student Loan Program and to such Student Loans.

(b) No amount in the Acquisition Fund, the Revenue Fund, or the Surplus Fund shall be expended or applied for the purpose of purchasing, originating or refinancing a Student Loan, and no Student Loan shall be financed under the Indenture, unless the Issuer has determined that as of the date of acquisition of such Student Loan each of the representations in Section 7.13 of the General Indenture is true.

(c) The Issuer may at any time sell, assign, transfer or otherwise dispose of a Student Loan at a price: (i) in excess of the principal amount thereof (plus accrued borrower interest) or, except as to Student Loans contributed by the Issuer, in excess of the purchase price paid by the Issuer for such Student Loan (less principal amounts received with respect to such Student Loan); (ii) equal to the principal amount thereof (plus accrued borrower interest), when the amounts on deposit in the Funds and Accounts and the Student Loans in the Student Loan Fund, are at least equal to the principal amount of the Outstanding Bonds plus accrued interest or in order to pay current Debt Service on the Bonds or to avoid any default in the payment obligations of the Issuer under any Credit Facility Agreement, Liquidity Facility Agreement, Interest Rate Exchange Agreement or otherwise; or (iii) lower than the principal amount thereof (plus accrued interest) when the Issuer delivers to the Trustee and the Credit Provider, if any, and each Rating Agency a Cash Flow Projection demonstrating that, after any such disposition, the Cash Flow Condition will be satisfied.

(d) The Issuer will use its best efforts to evaluate the reinvestment of principal and interest receipts with respect to Student Loans to ensure that it will continue to be able to fulfill its debt service requirements under the General Indenture.

(e) The Issuer may exchange with any purchaser one or more Student Loans for one or more other Student Loans (of approximately the same aggregate principal amount and accrued interest) of a borrower who is the obligor on other Student Loans. The Issuer may at any time and from time to time exchange Student Loans for other Student Loans having an aggregate principal amount and interest rate not less than the aggregate principal amount and interest rate of the Student Loans being exchanged, for the purpose of consolidating Student Loans of a single borrower within one indenture.

Servicing of Student Loans. The Issuer shall duly and properly service all Student Loans and enforce the payment and collection of all payments of principal and interest or shall cause such servicing to be done by the Servicer or any additional or successor Servicer evidencing, in the judgment of the Issuer, the capability and experience necessary to adequately service Student Loans. The Issuer covenants that the Servicer will be its agent and subject to its general direction under a contract with the Servicer. The Servicer may perform its duties through Subservicers, except as may be provided by any Supplemental Indenture. The Servicer shall be responsible for the performance of its obligations under the Indenture and the Servicing Agreement, whether such obligations are performed by the Servicer or by a Subservicer, and the Servicer shall be responsible for any fees and payments required by any Subservicer. The Issuer shall cause all Student Loan notes to be held in trust as part of the Trust Estate subject to the lien of the Indenture.

### **Supplemental Indentures Not Requiring Consent of Owners**

For any one or more of the following purposes and at any time or from time to time subject to the provisions of the General Indenture, a Supplemental Indenture not requiring the consent of Owners may be executed and delivered by the Issuer and the Trustee, with the consent of the Credit Provider, for the following purposes: (a) to provide limitations and restrictions in addition to the limitations and restrictions contained in the General Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness; (b) to add to the covenants and agreements of the Issuer in the General Indenture other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the General Indenture as theretofore in effect; (c) to add to the limitations and restrictions in the General Indenture other limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the General Indenture as theretofore in effect; (d) to surrender any right, power or privilege reserved to or conferred upon the Issuer by the terms of the General



Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Issuer contained in the General Indenture; (e) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the General Indenture, of the Revenues or of any other revenues or assets; (f) to modify any of the provisions of the General Indenture in any respect whatever, but only if (i) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the execution of such Supplemental Indenture shall cease to be Outstanding, and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds authenticated and delivered after the date of the execution of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; (g) to authorize the issuance of one or more Class or Series of Bonds and to prescribe the terms and conditions upon which such Bonds maybe issued; (h) to create additional special trust accounts for the further securing of all Bonds or all Bonds of a Class or Series issued pursuant to the General Indenture if along with such Supplemental Indenture there is filed an Opinion of Bond Counsel to the effect that the creation and operation of such account does not materially adversely affect the existing security of the Owner of any Outstanding Bond; (i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the General Indenture; (j) to insert such provisions clarifying matters or questions arising under the General Indenture as are necessary or desirable and are not contrary to or inconsistent with the General Indenture as theretofore in effect; (k) to provide for additional duties of the Trustee in connection with the Student Loans; (l) in order to obtain, maintain or improve the rating of any Rating Agency on any of the Bonds; (m) to provide for the orderly sale or remarketing of Bonds; (n) to make any other change which, in the judgment of the Trustee acting in reliance on an Opinion of Bond Counsel is necessary or desirable to maintain the tax status of the Bonds (other than Federally Taxable Bonds); (o) to make any change which, in the judgment of the Trustee acting in reliance upon an Opinion of Counsel, to the extent the Trustee deems such opinion desirable, is not to the prejudice of the Trustee or the Owners; (p) to make any change that affects only the rights of a Credit Provider or Liquidity Provider which has issued a Credit Facility or Liquidity Facility with respect to any of the Bonds, with the prior written consent of such Credit Provider or Liquidity Provider; (q) to conform provisions under the Indenture with respect to auction rate or other variable rate bonds to the prevailing market practices to the extent deemed reasonable and necessary to the Issuer; or (r) to modify, alter, amend or supplement the Indenture, including any Supplemental Indenture, in any other respect, including amendments which would otherwise be described in Section 8.1 of the General Indenture, (i) as of any date required for mandatory tender of Bonds for purchase, to the extent such change affects only Bonds which are subject to such mandatory tender on such date; (ii) as of any auction date, to the extent such change affects only Bonds which are subject to a sell order on such date; or (iii) if notice of the proposed Supplemental Indenture is given to Owners (in the same manner as notices of redemption are given) at least fifteen (15) days before the effective date thereof, and the Owners have the right to demand purchase of their Bonds or issue a sell order on their Bonds on or before such effective date; and any such owners of Bonds being required to tender such Bonds for purchase, or have a sell order for such Bonds or having the right to demand purchase thereof shall, as of such effective date, be deemed to have consented to such Supplemental Indenture for purposes of determining the percentage of Owners who have consented to any Supplemental Indenture and for all other purposes hereof if all such tenders or demands for purchase are timely honored or all sell orders are settled in a clearing auction; and if less than all of the Owners are required to tender their Bonds for purchase, issue a sell order or have such right to demand purchase, any such Supplemental Indenture may be made applicable only to such owners and their successors.

Any Supplemental Indenture permitted or authorized by (a) through (r) above may be executed by the Issuer without notice to or the consent of any of the Owners, but with the consent of any Liquidity Provider for the Bonds and the consent of any Credit Provider to modify the General Indenture (including deletions of or changes to provisions of the General Indenture or additions to the General Indenture or any combination of deletions, changes and additions) as required by any Credit Provider, or otherwise necessary to give effect to any Credit Facility or remarketing agreement with a Remarketing Agent authorized to be issued under the General Indenture, provided that no such modifications shall be effective if the consent of all Bondholders would be required therefor under the provision contained in Section 9.2 of the General Indenture and such consent has not been obtained. The copy of every Supplemental Indenture permitted or authorized by (a) through (r) above and filed with the Trustee shall be accompanied by a Favorable Opinion including a statement that such Supplemental Indenture has been duly and lawfully executed by the Issuer in accordance with the provisions of the General Indenture and any applicable Credit Facility Agreement or Liquidity Facility Agreement, is authorized or permitted by the General Indenture, and, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Issuer.

## Supplemental Indentures Requiring Consent Of Owners

**Powers of Amendment.** Except as provided in Article VIII of the General Indenture, any modification of or amendment to the General Indenture and of the rights and obligations of the Issuer, a Credit Provider or Liquidity Provider under a Supplemental Indenture, and of the Owners of the Bonds of any particular Series, may be made by a Supplemental Indenture, with the written consent of each Credit Provider and Liquidity Provider, together with the written consent of: (i) the Owners of at least 51% in principal amount of the Bonds By Class in Descending Priority Outstanding at the time such consent is given; (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least 51% in aggregate principal amount of the Bonds of each Series so affected and outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the Owners of at least 100% in principal amount of the Bonds of the particular Class, Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. In the event that a Credit Provider has issued a Credit Facility or a Liquidity Provider has issued a Liquidity Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Credit Provider or Liquidity Provider is then in receivership; bankruptcy or reorganization or is then continuing wrongfully to dishonor drawings under the Credit Facility or Liquidity Facility, the Credit Provider or, in the event there is no Credit Provider, the Liquidity Provider shall be considered as the Owner of 100% of such Series of Bonds or Class within that Series of Bonds for the purpose of consenting to any modification of or amendment to the Indenture, but, if so required by the applicable Liquidity Facility Agreement in the case of the Liquidity Provider only.

If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 9.2 of the General Indenture. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond (which consent shall not be deemed to be effected by a Credit Provider or Liquidity Provider), or shall reduce the percentages or otherwise affect the Classes of Bonds, the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Indenture Agent without its written assent thereto. For the purposes of Section 9.2 of the General Indenture, a Series shall be deemed to be affected, by a modification or amendment of the General Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series.

## Defaults And Remedies

**Events of Default.** Each of the following events is an “Event of Default:”

- (a) payment of the principal, Purchase Price, or Redemption Price, if any, on any Bond shall not be made when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or
- (b) payment of any installment of interest on any of the Bonds shall not be made when and as the same shall become due; or
- (c) the Issuer shall fail or refuse to comply with the provisions of the Indenture, or shall default in the performance or observance of any of the other covenants, agreements or conditions on its part contained therein or in any Supplemental Indenture or the Bonds, other than those described in paragraph (a) or (b) above, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof has been delivered to the Issuer and the Credit Provider, if any, by the Trustee or by the Owners of not less than 25% in principal amount of the Outstanding Bonds; provided that no such failure, refusal or default shall constitute an Event of Default without the consent of the Credit Provider; or
- (d) with respect to any Series of Bonds, any Event of Default pursuant to the Supplemental Indenture authorizing such Series shall occur; provided that no such Event of Default shall constitute an Event of Default under Section 10.1 of the General Indenture without the consent of the Credit Provider; or

(e) (i) with respect to any Series of Bonds, the payment of which is provided by a Direct Pay Credit Facility, the related Credit Provider shall deliver written notice to the Trustee to the effect that an Event of Default has occurred and is continuing under the Credit Facility Agreement and directing that such Bonds be accelerated or required to be purchased pursuant to the terms of the General Indenture and the applicable Supplemental Indenture, or (ii) for a Series of Bonds secured by a Credit Facility that is an insurance policy, the Credit Provider shall deliver written notice to the Trustee directing that such Bonds be accelerated pursuant to the terms of the General Indenture and the applicable Supplemental Indenture.

Remedies. (a) Upon the occurrence and continuance of any Event of Default specified in paragraphs (a), (b) or (e) of Section 10.1 of the General Indenture, the Trustee shall promptly notify the Issuer, any Credit Provider, any Liquidity Provider, any counterparty to an Interest Rate Exchange Agreement and each Indenture Agent of the existence of such Event of Default or upon the occurrence and continuance of any Event of Default specified in paragraphs (c) or (d) of Section 10.1 of the General Indenture, the Trustee shall promptly notify the Issuer, any Credit Provider, any Liquidity Provider, and any counterparty to an Interest Rate Exchange Agreement and each Indenture Agent of the existence of such Event of Default and may or, if instructed by the Owners as described in Section 10.5 of the General Indenture, shall (in either case only with the prior written consent of the Credit Provider) proceed in its own name, to protect and enforce the rights of the Owners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(i) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners, including the right to require the Issuer to carry out the covenants and agreements as to, and the assignment of, the Student Loans and to require the Issuer to carry out any other covenants or agreements with Owners and to perform its duties as prescribed by law;

(ii) by bringing suit upon the Bonds;

(iii) by action or suit in equity, to require the Issuer to account as if it were the trustee of an express trust for the Owners of the Bonds;

(iv) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; or

(v) upon the occurrence of an Event of Default specified in paragraphs (a) or (b) or (e) of Section 10.1 of the General Indenture, the Trustee shall if such Event of Default occurs with respect to the most senior Class of Bonds then Outstanding, and in the case of a Event of Default specified in (c) or (d) of Section 10.1 of the General Indenture, the Trustee may upon the written direction of the Owners, as provided in Section 10.5 of the General Indenture, after written notice to the Issuer, declare the principal of the most senior Class of the Bonds then Outstanding to be immediately due and payable, whereupon the principal and the accrued interest on such Bonds through the date of acceleration shall, without further action, become and be immediately due and payable, anything in the General Indenture, or in the Bonds to the contrary notwithstanding. If all defaults shall be cured, then, the Trustee may annul such declaration and its consequences; provided each Credit Facility or Liquidity Facility for the Bonds previously in effect is fully reinstated and in full force and effect.

(b) If Bonds secured by a Credit Facility are accelerated upon Credit Provider direction or consent, the Trustee shall make a drawing or claim on the Credit Facility concurrently with such acceleration for the principal and accrued interest on such Bonds then due as of such date of acceleration. Following such payment by the Credit Provider related to such draw on the Credit Facility, interest on the Bonds shall cease to accrue after such date of acceleration. Such drawing shall be made notwithstanding any right of the Credit Provider to control remedies provided in Section 10.5 of the General Indenture, and the Trustee shall not require any indemnity for making such drawing.

(c) In the enforcement of any rights and remedies under the General Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Issuer for principal, interest or otherwise,

under any provisions of the General Indenture or a Supplemental Indenture or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce a judgment or decree against the Issuer for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pretrial, trial and appellate attorney fees), and to collect from the Issuer any moneys adjudged or decreed to be payable, provided, however, any recovery against the Issuer is limited to the Trust Estate.

(d) Upon the occurrence of any Event of Default, and on the filing of suit or other commencement of judicial proceedings to enforce the rights of the Owners under the General Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

(e) Except upon the occurrence and during the continuance of an Event of Default under the General Indenture, the Issuer hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the General Indenture, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Student Loans and the proceeds of any collections therefrom, and neither the Trustee nor any Owner shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

(f) The Trustee shall select and liquidate or sell Trust Estate assets as provided in the following paragraph or as provided in the last paragraph of Section 10.2 of the General Indenture, but only at the written direction of the Credit Provider, if any, shall not be liable to any Owner, Credit Provider, Liquidity Provider or the Issuer by reason of such selection, liquidation or sale.

Whenever moneys are to be applied pursuant to Article X of the General Indenture irrespective of and whether other remedies authorized under the Indenture shall have been pursued in whole or in part, the Trustee may cause any or all of the assets of the Trust Estate to be sold. The Trustee may so sell the assets of the Trust Estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, in one or more parts, at any such place or places, and at such time or times and upon such notice and terms as the Trustee may deem appropriate with the consent of the Credit Provider and as may be required by law and apply the proceeds thereof in accordance with the provisions of Section 10.2 of the General Indenture, at the direction of the Credit Provider or with the Credit Provider consent. Upon such sale, the Trustee, with consent or at the direction of the Credit Provider, may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale shall be a perpetual bar both at law and in equity against the Issuer, each Credit Provider, each Liquidity Provider, the Owners, and all other Persons claiming such properties. No purchaser at any sale shall be bound to see to the application of the purchase money proceeds thereof or to inquire as to the authorization, necessity, expediency or regularity of any such sale. Nevertheless, if so requested by the Trustee, the Issuer shall ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or purchasers all such instruments as may be necessary or, in the judgment of the Trustee, proper for the purpose which may be designated in such request.

To the extent that funds are not otherwise available to pay amounts due to a Credit Provider under its Credit Facility Agreement or to a Liquidity Provider under its Liquidity Facility Agreement, and unless otherwise provided in a Supplemental Indenture, the Trustee, at the request and at the sole direction of the Credit Provider (except as provided in the final paragraph of Section 10.2 of the General Indenture), shall convey or sell and deliver Student Loans purchased with assets of the Trust Estate to the Credit Provider or Liquidity Provider in partial or complete satisfaction of such obligations of the Issuer, subject to the acceptance of such Student Loans by the Credit Provider or Liquidity Provider at a purchase price equal to the principal outstanding plus accrued interest. The Trustee will immediately notify Persons claiming in writing to be beneficial owners of Bonds upon learning of the occurrence of an Event of Default, or event leading to an Event of Default with the passage of time or the giving of notice. The latter consists of events that have occurred but are not yet an Event of Default because of a time delay (cure period) specified in the Indenture. Should an event of default under the Credit Facility Agreement have occurred and be continuing unremedied for more than 15 days the Credit Provider under such Credit Facility Agreement shall be

entitled to direct the Trustee to sell Student Loans constituting part of the Trust Estate and to apply the proceeds thereof as provided in Section 10.3 of the General Indenture.

Priority of Payments After Default. (a) In the event that, upon the occurrence and during the continuance of any Event of Default, the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price of and interest then due on the Bonds, or to reimburse a Credit Provider for all obligations of the Issuer under the Credit Facility Agreement, such funds (other than funds held for the payment of particular Bonds pursuant to Article XII of the General Indenture or which have theretofore become due at maturity) and any other amounts received or collected by the Trustee acting pursuant to Article X of the General Indenture, after providing for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and the Credit Provider and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or another Indenture Agent in the performance of their respective duties under the General Indenture (except that no lien shall attach to the proceeds of any drawing under a Credit Facility or Liquidity Facility or on any remarketing proceeds for the payment of such fees, charges and expenses), shall be applied as follows: (i) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due on Class I Bonds and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference.

SECOND: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Class I Bonds which shall have become due and, if the amounts available shall not be sufficient to pay in full all the Class I Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

THIRD: To the payment of unpaid installments of amounts due on any Class I Interest Rate Exchange Agreements (excluding termination fees) in the order of the maturity of such installments.

FOURTH: To the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class I Bonds.

FIFTH: To the payment to the Persons entitled thereto of all installments of interest then due on Class II Bonds and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference.

SIXTH: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Class II Bonds which shall have become due and, if the amounts available shall not be sufficient to pay in full all the Class II Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

SEVENTH: To the payment of unpaid installments of amounts due on any Class II Interest Rate Exchange Agreements (excluding termination fees) in the order of the maturity of such installments.

EIGHTH: To the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class II Bonds not paid pursuant to Section 10.3(a) (i) (FOURTH) of the General Indenture.

NINTH: To the payment to the Persons entitled thereto of all installments of interest then due on Class III Bonds and, if the amount available shall not be sufficient to pay in full any installment, then to the



payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference.

TENTH: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Class III Bonds which shall have become due and, if the amounts available shall not be sufficient to pay in full all the Class III Bonds due, then to the payment thereof ratably, according to the amounts of the principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

ELEVENTH: To the payment of unpaid, installments of amounts due on any Class III Interest Rate Exchange Agreements (excluding termination fees) in order of the maturity of such installments.

TWELFTH: To the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class III Bonds not paid pursuant to Section 10.3(a) (i) (FOURTH) or (EIGHTH) of the General Indenture.

THIRTEENTH: To the payment to the Persons entitled thereto of all installments of interest then due on Class IV Bonds and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference.

FOURTEENTH: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Class IV Bonds which shall have become due and, if the amounts available shall not be sufficient to pay in full all the Class IV Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

FIFTEENTH: To the payment of unpaid, installments of amounts due on any Class IV Interest Rate Exchange Agreements (excluding termination fees) in order of the maturity of such installments.

SIXTEENTH: To the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class IV Bonds not paid pursuant to Section 10.3(a) (i) (FOURTH), (EIGHTH) or (TWELFTH) of the General Indenture.

SEVENTEENTH: With respect to Bonds and Interest Rate Exchange Agreements By Class in Descending Priority, commencing with Class V, to the payment to the Persons entitled thereto of all installments of interest then due in order of the maturity of such installments (and if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference), then to the payment of the unpaid principal or Redemption Price which shall have become due and, if the amounts available shall not be sufficient to pay such principal or Redemption Price in full, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference, and then to the payment of installments of amounts on any Interest Rate Exchange Agreement (excluding termination fees) then due.

EIGHTEENTH: To the payment of any termination fees then due under any Interest Rate Exchange Agreement relating to the Class I Bonds, the Class II Bonds, the Class III Bonds, the Class IV Bonds or the Class V Bonds in that order of priority.

(ii) If the principal of all of the Bonds have become or have been declared due and payable, first to the payment of the principal and interest then due and unpaid upon the Class I Bonds and payments on Class I Interest Rate Exchange Agreements (excluding termination fees) without preference of priority of principal over interest or of interest over principal, or of any installment of interest or Interest Rate Exchange Agreement (excluding termination fees) amounts over any other installment of interest, or of any Class I Bonds or Class I Interest Rate Exchange

Agreements (excluding termination fees) over any other Class I Bond or Class I Interest Rate Exchange Agreements (excluding termination fees), ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Class I Bonds or Class I Interest Rate Exchange Agreements (excluding termination fees); second, to the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class I Bonds not paid pursuant to Section 10.3(a)(i) (FOURTH) of the General Indenture; third to the payment of principal and interest then unpaid on any Class II Bonds and payments on Class II Interest Rate Exchange Agreements (excluding termination fees), without preference of priority of principal over interest or Interest Rate Exchange Agreement (excluding termination fees) amounts over principal and interest, ratably, according to the amounts due to the Persons entitled thereto without any discrimination or preference; fourth, to the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class II Bonds not paid pursuant to Section 10.3(a)(i) (FOURTH) or (EIGHTH) of the General Indenture; fifth, to the payment of principal and interest then unpaid on any Class III Bonds and payments on Class III Interest Rate Exchange Agreements (excluding termination fees), without preference of priority of principal over interest or Interest Rate Exchange Agreement (excluding termination fees) amounts over principal and interest, ratably, according to the amounts due to the Persons entitled thereto without any discrimination or preference; sixth, to the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class III Bonds not paid pursuant to Section 10.3(a)(i) (FOURTH), (EIGHTH) or (TWELFTH) of the General Indenture; seventh to the payment of principal and interest then unpaid on any Class IV Bonds and payments on Class IV Interest Rate Exchange Agreements (excluding termination fees), without preference of priority of principal over interest or Interest Rate Exchange Agreement (excluding termination fees) amounts over principal and interest, ratably, according to the amounts due to the Persons entitled thereto without any discrimination or preference; and eighth, to the payment of any amounts then due and owing under a Credit Facility Agreement or Liquidity Facility Agreement with respect to the Class IV Bonds not paid pursuant to Section 10.3(a)(i) (FOURTH), (EIGHTH), (TWELFTH) or (SIXTEENTH) of the General Indenture.

(iii) If the principal of all the Bonds shall have been declared immediately due and payable, and if such declarations shall thereafter have been rescinded and annulled under the provisions of Article X of the General Indenture, then, in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of Section 10.3(a)(i) of the General Indenture.

(iv) With respect to any payment made under Section 10.3(a) of the General Indenture, in the event the Bonds on which a payment is to be made are secured by a Direct-Pay Credit Facility, payment of principal and interest on such Bonds shall be paid from a drawing on the Credit Facility as set forth in Section 5.5 of the General Indenture and the Credit Provider shall be reimbursed for the drawing in the priority given to such Bonds in Subsections (i) and (ii) above.

(b) Whenever moneys are to be applied by the Trustee pursuant to the provisions of Section 10.3 of the General Indenture, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Issuer, to any Owner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the General Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall



give such notice as it may deem-appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Owner of any unpaid Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Termination of Proceedings. No proceeding shall be taken by the Trustee on account of any Event of Default without the consent of the Credit Provider. In case any such proceeding is taken and shall have been discontinued or abandoned for any reason then in every such case the Issuer, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken; provided each Credit Facility or Liquidity Facility for the Bonds previously in effect is fully reinstated and in full force and effect.

Owners' Direction of Proceedings. Whenever it is provided that the Owners of the Bonds shall enjoy certain rights, be permitted to exercise certain remedies or to direct the Trustee to take certain actions, Section 10.5 of the General Indenture shall control. Upon the occurrence of an Event of Default described in Section 10.1(c) or (d) of the General Indenture, the Credit Provider or the Owners of not less than 100% in principal amount of the Bonds of the most senior Class then Outstanding with the consent of the Credit Provider, or, upon the occurrence of an Event of Default described in Section 10.1(a), (b) or (e) of the General Indenture, or the Credit Provider or the Owners of a majority in the principal amount of the Bonds of the most senior Class then Outstanding, with the consent of the Credit Provider, shall have the right to direct the Trustee to take all or any of the actions described in Section 10.2(a) of the General Indenture. In the event that such Credit Provider or Owners (with the consent of the Credit Provider) have previously given to the Trustee notice of an Event of Default and shall have afforded the Trustee a reasonable opportunity, following the offer to the Trustee of security and indemnity satisfactory to it against the fees, costs, expenses and liabilities to be incurred therein or thereby, either to proceed to exercise the powers granted or to pursue a remedy described herein, and the Trustee shall have refused or neglected to comply with such request, then the Credit Provider or the Owners (with the consent of the Credit Provider) of the requisite percentage in principal amount of the Bonds of the most senior Class then Outstanding with the consent of the Credit Provider may exercise such rights.

In the event that a Credit Provider has issued a Credit Facility or a Liquidity Provider has issued a Liquidity Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Credit Provider or Liquidity Provider is then in receivership, bankruptcy or reorganization or is then continuing wrongfully to dishonor drawings under the Credit Facility or Liquidity Facility, upon the occurrence of any Event of Default or any other event described below, the Credit Provider or, in the event there is no Credit Provider, the Liquidity Provider (provided the Liquidity Provider under the applicable Liquidity Facility Agreement has purchased all such Series of Bonds) shall be considered as the Owner of 100% of such Series of Bonds or Class within that Series of Bonds solely for the purpose of directing the actions of the Trustee under Article X of the General Indenture. All rights and remedies described in Article X of the General Indenture shall apply not only following the occurrence of an Event of Default, but also following the occurrence of any event which gives rights to a Credit Provider or Liquidity Provider upon the occurrence of an event of default under the Credit Facility Agreement with that Credit Provider or Liquidity Facility Agreement with that Liquidity Provider. Notwithstanding anything else in the Indenture, if the Trustee receives contrary direction from the Owners, the Credit Provider, and the Liquidity Provider for the same Class or Series of Bonds, it shall act on the direction of the Credit Provider provided (1) the direction complies with the requirements of the Indenture (including the provisions of satisfactory indemnity), and (2) the Credit Provider is not then in receivership, bankruptcy or reorganization or continuing to dishonor wrongfully a drawing on the Credit Facility. If the conditions for direction by the Credit Provider are not met, the Trustee shall act on the direction of the Liquidity Provider provided (1) the direction complies with the requirements of the Indenture (including the provisions of satisfactory indemnity), (2) the Liquidity Provider is not then in receivership, bankruptcy or reorganization or continuing to dishonor wrongfully a drawing on the Liquidity Facility, and (3) amounts are owing to the Liquidity Provider under the applicable Liquidity Facility Agreement. If the conditions for direction by the Credit Provider and Liquidity Provider are not met, the Trustee shall act on the direction of the Owners, provided the direction complies with the requirements of the Indenture.

Any provision of the General Indenture to the contrary notwithstanding, if under any provision thereof any action is to be taken only with the consent or approval of the Credit Provider, if at the time such consent or approval would otherwise be called for and the Credit Provider is in bankruptcy, insolvency, receivership or similar

proceedings, or has wrongfully failed to honor a drawing made under the Credit Facility, then the consent or approval of the Credit Provider shall not be required.

Any provision of the General Indenture to the contrary notwithstanding, if under any provision thereof any action is to be taken only with the consent or approval of the Liquidity Provider, if at the time such consent or approval would otherwise be called for and the Liquidity Provider is in bankruptcy, insolvency, receivership or similar proceedings, or has wrongfully failed to honor a drawing made under the Liquidity Facility or Liquidity Facility Agreement, then the consent or approval of the Liquidity Provider shall not be required.

#### Limitation on Rights of Bondholders.

(a) Except as otherwise specifically provided by Section 10.5 or Section 10.6 of the General Indenture, no Owner of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Indenture, or for the protection or enforcement of any right under the Indenture. It is understood and intended that, except as otherwise above provided, no one or more Owners of the Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture with respect to the Bonds or the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided and for the benefit of Owners of the Outstanding Bonds.

(b) Each Owner of any Bond by acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Indenture or any Supplemental Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pretrial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but these provisions shall not apply to any suit instituted by the Trustee.

#### **Concerning the Indenture Agents**

Appointment and Acceptance of Duties of Trustee. By executing the Indenture, the Trustee accepts the trusts and obligations imposed upon it by the Indenture and agrees to perform such trusts and obligations, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the General Indenture and there shall be no implied duties or obligations. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by the General Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use in the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to act, upon the opinion or advice of its counsel concerning all matters of the Indenture, and may in all cases be reimbursed for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. The Trustee may act upon an Opinion of Counsel, including Bond Counsel, and shall not be responsible for any loss or damage resulting from any action by it taken or omitted to be taken in good faith in reliance upon such Opinion of Counsel. The Trustee may act upon an Issuer Order and shall not be responsible for any loss or damage resulting from any action by it taken or omitted to be taken in good faith in reliance upon such Issuer Order without gross negligence or willful default. The Trustee need not investigate or make any independent determination of the facts, representations or conclusions contained in an Issuer Order. Prior to taking any action under the Indenture, the Trustee shall be entitled to an Issuer Order and/or an Opinion of Counsel that all conditions precedent

under the General Indenture and any Supplemental Indenture to the taking of such action have been satisfied.

(c) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to the Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the registered Owner of any Bond shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(d) The Trustee shall not be accountable or responsible in any manner whatsoever for any action of the Issuer, any other Indenture Agent, the Servicer, or any remarketing agent or for the application of moneys by any Servicer until such time as funds are received by the Trustee.

(e) In fulfilling its responsibilities under the Indenture, under any other instruments or agreements, or under law the Trustee may act in full reliance upon the Issuer or any Servicer with respect to all such determinations made, actions taken and directions to the Trustee given by them, and the Trustee shall have no duty or responsibility to the Issuer, the Servicer, the Owners of the Bonds or any other Person or entity for any action (or inaction) of the Trustee taken in reliance upon any such determinations, actions or directions. The Issuer shall hold the Trustee harmless for any error or omission resulting from the Trustee's reliance upon the Issuer, the Indenture or any Servicer unless in connection with such action or omission the Trustee has willfully failed or failed with gross negligence to perform its obligations under an agreement with any Servicer or under the Indenture.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than sixty (60) days' written notice to the Issuer and each Credit Provider, and mailing notice thereof specifying the date when such resignation shall take effect, to the registered Owners, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9 of the General Indenture, in which event such resignation shall take effect immediately on the appointment of such successor. Notwithstanding the foregoing, no resignation of the Trustee under the Indenture shall become effective until a successor Trustee has been appointed and accepted its appointment and each Credit Facility and Liquidity Facility has been properly transferred to the successor Trustee in accordance with their respective terms.

Removal of Trustee. The Trustee shall be removed by the Issuer, with the consent of the Credit Provider, if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Issuer and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of the Issuer. The Issuer may remove the Trustee at any time, with the consent of the Credit Provider, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of the Issuer by filing with the Trustee an instrument signed by an Authorized Representative. The Issuer shall remove the Trustee if directed to do so by a Credit Provider providing a Credit Facility for the most senior Class of Bonds which has such right pursuant to the applicable Credit Facility Agreement, by filing with the Trustee an instrument signed by an Authorized Representative and the Credit Provider. Notwithstanding the foregoing, no removal of the Trustee shall become effective until a successor has been appointed and has accepted such appointment and until each Credit Facility and Liquidity Facility then in effect has been properly transferred to a successor Trustee in accordance with their respective terms.

#### Appointment of Successor Trustee.

(a) If at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Issuer covenants and agrees that it will promptly thereupon appoint a successor Trustee. The Issuer shall mail notice of any such appointment made by it within 20 days after such appointment to all Owners of Bonds.

(b) If no appointment of a successor Trustee shall have been made pursuant to the provisions of subsection (a) above within 45 days after the Trustee shall have given to the Issuer written notice, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

### **Defeasance; Miscellaneous Provisions**

Defeasance. (a) If the Issuer shall pay or cause to be paid to the Owners of the Bonds, the principal or Redemption Price and interest to become due thereon at the times and in the manner stipulated in the Bonds and in the Indenture, and pay or cause to be paid (i) all Rebate Amounts and Excess Interest required to be paid for the U.S. Treasury, (ii) to each Indenture Agent its fees, costs and expenses, (iii) to each Credit Provider and Liquidity Provider all amounts owing under each Credit Facility or Liquidity Facility or Credit Facility Agreement or Liquidity Facility Agreement relating thereto, (iv) to each remarketing agent all amounts owing under each remarketing agreement, and (v) to each party to any Interest Rate Exchange Agreement all amounts owing to it, then the pledge of the Trust Estate, including any Revenues and other moneys, securities, funds and property pledged and all other rights granted shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Issuer, execute and deliver to the Issuer all such instruments as may be desirable to evidence such discharge and satisfaction and the Indenture Agents shall pay over or deliver to the Issuer all moneys or securities held by them pursuant to the Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment. The Issuer shall also provide (i) an accountant's verification and (ii) an opinion of Bond Counsel addressed to the Credit Provider.

(b) Except as otherwise provided in any Supplemental Indenture, all Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI of the General Indenture notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or noncallable and nonprepayable Governmental Obligations (including any Governmental Obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when due, without reinvestment, will provide moneys which together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of and interest to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, verified as to sufficiency by a report of an Accountant, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with Section 12.1 of the General Indenture and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Neither Governmental Obligations or moneys deposited with the Trustee pursuant to Section 12.1 of the General Indenture nor principal or interest payments on any such Governmental Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Bonds; but any cash received from such principal or interest payments on such Governmental Obligations deposited with the Trustee, if not then needed for such purpose; shall, to the extent practicable, be reinvested in Governmental Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments shall, as contemplated by a report of an Accountant verifying continued sufficiency, be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien or pledge; provided, however, that such reinvestment may be effected only upon receipt by the Trustee of a Favorable Opinion.

(c) Except as otherwise provided in any Supplemental Indenture, all Bonds shall, prior to the Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) the Credit Facility

with respect to such Bonds remains in effect through the Redemption Date, (ii) the Issuer has given notice of redemption of the Bonds, which redemption shall take place no later than 45 days from the date the Bonds are deemed to have been paid, and (iii) there shall have been deposited with the Trustee moneys in an amount which, when added to the other moneys in the Indenture certified to be available by the Issuer, is certified by the Issuer to be sufficient to pay the principal and interest on the Bonds to the Redemption Date. In the event the Bonds are Adjustable Rate Bonds, for periods in which the interest rate has not been determined, a rate equal to the maximum rate such Bonds may bear shall be assumed. The Trustee shall deposit the moneys to be set aside for payment of the Redemption Price of the Bonds in a separate redemption account or pursuant to a separate escrow agreement, if the Issuer so designates, and shall use the money for the purpose of reimbursing the Credit Provider for a drawing on the Credit Facility. The money shall be invested only in non-callable and non-prepayable Governmental Obligations which mature prior to the Redemption Date.

The Trustee shall not terminate the Credit Facility or release the money in the redemption account until the Bonds have been redeemed in full with either a drawing on the Credit Facility or, if there is a failure to pay under the Credit Facility, the moneys in the redemption account.

(d) The deposit required by paragraphs (b) or (c) above may be made with respect to any Series or Class of Bonds, or a portion thereof, within any particular maturity, in which case such maturity of Bonds shall no longer be deemed to be Outstanding under the terms of the Indenture, and the Owners of such defeased Bonds shall be secured only by such trust funds and not by any other part of the Trust Estate, and the Indenture shall remain in full force and effect to protect the interests of the Owners of Bonds remaining Outstanding thereafter.

(e) Bonds or interest installments for the payment of which moneys shall have been set aside and shall be held in trust by the Indenture Agents (through deposit by the Issuer of funds for such payment or otherwise) shall, upon maturity or upon the Redemption Date established therefor, be deemed to have been paid and no longer Outstanding. Should any of the Bonds not be presented for payment when due, the Trustee shall retain from any moneys transferred to it for the purpose of paying said Bonds so due, for the benefit of the Owners thereof, a sum of money sufficient to pay such Bonds when the same are presented by the Owners thereof for payment (upon which sum the Trustee shall not be required to pay interest). All liability of the Issuer to the Owners of such Bonds and all rights of such Owners against the Issuer under the Bonds or under the Indenture shall thereupon be and become limited to amounts on deposit with the Trustee and set aside for such payment, and the sole right of such Owners shall thereafter be against such deposit. The Trustee shall bear no duty or liability to the Owners of such nonpresented Bonds other than to disburse funds from such deposit upon presentation of the appropriate Bond. If any Bond shall not be presented for payment within the period of six years following its maturity, the Trustee shall, to the extent permitted by law, turn over the money theretofore held by it for payment of such Bond to the Issuer, provided, however, that such amounts shall not be so transferred until at least one year after the final maturity date of the Bonds of the related Series.

Nonliability of Officers. It is expressly a condition of the General Indenture that any agreements, covenants or representations contained in the General Indenture or contained in the Bonds do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers, employees, agents or members of the Issuer, or the general credit of the Issuer, and in the event of a breach of any such agreement, covenant or representation, no personal or pecuniary liability or charge payable directly or indirectly from the general revenues of the Issuer shall arise therefrom.

## **THE FIRST SUPPLEMENTAL INDENTURE**

The following is a summary or extract of certain provisions of the First Supplemental Indenture. Such summary or extract does not purport to be complete and is subject to change prior to delivery of the Series 2008 Bonds. References are to Sections of the First Supplemental Indenture unless otherwise noted.



The First Supplemental Indenture, dated as of December 1, 2008, is entered into by and between the Issuer and the Trustee and supplements the General Indenture, dated as of December 1, 2008, between the Issuer and the Trustee.

### **Authorization, Terms and Issuance of Series 2008 Bonds**

Principal Amount, Designation and Series. Pursuant to the provisions of the General Indenture, a Series of Bonds entitled to the benefit, protection and security of the General Indenture is authorized to be issued in the aggregate principal amount of \$100,000,000 pursuant to and subject to the terms, conditions and limitations established in the General Indenture and the First Supplemental Indenture. The Series 2008 Bonds shall be issued only in fully registered form and shall constitute “Class I Bonds” under the General Indenture. The Series 2008 Bonds shall mature on the Stated Maturity.

Purposes of Issuance. The Series 2008 Bonds are issued for the purposes of obtaining funds to refinance Student Loans and to fund the Debt Service Reserve Requirement.

### **Deposits into Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2008 Bonds; and Use and Disbursements of Funds**

Deposits into Funds and Accounts on the Issue Date. The net proceeds of the sale of the Series 2008 Bonds together with a contribution of funds by the Issuer, will be distributed and applied in accordance with the following provisions:

(a) On the Issue Date, the Trustee shall deposit into the Taxable Account of the Debt Service Reserve Fund from the net proceeds of the Series 2008A Bonds an amount equal to \$1,334,000 (which equals the initial Debt Service Reserve Requirement for the Series 2008A Bonds) and into the Series 2008B Account of the Debt Service Reserve Fund from the net proceeds of the Series 2008A Bonds an amount equal to \$666,000 (which equals the initial Debt Service Reserve Requirement for the Series 2008B Bonds). On the Issue Date, the Trustee shall deposit into the Taxable Account of the Acquisition Fund an amount equal to \$64,700,000, the remaining net proceeds of the Series 2008A Bonds and an amount equal to \$10,000,000 from an equity contribution of the Issuer.

(b) On the Issue Date, the Trustee shall deposit into the Series 2008B Account of the Acquisition Fund an amount equal to \$33,300,000, the net proceeds of the Series 2008B Bonds.

(c) Within forty-five (45) days after the Closing Date, the Trustee shall transfer the amount deposited in the Taxable Account of the Acquisition Fund to the Issuer in exchange for a like aggregate principal amount as of the date of transfer of Student Loans. Such transfer, as well as any subsequent acquisitions of Student Loans by the Trustee under the General Indenture, will be evidenced by an Assignment. All Student Loans so transferred will be deposited to the credit of the Taxable Account of the Student Loan Fund and constitute a part of the Trust Estate.

(d) Within forty-five (45) days after the Closing Date, the Trustee shall transfer the amount deposited into the Series 2008B Account of the Acquisition Fund to the Issuer in exchange for a like aggregate principal amount as of the date of transfer of Student Loans. Such transfer, as well as any subsequent acquisitions of Student Loans by the Trustee under the General Indenture, will be evidenced by an Assignment. All Student Loans so transferred will be deposited to the credit of the Series 2008B Account of the Student Loan Fund and constitute part of the Trust Estate.

Payment of Program Expenses. The Issuer shall pay all Program Expenses from any available funds not held under the Indenture, including, without limitation, the Loan Capital Fund of the Issuer. To the extent not so paid, the Trustee (with the prior written consent of the Credit Provider) shall pay Program Expenses from amounts available therefor in the respective Revenue Fund to the extent provided in Section 5.4 of the General Indenture. If the Issuer fails to pay all Program Expenses from any available funds not held under the Indenture as required hereunder, the Issuer shall notify the Rating Agency and the Credit Provider of such failure and the Trustee may



with the consent of the Credit Provider and shall at the direction of the Credit Provider pursue all available remedies against the Issuer as set forth in Article X of the General Indenture.

**Increase on Program Expenses.** The Issuer may increase Program Expenses beyond the limit set forth in the respective Supplemental Indenture with a subsequent Cash Flow Projection satisfying the Cash Flow Condition and Credit Confirmation. If Program Expenses are increased pursuant to the prior sentence, the Issuer shall give notice of such to the Rating Agency.

**Recycling Limitations.** Unless otherwise provided in the Credit Facility Agreement, Student Loans may be originated or refinanced under the General Indenture, with proceeds of the Series 2008 Bonds or other amounts credited to the Accounts established pursuant to the First Supplemental Indenture, (i) prior to July 1, 2010, provided that if, prior to that date, the Credit Provider requests a Cash Flow Projection and such Cash Flow Projection fails to demonstrate that any proposed origination or refinancing of Student Loans will not materially adversely affect the Issuer's ability to pay Debt Service on the Outstanding Bonds, amounts payable to Liquidity Providers, Credit Providers, Carry-Over Amounts (including accrued interest thereon) with respect to Outstanding Bonds, Program Expenses or to make required deposits to the credit of the Rebate Fund and the Excess Interest Fund, the Credit Provider may direct the Issuer not to originate or refinance Student Loans from such proceeds or amounts; and (ii) on and after July 1, 2010, with the written consent of the Credit Provider.

**Subaccounts for Series 2008 Bonds.**

*Taxable Accounts.*

(1) For purposes of tracking amounts and loans attributable to the Series 2008A Bonds, the Trustee has established a separate subaccount entitled "Taxable Account" in each of the Acquisition Fund, the Debt Service Reserve Fund and the Student Loan Fund and these subaccounts shall be administered in the same manner as the Fund in which such subaccount is created as provided in the General Indenture, provided, however, as follows:

(A) Amounts transferred to the Acquisition Fund attributable to the Series 2008A Bonds shall be deposited in the Taxable Account of the Acquisition Fund as provided in Section 4.1 of the First Supplemental Indenture; and

(B) Student Loans acquired with proceeds of or attributable to the Series 2008A Bonds shall be credited to the Taxable Account of the Student Loan Fund. In addition, Student Loans acquired with amounts on deposit in the Taxable Account of the Revenue Fund or the Surplus Fund (created pursuant to (2) below) shall be credited to the Taxable Account of the Student Loan Fund.

(2) The Trustee shall also establish separate subaccounts entitled "Taxable Account" in the Revenue Fund and the Surplus Fund, which subaccounts shall be administered in accordance with Section 5.4 and Section 5.6 of the General Indenture, as applicable.

*Tax-Exempt Subaccounts.*

(1) For purposes of tracking amounts and loans attributable to the Series 2008B Bonds, the Trustee shall establish a separate subaccount entitled "Series 2008B Account" in each of the Acquisition Fund, the Debt Service Reserve Fund and the Student Loan Fund and these subaccounts shall be administered in the same manner as the Fund in which such subaccount is created as provided in the General Indenture, provided, however, as follows:

(a) For the purpose of tracking amounts and loans attributable to the Series 2008B Bonds, amounts transferred to the Acquisition Fund attributable to the Series 2008B Bonds shall be deposited in the Series 2008B Account of the Acquisition Fund as provided in Section 4.1 of the First Supplemental Indenture; and

(b) Student Loans acquired with proceeds of or attributable to the Series 2008B Bonds shall be credited to the Series 2008B Account of the Student Loan Fund. In addition, Student Loans acquired with amounts on deposit in the Series 2008B Account of the Revenue Fund or the Surplus Fund (created pursuant to (2) below) shall be credited to the Series 2008B Account of the Student Loan Fund.

(2) The Trustee shall also establish separate subaccounts entitled "Series 2008B Account" in the Revenue Fund, the Surplus Fund and the Excess Interest Fund, which subaccounts shall be administered in accordance with Section 5.4 and Section 5.6 of the General Indenture, as applicable. Amounts transferred to the Revenue Fund attributable to the Series 2008B Bonds, the proceeds or investment thereof or any Student Loans acquired, in whole or in part, with proceeds thereof shall be deposited into the Series 2008B Account of the Revenue Fund.

Limitation on Sale of Loans. In the event that the sum of the value of (a) the Student Loans (valued at par plus accrued interest) credited to the Student Loan Fund, other than Defaulted Student Loans, and (b) all cash and Investment Securities held in the Funds and Accounts (valued as set forth in the General Indenture or the First Supplemental Indenture, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds pursuant to Section 12.1 of the General Indenture) shall be less than 110% of the sum of principal and accrued interest on all Outstanding Bonds (other than Class V Bonds), the Issuer shall not direct the sale of Student Loans except as provided in Section 4.7 of the First Supplemental Indenture, unless the Issuer shall have received a Rating Confirmation and Credit Confirmation for such series of Series 2008 Bonds (all as calculated and determined by the Issuer and evidenced in a Certificate of an Authorized Representative to the Trustee).

Cash Flow Projections. The Issuer shall provide Cash Flow Projections to the Credit Provider as required by the Credit Facility Agreement.

Student Loan Requirements. The Issuer covenants that all Student Loans to be originated under each Supplemental Indenture will meet the following criteria at the time of such origination unless otherwise assumed in the Closing Cash Flow Projection for the Series 2008 Bonds or if the Issuer obtains a Credit Confirmation for the Series 2008 Bonds, provided, however, that the provisions of (a) and (b)(1), (2), (3) and (6) were met only when the Student Loan was made:

(a) The borrower of each Student Loan is either enrolled in an Eligible Institution in Minnesota or a Minnesota resident enrolled in an Eligible Institution;

(b) The borrower of each Student Loan (1) is enrolled at least half time in a program leading to a certificate, associate, baccalaureate, masters, doctorate or other professional degree, (2) is making satisfactory progress in an approved course of study, (3) is not currently in default under any State, federal or other private student loan program, (4) is not delinquent in the payment of principal or interest on any SELF loan, (5) has agreed to the release of information to a consumer credit reporting agency and (6) has a Creditworthy Co-signer;

(c) The interest rate on the Student Loan is (1) variable, adjusted quarterly based upon the average of the weekly 91 day T-Bill auctions (bond equivalent yield), plus a margin, determined by the Issuer, which margin shall be at least 2.0% unless otherwise permitted pursuant to Section 4.12 of the First Supplemental Indenture, (2) variable, adjusted quarterly based upon Three-Month LIBOR, plus a margin, determined by the Issuer, which margin shall be at least 2.0% unless otherwise permitted pursuant to Section 4.12 of the First Supplemental Indenture, or (3) an interest rate that has been approved by Credit Confirmation;

(d) The maximum loan amount of the Student Loan according to Grade Level: i.e. \$7,500 per year for undergraduates, subject to a maximum of \$37,500 for undergraduate Student Loans, and \$9,000 per year for graduate students, subject to a maximum of \$55,500 including undergraduate and graduate Student Loans provided that other maximums may be approved by Credit Confirmation;

(e) For each SELF II and SELF III Student Loan, the quarterly interest payments begin within 3 months of disbursement of such Student Loan, monthly interest payments are required for 12 months after the borrower leaves school, monthly principal and interest payments begin on the 13th month after graduation or termination of study, subject to a maximum repayment term equal to the lesser of (i) 10 years from graduation/termination, or (ii) 15 years from initial disbursement. An additional 24-month period of interest only payments after the standard 12-month grace period is available upon request, subject to the same maximum repayment terms described above. Different payment terms may be approved with Credit Confirmation.

For each SELF IV Student Loan, the quarterly interest payments begin within 3 months of disbursement on such Student Loan, monthly interest payments are required for 12 months after the borrower leaves school unless the borrower has already entered repayment. SELF IV Loans are required to enter repayment no later than 7 years after the first disbursement date on the loan. For SELF IV Loans, if the aggregate principal loan balances from all SELF phases are less than \$18,750, the repayment period on SELF IV Loans shall not exceed 10 years from graduation/termination. For SELF IV Loans, if the aggregate principal loan balances from all SELF phases is \$18,750 or greater, the SELF IV Loans shall have a repayment period not to exceed 15 years from graduation/termination. An additional 24-month period of interest only payments after the standard 12-month grace period is available upon request, subject to the same maximum repayment terms described above. Different payment terms may be approved with Credit Confirmation;

(f) Payment notices are sent to each borrower at least 20 days prior to the payment due date and if payment is not received on the due date it is considered late, and (i) late notices are sent beginning on the 15th day of delinquency; (ii) payment demands upon the Creditworthy Co-signer begin on the 30th day of delinquency and (iii) the loan is considered in default on the 165th day of delinquency.

Perfection of Student Loans and Defaulted Student Loans. The Trustee shall have a first perfected security interest in all Student Loans.

Margin Requirements on Student Loans. The Issuer must obtain Credit Confirmation to reduce the margin referred to in Section 4.10 (c)(i) and (ii) of the First Supplemental Indenture to be less than 2.00 percent of the amount that the Issuer charges on Student Loans.

Servicing of Student Loans. The Issuer will perform an audit of the Servicer at least once each calendar year and provide such report to the Credit Provider. Upon the request of the Credit Provider, upon the occurrence of a Default or an Event of Default hereunder, the Issuer will perform an additional audit of the Servicer to ensure that the Servicer is complying with the terms of the Servicing Agreement and the rules and regulations of the Issuer and provide such report to the Credit Provider. Such report shall report such compliance in writing (or otherwise describe any noncompliance in such detail as shall be reasonably satisfactory to the Credit Provider, and the Issuer shall provide such report to the Credit Provider. In the event that the Issuer is notified (whether by such accountants or otherwise) of any material noncompliance by the Servicer with the due diligence standards, the Issuer shall use its best efforts to cause the Servicer to do all things necessary to cure such noncompliance. If a required audit of the Servicer is not received within 30 days after the time required or if the Servicer shall fail to cure noncompliance described in the preceding sentence within 60 days after the Issuer received notice thereof, the Issuer shall, at the request of the Credit Provider arrange for the prompt substitution of a Servicer for the Student Loans satisfactory to the Credit Provider and the Issuer under a Servicing Agreement granting rights substantially identical to the rights granted under the initial Servicing Agreement with respect to the Student Loans or otherwise satisfactory to the Credit Provider. The Issuer covenants that the Servicing Agreement shall provide that the Issuer may terminate the Servicing Agreement and will, at the direction of the Credit Provider, if the Servicer refuses or fails to perform in a material fashion any part of its obligations under the Servicing Agreement, and fails or refuses to correct said action or lack of action within sixty (60) days after written notice, to the Servicer. All written information required under Section 3.13 of the respective Supplemental Indenture, shall be delivered within 15 days after receipt thereof by the Issuer. The Issuer covenants that all amendments to the Servicing Agreement will be consented to by the Credit Provider. The Issuer covenants that the Servicing Agreement shall provide that the Servicer shall service the Student Loans if the Credit Provider is the owner of the Student Loans (a third-party beneficiary) and the Credit Provider pays the fees for such accounts. The Issuer covenants that pursuant to the Servicing Agreement, the

Servicer will act as bailee and agent of the Student Loans for the Trustee. The Issuer covenants that the Servicer shall hold all notes evidencing the Student Loans and that such notes shall be held by the Servicer in accordance with the Bailment Agreement. The Servicer may also be required to be replaced as provided in the Credit Facility Agreement.

Prohibited Uses. The Issuer covenants and agrees that no portion of the Gross Proceeds of the Series 2008 Bonds will be used to provide any airplane, skybox, or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

2% Limit on Costs of Issuance. The Issuer covenants and agrees that Costs of Issuance paid with proceeds of the Series 2008 Bonds will not exceed two percent (2%) of the proceeds of the Series 2008 Bonds.

Form 8038. The Issuer covenants and agrees that not later than the fifteenth day of the second month following the end of the calendar quarter in which the Issue Date for the Series 2008B Bonds occurs, the Issuer shall complete, execute and deliver to the Internal Revenue Service Form 8038, or such other form as the Commissioner of Internal Revenue shall prescribe, setting forth such information as such form shall require with respect to the Series 2008B Bonds.

Yield Restriction. The Issuer covenants and agrees that except as otherwise provided in the Issuer's tax certificate delivered upon issuance of the Series 2008B Bonds, or as otherwise permitted upon delivery of an opinion of Bond Counsel to the effect that such investment will not cause interest on the Series 2008B Bonds to be included in the gross income of the Owner thereof, the Issuer shall not, at any time prior to the final stated maturity of the Series 2008 Bonds, directly or indirectly invest Gross Proceeds of the Series 2008B Bonds in any Investment (or use Gross Proceeds of the Series 2008B Bonds to replace money so invested), if, as a result of such investment, the Yield, from the Issue Date of such Series 2008B Bonds of all Investments acquired with Gross Proceeds of the Series 2008B Bonds (or with money replaced thereby) whether then held or previously disposed of, exceeds the Yield of the Series 2008B Bonds.

Federal Guarantee. Except as permitted by Section 149(b)(3) of the Code, the Issuer covenants that it shall neither (1) use any Gross Proceeds of the Series 2008B Bonds (i) to make loans which are guaranteed in whole or in part by the United States or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States, or (ii) to invest in any deposit or account in a financial institution to the extent such deposit or account is insured under federal law by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or any similar federally-chartered corporation, nor (2) otherwise permit payment of principal of or interest on the Series 2008B Bonds to be directly or indirectly guaranteed in whole or in part by the United States or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States (e.g., by the investment of amounts held for the credit of any fund created hereunder in federally-guaranteed or federally-insured obligations).

Prohibited Payments. The Issuer covenants that it shall not, at any time prior to the final maturity of the Series 2008B Bonds, enter into any transaction that reduces the amount required to be paid to the United States because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Series 2008B Bonds not been relevant to either party. Notwithstanding the foregoing limitation, however, the Issuer may purchase directly from the United States Treasury any obligation of the United States Treasury at any price, including obligations of the State and Local Government Series.

Expenditure Expectation. The Issuer represents and warrants that it reasonably expects to spend 85% of the proceeds from the sale of the Series 2008B Bonds for the purpose for which such Series 2008B Bonds were issued within three years from the Issue Date. The Issuer covenants that it shall not invest more than 50% of Gross Proceeds of the Series 2008B Bonds in Nonpurpose Investments having a substantially guaranteed Yield for a period of four years or more.

Borrower Benefits. The Issuer is hereby authorized to offer Borrower Benefits to the borrower of each Student Loan financed with proceeds of the Series 2008 Bonds provided that the Credit Provider has consented to

such Borrower Benefits, and such Borrower Benefits do not exceed the amounts assumed in the most recent Cash Flow Projection satisfying the Cash Flow Condition.

Credit Provider Notices.

(a) In connection with the issuance of additional Bonds, if any, under the General Indenture, the Issuer shall deliver to the Credit Provider a copy of the disclosure document, if any, circulated with respect to such additional Bonds.

(b) The Credit Provider shall receive notice of the resignation or removal of the Trustee and any successor trustee must be approved by the Credit Provider. The Credit Provider shall receive notice of the resignation or removal of any Paying Agent and any successor paying agent must be approved by the Credit Provider.

(c) The Credit Provider shall receive copies of all notices required to be delivered to Bondholders or to the Trustee.

(d) While the Credit Facility is in effect, the Trustee will furnish the Credit Provider with such information as it may reasonably request regarding the Series 2008 Bonds, as appears from the books and records under its custody and control, or as otherwise known to it. The Trustee will permit the Credit Provider to have access to and make copies of all such books and records at any reasonable time.

(e) The Credit Provider shall be notified by the Trustee (i) immediately upon the occurrence of an Event of Default or of any event that with notice and/or with the lapse of time could become an Event of Default, and (ii) of any redemption of Series 2008 Bonds at the same time that the Bondholders of the Series 2008 Bonds to be redeemed are notified. All notices, reports, statements, schedules, and certificates to be delivered to or by the Trustee, or to an Owner of a Series 2008 Bond or available at the request of the Bondholders shall also be provided to the Credit Provider. In addition, all opinions to be delivered to or by the Trustee, or to an Owner of a Series 2008 Bond shall also be addressed to the Credit Provider. All notices required to be given to the Credit Provider under this First Supplemental Indenture shall be in writing and shall be sent by registered or certified mail addressed to U.S. Bank National Association, at the address set forth in the First Supplemental Indenture.

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## APPENDIX C

### BOOK-ENTRY ONLY SYSTEM

DTC is to act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds are to be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate is to be issued for each series of the Series 2008 Bonds, each in the aggregate principal amount of such series, and is to be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's Ratings Service's ("S&P") highest rating: AAA. The DTC Rules applicable to its Direct Participants are on file with the Securities and Exchange Commission. Neither the Issuer nor the Underwriter make any representation about such information. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which are to receive a credit for the Series 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008 Bonds, such as redemptions, tenders, defaults, and

proposed amendments to the Series 2008 Bond documents. For example, Beneficial Owners of Series 2008 Bonds may wish to ascertain that the nominee holding the Series 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices are to be sent to DTC. If less than all of the Series 2008 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2008 Bonds are to be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners are to be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC nor its nominee, the Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2008 Bonds purchased or tendered, through its Direct or Indirect Participant, to the respective Remarketing Agent (as defined herein), and shall effect delivery of such Series 2008 Bonds to such Remarketing Agent by causing its Direct or Indirect Participant to cause the transfer on DTC's records of the amount of such Beneficial Owner's interest in the Series 2008 Bonds, to such Remarketing Agent. The requirement for delivery of Series 2008 Bonds in connection with an optional tender or a mandatory purchase would be satisfied when the ownership rights in the Series 2008 Bonds are transferred between Direct Participants on DTC's records as reflected in the appropriate book-entry credits of tendered Series 2008 Bonds to the respective Remarketing Agents' DTC accounts.

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2008 Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates are to be printed and delivered to DTC.

NEITHER THE ISSUER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC DIRECT OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT, (B) THE PAYMENT BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2008 BONDS, (C) THE DELIVERY BY ANY SUCH PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO THE REGISTERED OWNER, (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2008 BONDS, OR (E) ANY OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF THE SERIES 2008 BONDS.

**APPENDIX D**  
**FORMS OF BOND COUNSEL OPINIONS**

December 18, 2008

RBC Capital Markets  
 2398 East Camelback Road, Suite 700  
 Phoenix, AZ 85016

U.S. Bank National Association, as Trustee  
 425 Walnut Street  
 Cincinnati, OH 45202

Moody's Investors Service, Inc.  
 7 World Trade Center  
 250 Greenwich Street  
 New York, NY 10007

Fitch Ratings  
 One State Street Plaza, 31st Floor  
 New York, NY 10004

U.S. Bank National Association, as Credit Provider  
 101 East Fifth Street, 9th Floor  
 EP-MN-S9GB  
 St. Paul, MN 55101

Minnesota Office of Higher Education  
 1450 Energy Park Drive, Suite 350  
 St. Paul, MN 55108-5227

RE: \$66,700,000 Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Minnesota Office of Higher Education (the "Issuer"), an agency of the State of Minnesota (the "State"), in connection with the issuance of \$66,700,000 aggregate principal amount of the Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable) (the "Series 2008 A Bonds"). We are providing this opinion to you pursuant to Paragraph 6(i)(4) of the Bond Purchase Agreement, dated December \_\_, 2008 (the "Bond Purchase Agreement"), between the Issuer and RBC Capital Markets and Section 4(a)(xiii) of the Reimbursement Agreement dated as of December 1, 2008 (the "Reimbursement Agreement") between U.S. Bank National Association (the "Bank") and the Issuer. The capitalized terms used and not defined herein are defined in the Bond Purchase Agreement or in the General Indenture, dated as of December 1, 2008 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture, dated as of December 1, 2008 (the "First Supplemental Indenture") (collectively, the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), and pursuant to which the Series 2008 A Bonds are being issued.

We have examined such documents and have reviewed such questions of law as we have considered necessary and appropriate for the purposes of our opinions set forth below.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures and the conformity to authentic originals of all documents submitted to us as copies. We have also assumed the legal capacity for all purposes relevant hereto of all natural persons and, with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, that such agreements or instruments have been duly authorized by all requisite action (corporate or otherwise) executed and delivered by such parties, and that such agreements or instruments are the valid, binding and enforceable obligations of such parties. As to questions of fact material to our opinions, we have relied upon the representations made in the Bond Purchase Agreement and upon certificates of officers of the Issuer and of public officials (including, without limitation, those certificates delivered to others at the Closing). Finally, we take no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2008 A Bonds and express no opinion with respect thereto.

Based on the foregoing, we are of the opinion that:

- (1) The Issuer is an agency of the State and is validly existing under the laws of the State.
- (2) The Issuer has full right, power and authority to enter into, execute, deliver and perform its obligations under the Series 2008 A Bonds, the Bond Purchase Agreement, the General Indenture, the First Supplemental Indenture and the Continuing Disclosure Agreement (collectively, the “Bond Documents”).
- (3) The execution, delivery and performance of the Series 2008 A Bonds and the Bond Documents, for and in the name of the Issuer, have been duly authorized by all necessary action on the part of the Issuer.
- (4) The Series 2008 A Bonds and the Bond Documents have been duly authorized, executed and delivered on behalf of the Issuer by the Director and are valid and binding obligations of the Issuer enforceable in accordance with their terms.
- (5) All consents, approvals, licenses or exemptions of, or any filings or registrations with, any federal or state regulatory agency required at the date hereof in connection with the Issuer’s execution, delivery and performance of the Series 2008 A Bonds and the Bond Documents have been obtained; provided that no opinion is expressed as to the registration requirements of the securities or “Blue Sky” laws of any state.
- (6) The execution and delivery by the Issuer of the Series 2008 A Bonds and the Bond Documents will not, to the best of our knowledge, conflict with, violate or constitute a breach of or default under any indenture or other agreement known to us to which the Issuer is a party or by which the Issuer is bound, or, to the best of our knowledge, any applicable law, administrative regulation, order or court decree.
- (7) To the best of our knowledge, there is no action, suit or proceeding, before or by any court against the Issuer, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2008 A Bonds and the Bond Documents.
- (8) Interest on the Series 2008 A Bonds is not excludable from “gross income” of the owners thereof for federal or State of Minnesota income tax purposes.

The opinions set forth above are subject to the following qualifications and exceptions:

- (a) Our opinion in paragraph (4) above concerning enforceability is subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar law of general application affecting creditors’ or secured creditors’ rights.
- (b) Our opinion in paragraph (4) above concerning enforceability is subject to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law).
- (c) Our opinion in paragraph (4) above concerning enforceability, insofar as it relates to indemnification provisions, is subject to the effect of federal and state securities laws and public policy relating thereto.

Our opinions expressed above are limited to the laws of the State and the federal laws of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the laws of any other jurisdiction. This opinion is rendered as of the date set forth above and is based upon laws, regulations, rulings and decisions in effect on such date, and we express no opinion as to circumstances or events which may occur subsequent to such date.

Respectfully submitted,

BEST & FLANAGAN LLP

December 18, 2008

RBC Capital Markets  
2398 East Camelback Road, Suite 700  
Phoenix, AZ 85016

U.S. Bank National Association, as Trustee  
425 Walnut Street  
Cincinnati, OH 45202

Moody's Investors Service, Inc.  
7 World Trade Center  
250 Greenwich Street  
New York, NY 10007

Fitch Ratings  
One State Street Plaza, 31st Floor  
New York, NY 10004

U.S. Bank National Association, as Credit Provider  
101 East Fifth Street, 9th Floor  
EP-MN-S9GB  
St. Paul, MN 55101

Minnesota Office of Higher Education  
1450 Energy Park Drive, Suite 350  
St. Paul, MN 55108-5227

RE: \$33,300,000 Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Minnesota Office of Higher Education (the "Issuer"), an agency of the State of Minnesota (the "State"), in connection with the issuance of \$33,300,000 aggregate principal amount of the Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt) (the "Series 2008 B Bonds"). We are providing this opinion to you pursuant to Paragraph 6(i)(4) of the Bond Purchase Agreement, dated December \_\_, 2008 (the "Bond Purchase Agreement"), between the Issuer and RBC Capital Markets and Section 4(a)(xiii) of the Reimbursement Agreement dated as of December 1, 2008 (the "Reimbursement Agreement") between U.S. Bank National Association (the "Bank") and the Issuer. The capitalized terms used and not defined herein are defined in the Bond Purchase Agreement or in the General Indenture, dated as of December 1, 2008 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture, dated as of December 1, 2008 (the "First Supplemental Indenture") (collectively, the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), and pursuant to which the Series 2008 B Bonds are being issued.

We have examined such documents and have reviewed such questions of law as we have considered necessary and appropriate for the purposes of our opinions set forth below.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures and the conformity to authentic originals of all documents submitted to us as copies. We have also assumed the legal capacity for all purposes relevant hereto of all natural persons and, with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, that such agreements or instruments have been duly authorized by all requisite action (corporate or otherwise) executed and delivered by such parties, and that such agreements or instruments are the valid, binding and enforceable obligations of such parties. As to questions of fact material to our opinions, we have relied upon the representations made in the Bond Purchase Agreement and upon certificates of officers of the Issuer and of public officials (including, without limitation, those certificates delivered to others at the Closing). Finally, we take no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2008 B Bonds and express no opinion with respect thereto.

Based on the foregoing, we are of the opinion that:

- (1) The Issuer is an agency of the State and is validly existing under the laws of the State.



(2) The Issuer has full right, power and authority to enter into, execute, deliver and perform its obligations under the Series 2008 B Bonds, the Bond Purchase Agreement, the General Indenture, the First Supplemental Indenture and the Continuing Disclosure Agreement (collectively, the “Bond Documents”).

(3) The execution, delivery and performance of the Series 2008 B Bonds and the Bond Documents, for and in the name of the Issuer, have been duly authorized by all necessary action on the part of the Issuer.

(4) The Series 2008 B Bonds and the Bond Documents have been duly authorized, executed and delivered on behalf of the Issuer by the Director and are valid and binding obligations of the Issuer enforceable in accordance with their terms.

(5) All consents, approvals, licenses or exemptions of, or any filings or registrations with, any federal or state regulatory agency required at the date hereof in connection with the Issuer’s execution, delivery and performance of the Series 2008 B Bonds and the Bond Documents have been obtained; provided that no opinion is expressed as to the registration requirements of the securities or “Blue Sky” laws of any state.

(6) The execution and delivery by the Issuer of the Series 2008 B Bonds and the Bond Documents will not, to the best of our knowledge, conflict with, violate or constitute a breach of or default under any indenture or other agreement known to us to which the Issuer is a party or by which the Issuer is bound, or, to the best of our knowledge, any applicable law, administrative regulation, order or court decree.

(7) To the best of our knowledge, there is no action, suit or proceeding, before or by any court against the Issuer, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2008 B Bonds and the Bond Documents.

(8) Interest on the Series 2008 B Bonds is excluded from gross income for federal income tax purposes. The exemption from gross income under the Code may become inapplicable with respect to the Series 2008 B Bonds, as of either the date of issuance of Series 2008 B Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (1) the proceeds of the Series 2008 B Bonds being expended in a manner or for a use inconsistent with certain applicable requirements of Sections 141 and 144 of the Code or (2) the investment of amounts in “nonpurpose obligations” (as defined in Section 148 of the Code) or the application of the earnings of investments in said “nonpurpose obligations,” in each case, in a manner contrary to the requirements of Section 148 of the Code. In addition to the foregoing exceptions, the opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer and the Trustee comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2008 B Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer and the Trustee have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2008 B Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2008 B Bonds. No opinion is expressed regarding other federal tax consequences arising with respect to the Series 2008 B Bonds. The Series 2008 B Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Code. Interest on the Series 2008 B Bonds is an item of tax preference required to be included in the computation of alternative minimum taxable income for purposes of the federal and State alternative minimum taxes.

(9) Interest on the Series 2008 B Bonds is not includible in gross income for the purpose of State income taxes, except for State corporate and bank excise taxes measured by income.

The opinions expressed in paragraphs (8) and (9) above are subject to the condition of compliance by the Issuer with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2008 B Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes and State income tax purposes. Noncompliance with such requirements could result in the inclusion of interest on the Series 2008 B Bonds in gross income for federal income tax purposes and individuals, estates and trusts for State income tax purposes, retroactive to the date of issuance of the Series 2008 B Bonds. The Indenture contains provisions which, if complied with, will satisfy such requirements. Except as stated in this opinion, we express no opinion regarding other federal or state tax consequences to owners of the Series 2008 B Bonds.



The opinions set forth above are subject to the following qualifications and exceptions:

(a) Our opinion in paragraph (4) above concerning enforceability is subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar law of general application affecting creditors' or secured creditors' rights.

(b) Our opinion in paragraph (4) above concerning enforceability is subject to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law).

(c) Our opinion in paragraph (4) above concerning enforceability, insofar as it relates to indemnification provisions, is subject to the effect of federal and state securities laws and public policy relating thereto.

Our opinions expressed above are limited to the laws of the State and the federal laws of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the laws of any other jurisdiction. This opinion is rendered as of the date set forth above and is based upon laws, regulations, rulings and decisions in effect on such date, and we express no opinion as to circumstances or events which may occur subsequent to such date.

Respectfully submitted,

BEST & FLANAGAN LLP

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## APPENDIX E

### LOAN PORTFOLIO COMPOSITION (UNAUDITED)

The following tables illustrate certain characteristics of the student loan portfolio that is expected to secure the Series 2008 Bonds. This information is based upon data as of November 30, 2008, and includes estimates for the characteristics of second disbursements for certain student loans that were only partially disbursed as of such date.

#### Portfolio Summary

Total Current Principal Balance	\$108,012,536
Number of Borrowers	17,027
Average Balance per Borrower	\$6,344
Number of Loans	21,788
Average Balance per Loan	\$4,957
Weighted Average Remaining Term	137.0 Months
SELF III & SELF IV Loan Interest Rate <sup>(1)</sup>	5.90%

<sup>(1)</sup> SELF III and SELF IV interest rates are adjusted quarterly, based upon the prior quarterly average of the Three-Month London Interbank Offered Rate (LIBOR), plus a current, applicable margin of 3.0%. Subject to certain limitations, such margins are subject to increase or decrease by the Issuer.

#### Breakdown by Loan Program

<u>Loan Program</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
SELF III Loans	\$6,739,596	6.2%	2,370	10.9%
SELF IV Loans	<u>101,272,940</u>	<u>93.8</u>	<u>19,418</u>	<u>89.1</u>
Total	<u>\$108,012,536</u>	<u>100.0%</u>	<u>21,788</u>	<u>100.0%</u>

#### Breakdown by Loan Status

<u>Loan Status</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
School	\$82,055,404	76.0%	15,510	71.1%
Grace	19,436,304	18.0	4,047	18.6
Extended Grace	795,666	0.7	237	1.1
Forbearance	0	0.0	0	0.0
Repayment	<u>5,725,162</u>	<u>5.3</u>	<u>1,994</u>	<u>9.2</u>
Total	<u>\$108,012,536</u>	<u>100.0%</u>	<u>21,788</u>	<u>100.0%</u>

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**Breakdown by Remaining Term**

<u>Remaining Term (Months)</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
0 to 24	\$59,886	0.1%	88	0.4%
25 to 36	76,959	0.1	60	0.3
37 to 48	135,270	0.1	87	0.4
49 to 60	179,601	0.2	86	0.4
61 to 72	518,643	0.5	197	0.9
73 to 84	1,454,047	1.3	505	2.3
85 to 96	2,094,682	1.9	663	3.0
97 to 108	2,231,912	2.1	629	2.9
109 to 120	19,426,911	18.0	4,023	18.5
121 to 132	11,478,867	10.6	2,233	10.2
133 to 144	22,202,338	20.6	4,207	19.3
145 to 156	22,565,382	20.8	4,297	19.7
157 to 168	21,356,609	19.8	3,956	18.2
169 to 180	4,231,429	3.9	757	3.5
Total	<u>\$108,012,536</u>	<u>100.0%</u>	<u>21,788</u>	<u>100.0%</u>

**Breakdown by Delinquency Status**

<u>Delinquency Status</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
Current (0-30 days past due)	\$108,012,536	100.0%	21,788	100.0%
31+ days past due	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Total	<u>\$108,012,536</u>	<u>100.0%</u>	<u>21,788</u>	<u>100.0%</u>

**Breakdown by School Type**

<u>School Type</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
4-Year & Graduate	\$86,506,995	80.1%	16,496	75.7%
2-Year/Community College	17,704,693	16.4	4,438	20.4
Vocational/Proprietary	<u>3,800,848</u>	<u>3.5</u>	<u>854</u>	<u>3.9</u>
Total	<u>\$108,012,536</u>	<u>100.0%</u>	<u>21,788</u>	<u>100.0%</u>

**Breakdown by Borrower Balance**

<u>Current Borrower Balance</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
Less than \$500	\$39,346	0.0%	94	0.4%
\$500 to \$999	368,656	0.3	395	1.8
\$1,000 to \$1,999	2,583,989	2.4	1,428	6.6
\$2,000 to \$2,999	5,843,359	5.4	1,964	9.0
\$3,000 to \$3,999	20,221,982	18.7	4,211	19.3
\$4,000 to \$5,999	13,106,104	12.1	3,176	14.6
\$6,000 to \$7,999	32,648,941	30.4	5,346	24.5
\$8,000 to \$9,999	9,953,115	9.2	1,745	8.0
\$10,000 to \$14,999	22,566,635	20.9	3,307	15.2
\$15,000 to \$19,999	341,229	0.3	59	0.3
\$20,000 to \$24,999	313,943	0.3	58	0.3
\$25,000 to \$29,999	<u>25,237</u>	<u>0.0</u>	<u>5</u>	<u>0.0</u>
Total	<u>\$108,012,536</u>	<u>100.0%</u>	<u>21,788</u>	<u>100.0%</u>

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 1, 2008 (the “Disclosure Agreement”), is executed and delivered by the Minnesota Office of Higher Education (the “Issuer”) and U.S. Bank National Association (the “Dissemination Agent”) in connection with the issuance of \$100,000,000 Minnesota Office of Higher Education Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable) and Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series B (Tax Exempt) (collectively, the “Bonds”). The Bonds are being issued pursuant to a General Indenture, dated as of December 1, 2008 (the “General Indenture”), between the Issuer and U.S. Bank National Association, as bond trustee (the “Trustee”), as amended and supplemented by the First Supplemental Indenture, dated as of December 1, 2008 (the “First Supplemental Indenture”), between the Issuer and the Trustee (the “First Supplemental Indenture” and together with the General Indenture, the “Indenture”).

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement constitutes the written undertaking of the Issuer, for the benefit of the Bondholders (including any beneficial owners thereof when the Bonds are held in the book-entry system) to the extent stated herein and required by the Rule (defined below) thereby providing for the public availability of certain information relating to the Bonds and the security therefor and to permit participating underwriters in the primary offering of the Bonds to comply with the Rule, which will enhance the marketability of the Bonds.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Financial Information” shall comprise the following (subject to modification as provided in Section 3 hereof):

(1) A complete audit report and opinion of an Accountant and the financial statements of the Issuer for such fiscal year, containing statements of net position as of the end of such fiscal year and a statement of activities, changes in fund balance, changes in net position and cash flows for the fiscal year then ended, and showing in comparative form such figures for the preceding fiscal year of the Issuer, prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Issuer, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the Chief Financial Officer of the Issuer, to the best of his or her knowledge; and

(2) To the extent not included in the financial statements referred to in paragraph (1) hereof, the information for such fiscal year or the period most recently available of the type identified below, which information may be unaudited, but shall be certified as to accuracy and completeness in all material respects by the Chief Financial Officer of the Issuer to the best of his or her knowledge, which certification may be based on the reliability of information obtained from governmental or other third-party sources, in the following general categories:

(a) Information regarding the operating budget of the Issuer for the current fiscal year and the Loan Capital Fund for the most recent fiscal year of the type contained under the caption “Minnesota Office of Higher Education—Financial Information” in the Official Statement.

(b) Information for the most recent fiscal year regarding the amount of student loans originated, the outstanding principal balance of student loans as of the end of the most recent fiscal year and loan loss and recovery experience and borrower delinquencies for the most recent fiscal year of the type contained under the caption “The Supplemental Student Loan Program—SELF

Program Overview” and “—Loss and Delinquency Experience for the Student Loan Portfolio” in the Official Statement.

“Beneficial Owners” means any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of any Bonds (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Bondholder” shall mean the registered owner or owners thereof appearing in the bond register maintained by the Trustee or any Beneficial Owner thereof if the Beneficial Owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee.

“Disclosure Representative” shall mean the Chief Financial Officer of the Issuer, or such other person as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Dissemination Agent, if any, designated in writing by the Issuer pursuant to the terms hereof. Initially, U.S. Bank National Association shall act as the Dissemination Agent.

“Material Event” means any of the following events, if material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities; and
- (11) Rating changes.

“Material Event Notice” means written or electronic notice of a Material Event prepared in accordance with applicable federal securities laws.

“MSRB” means the Municipal Securities Rulemaking Board or any successors to its functions. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

“NRMSIR” means, as of the date of determination, a nationally recognized municipal securities information repository, as recognized from time to time by the Securities and Exchange Commission for the purposes referred to in the Rule. The NRMSIRs as of the date of this Disclosure Agreement are as follows:



Bloomberg Municipal Repository  
 100 Business Park Drive  
 Skillman, New Jersey 08558  
 Phone: (609) 279-3225  
 Fax: (609) 279-5962  
 Email: munis@bloomberg.com

DPC Data Inc.  
 One Executive Drive  
 Fort Lee, New Jersey 07024  
 Phone: (201) 346-0701  
 Fax: (201) 947-0107  
 Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.  
 Attn: NRMSIR  
 100 William Street  
 New York, New York 10038  
 Phone: (212) 771-6999  
 Fax: (212) 771-7390  
 Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.  
 55 Water Street  
 45th Floor  
 New York, New York 10041  
 Phone: (212) 438-4595  
 Fax: (212) 438-3975  
 Email: nrmsir\_respository@sandp.com

“Official Statement” means the Official Statement dated December \_\_\_, 2008, delivered in connection with the original issue and sale of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SID” means, as of the date of determination, any state information depository as operated or designated by the State of Minnesota as such for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

“Underwriter” shall mean RBC Capital Markets Corporation and any other underwriter of the Bonds required to comply with the Rule in connection with the primary offering of the Bonds for sale.

### SECTION 3. Undertaking to Provide Ongoing Disclosure.

(a) It is the express intention of the Issuer that the Bondholders (including any Beneficial Owners hereof when the Bonds are in the book-entry system) be a beneficiary of this Disclosure Agreement with the right to enforce this Disclosure Agreement directly against the Issuer to the extent set forth in Section 9 hereof.

(b) The Issuer, as an “obligated person” within the meaning of the Rule, undertakes to provide the following information;

- (1) Annual Financial Information, and
- (2) Material Event Notices.

(c) The Issuer shall provide, or shall cause the Dissemination Agent to provide, while any Bonds are outstanding, Annual Financial Information to each then existing NRMSIR and the SID, if any, not later than 155 days after the end of the Issuer's fiscal year (the "Report Date"), commencing with the fiscal year ending June 30, 2009. In addition, five days prior to the Report Date (the "Submission Date"), the Disclosure Representative shall submit the Annual Financial Information to the Dissemination Agent. If a Dissemination Agent has been designated, the Disclosure Representative shall include with each submission of Annual Financial Information to the Dissemination Agent a written representation addressed to the Dissemination Agent to the effect that the Annual Financial Information is the Annual Financial Information required by this Section and that it complies with the applicable requirements of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such written representation of the Disclosure Representative. The Dissemination Agent's obligation to deliver the information at the times and with the contents described above shall be limited to the extent the Disclosure Representative has provided such information to the Dissemination Agent as required hereby. If the Issuer changes its fiscal year (thereby changing the Report Date and the Submission Date), the Disclosure Representative shall provide written notice of the change of fiscal year and the new Report Date and Submission Date to the Dissemination Agent, if any, each then existing NRMSIR and the SID, if any; provided that the period between the final Report Date relating to the former fiscal year and the initial Report Date relating to the new fiscal year shall not exceed one year in duration.

Notwithstanding the foregoing, if the audited financial statements comprising part of the Annual Financial Information are not available by the date specified, the Issuer shall provide on or before the Report Date and the Submission Date unaudited financial statements in the format required as part of the Annual Financial Information and, within 10 days after the receipt of the audited financial statements, the Issuer shall provide the audited financial statements.

Any or all of the Annual Financial Information may be incorporated, if it is updated as required hereby, by reference from other documents, including official statements, which have been submitted to each of the then existing NRMSIRs, the SID, if any or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify in the Annual Financial Information each document so incorporated by reference.

If any part of the Annual Financial Information can no longer be generated because the operations of the Issuer have materially changed or been discontinued, such Annual Financial Information need no longer be provided if the Issuer includes in the Annual Financial Information a statement to such effect; provided, however, if such operations have been replaced by other Issuer operations in respect of which data is not included in the Annual Financial Information and the Issuer determines that certain specified data regarding such replacement operations would be material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time, then, from and after such determination, the Annual Financial Information shall include such additional specified data regarding the replacement operations.

If the Annual Financial Information is changed or this Disclosure Agreement is amended as permitted by this Section 3(c) or Section 7 hereof then the Issuer shall include in the next Annual Financial Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(d) If a Material Event occurs while any Bonds are outstanding, the Disclosure Representative shall provide, or shall provide to the Dissemination Agent, if any, for dissemination a Material Event Notice in a timely manner to each then existing NRMSIR (or the MSRB) and to the SID, if any. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(e) The Dissemination Agent shall promptly (but in any event within five Business Days) advise the Disclosure Representative whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee identifies an occurrence which, if material, would require the Issuer to provide a Material Event Notice pursuant to clause (d) above; provided that the failure of the Trustee so to advise the Disclosure Representative of such occurrence shall not constitute a breach by the Trustee of any of its duties and

responsibilities under the Indenture and shall not excuse or suspend any obligation of the Issuer under subsection (d). If in response to a notice under this subsection, the Disclosure Representative determines that the event would not be material, the Disclosure Representative shall so notify the Trustee and shall not be required to report the occurrence pursuant to subsection (d).

(f) The Disclosure Representative shall provide notice in a timely manner to each then existing NRMSIR (or the MSRB) and to the SID, if any, of any failure while any Bonds are outstanding to provide Annual Financial Information on or before the Report Date (for any reason) as provided herein.

(g) The Disclosure Representative may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' written notice to the Issuer and the Disclosure Representative. If no Dissemination Agent has been appointed or engaged or if a Dissemination Agent resigns or is otherwise removed and no successor Dissemination Agent is appointed or engaged, the Disclosure Representative shall perform all of the duties and assume all of the obligations of the Dissemination Agent hereunder.

(h) If a Dissemination Agent has been designated, the Dissemination Agent shall:

(i) If the Disclosure Representative provides to the Dissemination Agent information, which information is not designated as a Material Event Notice, and directs the Dissemination Agent to provide such information to information repositories, provide such information in a timely manner to each then existing NRMSIR (or the MSRB) and the SID, if any;

(ii) If by the Submission Date, the Dissemination Agent has not received a copy of the Annual Financial Information, contact the Disclosure Representative to determine if the Issuer is in compliance with subsection (c);

(iii) If the Dissemination Agent has not itself provided or received the representation from the Disclosure Representative that it has provided the Annual Financial Information to each then existing NRMSIR and the SID, if any, by the Report Date send a notice to each then existing NRMSIR and the SID, if any, in substantially the form attached as Exhibit A; and

(iv) If the Annual Financial Information has been disseminated by the Dissemination Agent, file a report with the Disclosure Representative certifying that the Annual Financial Information has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all parties to which it was provided.

(i) The Disclosure Representative shall determine prior to each date for providing the Annual Financial Information or Material Event Notices, the name and address of each NRMSIR and SID, if any.

(j) Unless otherwise required by the Rule, the Disclosure Representative and the Dissemination Agent, if any, shall employ such methods of information transmission as shall be required or recommended by the designated recipients of the Annual Financial Information and Material Event Notices.

(k) Notwithstanding the foregoing,

(i) notice of the occurrence of an event described in clauses (1), (8) or (9) of the definition of "Material Event" shall be given by the Dissemination Agent, if any, unless the Disclosure Representative gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of events described in clauses (8) and (9) of the definition of “Material Event” need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Bondholders of affected Bonds pursuant to the Indenture.

(l) Any filing under this Agreement may be made solely by transmitting such filing (a) to the Texas Municipal Advisory Council (“MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to MAC dated September 7, 2004 or (b) to the MSRB as provided at <http://www.emma.msrb.org> as required or permitted by amendments to the Rule promulgated after the date hereof (whether or not such amendments by their terms apply to bonds issued prior to the effective date of such amendments).

#### SECTION 4. Obligated Persons.

(a) In the event that any other person subsequently becomes an obligated person on the Bonds (as defined in the Rule), the Issuer agrees to use its best efforts to cause such person to enter into a written undertaking to comply with the provisions set forth in this Disclosure Agreement.

(b) Any such obligated person (other than the Issuer) reserves the right to terminate its obligation to provide Annual Financial Information, and notices of Material Events, as set forth above, if and when such person is no longer an obligated person with respect to the Bonds within the meaning of the Rule. The Disclosure Representative will provide notice of any such termination to the Trustee, each then existing NRMSIR and the SID, if any.

(c) If the Issuer’s obligations under the Indenture are assumed in full by some other person or entity, such person or entity shall assume, in a written agreement satisfactory in form and substance to the Trustee, and be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Issuer and the Issuer shall have no further responsibility hereunder.

SECTION 5. Termination of Reporting Obligation. The continuing obligation hereunder of the Issuer to provide Annual Financial Information and Material Event Notices hereunder shall terminate immediately once the Bonds are no longer Outstanding (as defined in the Indenture).

SECTION 6. Disclosure Representative. The Issuer shall, from time to time, appoint or engage a Disclosure Representative to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Disclosure Representative, upon appointment of a successor Disclosure Representative. If at any time there is not any other designated Disclosure Representative, the Issuer shall perform all the obligations and duties of the Disclosure Representative hereunder.

SECTION 7. Amendments. This Disclosure Agreement (and the form and requirements of the Annual Financial Information) may not be amended or supplemented except in a writing executed by the parties hereto and with the consent of the Trustee (which consent shall not be unreasonably withheld or delayed) accompanied by an opinion of counsel expert in federal securities law, who may rely on certificates of the Issuer and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the Issuer or the type of operations conducted by the Issuer, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this Disclosure Agreement as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondholders under the Rule. This Disclosure Agreement may be amended or supplemented from time to time without notice to or the consent of the Bondholders (except as otherwise provided in Section 11 hereof).

If the Annual Financial Information is amended pursuant to this Section 7, the Issuer agrees to provide to each existing NRMSIR (or the MSRB) and the SID, if any, contemporaneously with the effectiveness of such

amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 9. Default. In the event of a failure of the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with any provision of this Disclosure Agreement, the Dissemination Agent may and, at the written request of the Underwriter or the Bondholders of at least 25% aggregate principal amount of outstanding Bonds, shall, solely to the extent indemnified to its satisfaction (including attorney fees and expenses), or any Bondholders, as third-party beneficiaries hereof, may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bonds or the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover any monetary damages hereunder in any circumstance.

SECTION 10. Duties. Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. In the absence of bad faith on its part, the Dissemination Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Dissemination Agent and conforming to the requirements of this Disclosure Agreement. In the case of any Annual Financial Information disclosure, or any Material Event disclosure, or any opinions which, by any provision hereof, are specifically required to be furnished to the Dissemination Agent, the Dissemination Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Disclosure Agreement, but shall be under no duty to verify independently or investigate the accuracy or completeness of any information contained therein or the correctness of any opinion furnished hereunder. If the Dissemination Agent is other than the Issuer, no provision of this Continuing Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, provided that the Dissemination Agent shall pay such reasonable expenses, disbursements and advances necessary to perform its obligations hereunder, which expenses, disbursements and advances are expected to be reimbursed under Section 12 hereof.

SECTION 11. Binding Effect; Bondholders as Third-Party Beneficiaries. This Disclosure Agreement shall inure to the benefit of and shall be binding upon the Issuer and the Dissemination Agent and their respective successors and permitted assigns. In addition, this Disclosure Agreement shall constitute a third-party beneficiary contract for the benefit of the Bondholders from time to time. Said third-party beneficiaries shall be entitled to enforce performance and observance by the parties of the respective agreements and covenants herein contained as fully and completely as if said third-party beneficiaries were parties hereto; provided that this Disclosure Agreement (other than this Section 11) may be amended or supplemented from time to time without notice to or the consent of such third-party beneficiaries. Nothing in this Disclosure Agreement, express or implied, shall give to any Person, other than the parties hereto and their respective successors and permitted assigns as provided herein, and the Bondholders, any benefit or other legal or equitable right, remedy or claim under this Disclosure Agreement.

SECTION 12. Compensation. The Issuer hereby agrees to compensate the Dissemination Agent, if someone other than the Issuer is appointed, for the services provided and the reasonable expenses incurred pursuant to this Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the

Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14. Governing Law; Construction. The Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. This Disclosure Agreement is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

SECTION 15. Notices. Notices to be given to the Issuer or, if it is the Dissemination Agent hereunder, the Trustee shall be given to them at the addresses and in the manner specified in or pursuant to the Indenture.

SECTION 16. Representations. Each of the parties hereto represents and warrants to each other party that (i) it has all requisite power and authority to execute, deliver and perform this Disclosure Agreement under applicable law and any resolutions or other actions of such party now in effect, (ii) it has duly authorized the execution and delivery of this Disclosure Agreement, (iii) the execution and delivery of this Disclosure Agreement and performance of the terms hereof by such party do not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument to which it is a party or by which it is bound, and (iv) to its best knowledge, no litigation, proceeding or administrative matter is pending to which it is a party, or overtly threatened, contesting or questioning the legal existence of such party, its power and authority to enter into and perform this Disclosure Agreement or its due authorization, execution and delivery of this Disclosure Agreement.

The Issuer represents and warrants that it is the only “obligated person” in respect of the Bonds within the meaning of the Rule and that it has complied in all material respects with all undertakings previously entered into by it under the Rule.

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

MINNESOTA OFFICE OF HIGHER EDUCATION

By: \_\_\_\_\_  
Director



**EXHIBIT A**

**MINNESOTA OFFICE OF HIGHER EDUCATION  
SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS  
NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Minnesota Office of Higher Education

Name of Bond Issue: \$100,000,000 Minnesota Office of Higher Education Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2008 Series A (Taxable) and 2008 Series B (Tax Exempt)

Date of Issuance: December 18, 2008

NOTICE IS HEREBY GIVEN that the Issuer has not provided the annual financial information with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of December 1, 2008, between the Minnesota Office of Higher Education, as Issuer, and U.S. Bank National Association, as dissemination agent. [The Issuer anticipates that the annual financial information will be filed by \_\_\_\_\_.]

Dated:

U.S. BANK NATIONAL ASSOCIATION,  
on behalf of the Issuer

By: \_\_\_\_\_

Its: \_\_\_\_\_

cc: Disclosure Representative  
[if notice is sent by Dissemination Agent.]

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