

*In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., of Duluth, Minnesota, Bond Counsel, under federal and State of Minnesota laws, regulations, rulings and decisions in effect on the date of delivery of the Series 2012B Bonds, assuming compliance with the covenants set forth in the Indenture (as defined herein), the interest on the Series 2012B Bonds is (i) not includable in gross income for federal income tax purposes or in taxable net income for the purpose of Minnesota income taxes; (ii) includable for purposes of computing the Minnesota franchise tax imposed on corporations and financial institutions and measured by income; and (iii) an item of tax preference which is included in "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to all taxpayers and the Minnesota alternative minimum tax imposed on individuals, trusts and estates. See "TAX MATTERS" herein.*



**\$375,000,000**  
**MINNESOTA OFFICE OF HIGHER EDUCATION**  
**Adjustable Rate Supplemental Student Loan Program Revenue Bonds**  
*consisting of:*

**\$66,800,000 2012 Series A (Taxable)**

CUSIP: 60416M AZ6<sup>†</sup>

Due: August 1, 2047

**\$308,200,000 2012 Series B (AMT)**

CUSIP: 60416M BA0<sup>†</sup>

Due: August 1, 2047

**Price of all Bonds: 100%**

**Dated Date: Date of Issuance**

The Minnesota Office of Higher Education (the "Issuer") Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series A (Taxable) (the "Series 2012A Bonds") and Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series B (AMT) (the "Series 2012B Bonds" and together with the Series 2012A Bonds, the "Series 2012 Bonds") are special, limited obligations of the Issuer payable solely from the money and investments held by Wells Fargo Bank, National Association, as trustee (the "Trustee"), pursuant to a General Indenture dated as of September 1, 2012 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture dated as of September 1, 2012 (the "First Supplemental Indenture," and together with the General Indenture, the "Indenture"), between the Issuer and the Trustee. The Series 2012 Bonds, as initially offered, will bear interest at a Weekly Rate as more fully described herein. This Official Statement only describes the Series 2012 Bonds while in a Weekly Mode (as defined herein).

The Series 2012 Bonds will be issued in fully registered form in denominations of \$100,000 and in integral multiples of \$1,000 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 2012 Bonds. Individual purchases of Series 2012 Bonds are to be made in Book-Entry Form only. Purchasers of the Series 2012 Bonds will not receive certificates representing their interest in Series 2012 Bonds purchased. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM" herein.

While outstanding and bearing interest at a Weekly Rate, the Series 2012 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 2012A Bonds bearing interest at a Weekly Rate is payable on the first Business Day of each month, commencing October 1, 2012, until maturity or earlier redemption, if applicable. Interest on the Series 2012B Bonds bearing interest at a Weekly Rate is initially payable semiannually on each May 1 and November 1, commencing November 1, 2012, until maturity or earlier redemption, if applicable. The initial Remarketing Agent for the Series 2012 Bonds shall be RBC Capital Markets, LLC. See "WEEKLY RATE BONDS" herein.

The principal of, interest on and purchase price of each series of the Series 2012 Bonds bearing interest at a Weekly Rate are payable from funds drawn under separate irrevocable, direct pay letters of credit (collectively, the "Letters of Credit") issued by Royal Bank of Canada (the "Bank"), acting through its WFC, New York, Branch. See "THE BANK" herein.



**Royal Bank of Canada**

The 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 55 days of accrued interest on the Series 2012A Bonds bearing interest at a Weekly Rate (at a maximum rate of 15% per annum based on a year of 360 days) and (ii) up to 203 days of accrued interest on the Series 2012B Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum based on a year of 365 days), to be used (a) to pay the principal of and interest on the respective Series 2012 Bonds when due, and (b) to pay the purchase price of the respective Series 2012 Bonds tendered by the Owners thereof and not remarketed. The Letters of Credit expire on October 15, 2015 or on the earlier occurrence of certain events. The Letters of Credit may be extended upon such terms and conditions as may be agreed by the Bank and the Issuer. See "LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT" herein. The failure of the Issuer to maintain the Letters of Credit throughout the term of the related Series 2012 Bonds is not an event of default, and there is no assurance that the Letters of Credit will remain in effect throughout the term of the respective Series 2012 Bonds. The Letters of Credit only cover the respective Series 2012 Bonds bearing interest at a Weekly Rate.

The Series 2012 Bonds are being issued to provide the Issuer with funds to (i) refund certain outstanding bonds of the Issuer and (ii) finance or refinance Student Loans originated under its Supplemental Student Loan Program (the "Program"). See "SOURCES AND USES OF FUNDS" herein.

The Indenture provides that Bonds issued thereunder 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 Class Roman numerals increase. The Series 2012 Bonds are designated as Class I Bonds under the Indenture. The Series 2012 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture. The Indenture permits the issuance of additional Bonds thereunder payable on a parity with or subordinate to the Series 2012 Bonds.

THE SERIES 2012 BONDS AND INTEREST THEREON ARE SPECIAL LIMITED, NOT GENERAL, OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM AMOUNTS PLEDGED TO THE PAYMENT THEREOF PURSUANT TO THE INDENTURE. THE SERIES 2012 BONDS DO NOT CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF MINNESOTA (THE "STATE"), OR GRANT ANY RIGHT TO SERIES 2012 BONDOWNERS TO HAVE THE STATE LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR INTEREST THEREON. THE SERIES 2012 BONDS ARE NOT A GENERAL OBLIGATION OF THE ISSUER. THE ISSUER HAS NO TAXING POWER.

The Series 2012 Bonds are offered when, as and if issued and received by RBC Capital Markets, LLC (the "Underwriter"), subject to prior sale and to the approval of legality by Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Underwriter by its counsel, Ballard Spahr LLP, Salt Lake City, Utah, and for the Bank by its counsel, Chapman and Cutler LLP, Chicago, Illinois. It is expected that the Series 2012 Bonds will be available for delivery at DTC on or about September 26, 2012 (the "Closing Date").

**RBC Capital Markets**

September 25, 2012.

<sup>†</sup> The CUSIP numbers have been assigned by an independent company not affiliated with the Issuer and are included solely for the convenience of the owners of Series 2012 Bonds. The Issuer is not responsible for the selection or uses of the CUSIP numbers and no representation is made by the Issuer or the Underwriter as to their correctness on the Series 2012 Bonds indicated above.

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.

The information in this Official Statement concerning The Depository Trust Company (“DTC”) and DTC’s book-entry-only system has been obtained from DTC. None of the Issuer, any of its advisors or the Underwriter has independently verified, makes any representation regarding or takes any responsibility for the accuracy, completeness or adequacy of such information.

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, LLC, 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 WITH OWNERSHIP OF THE SERIES 2012 BONDS.

Prospective investors are not to construe the contents of this Official Statement, or any prior or subsequent communications from the Issuer or the Underwriter or any of its officers, employees or agents as investment, legal, accounting, regulatory or tax advice. Prior to any investment in the Series 2012 Bonds, a prospective investor should consult with its own advisors to determine the appropriateness and consequences of such an investment in relation to that investor’s specific circumstances.

The Series 2012 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 2012 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 2012 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 2012 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.

There currently is no secondary market for the Series 2012 Bonds. There are no assurances that any market will develop or, if it does develop, how long it will last. The Issuer does not intend to list the Series 2012 Bonds on any exchange, including any exchange in either Europe or the United States.

The Series 2012 Bonds are being offered subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to the approval of certain legal matters by counsel and certain other conditions. No Series 2012 Bonds may be sold without delivery of this Official Statement.

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE SERIES 2012 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

#### **IRS CIRCULAR NOTICE**

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, THE OWNERS OF THE SERIES 2012 BONDS ARE HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY BONDHOLDER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH BONDHOLDER UNDER THE INTERNAL REVENUE CODE; (II) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE SERIES 2012 BONDS OR MATTERS ADDRESSED IN THIS OFFICIAL STATEMENT; AND (III) OWNERS OF THE SERIES 2012 BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

#### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Official Statement contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, prospective investors can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “intend,” “potential,” and the negative of such terms or other similar expressions. Such forward-looking statements include, among others, statements in this Official Statement under the headings “BONDHOLDERS’ RISKS,” “SECURITY AND SOURCE OF REPAYMENT” and “INITIAL ASSET COVERAGE” and in Appendix E—LOAN PORTFOLIO COMPOSITION.

The forward-looking statements reflect the Issuer’s current expectations and views about future events. The forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Issuer’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these risks and uncertainties, prospective investors should not place undue reliance on the forward-looking statements.

Prospective investors should read this Official Statement and the documents that are referenced in this Official Statement completely and with the understanding that the Issuer’s actual future results may be materially different from what the Issuer expects. The Issuer may not update the forward-looking statements, even though the Issuer’s situation may change in the future, unless the Issuer has obligations under the federal securities laws to update and disclose material developments related to previously disclosed information. All of the forward-looking statements are qualified by these cautionary statements.

## TABLE OF CONTENTS

	Page
SUMMARY STATEMENT .....	ii
INTRODUCTORY STATEMENT .....	1
BONDHOLDERS' RISKS .....	2
THE SERIES 2012 BONDS .....	8
General .....	8
Places of Payment .....	8
Exchange and Transfer of Bonds .....	9
WEEKLY RATE BONDS .....	9
General .....	9
Interest Payments .....	9
Establishment of Interest Rates for Weekly Rate Bonds .....	10
Purchase of Weekly Rate Bonds on Demand of Owner .....	10
Redemption and Acceleration Provisions .....	10
Mandatory Tender of Series 2012 Bonds .....	12
Bond Purchase Fund .....	12
Insufficient Funds for Tenders .....	13
Remarketing of Tendered Series 2012 Bonds .....	13
Conversion of the Series 2012 Bonds .....	13
THE BANK .....	14
LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT .....	14
Events of Default .....	16
Reimbursement Agreement Remedies .....	18
SECURITY AND SOURCE OF REPAYMENT .....	19
Limited Obligations .....	19
Statutory Provisions Authorizing the Issuer's Request for Legislative Appropriations .....	19
Cash Flow Projections .....	20
Pledged Funds .....	20
PLAN OF FINANCING .....	23
Refunded Bonds .....	23
Sources and Uses of Funds .....	24
INITIAL ASSET COVERAGE .....	24
MINNESOTA OFFICE OF HIGHER EDUCATION .....	25
Description of the Issuer .....	25
History .....	25
The Issuer's Management Team .....	26
Financial Information .....	26
THE SUPPLEMENTAL STUDENT LOAN PROGRAM .....	27
SELF Program Overview .....	27
Program Terms and Conditions .....	28
Loss and Delinquency Experience for the Student Loan Portfolio .....	31
LOAN SERVICING AND COLLECTIONS .....	36
TAX MATTERS .....	37
UNDERWRITING .....	39
FINANCIAL ADVISOR .....	39
RELATIONSHIP OF PARTIES .....	39
LITIGATION .....	39
RATINGS .....	39
LEGAL MATTERS .....	40
Compliance with SEC Rule 15c2-12 .....	40
Continuing Disclosure .....	40
ERISA Considerations .....	40
Legal Opinions .....	42
APPENDIX A BASIC FINANCIAL STATEMENTS OF THE MINNESOTA OFFICE OF HIGHER EDUCATION .....	A-1
APPENDIX B DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE .....	B-1
APPENDIX C BOOK-ENTRY ONLY SYSTEM .....	C-1
APPENDIX D FORM OF BOND COUNSEL OPINION .....	D-1
APPENDIX E LOAN PORTFOLIO COMPOSITION .....	E-1
APPENDIX F FORM OF CONTINUING DISCLOSURE AGREEMENT .....	F-1

## SUMMARY STATEMENT

*The following information is furnished solely to provide limited introductory information regarding the Series 2012 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 of Minnesota (the “State”).
<b>The Series 2012 Bonds:</b>	\$66,800,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series A (Taxable) and \$308,200,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series B (AMT).
<b>Interest Payments:</b>	Interest on the Series 2012A Bonds bearing interest at a Weekly Rate is payable on the first Business Day of each month, commencing October 1, 2012, until maturity or earlier redemption. Interest on the Series 2012B Bonds bearing interest at a Weekly Rate is payable semiannually on each May 1 and November 1, commencing November 1, 2012, until maturity or earlier redemption. The method of computing interest on the Series 2012 Bonds may be converted to another interest rate Mode, in which event the Series 2012 Bonds would be subject to mandatory tender prior to conversion. See “WEEKLY RATE BONDS” herein.
<b>Security and Source of Repayment:</b>	The Series 2012 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 2012 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 State Debt Service Reserve Fund Payments and State Shortfall Payments; (v) all rights of the Issuer in and to the Servicing Agreement (defined herein) as it relates to the pledged Student Loans; (vi) 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 (vii) all proceeds of the foregoing.
<b>Letters of Credit:</b>	The principal of, interest on and purchase price of the Series 2012 Bonds bearing interest at a Weekly Rate are payable from funds drawn under separate irrevocable, direct pay letters of credit, one with respect to the Series 2012A Bonds and one with respect to the Series 2012B Bonds (together, the “Letters of Credit”) issued by Royal Bank of Canada (the “Bank”), acting through its WFC, New York, Branch. The 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 55 days of accrued interest on the Series 2012A Bonds bearing interest at a Weekly Rate (at a maximum rate of 15% per annum based on a year of 360 days) and (ii) up to 203 days of accrued interest on the Series 2012B Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum based on a year of 365 days) and, to be used (a) to pay the principal of and interest on the respective Series 2012 Bonds when

due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective Series 2012 Bonds tendered by the Owners thereof. The Letters of Credit expire on October 15, 2015 or on the earlier occurrence of certain events. The Letters of Credit may be extended by the Bank in its sole discretion. See “LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT” herein.

**Use of Bond Proceeds:**

The Series 2012 Bond proceeds are to be applied to: (i) refund certain outstanding bonds of the Issuer; and (ii) finance or refinance Student Loans originated under the Program. See “THE SUPPLEMENTAL STUDENT LOAN PROGRAM” herein.

**Redemption and Tender:**

The Series 2012 Bonds are subject to redemption and tender prior to maturity, as described herein.

**Additional Bonds and Other Obligations:**

The Series 2012 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 2012 Bonds.

**Special Limited Obligations:**

The Series 2012 Bonds and interest thereon are special limited, not general, obligations of the Issuer payable solely from amounts pledged to the payment thereof under the Indenture. The Series 2012 Bonds do not represent or constitute a debt or pledge of the faith and credit of the State, or grant to the Owner or Owners thereof any right to have the State levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. The Series 2012 Bonds are payable solely from the rentals, revenues, and other income, charges, and moneys as are pledged for their payment in accordance with the Indenture. The Series 2012 Bonds are not a general obligation of the Issuer. Neither the members of the Issuer nor any person executing the Series 2012 Bonds shall be liable personally on the Series 2012 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. The Issuer has no taxing power.

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**\$375,000,000**  
**MINNESOTA OFFICE OF HIGHER EDUCATION**  
**ADJUSTABLE RATE SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**  
**2012 Series A (Taxable)**  
**2012 Series B (AMT)**

**INTRODUCTORY STATEMENT**

This Official Statement, including the cover page and the Appendices hereto, sets forth certain information concerning the \$375,000,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, consisting of \$66,800,000 2012 Series A (Taxable) (the "Series 2012A Bonds") and \$308,200,000 2012 Series B (AMT) (the "Series 2012B Bonds" and together with the Series 2012A Bonds, the "Series 2012 Bonds") to be issued by the Minnesota Office of Higher Education. The Series 2012 Bonds will be issued pursuant to a General Indenture dated as of September 1, 2012 (the "General Indenture"), as supplemented and amended by a First Supplemental Indenture dated as of September 1, 2012 (the "First Supplemental Indenture" and together with the General Indenture, the "Indenture") between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and in accordance with the provisions of Minnesota Statutes, Sections 136A.002 to 136A.1787, as amended (the "Act").

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE SERIES 2012 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 2012 BONDS IN A WEEKLY MODE ONLY.

The Issuer will use the proceeds of the sale of the Series 2012 Bonds to (i) refund the Refunded Bonds (defined herein) and (ii) finance or refinance Student Loans originated under the Program. The Issuer will pay costs of issuance and fund a deposit to the Debt Service Reserve Fund from sources other than Series 2012 Bond proceeds. See "SOURCES AND USES OF FUNDS" herein.

The payment of the principal of, interest on and purchase price of the Series 2012 Bonds bearing interest at a Weekly Rate are payable from funds drawn under separate irrevocable, direct pay letters of credit (collectively, the "Letters of Credit") issued by Royal Bank of Canada (the "Bank"), acting through its WFC, New York, Branch (the Bank and the issuer or provider of any substitute or alternative Letters 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 2012A Bonds and one with respect to the Series 2012B Bonds. The 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 55 days of accrued interest on the Series 2012A Bonds bearing interest at a Weekly Rate (at a maximum rate of 15% per annum based on a year of 360 days) and (ii) up to 203 days of accrued interest on the Series 2012B Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum based on a year of 365 days), to be used (a) to pay the principal of and interest on the respective Series 2012 Bonds when due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective Series 2012 Bonds tendered by the Owners thereof. The Letters of Credit each expire on October 15, 2015 or on the earlier occurrence of certain events as set forth therein. The Letters of Credit may be extended by the Bank in its sole discretion. The Letters of Credit will be issued in favor of the Trustee pursuant to a Letter of Credit and Reimbursement Agreement dated as of September 1, 2012 (the "Reimbursement Agreement"), between the Issuer and the Bank. See "LETTERS 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 creditworthy cosigner. 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, the Credit Proceeds Fund, the Purchase Fund and the Surplus Fund created under the General Indenture and the Bond Purchase Fund created in the First Supplemental Indenture, and the investment income on these funds are pledged to the payment of the Series 2012 Bonds and any other Bonds issued under the Indenture.

The Indenture provides that Bonds issued thereunder, including the Series 2012 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 2012 Bonds constitute Class I Bonds. The Series 2012 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 and bearing interest at a Weekly Rate, the Series 2012 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 State law). The Issuer may issue additional Bonds on a parity with the Series 2012 Bonds or of a class with a lower priority than the Series 2012 Bonds. The Issuer has issued and may in the future issue bonds pursuant to other trust indentures.

The Series 2012 Bonds are special limited, not general, 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 2012 Bonds, the Issuer, the Program, the Bank, the Letters 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 2012 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, LLC, 2398 E. Camelback Road, Suite 700, Phoenix, Arizona 85016, Attention: Public Finance Department, Telephone: (602) 381-5369.

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 2012 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 2012 Bonds. Such factors are not intended to be a complete list of all factors which may be material to such decision.

Letters of Credit as Source of Payment. The payment of the principal of and interest on the Series 2012 Bonds is supported by the Letters of Credit. Although the Series 2012 Bonds are secured as described herein, prospective purchasers of the Series 2012 Bonds are advised to rely on the Letters of Credit for payment of principal of, interest on and purchase price of the Series 2012 Bonds bearing interest at a Weekly Rate. The obligation of the Bank under the Letters 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 2012 Bonds supported by the Letters of Credit would have to depend entirely on the assets available in the Trust Estate to pay the principal of and interest on such Series 2012 Bonds. See “Statutory Provisions Authorizing the Issuer’s Request for Legislative Appropriations” below regarding requests that the State consider appropriations to cover shortfalls in moneys available to pay principal of and interest on the Series 2012 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. Increased unemployment among recent higher education graduates may adversely affect the timing and receipt of payments on Student Loans. Significant increases in college tuition experienced over the last several years have significantly increased the average amount of outstanding loans per student. When the Senior Asset Coverage Ratio for any quarter is below 101%, the Indenture requires the Issuer to purchase or replace Student Loans pledged under the Indenture that become Defaulted Student Loans (as defined below) during the subsequent quarter (see Appendix B hereto, “DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—SUMMARY OF THE FIRST SUPPLEMENTAL INDENTURE—Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2012 Bonds; and Use and Disbursements of Funds—Purchase or Replacement 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 2012 Bonds and interest thereon are special limited, not general, obligations of the Issuer payable solely from amounts pledged to the payment thereof under the Indenture.

The Series 2012 Bonds do not represent or constitute a debt or pledge of the faith and credit of the State, or grant to the Owner or Owners thereof any right to have the State levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. The Series 2012 Bonds are payable solely from the rentals, revenues, and other income, charges, and moneys as are pledged for their payment in accordance with the Indenture. The Series 2012 Bonds are not a general obligation of the Issuer. Neither the members of the Issuer nor any person executing the Series 2012 Bonds shall be liable personally on the Series 2012 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. 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 2012 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 2012 Bonds. See “SECURITY AND SOURCE OF REPAYMENT—Cash Flow Projections” herein.

Statutory Provisions Authorizing the Issuer’s Request for Legislative Appropriations. As described in “SECURITY AND SOURCE OF REPAYMENT—Statutory Provisions Authorizing the Issuer’s Request for Legislative Appropriations” herein, Section 136A.1787 of the Act contains provisions permitting the Issuer to request, no later than December 1 in each year, the Governor of the State to include in the Governor’s budget or supplemental budget to be presented to the State legislature in the following calendar year, amounts sufficient to (1) cure any deficiency in the Debt Service Reserve Fund, (2) restore the loan capital fund maintained by the Issuer as an Enterprise Fund and not pledged to any of its bonds or obligations (the “Loan Capital Fund”) to the minimum required amount and (3) cover any expected shortfall in the moneys available to pay principal of and interest on the Series 2012 Bonds in the current or immediately following fiscal year.

The Act contains no provision establishing any right of Owners of the Series 2012 Bonds to require the legislature to make the specified appropriations or limiting the ability of the State to amend or repeal Section 136A.1787 of the Act or, by other legislative, executive, or judicial action, to adversely affect the timely transfer of any such appropriations. All moneys paid to the Issuer pursuant to the provisions of Section 136A.1787 are subject to appropriation by the State legislature for such purpose. Section 136A.1787 does not constitute a legally enforceable obligation on the part of the State nor does it create a debt or liability of the State.

Any appropriations made to the Issuer pursuant to these provisions are subject to the unallotment process of the State under certain conditions. Minnesota Statutes provide that if the Commissioner of Minnesota Management and Budget determines that probable receipts for the State's general fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner, with the approval of the Governor, and after consulting the legislative advisory commission shall, after first reducing the amount in the State's budget reserve account, address any additional budget deficit by reducing unexpended allotments of any prior appropriation or transfer. The law empowers the Commissioner to defer or suspend prior statutorily created obligations which would prevent effecting such reductions. The statutory duty to reduce allotments is mandatory to the extent needed to make up a projected deficit not solved by use of the budget reserve account. The Commissioner has fairly broad authority to reduce allotments as necessary to make up a deficit: no programs are exempt from the unallotment authority; the Commissioner is not required to make across-the-board cuts; and no maximum percentage limits how much the Commissioner can cut from any program.

The unallotment process is not automatically triggered under a determination of a revenue shortfall. The timing of revenue and expenditure forecasts for the general fund under Minnesota Statutes is such that the Governor may propose an amended budget for consideration by the legislature prior to the end of a biennium in order to address a shortfall legislatively. Absent the enactment of appropriate legislation, the Commissioner and the Governor would act in order to maintain a positive balance in the State's general fund at the end of a biennium as required under the State's constitution. See "SECURITY AND SOURCE OF REPAYMENT—Statutory Provisions Authorizing the Issuer's Request for Legislative Appropriations" herein for a more detailed description of these provisions.

Financial Condition of the Issuer. The Issuer's audited basic financial statements as of and for the year ended June 30, 2011 are attached hereto as Appendix A. An investor, in making an investment decision with respect to the Series 2012 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 2012 Bonds. However, the Indenture requires that the Issuer pay for Costs of Issuance, Program Expenses and purchases or replacements of Defaulted Student Loans from available funds outside of the Indenture.

The Remarketing Agent is Paid by the Issuer. The Remarketing Agent's responsibilities include determining the interest rates from time to time on the Series 2012 Bonds and using best efforts to remarket Series 2012 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 Owners and potential purchasers of Series 2012 Bonds.

The Remarketing Agent May Purchase Series 2012 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, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2012 Bonds for its own account and, in its sole discretion, may acquire such tendered Series 2012 Bonds in order to achieve a successful remarketing of the Series 2012 Bonds (i.e., because there otherwise are not enough buyers to purchase the Series 2012 Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2012 Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2012 Bonds by purchasing and selling Series 2012 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 2012 Bonds. The Remarketing Agent may also sell any Series 2012 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 2012 Bonds. The purchase of Series 2012 Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the Series 2012 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2012 Bonds being tendered in a remarketing.

Series 2012 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 a series of the Series 2012 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 such series of Series 2012 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 2012 Bonds (including whether the Remarketing Agent is willing to purchase Series 2012 Bonds for its own account). There may or may not be Series 2012 Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Series 2012 Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2012 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 2012 Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2012 Bonds for its own account, it may, in its sole discretion, in a secondary market transaction outside the tender process, offer such Series 2012 Bonds on any date, including the Rate Determination Date, to some investors at a discount to par.

The Ability to Sell the Series 2012 Bonds other than through the Tender Process may be Limited. The Remarketing Agent may buy and sell Series 2012 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 Owners that wish to tender their Series 2012 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2012 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2012 Bonds other than by tendering the Series 2012 Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Terminate its Obligations Under the Remarketing Agreement Without a Successor Being Named. Under certain circumstances, the Remarketing Agent may terminate its obligations under the Remarketing Agreement and cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Ratings of the Series 2012 Bonds. It is a condition to the issuance of the Series 2012 Bonds that they be rated as indicated under the caption “RATINGS” herein. 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 2012 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, or any subsequent Credit Providers, will be maintained.

Interest Rate Risk. Except in certain circumstances described herein, the Series 2012 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 applicable series of Series 2012 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 2012 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 2012 Bonds are secured by Revenues to be derived by the Issuer from Supplemental Educational Loan Fund (“SELF”) II Student Loans, SELF III Student Loans, SELF IV Student Loans and variable rate\* SELF V 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 Owners 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.

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\* The Issuer offers both fixed rate and variable rate loans under the SELF V phase of its Program.

The interest rates on the SELF III, SELF IV and the variable rate SELF V 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 phases of the program 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 2012 Bonds and payments of Program Expenses. 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 2012 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 2012 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, SELF IV or variable rate SELF V Student Loans by more than three percent (3%) during any twelve-month period. In the event interest on the Series 2012 Bonds exceeds 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 2012 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.

Dependence on Third-Party Servicer. The Issuer is currently dependent on a third party to service its SELF Loans, including the Student Loans to be originated or refinanced with proceeds of the Series 2012 Bonds. As of the date of this Official Statement, Firstmark Services, LLC, a subsidiary of Nelnet, Inc. is acting as servicer with respect to all SELF Loans pursuant to an agreement subject to expiration on April 30, 2013, subject to automatic annual renewals for one-year periods through April 30, 2018 unless 180 calendar days' notice of termination is given by either party to the other. The Issuer has the right, under the Indenture, to appoint a different or successor servicer of the Student Loans, subject to the receipt of a Credit Confirmation from the Credit Provider. The cash flow projections relied upon by the Issuer in structuring the Series 2012 Bonds provide for the payment of all anticipated Program Expenses (including the fees and expenses of the Servicer) from moneys outside the Trust Estate, and include certain assumptions with respect to servicing costs which were based upon this current agreement. No assurance can be given that the Issuer will be able to extend the term of such agreement, or to enter into an agreement with another servicer acceptable to the applicable Credit Provider at the assumed level of servicing cost upon expiration of the current agreement.

Enforceability of Remedies. The Series 2012 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 2012 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 2012 Bonds. To perfect such security interest in the Student Loans, the Trustee must take possession and/or control of the promissory notes evidencing such Student Loans, either directly or constructively through a custodian or bailee. 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 in addition 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, when the Senior Asset Ratio for any quarter is less than 101%, the Issuer will be obligated to purchase or replace any Student Loans under the Indenture which becomes a Defaulted Student Loan (which includes any Student Loan as to which a payment has been delinquent 150 days or more) during the next quarter within 30 days after becoming a Defaulted Student Loan. The Reimbursement Agreement may contain more restrictive covenants with regard to Defaulted Student Loans than those contained in the Indenture. 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 when required 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 State law). Upon the issuance of the Series 2012 Bonds and the refunding of the Refunded Bonds, the Issuer will have approximately \$613,400,000 of bonds outstanding.

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, (iv) in connection with the foregoing, to set aside the amount the Issuer determines is necessary for a reserve, and (v) to pay Costs of Issuance and Program Expenses, 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 2012 Bonds or of one or more Classes of lower priority than the Series 2012 Bonds. While the Letters of Credit are outstanding, the consent of the Bank is required prior to the issuance of any additional Bonds. In addition, a condition to the issuance of additional Bonds is the delivery to the Trustee of evidence that issuance of the additional Bonds will not adversely affect the rating then in effect for any Outstanding Bonds issued under the Indenture. 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 Class of Bonds 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 2012 Bonds are Class I Bonds.

**Possibility of Reduced Payments from Borrowers Called to Active Military Service.** The Servicemembers 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 Borrower Benefits which could further reduce the interest rate. Currently, the Issuer does not offer this or any other Borrower Benefits.

**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.

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 2012 Bonds.

IRS Voluntary Closing Agreement Program Announced for Student Loan Bonds. On March 20, 2012, the Internal Revenue Service ("IRS") announced a Voluntary Closing Agreement Program (the "VCAP") with respect to student loan revenue bonds. The VCAP relates to the allocation of student loans among tax-exempt student loan bonds of an issuer (such as the Series 2012B Bonds). The Issuer has reviewed its allocation procedures and believes that it has allocated its student loans in material compliance with the applicable IRS requirements and therefore chose not to enter into the VCAP. Nevertheless, the Issuer recognizes that the IRS has provided little guidance in this area and the IRS may take a position contrary to the Issuer's view. The Issuer cannot predict at this time what impact, if any, an IRS audit of the Issuer would have on its programs, however, the Issuer does not believe that such an audit or any potential payment resulting from such audit would affect the viability of the Issuer or its ability to meet all obligations with respect to the Series 2012 Bonds.

Tax Exemption. The tax-exempt status of interest on the Series 2012B Bonds, or the value of such status, could be adversely affected by circumstances occurring or legislation enacted after the date of issuance of the Series 2012 Bonds. See "TAX MATTERS" herein.

## **THE SERIES 2012 BONDS**

### **General**

As initially issued, the Series 2012 Bonds bear interest at a Weekly Rate. While bearing interest at a Weekly Rate, the Series 2012 Bonds shall bear interest as described below under "WEEKLY RATE BONDS."

The Series 2012 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 dates set forth on the cover page of this Official Statement. The Series 2012 Bonds are to be issued initially bearing interest at a Weekly Rate in Authorized Denominations of \$100,000 or any integral multiple of \$1,000 above \$100,000, while Outstanding in such Weekly Mode. See "WEEKLY RATE BONDS" herein. The Series 2012 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 2012 Bonds. Individual purchases of the Series 2012 Bonds will be made in Book-Entry Form only in the principal amount of Authorized Denominations. Purchasers of the Series 2012 Bonds will not receive certificates representing their interests in the Series 2012 Bonds purchased. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM."

The Series 2012 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 2012 Bonds, all payments of principal of and interest on the Series 2012 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 2012 Bonds shall be payable at the designated office of the Trustee upon presentation and surrender of the Series 2012 Bonds, and payment of the interest on each Series 2012 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 2012 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 2012 Bonds may be exchanged at the designated office of the Trustee for a like aggregate principal amount of fully registered Series 2012 Bonds of the same series, interest rate and Stated Maturity in Authorized Denominations. Upon surrender for transfer of any Series 2012 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 2012 Bond or Series 2012 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 2012 Bond during the period beginning on the date any Series 2012 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of the Series 2012 Bonds selected for redemption. After the giving of such notice of redemption, the Trustee shall not be required to transfer or exchange any Series 2012 Bond, which Series 2012 Bond or portion thereof has been called for redemption.

Notwithstanding the above, it should be understood that while the Series 2012 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 2012 Bonds as initially issued bear interest at a Weekly Rate. The following discussion of interest on the Series 2012 Bonds relates to the Series 2012 Bonds while outstanding in a Weekly Mode, unless otherwise provided. This Official Statement does not attempt to describe details which would be applicable to the Series 2012 Bonds if they were converted to another interest Mode. In such event, the Series 2012 Bonds Outstanding in a Weekly Mode, which would be so converted, would be subject to mandatory tender prior to conversion. See “WEEKLY RATE BONDS—Conversion of the Series 2012 Bonds.” Certain capitalized terms used herein with respect to the Series 2012 Bonds are defined in “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE.”

### **Interest Payments**

Interest on the Series 2012A Bonds is initially payable on the first Business Day of each month, commencing October 1, 2012. Interest on the Series 2012B Bonds is initially payable semiannually on each May 1 and November 1, commencing November 1, 2012. Interest on Series 2012A 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 2012B Bonds is to be computed on the basis of a year of 365 or 366 days, as appropriate, based upon the year in which the interest payment is made for the actual number of days elapsed. The interest accrual period for the Series 2012 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 2012 Bonds interest will be computed as described in the Indenture.

The Maximum Bond Interest Rate on Series 2012 Bonds in the Weekly Mode, so long as the Letters of Credit are in effect, is the lesser of (i) (a) with respect to Series 2012A Bonds which are not Bank Bonds (as defined below), 15% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Reimbursement Agreement) and (b) with respect to Series 2012B Bonds which are not Bank Bonds, 12% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Reimbursement Agreement), or (ii) the maximum lawful nonusurious interest rate permitted under Minnesota law.

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

The Series 2012 Bonds shall bear interest at a Weekly Rate (as defined below) during any “Weekly Rate Period,” which is a period during which the Series 2012 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 2012 Bonds purchased by the Bank (“Bank Bonds”), the Series 2012 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 2012 Bonds, the “Weekly Rate” means a rate of interest per annum 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 such series of the Series 2012 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 2012 Bonds shall be held to be unenforceable by a court of law of competent jurisdiction or (iii) the Remarketing Agent suspends its remarketing efforts as to the Series 2012 Bonds in accordance with the Remarketing Agreement, the rate of interest to be borne by the Series 2012 Bonds for such Weekly Rate Period shall be equal to a rate per annum equal to the lesser of the Maximum Bond Interest Rate, and (a) with respect to the Series 2012A Bonds, (1) 150% of one-month LIBOR, as the same may be adjusted from time to time or (2) if one-month LIBOR is no longer available, an index of taxable seven day tender municipal bonds selected by the Remarketing Agent (unless no Remarketing Agent is then functioning as such, and then the Trustee), and (b) with respect to the Series 2012B Bonds (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), 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 10:00 a.m., Eastern time, on each Thursday for the succeeding Weekly Rate Period.

From and after a conversion of a series of the Series 2012 Bonds to another interest rate Mode, such Series 2012 Bonds shall bear interest as provided in the Indenture.

The initial Remarketing Agent for the Series 2012 Bonds shall be RBC Capital Markets, LLC.

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

The registered Owners of Series 2012 Bonds may elect to have their Series 2012 Bonds (or portions of those Series 2012 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 2012 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 2012 Bond will not be entitled to any payment other than the Purchase Price for such Series 2012 Bond, and such untendered Series 2012 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 2012 Bonds and for the redemption of certain of the Series 2012 Bonds prior to maturity, as described below. The Issuer may elect to redeem such

Series 2012 Bonds, as described below, upon notice to the Trustee and the Bank of the Redemption Date, Class, Series, principal amounts and maturities of such Series 2012 Bonds to be redeemed, and the moneys to be applied to the payment of the redemption price. In the event that the Series 2012 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 2012 Bonds bearing interest at a Weekly Rate shall be subject to optional redemption, in whole or in part on any Business Day, at the option of the Issuer with the prior written consent of the Credit Provider at a redemption price of par plus accrued interest, if any. If only part of the Series 2012 Bonds is to be redeemed, such part must be in the minimum amount of \$1,000,000 and integral multiples of \$1,000 thereafter. The foregoing sentence does not apply if the aggregate outstanding principal balance of the Series 2012 Bonds to be redeemed is less than \$1,000,000. To the extent that there exist any Bank Bonds, the Indenture requires that all of such Bank Bonds be redeemed prior to the optional redemption of any other Series 2012 Bonds bearing interest at a Weekly Rate.

*Mandatory Sinking Fund Redemption of Series 2012B Bonds.* The Series 2012B Bonds are subject to mandatory redemption in part on the dates and in the years set forth below at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption in the aggregate principal amounts set forth below for each such date, as follows:

<u>Date</u>	<u>Amount</u>
November 1, 2020	\$20,000,000
May 1, 2022	26,800,000
January 1, 2037	27,100,000
May 1, 2038	10,300,000
May 1, 2040	56,000,000
November 1, 2041	68,000,000
August 1, 2047*	100,000,000

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\* Final Maturity

Partial prepayments of Series 2012 Bonds subject to mandatory redemption shall be applied to prepayment of sinking fund installments in the manner directed by the Issuer.

*Mandatory Redemption from Amounts on Deposit in the Revenue Fund.* The Series 2012A Bonds are subject to mandatory redemption on each May 1 and November 1, commencing November 1, 2012, at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, from funds on deposit in the Revenue Fund in the manner provided in the Reimbursement Agreement, provided that such mandatory redemption is subject to prior payment of certain amounts required to be paid pursuant to the General Indenture.

*Mandatory Redemption Resulting From Non-Origination.* Subject to the terms of the Indenture, the Series 2012B Bonds are subject to redemption prior to Stated Maturity, in whole or in part, on any date, at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, from original proceeds of the Series 2012B Bonds and all other amounts initially available to Originate or refinance Student Loans upon issuance of the Series 2012B Bonds remaining in the Series 2012B Account of the Acquisition Fund at the expiration of the Loan Origination Period (as such period may be extended).

*Extraordinary Mandatory Redemption.* The Series 2012 Bonds are subject to extraordinary redemption by the Issuer, with the prior written consent of the Credit Provider, in whole or in part on any date, at a redemption price equal to the principal amount thereof 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 a Certificate of the Issuer 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 2012 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 Series 2012 Bonds and such Series 2012 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 2012 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 2012 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 2012 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 2012 Bonds after an Event of Default under the Indenture, the principal and the accrued interest on such Series 2012 Bonds through the date of acceleration shall, without further action, become and be immediately due and payable.

### **Mandatory Tender of Series 2012 Bonds**

The Series 2012 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 2012 Bonds are in a Weekly Mode and the Letters of Credit are then in effect to pay the Purchase Price of such Series 2012 Bonds (each a “Mandatory Tender Date”).

- (a) any date on which the interest rate Mode for the respective Series 2012 Bonds changes,
- (b) any date on which any alternate Credit Facility is substituted for the respective Letter of Credit,
- (c) the fifth Business Day prior to any expiration date for the respective 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 related Series 2012 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 any required consent thereto,
- (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 related Series 2012 Bonds to be mandatorily tendered) or (ii) written notice from the Bank, following a drawing under a Letter of Credit to pay interest on the Series 2012 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, and
- (f) the Weekly Rate adjustment date immediately following the date upon which the Trustee has determined that the average of the Weekly Rates has exceeded a threshold established in the Indenture.

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 separate accounts of the Bond Purchase Fund for each series of the Series 2012 Bonds (the “Series 2012 Bond Purchase Accounts”), which shall be held for the exclusive benefit of the registered

Owners of the Series 2012 Bonds who are entitled to be paid the Purchase Price of such Series 2012 Bonds from such Series 2012 Bond Purchase Accounts and, to the extent of any surplus, the Person who deposited the money into the applicable Series 2012 Bond Purchase Account. A Remarketing Proceeds Subaccount and a Credit Facility Purchase Subaccount are to be established by the Trustee as separate subaccounts within each of the Series 2012 Bond Purchase Accounts.

Upon receipt from the Remarketing Agent of the proceeds of any remarketing of a Series 2012 Bond to a Person other than the Issuer on the date such Series 2012 Bond is to be purchased, the Trustee shall deposit such proceeds in the applicable Remarketing Proceeds Subaccount for application to the Purchase Price of the remarketed Series 2012 Bond. Upon receipt from the Bank of immediately available funds to pay the Purchase Price of the Series 2012 Bonds, the Trustee shall deposit such money in the applicable Credit Facility Purchase Subaccount for application to the Purchase Price of the Series 2012 Bonds to the extent that the moneys on deposit in the related Remarketing Proceeds Subaccount are insufficient. Amounts held in the subaccounts of the Series 2012 Bond Purchase Accounts 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 2012 Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, (i) all such Series 2012 Bonds shall bear interest at the Maximum Bond Interest Rate from the date of such failed purchase until all such Series 2012 Bonds are purchased as required in accordance with the Indenture, and (ii) all tendered Series 2012 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 2012 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 Series 2012 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. RBC Capital Markets, LLC has been appointed as the initial Remarketing Agent for the Series 2012 Bonds.

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 prior written consent of the Bank, the Issuer may remove the Remarketing Agent at any time upon thirty (30) days' 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 the Series 2012 Bonds**

The Indenture permits the Issuer, by complying with certain conditions, to convert the interest rate on the Series 2012 Bonds from a Weekly Rate to another interest rate, including to a different form of adjustable rate or a rate that is fixed to the maturity of the Series 2012 Bonds, with the consent of the Bank. Upon conversion of the Series 2012 Bonds to any other Mode, registered Owners will be required to tender their Series 2012 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 2012 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 2012 Bonds that are required to be tendered due to such Mode change.

## THE BANK

The Bank is a Schedule I bank under the Bank Act (Canada), which constitutes its charter and governs its operations. The Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario M5J 2J5, Canada, and its head office is located at 1 Place Ville Marie, Montreal, Quebec H3C 3A9, Canada. The Bank is the parent company of RBC Capital Markets, LLC, the Underwriter and the Remarketing Agent for the Series 2012 Bonds.

The Bank and its subsidiaries operate under the master brand name RBC. The Bank is Canada's largest bank as measured by assets and market capitalization and is among the largest banks in the world based on market capitalization. The Bank is one of North America's leading diversified financial services companies and provides personal and commercial banking, wealth management services, insurance, corporate and investment banking and investor services on a global basis. The Bank and its subsidiaries employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 51 other countries.

The Bank had, on a consolidated basis, as at July 31, 2012, total assets of C\$824.4 billion (approximately US\$822.0 billion\*), equity attributable to shareholders of C\$43.2 billion (approximately US\$43.0 billion\*), and total deposits of C\$502.8 billion (approximately US\$501.4 billion\*). The foregoing figures were prepared in accordance with International Financial Reporting Standards and have been extracted and derived from, and are qualified by reference to, the Bank's unaudited Interim Condensed Consolidated Financial Statements included in its Report to Shareholders for the fiscal period ended July 31, 2012.

The senior long-term unsecured debt of the Bank has been assigned ratings of AA- (negative outlook) by Standard & Poor's Ratings Services, Aa3 (stable outlook) by Moody's Investors Service, AA (stable outlook) by Fitch Ratings, and AA (stable outlook) by DBRS. The Bank's common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol "RY." Its preferred shares are listed on the Toronto Stock Exchange.

Upon written request, and without charge, the Bank will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this Official Statement is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 200 Bay Street, 4th Floor, North Tower, Toronto, Ontario M5J 2W7, Canada, or by calling (416) 955-7802, or by visiting [rbc.com/investorrelations/](http://rbc.com/investorrelations/).

The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

## LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT

The following is a description of certain provisions of the Reimbursement Agreement relating to the Letters of Credit issued by the Bank for the Series 2012 Bonds, and is not to be considered as a full statement of the provisions of such documents. This summary is qualified by reference to and is subject to each such document. The Bank plans on issuing two (2) Letters of Credit in support of the Series 2012 Bonds. Specifically, one Letter of Credit will be issued to secure payment of the Series 2012A Bonds and one Letter of Credit will be issued to secure payment of the Series 2012B Bonds. The Letters of Credit are substantially similar. Accordingly, the majority of the discussion below is generic and applies equally to each Letter of Credit. The provisions of any Alternate Credit Facility and the related Reimbursement Agreement may be different from those summarized below.

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\* As at July 31, 2012: C\$1.00 = US\$0.9971083856815240.

Investors should obtain and review a copy of the Reimbursement Agreement and each Letter of Credit in order to understand all of the terms of those documents. Capitalized terms used in this section and not defined shall have the meanings set forth in the Reimbursement Agreement or the Letters of Credit, as applicable.

The Indenture requires the Trustee to draw upon the applicable Letter of Credit whenever principal or interest is due on the related series of Series 2012 Bonds supported by such Letter of Credit, whether on any Interest Payment Date, on any Sinking Fund Payment date, at the Stated Maturity of the applicable series of Series 2012 Bonds, upon redemption or acceleration. The Trustee is also required under the provisions of the Indenture to draw on the applicable Letter of Credit under certain circumstances including mandatory or optional tender of the related series of Series 2012 Bonds supported by such Letter of Credit if remarketing proceeds are insufficient to pay the Purchase Price.

Each Letter of Credit will be in all respects an irrevocable obligation of the Bank. Each Letter of Credit will be issued in an amount (the "Original Stated Amount") equal to the aggregate principal amount of the outstanding related series of Series 2012 Bonds supported by such Letter of Credit, plus 55 days' interest on the Series 2012A Bonds, at the rate of 15% per annum based on a year of 360 days and 203 days' interest on the Series 2012B Bonds, at the rate of 12% per annum based on a year of 365 days, such greater assumed rate of interest as is established in accordance with each such Letter of Credit. Under each Letter of Credit, the Trustee, upon compliance with the terms of such Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the related series of Series 2012 Bonds supported by such Letter of Credit when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the Purchase Price corresponding to the principal of such Series 2012 Bonds supported by such Letter of Credit delivered for purchase pursuant to a demand for purchase by the Owner thereof or a mandatory tender for purchase in the event such Series 2012 Bonds are not remarketed, plus (b) an amount not to exceed 55 days' interest on such Series 2012A Bonds supported by such Letter of Credit, at the rate of 15% per annum and 203 days' interest on the Series 2012B Bonds supported by such Letter of Credit, at the rate of 12% per annum, or such greater assumed rate of interest as is established in accordance with each such Letter of Credit, to pay interest on such Series 2012 Bonds supported by such Letter of Credit when due, or to pay accrued interest, if any, on such Series 2012 Bonds supported by such Letter of Credit upon a demand for purchase by the Owner thereof or a mandatory tender for purchase in the event such Series 2012 Bonds are not remarketed.

Upon any drawing, the available amount of the applicable Letter of Credit will be reduced automatically by the amount of such drawing. The amount of any drawing for interest due on an Interest Payment Date is to be automatically reinstated on the eleventh (11th) calendar day after such drawing unless the Bank notifies the Trustee within ten (10) calendar days of such drawing that an event of default under the Reimbursement Agreement (including the Issuer's failure to reimburse the Bank for such drawing) has occurred, in which case the amount of such drawing will not be reinstated. The amount of any drawing upon an Optional Tender or a Trigger Event Mandatory Tender (each as defined in each Letter of Credit) of the related series of Series 2012 Bonds is to be reinstated upon payment to the Bank of the Purchase Price of any such Series 2012 Bonds purchased with the proceeds of such drawing. Reductions in the available amount of each Letter of Credit occurring upon drawings for (i) the purchase of such Series 2012 Bonds upon a Mandatory Tender (as defined in each Letter of Credit and excluding any Trigger Event Mandatory Tender), (ii) the purchase of such Series 2012 Bonds upon an optional redemption or a mandatory redemption, (iii) the purchase of such Series 2012 Bonds pursuant to an Acceleration Drawing; or (iv) the purchase of such Series 2012 Bonds upon their Stated Maturity will not be subject to reinstatement. At any given time the aggregate available amount under each Letter of Credit shall be equal to the Original Stated Amount of such Letter of Credit, less (x) the amount of any drawings to the extent such amounts have not been reinstated and (y) the amount by which the Trustee, in a certificate delivered to the Bank, has permanently reduced the available amount of such Letter of Credit to the extent such reduction is not already accounted for by a reduction in the available amount pursuant to clause (x) above.

The Reimbursement Agreement requires the Issuer to immediately reimburse the Bank for the full amount of any drawings for interest or principal on the related series of Series 2012 Bonds supported by the applicable Letter of Credit including upon redemption or acceleration; provided, however, that the Issuer is required to reimburse the Bank for the principal component of any drawing upon a tender of such Series 2012 Bonds on the earliest of (a) the Conversion Date; (b) the date on which such Series 2012 Bonds (or portion thereof) purchased by the Bank in connection with such drawing are remarketed, redeemed or purchased by the Issuer, all in accordance

with the Indenture and the Reimbursement Agreement; (c) the date on which such Series 2012 Bond is due and payable pursuant to the Indenture whether at its Stated Maturity or upon acceleration, redemption or otherwise; (d) the date such amounts are declared due and payable as the result of an Event of Default under the Reimbursement Agreement; (e) the date on which such Letter of Credit is replaced with a substitute letter of credit; or (f) the applicable scheduled amortization date as set forth in the Reimbursement Agreement. The Issuer's obligations under the Reimbursement Agreement to reimburse the Bank for drawings under each Letter of Credit are limited obligations of the Issuer payable from moneys available therefor under the Indenture. To secure its obligations under the Reimbursement Agreement, the Issuer will grant a security interest in the Trust Estate to the Trustee for the benefit of the Bank.

Each Letter of Credit, by its terms, expires at the Bank's close of business on the earliest of the following dates (a) the stated expiration date (October 15, 2015, unless renewed or extended); (b) the date of receipt by the Bank of a certificate from the Trustee, in the form attached to the applicable Letter of Credit, along with the applicable Letter of Credit, specifying that (i) all of the related series of Series 2012 Bonds have been paid or deemed to have been paid in accordance with the Indenture or (ii) all of the related series of Series 2012 Bonds have been converted to an interest rate other than the Weekly Rate (the "Conversion Date") or (iii) all conditions precedent to the acceptance of a substitute facility as specified in the Indenture have been satisfied; (c) ten (10) days after receipt by the Trustee of written notice from the Bank specifying (i) the occurrence of an "Event of Default" under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender or acceleration of such Series 2012 Bonds or (ii) that the applicable Letter of Credit will not be reinstated and directing the Trustee to cause a mandatory tender or acceleration of such Series 2012 Bonds.

#### **Events of Default**

Pursuant to the Reimbursement Agreement, the occurrence of any of the following events, among others, shall constitute an Event of Default thereunder. Reference is made to the Reimbursement Agreement for a complete listing of all Events of Default:

(a) Payments. The Issuer shall fail to pay when due any Obligation (as defined in the Reimbursement Agreement) or any amount due under the Indenture (whether by acceleration or otherwise);

(b) Representations. Any representation or warranty made by or on behalf of the Issuer in the Reimbursement Agreement or in any Related Document (as defined in the Reimbursement Agreement) or in any certificate or statement delivered thereunder shall prove to have been inaccurate, misleading or incomplete in any material respect when made or deemed to have been made;

(c) Covenants. The Issuer shall fail to perform certain covenants as specified in the Reimbursement Agreement;

(d) Other Covenants. The Issuer shall fail to perform or observe any other term, covenant or agreement (other than ones described in any other paragraph under this heading) contained in the Reimbursement Agreement or any Related Document on its part to be performed or observed which failure continues for ten (10) Business Days or more;

(e) Default on Debt. (i) Any default or similar event not covered by another paragraph of the Reimbursement Agreement shall occur under any document evidencing Debt (as defined in the Reimbursement Agreement) of the Issuer that is prior to or on parity with the Bonds and Bank Bonds and (ii) any default or similar event not covered by another paragraph of the Reimbursement Agreement shall occur under any document evidencing any other Debt of the Issuer;

(f) Contest of Validity. Any provision of the Reimbursement Agreement, the Series 2012 Bonds or any of the Related Documents shall cease to be valid and binding; or the Issuer or any Governmental Authority (as defined in the Reimbursement Agreement) shall contest any such provision; or the Issuer or any agent or trustee on behalf of the Issuer shall deny that it has any further liability under any provision of the Reimbursement Agreement, the Series 2012 Bonds or any of the Related Documents; or the Issuer shall, in writing to the Trustee, the Bank or

any other Person, (i) claim that the Indenture, the Series 2012 Bonds, the Fee Letter (as defined in the Reimbursement Agreement) or the Reimbursement Agreement is not valid or binding on it, (ii) repudiate its obligations under the Indenture, the Series 2012 Bonds, the Fee Letter or the Reimbursement Agreement, and/or (iii) initiate any legal proceedings to seek an adjudication that the Indenture, the Series 2012 Bonds, Fee Letter or the Reimbursement Agreement or its obligation to repay any Material Debt (as defined in the Reimbursement Agreement) is not valid or binding on it;

(g) Determination of Invalidity. Any court of competent jurisdiction or other Governmental Authority with jurisdiction to rule on the validity of any provision of the Reimbursement Agreement, the Series 2012 Bonds, the Fee Letter or the Indenture shall find or rule that the Reimbursement Agreement, the Series 2012 Bonds, the Fee Letter or the Indenture is not valid or is not binding on the Issuer;

(h) Judgments. Entry or filing of any judgment, writ or warrant of attachment or of any similar process in an amount in excess of \$1,000,000 against the Issuer or against any of its property and failure of the Issuer to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days after such entry or filing; or failure to pay or satisfy such judgment within 60 days or as otherwise required by such judgment, writ or warrant of attachment;

(i) Other Documents. Any default, event of default or similar event under any of the Related Documents (as defined respectively therein) or any Parity Facility (as defined in the Reimbursement Agreement) shall occur;

(j) Taxability. A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Series 2012B Bonds is includable in the gross income of the holder(s) or Owner(s) of such Series 2012B Bonds (other than pursuant to an alternative minimum tax calculation) and either (i) the Issuer, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Issuer shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered;

(k) Event of Insolvency. An Event of Insolvency (as defined in the Reimbursement Agreement) shall have occurred;

(l) Change in Law. Any elimination, diminution, modification or other change in the rights of the holders of the Series 2012 Bonds (including but not limited to the Bank Bondholder (as defined in the Reimbursement Agreement) in any collateral or other security related to the Series 2012 Bonds resulting from the repeal or amendment of any statute, regulation, ordinance or other law shall occur;

(m) Asset Ratio. The failure by the Issuer to maintain the Minimum Asset Ratio (as defined in the Reimbursement Agreement) pursuant to the terms of the Reimbursement Agreement;

(n) Material Adverse Change. A material adverse change in (i) the laws, rules, guidelines or regulations (or their interpretation or administration) applicable to the Issuer and the transactions contemplated by the Reimbursement Agreement or any of the Related Documents; (ii) the ability of the Issuer to consummate the transactions contemplated by the Reimbursement Agreement or any of the Related Documents to which the Issuer is or will be a party or is or will be bound, or (iii) the ability of the Issuer to perform any of its obligations under the Reimbursement Agreement or any of the Related Documents to which the Issuer is or will be a party or is or will be bound, shall, in the sole opinion of the Bank, have occurred;

(o) Servicer Insolvency Events. The occurrence of an Insolvency Event (as defined in the Reimbursement Agreement) with respect to any Servicer;

(p) Trust Estate. The Trust Estate shall not be held by, or otherwise not be subject to a first priority security interest in favor of, the Trustee solely for the benefit of the Bank and the holders of the Series 2012 Bonds;

(q) Bonds. Any bonds or other debt under the Indenture have been issued in violation of the Reimbursement Agreement;

(r) Lien of Trust Estate. The Issuer or any Person with authority to act on its behalf shall assert in writing that, or any of the Related Documents shall be amended to the effect that, or a final judgment or order which is non appealable or unstayed of any Governmental Authority having jurisdiction over the Issuer shall be entered finding that, the Issuer's obligations in respect of the principal of or interest accrued and to accrue on the Series 2012 Bonds shall for any reason not be secured by a valid and enforceable lien on, or not be payable from, any of the Trust Estate;

(s) Downgrade. At any time after an underlying rating has been assigned to the Bonds or any other Indenture Obligation (as defined in the Reimbursement Agreement), such underlying rating shall be withdrawn, suspended or lowered below "A+" (or its equivalent) by DBRS, "A+" (or its equivalent) by Fitch, "A+" (or its equivalent) by S&P;

(t) Bank Bonds. Any Senior Bonds (as defined in the Reimbursement Agreement) shall at any time be held as "bank bonds" under any Parity Facility;

(u) Remarketing. A failure by a Remarketing Agent to comply with the terms of the applicable Remarketing Agreement; and

(v) Usury. Any court or Governmental Authority of competent jurisdiction shall determine that any law, rule or regulation of the State prescribing a maximum rate or effective rate of interest shall apply to the Reimbursement Agreement or the Bank Bonds relating to interest rates or other compensation payable to the Bank.

#### **Reimbursement Agreement Remedies**

Following the occurrence of any of the above-described Events of Default, the Bank may exercise any one or more of the following rights and remedies in addition to any other remedies provided pursuant to the Reimbursement Agreement or provided by law. Reference is made to the Reimbursement Agreement for a complete listing of all consequences of Events of Default:

(a) If any Event of Default shall have occurred, then, and in any such event, (i) the Bank shall declare all outstanding Obligations (together with accrued interest thereon) to be, and all outstanding Obligations (together with accrued interest thereon) shall thereupon become, immediately due and payable, without presentment, demand, protest or other notice of any kind, (ii) the Bank may cure any default, event of default or event of non performance under the Reimbursement Agreement or any of the Related Documents (in which case the Issuer shall reimburse the Bank therefor as provided in the Reimbursement Agreement), (iii) the Bank may deliver to the Trustee written notice that an Event of Default has been declared under the Reimbursement Agreement and that the Letters of Credit will terminate ten (10) calendar days after receipt of such notice and directing the mandatory tender or acceleration of all of the Series 2012 Bonds, (iv) the Bank may proceed to protect its rights by suit in equity, action at law or other appropriate proceedings, for specific performance of any covenant or agreement of the Issuer contained in the Reimbursement Agreement, or (v) exercise of any right or remedy available to the Bank under any of the Related Documents or any other agreement or at law or in equity.

(b) In addition to the remedies set forth in paragraph (a) above, upon the failure of the Issuer to reimburse the Bank for any Interest Drawing (as defined in the applicable Letter of Credit), the Bank shall send to the Trustee, at or before the close of business on the tenth day after such Interest Drawing was honored by the Bank, written notice in the form provided for in the applicable Letter of Credit. For purposes of this paragraph (b), "close of business" shall have the meaning assigned to such term in the applicable Letter of Credit.

(c) Except with respect to paragraph (a)(iii) or (b) under this heading, the failure of the Bank to give notice of the exercise of any such right or remedy shall not affect the validity or enforceability thereof.

(d) The Issuer is required to pay to the Bank all expenses incurred or paid by the Bank, including reasonable attorneys' fees and court costs, in connection with any default by the Issuer under the Reimbursement Agreement or under the Fee Letter or in connection with the enforcement of any of the terms thereof or of any Related Document.

## **SECURITY AND SOURCE OF REPAYMENT**

### **Limited Obligations**

The Series 2012 Bonds are special limited, not general, obligations of the Issuer payable solely from amounts pledged to the payment thereof under the Indenture. The Series 2012 Bonds do not represent or constitute a debt or pledge of the faith and credit of the State, or grant to the Owner or Owners thereof any right to have the State levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. The Series 2012 Bonds are payable solely from the rentals, revenues, and other income, charges, and moneys as are pledged for their payment in accordance with the Indenture. The Series 2012 Bonds are not a general obligation of the Issuer. Neither the members of the Issuer nor any person executing the Series 2012 Bonds shall be liable personally on the Series 2012 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. The Issuer has no taxing power.

### **Statutory Provisions Authorizing the Issuer's Request for Legislative Appropriations**

In 2009 the State enacted the following statute, amended in 2011, specifically related to the financing of the Issuer's SELF Loans:

#### **136A.1787 SELF LOAN REVENUE BONDS ANNUAL CERTIFICATE OF NEED**

(a) In order to ensure the payment of the principal of and interest on bonds and notes of the office and the continued maintenance of the loan capital fund under section 136A.1785, the office shall annually determine and certify to the governor, on or before December 1, the amount, if any:

(1) needed to restore the loan capital fund to the minimum amount required by a resolution or indenture relating to any bonds or notes of the office, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding;

(2) determined by the office to be needed in the current or immediately following fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all outstanding bonds and notes; and

(3) needed to restore any debt service reserve fund securing any outstanding bonds or notes of the office to the amount required in a resolution or indenture relating to such outstanding bonds or notes.

(b) If the office determines the need under paragraph (a), clause (2) to be for the immediately following fiscal year, the governor shall include and submit the amounts certified by the office in accordance with this section to the legislature in the governor's budget for the immediately following fiscal year. If the office determines the need under paragraph (a), clause (1), (2), or (3), to be for the current fiscal year, the governor shall include and submit the amounts certified in a governor's supplemental budget if the regular budget for that year has previously been enacted.

The Issuer shall semiannually by May 15 and November 15 of each year, commencing November 15, 2012, cause the Trustee to value the Debt Service Reserve Fund. The Director of the Issuer shall annually, on or before December 1 of each year, commencing December 1, 2012, make and deliver to the Governor of the State, in accordance with Section 136A.1787 of the Act, a Certificate stating the sums, if any, required to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement as of such December 1. All State Debt Service Reserve Fund Payments received by the Issuer from the State shall be immediately transferred to the Trustee and upon receipt thereof by the Trustee, be deposited in the Debt Service Reserve Fund and applied in accordance with the Indenture.

The Issuer shall by November 15 of each year, commencing November 15, 2012, determine whether, taking into account all moneys (including Revenues to be received) available under the Indenture, there will be a shortfall in the amounts necessary to pay principal and interest due and payable on the Bonds during the current or immediately following Fiscal Year. The Director of the Issuer shall annually, on or before December 1 of each year, commencing December 1, 2012, make and deliver to the Governor of the State, in accordance with Section 136A.1787 of the Act, a Certificate stating the sums, if any, to be needed during the current or immediately following Fiscal Year, together with other funds pledged under the Indenture and estimated to be received during such years (and available for such payment in each such year), for the payment of principal and interest due and payable in each such year on the Bonds. All State Shortfall Payments received by the Issuer from the State shall be immediately transferred to the Trustee and, upon receipt thereof by the Trustee, be deposited in the Revenue Fund and applied in accordance with the terms of the Indenture.

Section 136A.1787 contains no provision establishing any right of Owners of the Bonds to require the Legislature to make the specified appropriations or limiting the ability of the State to amend or repeal Section 136A.1787 of the Act or, by other legislative, executive, or judicial action, to adversely affect the timely transfer of any such appropriations. All moneys paid to the Issuer pursuant to the provisions of Section 136A.1787 are subject to appropriation by the Legislature for such purpose. Section 136A.1787 does not constitute a legally enforceable obligation on the part of the State nor does it create a debt or liability of the State. In addition, even though an appropriation has been made to the Issuer, the Commissioner of Minnesota Management and Budget, with the approval of the Governor, and after consulting the legislative advisory commission, has the ability under State law to reduce any portion, or all, of such appropriation that has not been paid to the Issuer under circumstances where a State budget deficit is anticipated for the current biennium. See “BONDHOLDERS’ RISKS—Statutory Provisions Authorizing the Issuer’s Request for Legislative Appropriations” herein.

### **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 2012 Bonds when due and Program Expenses. 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 and acquired with proceeds of the Series 2012B Bonds, (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 (with the prior written consent of each Credit Provider) will be required to pay the Trustee Fee, Servicing Fees, Remarketing Agent Fees and Credit Enhancement Fees (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 (in the order listed) prior to the use of such amounts to pay principal of or interest on the Series 2012 Bonds. See “Pledged Funds—Revenue Fund” below. The Cash Flow Projections performed in connection with the issuance of the Series 2012 Bonds demonstrate that funds expected to be available under the Indenture should be sufficient to pay Program Expenses and the principal of and interest on the Series 2012 Bonds without the payment of Program Expenses by the Issuer from other sources.

### **Pledged Funds**

The Series 2012 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 2012 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 State Debt Service Reserve Fund Payments and State Shortfall Payments; (v) all rights of the Issuer in and to the Servicing Agreement as it relates to Student Loans; (vi) 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 (vii) 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 Issuer Order, any State Shortfall Payments and all Revenues, including earnings on amounts 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 refunds of Student Loans, 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 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. an amount, if any, then due and payable, sufficient to pay the Trustee Fee and Servicing Fees, together with any required late fees or interest thereon, to the extent such fees and expenses have not been paid from available funds of the Issuer not held under the Indenture;

With regard to the Class I Bonds (including the Series 2012 Bonds):

3. Remarketing Agent Fees and Credit Enhancement Fees relating to Class I Bonds to the extent such Remarketing Agent Fees and Credit Enhancement Fees have not been paid from available funds of the Issuer not held under the Indenture;
4. interest payable on the Series 2012 Bonds and any other Class I Bonds which accrued during the prior Monthly Period, together with any unreimbursed obligations relating to any drawing under the Facility to pay interest on any Class I Bonds (including the interest component of the Purchase Price) together with any required interest on such Facility;
5. principal payable on the Series 2012 Bonds and any other Class I Bonds, together with any unreimbursed obligations relating to any drawing under the Facility to pay principal on any Class I Bonds (including the principal component of the Purchase Price);
6. amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class I Bonds, together with any other amounts payable to the Provider pursuant to the related Bank Agreement (other than certain amounts set forth in the Indenture), in each case when due and payable in accordance with such Interest Rate Exchange Agreement or Bank Agreement, as the case may be;

Steps (3) through (6) above will be repeated for each Class of Bonds subordinate to the Class I Bonds in descending order of priority.

7. any amount necessary to maintain the Debt Service Reserve Fund at the Debt Service Reserve Requirement, to the extent the amounts necessary to meet the Debt Service Requirement have not been paid from available funds of the Issuer not held under the Indenture;
8. any other amounts due to Providers (other than any Contingent Amount or Contingent Default Amount) under the terms of the related Bank Agreement and any other amount due to the Trustee that is not paid in accordance with paragraph 2 above, to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

9. as required by any Bank Agreement, any Contingent Amount or Contingent Default Amount owed to a Provider to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

10. amounts to pay (i) 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, and (ii) any other Program Expenses not otherwise paid in accordance with the above priority to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

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 the Indenture; 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 2012 Bonds is an amount equal to one percent (1.0%) of the principal amount outstanding from time to time; provided, however, that the aggregate Debt Service Reserve Fund Requirement for all Series 2012 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 2012 Bond Debt Service Reserve Requirement will be equal to \$3,750,000.

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 (6) 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 (other than as a result of a State Debt Service Reserve Fund Payment), the Issuer may direct the Trustee to transfer the excess and all earnings thereon to the Revenue Fund. To the extent monies on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement as a result of a State Debt Service Reserve Fund Payment, the Issuer may direct the Trustee to transfer an amount equal to such excess (excluding any portion of the State Debt Service Reserve Fund Payment) to the Revenue Fund. The Debt Service Reserve Fund may also be used to pay final installments of principal of and interest on the Series 2012 Bonds. The Trustee shall value the Debt Service Reserve Fund as provided in the Indenture 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" and from State Debt Service Reserve Fund payments as described above in "Statutory Provisions Authorizing the Issuer's Request for Legislative Appropriations." If the Revenue Fund has insufficient funds to so replenish the Debt Service Reserve Fund, moneys available for that purpose in the Surplus Fund and Acquisition Fund may be used, in the order stated. See also Appendix B hereto, "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE."

The Issuer shall at all times maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement. If, as of December 1 in any year, the balance in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the Issuer shall file all notices, certificates and requests with the Governor of the State on such date as may be necessary or desirable to obtain a State Debt Service Reserve Fund Payment to restore the balance in the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

Acquisition Fund. On the Closing Date, after making the deposits described below to the related accounts of the Debt Service Reserve Fund and providing for the refunding of the Refunded Bonds, remaining net proceeds from the sale of the Series 2012B Bonds in the amount of \$78,800,000 will be deposited to the Series 2012B Account of the Acquisition Fund. Such moneys are expected to be used within 24 months 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 2012 Bonds or acquired from funds on deposit in the Acquisition Fund 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.

## PLAN OF FINANCING

### Refunded Bonds

A portion of the proceeds of the Series 2012 Bonds is expected to be used to refund \$275 million of bonds previously issued by the Issuer (collectively, the “Refunded Bonds”) under an Indenture of Trust dated as of November 1, 1999 (the “Prior Indenture”), as shown in the following table:

<u>Series</u>	<u>Amount</u>	<u>Maturity</u>
1999 Series A	\$42,200,000	November 1, 2034
2002 Series B	27,100,000	January 1, 2037
2003 Series A	24,600,000	May 1, 2038
2003 Series B	10,300,000	May 1, 2038
2004 Series B	46,800,000	May 1, 2039
2005 Series B	56,000,000	May 1, 2040
2006 Series	<u>68,000,000</u>	November 1, 2041
	<u>\$275,000,000</u>	

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## Sources and Uses of Funds

The following tables set forth the sources and uses of the proceeds of the Series 2012 Bonds, together with certain other available funds from the Prior Indenture:

### Sources of Funds

Principal Amount of Series 2012 Bonds .....	\$375,000,000
Student Loans transferred from Prior Indenture.....	338,790,000
Issuer Contribution.....	1,541,250
Cash transferred from Prior Indenture.....	<u>3,750,000</u>
Total.....	<u>\$719,081,250</u>

### Use of Funds

Payment of Refunded Bonds .....	\$275,000,000
Underwriter's Discount .....	1,541,250
Deposit of Student Loans to Student Loan Fund.....	338,790,000
Deposit to Series 2012B Account of Acquisition Fund.....	100,000,000
Deposit to Debt Service Reserve Fund.....	<u>3,750,000</u>
Total.....	<u>\$719,081,250</u>

Costs of issuance, including the fees and certain expenses of the Bank, the Financial Advisor, the Trustee, the Rating Agencies, Bond Counsel, Underwriter's 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 2012 Bonds and the refunding of the Refunded Bonds, the Issuer anticipates using approximately \$100 million for the financing or refinancing of additional Student Loans. After giving effect to such financing and refinancing of Student Loans from the Acquisition 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 116% of the aggregate principal amount of the outstanding Series 2012 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 2012 Bonds should occur.

The Issuer's Loan Capital Fund is an Enterprise Fund used by the Issuer to finance its programs and is not pledged under the Indenture as security for the Series 2012 Bonds. Nevertheless, the Loan Capital Fund is expected to be used to pay certain expenses, including costs of issuance of the Series 2012 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 financial grant and aid 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 program ("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 65 people, of which 15 full-time equivalent employees are assigned to the administration of the SELF Program. The remaining employees are involved with the Issuer's administration of other financial aid programs, as well as research and facilitation of federal 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 the first phase of its loan program known as SELF I. Approximately \$52.3 million of loans were originated under SELF I, of which none are outstanding.

In September 1988, MHECB ceased originating SELF I Loans and new loans were made under the second phase of its loan program known as SELF II. Approximately \$654 million of loans have been originated under SELF II. No new loans are being originated under SELF II. Approximately \$18.4 million of such loans were outstanding as of June 30, 2012.

In May 2002, MHESO established the third phase of its loan program known as SELF III. Approximately \$490 million of loans have been originated under SELF III. No new loans are being originated under SELF III. Approximately \$152.2 million of such loans were outstanding as of June 30, 2012.

In July 2006, the Issuer established the fourth phase of its loan program known as SELF IV. Approximately \$575 million of loans have been originated under SELF IV. Approximately \$434.1 million of such loans were outstanding as of June 30, 2012.

In October 2010, the Issuer established the fifth phase of its loan program known as SELF V. Approximately \$108 million of loans have been originated under SELF V. Approximately \$102.6 million of such loans were outstanding as of June 30, 2012.

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

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

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 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.

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.

Robert C. Helgeson, Audit Manager. Mr. Helgeson is responsible for directing the audits of postsecondary educational institutions participating in the Issuer's financial aid programs, conducting annual and monthly reviews of the servicing of the Issuer's SELF Loans and providing guidance in the operation and administrative responsibilities of the SELF program. Mr. Helgeson's previous experience of 25 years in higher education finance at postsecondary institutions includes 15 years in accounting/business office functions and 10 years as a director of financial aid.

Mr. Helgeson holds a Bachelor's of Arts Degree in Accounting from Gustavus Adolphus College.

## **Financial Information**

Prior Financing Activities. MHECB, MHESO and the Issuer have issued \$1.6 billion in aggregate principal amount of revenue bonds under its various loan programs since 1973, almost half relating to the previous lending activities under the federal guaranteed student loan program (the "GSL Program"). MHECB discontinued originating loans under the GSL Program in 1988, and as of June 30, 2012, there were no outstanding GSL Program loans in its Loan Capital Fund.

Approximately \$967 million of the revenue bonds previously issued by MHECB, MHESO, and the Issuer are related to the supplemental student loan programs. Of this amount, 14 series of bonds aggregating \$546 million

in principal amount remained outstanding as of June 30, 2012. These bonds were issued under indentures other than the Indenture pursuant to which the Series 2012 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 2011-2012 operating budget, exclusive of its supplemental student loan programs, is \$197,569,722, of which it is anticipated \$4,851,722 will come from federal appropriations, \$192,123,000 from State appropriations, and \$595,000 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, which is maintained as an Enterprise Fund of the Issuer, is a funding source for the Issuer's student loan activities, both present and future. Certain summary financial information for the Loan Capital Fund for the past three years is presented in the table below. The Issuer anticipates using money in the Loan Capital Fund to pay certain Program Expenses and costs of issuance, and, under certain circumstances, money and loans in the Loan Capital Fund that qualify as Student Loans pursuant to the terms of the Indenture to replace or repurchase Defaulted Student Loans. The Loan Capital Fund is not pledged to pay the Series 2012 Bonds.

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

	Fiscal Year Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total assets	\$1,024,523,751	\$972,404,608	\$990,546,780
Total cash and investments	298,829,297	231,476,944	267,530,080
Total loans outstanding	728,301,040	744,386,556	722,871,187
Allowance for loan losses	10,211,172	10,476,316	8,676,026
Total revenues	31,435,520	35,357,613	41,956,120
Total expenses	17,085,408	17,471,123	22,909,687
Excess of revenues over expenses	14,350,112	17,886,490	19,046,433
Restricted net assets (trust specific)	178,607,336	149,704,161	91,995,046
Restricted net assets (not trust specific)	213,552,987	228,106,050	267,928,675

For more detailed information concerning the Loan Capital Fund, 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 1983 to establish and supervise loan programs other than the GSL Program. MHECB began originating supplemental loans in June of 1985 under the first phase of its Student Educational Loan Fund Program ("SELF I") and completed originations under SELF I in September of 1988. At that time MHECB began originating loans under the second phase of its Student Educational Loan Fund Program ("SELF II"). In May 2002, MHESO established the third phase of its SELF Program ("SELF III") and in July 2006 the Issuer established its fourth phase of the SELF Program ("SELF IV"). SELF I through SELF IV Loans are all variable rate loans. The Issuer began offering fixed rate and variable rate loans under the fifth phase of its SELF Program ("SELF V") in October 2010. Currently, all Student Loans originated by the Issuer are made pursuant to the SELF V. See "MINNESOTA OFFICE OF HIGHER EDUCATION—History" herein.

Together, MHECB, MHESO, and the Issuer have originated approximately \$1.8 billion of loans under the SELF Program through June 30, 2012. 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>SELF V</u>	<u>Total</u>
<u>As of June 30,</u>						
2012 <sup>(1)</sup>	\$0	\$18,366	\$152,156	\$434,126	\$102,610	\$707,258
2011	0	34,138	195,824	475,124	21,568	726,654
2010	0	56,037	240,259	446,156	—	742,452
2009	0	83,012	283,864	353,916	—	720,792
2008	0	114,250	328,320	248,630	—	691,200
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

(1) Unaudited.

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 2012 Bonds).

### **Program Terms and Conditions**

The Issuer has promulgated rules and regulations for the administration of the SELF Program, including provisions specifying Eligible Institutions (as defined below), 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 Rules.

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 2012 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 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 for SELF V Loans are as follows:

- \$10,000 per year for students enrolled in bachelor's degree programs, post-baccalaureate, or graduate programs; subject to a cumulative maximum of \$50,000 for undergraduate and \$70,000 for undergraduate and graduate; and
- \$7,500 per year for students enrolled in all other programs; subject to a maximum of \$37,500.

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 June 30, 2012 was 2.00%. 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, SELF IV and variable rate SELF V 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 3.0% effective July 1, 2012). The interest rate applicable for the quarter ending June 30, 2012 was 4.00%. The interest rate on SELF III, SELF IV and SELF V variable rate 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; and/or (b) a reduced interest rate of 3.00% for borrowers who are called to active military service. For SELF IV Loans and SELF V Loans only, the Issuer may 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 applicable Credit Provider. Currently, the Issuer does not offer these or any other Borrower Benefits.

Forbearance for Disabled. The Issuer is required to offer forbearance for those borrowers who suffer total disablement for a temporary period of at least four months, but no longer than three years.

Loan Disbursement. SELF Loans are disbursed in accordance with applicable periods of enrollment. For example, an applicant eligible to receive a \$10,000 SELF Loan and attending a two semester school would receive a check for \$5,000 at the beginning of each semester. Likewise, a student attending school on a quarterly schedule would receive \$3,333 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 Eligible 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, SELF III, SELF IV and SELF V Loans, quarterly interest payments begin within three 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 the following repayment terms. 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 balances of all of a borrower's SELF Loans are 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 are \$18,750 or greater, the SELF IV Loans must be paid off within 15 years from graduation/termination. For SELF V Loans, the loans are required to enter repayment no later than nine years after the first disbursement on the loan. If the balances of all of a borrower's SELF Loans are less than \$20,000, the SELF V Loans must be paid off within ten years from graduation/termination. If the balances of all SELF Loans are at least \$20,000 and less than \$40,000, the SELF V Loans must be paid off within 15 years

from graduation/termination. If the balances of all SELF Loans are \$40,000 or more, the SELF V Loans must be paid off within 20 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 cosigner 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 cosigner. 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 in the Act, generally, as a postsecondary institution which: (a) is located in the State and: (1) is operated by the State or the Board of Regents of the University of Minnesota, or (2) is operated privately and, as determined by the Issuer, meets the following requirements: (A) maintains academic standards substantially equivalent to those of comparable institutions operated in the State; (B) is licensed or registered as a postsecondary institution by the Issuer; and (C) on or before July 1, 2010 participates in the federal Pell Grant program under Title IV of the Higher Education Act of 1965, Public Law 89-329, as amended or, if the institution was participating in State student aid programs as of June 30, 2010 and did not participate in the federal Pell Grant program as of June 30, 2010, requires every student who enrolls to sign a disclosure form, provided by the Issuer, stating that the institution is not participating in the federal Pell Grant program or (b) is operated publicly or privately in another state, which 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. An institution that offers only graduate-level degrees or graduate-level nondegree programs, or that offers only degrees or programs that do not meet the required minimum program length to participate in the federal Pell Grant program, is an Eligible Institution if the institution is licensed or registered as a postsecondary institution by the Issuer.

Eligible Institutions are required to have their chief executive officer sign a SELF Participation Agreement with the Issuer agreeing to perform certain administrative procedures.

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. As provided in the Act, a borrower 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;
- not currently be in default under any State, federal or other private student loan program;
- not be delinquent in the payment of principal of or interest on any SELF Loan; have agreed to the release of information to a consumer credit reporting agency; and have a creditworthy cosigner, as defined below; and
- be physically attending classes in Minnesota if borrower is a non-resident.

Information Available Through a National Credit Bureau. The Issuer underwrites each loan and assesses the creditworthiness of the cosigner. The cosigner 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 cosigners by checking information available through one of several national credit bureaus.

In order to be considered creditworthy, prospective cosigners 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 cosigner 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, SELF IV and SELF V Loans, loan loss and recovery experience, shown on an annual basis for the fiscal years ended June 30, 2006 through 2012 as available, and borrower delinquencies, shown on a monthly basis for the months ended January 31, 2012 through June 30, 2012 as available. There can be no assurance, however, that the loss and recovery experience or borrower delinquencies for the SELF II, SELF III, SELF IV and SELF V Loans included in the Trust Estate will be similar to the historical experience set forth on the following pages.

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SELF II  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended <u>June 30, 2012</u>	12 Months Ended <u>June 30, 2011</u>	12 Months Ended <u>June 30, 2010</u>	12 Months Ended <u>June 30, 2009</u>	12 Months Ended <u>June 30, 2008</u>	12 Months Ended <u>June 30, 2007</u>	12 Months Ended <u>June 30, 2006</u>
Average Receivables Outstanding *	\$24,436,699	\$43,789,340	\$68,082,735	\$97,109,825	\$130,939,869	\$170,508,054	\$215,275,587
Gross Losses	698,086	387,511	722,293	1,016,935	1,727,386	2,384,686	3,040,232
Recoveries	<u>1,591,777</u>	<u>1,425,955</u>	<u>1,883,958</u>	<u>2,282,271</u>	<u>2,884,995</u>	<u>3,485,942</u>	<u>3,567,672</u>
Net Losses (Recoveries)	(\$893,691)**	(\$1,038,444)**	(\$1,161,665)**	(\$1,265,336)**	(\$1,157,619)**	(\$1,101,256)**	(\$527,440)**
Net Losses (Recoveries) as Percentage of Average Receivables Outstanding	(3.66%)	(2.37%)	(1.71%)	(1.30%)	(0.88%)	(0.65%)	(0.25%)

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

\*\* Recoveries were greater than gross losses for the year.

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

	June 30, 2012		May 31, 2012		April 30, 2012		March 31, 2012		February 29, 2012		January 31, 2012	
<u>Days Delinquent</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
15-44	\$841	4.6%	\$830	4.3%	\$769	3.8%	\$926	4.3%	\$1,048	4.6%	\$1,161	4.8%
45-59	36	0.2	42	0.2	70	0.3	41	0.2	60	0.3	56	0.2
60-89	131	0.7	162	0.8	182	0.8	212	1.0	175	0.8	201	0.8
90-119	53	0.3	55	0.3	67	0.3	54	0.2	78	0.3	83	0.3
120 and over	<u>56</u>	<u>0.3</u>	<u>70</u>	<u>0.4</u>	<u>42</u>	<u>0.2</u>	<u>64</u>	<u>0.3</u>	<u>75</u>	<u>0.3</u>	<u>87</u>	<u>0.4</u>
Total	<u>\$1,117</u>	<u>6.1%</u>	<u>\$1,159</u>	<u>6.0%</u>	<u>\$1,130</u>	<u>5.4%</u>	<u>\$1,297</u>	<u>6.0%</u>	<u>\$1,436</u>	<u>6.3%</u>	<u>\$1,588</u>	<u>6.5%</u>

SELF III  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended <u>June 30, 2012</u>	12 Months Ended <u>June 30, 2011</u>	12 Months Ended <u>June 30, 2010</u>	12 Months Ended <u>June 30, 2009</u>	12 Months Ended <u>June 30, 2008</u>	12 Months Ended <u>June 30, 2007</u>	12 Months Ended <u>June 30, 2006</u>
Average Receivables Outstanding *	\$170,340,613	\$216,290,208	\$260,124,722	\$304,191,329	\$350,101,688	\$393,632,848	\$382,753,780
Gross Losses	4,057,997	2,169,993	3,032,773	4,495,300	6,030,502	5,269,206	4,055,277
Recoveries	<u>3,212,643</u>	<u>3,050,115</u>	<u>3,446,822</u>	<u>3,486,533</u>	<u>3,157,602</u>	<u>2,248,147</u>	<u>1,058,177</u>
Net Losses (Recoveries)	\$845,354	(\$880,122)**	(\$414,049)**	\$1,008,767	\$2,872,900	\$3,021,059	\$2,997,100
Net Losses (Recoveries) as Percentage of Average Receivables Outstanding	0.50%	(0.41%)	(0.16%)	0.33%	0.82%	0.77%	0.78%

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

\*\* Recoveries were greater than gross losses for the year.

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

	June 30, 2012		May 31, 2012		April 30, 2012		March 31, 2012		February 29, 2012		January 31, 2012	
<u>Days Delinquent</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
15-44	\$5,874	3.9%	\$5,932	3.8%	\$5,584	3.5%	\$6,492	4.0%	\$7,113	4.3%	\$6,934	4.0%
45-59	154	0.1	131	0.1	130	0.1	137	0.1	157	0.1	280	0.2
60-89	1,381	0.9	1,155	0.7	1,344	0.8	1,338	0.8	1,294	0.8	1,568	0.9
90-119	501	0.3	585	0.4	485	0.3	436	0.3	527	0.3	626	0.4
120 and over	<u>529</u>	<u>0.3</u>	<u>425</u>	<u>0.3</u>	<u>368</u>	<u>0.2</u>	<u>372</u>	<u>0.2</u>	<u>636</u>	<u>0.4</u>	<u>813</u>	<u>0.5</u>
Total	<u>\$8,439</u>	<u>5.5%</u>	<u>\$8,228</u>	<u>5.3%</u>	<u>\$7,911</u>	<u>4.9%</u>	<u>\$8,775</u>	<u>5.4%</u>	<u>\$9,727</u>	<u>5.9%</u>	<u>\$10,221</u>	<u>6.0%</u>

SELF IV  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended <u>June 30, 2012</u>	12 Months Ended <u>June 30, 2011</u>	12 Months Ended <u>June 30, 2010</u>	12 Months Ended <u>June 30, 2009</u>	12 Months Ended <u>June 30, 2008</u>
Average Receivables Outstanding *	\$452,112,104	\$472,050,117	\$415,166,048	\$316,932,946	\$202,831,219
Gross Losses	8,489,291	5,374,421	4,785,917	2,891,361	1,226,217
Recoveries	<u>2,981,072</u>	<u>1,694,685</u>	<u>1,125,707</u>	<u>485,688</u>	<u>87,691</u>
Net Losses *	\$5,508,219	\$3,679,736	\$3,660,210	\$2,045,673	\$1,138,526
Net Losses as Percentage of Average Receivables Outstanding	1.22%	0.78%	0.88%	0.76%	0.56%

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

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

	<u>June 30, 2012</u>		<u>May 31, 2012</u>		<u>April 30, 2012</u>		<u>March 31, 2012</u>		<u>February 29, 2012</u>		<u>January 31, 2012</u>	
<u>Days Delinquent</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
15-44	\$22,323	5.1%	\$21,217	4.8%	\$17,711	4.0%	\$24,096	5.4%	\$28,011	6.3%	\$18,454	4.1%
45-59	3,369	0.8	2,681	0.6	2,600	0.6	3,735	0.8	2,677	0.6	3,374	0.7
60-89	3,812	0.9	3,276	0.7	4,367	1.0	3,190	0.7	2,887	0.6	4,447	1.0
90-119	1,683	0.4	2,111	0.5	1,424	0.3	1,105	0.3	1,972	0.4	1,727	0.4
120 and over	<u>1,648</u>	<u>0.4</u>	<u>1,147</u>	<u>0.3</u>	<u>1,212</u>	<u>0.3</u>	<u>1,471</u>	<u>0.3</u>	<u>1,561</u>	<u>0.4</u>	<u>1,856</u>	<u>0.4</u>
Total	<u>\$32,835</u>	<u>7.6%</u>	<u>\$30,432</u>	<u>6.9%</u>	<u>\$27,314</u>	<u>6.2%</u>	<u>\$33,597</u>	<u>7.5%</u>	<u>\$37,108</u>	<u>8.3%</u>	<u>\$29,858</u>	<u>6.6%</u>

SELF V  
UNAUDITED

Loss Experience for the Student Loan Portfolio

	12 Months Ended <u>June 30, 2012</u>
Average Receivables Outstanding*	\$77,880,045
Gross Losses **	239,947
Recoveries	<u>11,276</u>
Net Losses	\$228,671
Net Losses as Percentage of Average Receivables Outstanding	0.3%

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

Delinquencies for the Student Loan Portfolio  
(Dollars in Thousands)

<u>Days Delinquent</u>	<u>June 30, 2012</u>		<u>May 31, 2012</u>		<u>April 30, 2012</u>		<u>March 31, 2012</u>		<u>February 29, 2012</u>		<u>January 31, 2012</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
15-44	\$5,875	5.6%	\$5,817	5.8%	\$3,605	3.6%	\$7,042	7.1%	\$8,076	8.4%	\$3,284	3.5%
45-59	1,058	1.0	578	0.6	694	0.7	1,041	1.0	588	0.6	530	0.6
60-89	744	0.8	715	0.7	929	0.9	450	0.5	332	0.3	486	0.5
90-119	325	0.3	420	0.4	233	0.2	187	0.2	200	0.2	143	0.2
120 and over	<u>156</u>	<u>0.2</u>	<u>150</u>	<u>0.1</u>	<u>95</u>	<u>0.1</u>	<u>78</u>	<u>0.1</u>	<u>60</u>	<u>0.1</u>	<u>62</u>	<u>0.1</u>
Total	<u>\$8,158</u>	<u>7.9%</u>	<u>\$7,680</u>	<u>7.6%</u>	<u>\$5,556</u>	<u>5.5%</u>	<u>\$8,798</u>	<u>8.9%</u>	<u>\$9,256</u>	<u>9.6%</u>	<u>\$4,505</u>	<u>4.9%</u>

## LOAN SERVICING AND COLLECTIONS

The Issuer has contracted with Firstmark Services LLC (“Firstmark”), a subsidiary of Nelnet, Inc. (“Nelnet”) that specializes in servicing alternative loans, to service SELF Loans. The expiration date of the agreement with Firstmark (the “Servicing Agreement”) is April 30, 2013, subject to automatic annual renewals for one-year periods through April 30, 2018, unless 180 calendar days’ notice of termination is given by either party to the other. The Issuer has the right, under the Indenture, to appoint a different or successor servicer of the Student Loans, subject to satisfaction of the requirement of a Credit Confirmation from the applicable Credit Provider.

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 is a Nebraska corporation that began its education loan servicing operations in 1978, and provides education loan servicing, time-sharing, administration and other services to lenders, secondary market purchasers, The Department of Education, and guaranty agencies, throughout the United States. Nelnet offers student loan servicing to lending institutions and secondary markets. Nelnet has offices located across the country, with primary servicing operations in Aurora, Colorado and Lincoln, Nebraska, and, as of August 2012, employed a total of 2,392 employees. As of August 2012 Nelnet serviced or provided servicing for approximately \$81.75 billion in student loans. For more information on Nelnet and its services, visit [www.nelnet.com](http://www.nelnet.com).

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 Lincoln, Nebraska, Firstmark is a wholly-owned subsidiary of Nelnet, Inc. and as of August 2012, had approximately 40 employees. As of August 2012, Firstmark services more than \$1.75 billion in alternative student loan volume.

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

A payment notice is sent 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 cosigner; telephone call to borrower
45 Days Late	Telephone call to borrower and cosigner
60 Days Late	Letter to both borrower and cosigner
75 Days Late	Telephone call to borrower and cosigner
90 Days Late	Notice of demand for payment to borrower and cosigner; telephone call to borrower and cosigner
105 Days Late	Demand letters sent to both borrower and cosigner (printed on Issuer letterhead)
110 Days Late	Telephone call to borrower and cosigner
120 Days Late	Servicer returns loan to the Issuer for claim on borrower and cosigner

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>†</sup>
- Take legal action against the borrower for repayment
- Take legal action against the cosigner for repayment
- Report the borrower's defaulted loan to the credit bureau
- Report the cosigner's default to the credit bureau
- Turn the account over to a collection agency

## TAX MATTERS

Federal Tax Considerations. *The Series 2012A Bonds.* The interest payable on the Series 2012A Bonds is includable in gross income for federal income tax purposes and in taxable net income of individuals, trusts and estates for State income tax purposes. No opinion has been obtained or is given regarding the federal, state or local tax consequences of the purchase, ownership, retirement or disposition of the Series 2012A Bonds. Prospective holders of the Series 2012A Bonds should consult with their own tax advisers concerning such tax issues. Interest payments and proceeds of the sale, exchange, redemption or retirement of any Series 2012A Bonds are expected to be reported to the Internal Revenue Service to the extent required by law. A backup withholding tax may apply to payments to holders of the Series 2012A Bonds under circumstances described in section 3406 of the Code, including failure of a holder of Series 2012A Bonds to provide certain information, including without limitation such holder's tax identification number. Payments to holders of Series 2012A Bonds who are not U.S. residents or who are foreign entities might also be subject to tax withholding in certain circumstances.

*The Series 2012B Bonds.* As of the date of issuance, in the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, interest on the Series 2012B Bonds is, under existing law, (a) not includable in gross income of the recipient for federal income tax purposes or in the taxable net income of individuals, trusts, and estates for State income tax purposes; (b) includable for purposes of computing the State franchise tax imposed on corporations and financial institutions and measured by income; and (c) an item of tax preference which is included in "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to all taxpayers under the Internal Revenue Code of 1986, as amended (the "Code") and the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, the exemption from gross income under the Code may become inapplicable with respect to the Series 2012B Bonds, as of either the date of issuance of the Series 2012B Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (1) the proceeds of the Series 2012B 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 2012B 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 2012B Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series

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<sup>†</sup> Under this law, the borrower's and/or the cosigner's state income tax refunds, 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.

2012B Bonds. No opinion is expressed regarding other federal tax consequences arising with respect to the Series 2012B Bonds. The Series 2012B Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Code. See “APPENDIX D” for the full text of a form of the opinion proposed to be rendered by Bond Counsel.

The Code further provides that interest on the Series 2012B 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.

Purchasers of Series 2012 Bonds 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.

Minnesota Tax Considerations. 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” violates 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 2012 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 tax exempt 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 2012B Bonds to become taxable by Minnesota and the market value of the Series 2012B Bonds to decline.

General. Bond counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2012 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012B Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2012 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2012 Bonds will not have an adverse effect on the tax status of interest or other income on the Series 2012B Bonds or the market value of the Series 2012 Bonds. Such adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction of the benefit) of the exclusion of interest on the Series 2012B Bonds from gross income for federal or State income tax purposes.

## **UNDERWRITING**

The Underwriter of the Series 2012 Bonds is RBC Capital Markets, LLC. The Underwriter will purchase the Series 2012 Bonds at an aggregate purchase price equal to \$373,458,750 (consisting of the principal amount of the Series 2012 Bonds of \$375,000,000, less an Underwriter's discount of \$1,541,250). . The Issuer has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Federal securities laws.

The Underwriter owns a substantial portion of the Refunded Bonds which will be retired as a result of the issuance of the Series 2012 Bonds. As such, the Underwriter has a material financial interest in the sale of the Series 2012 Bonds separate from its interest as Underwriter. The Underwriter did not advise the Issuer with respect to the refunding of the Refunded Bonds.

## **FINANCIAL ADVISOR**

Springsted Incorporated (the "Financial Advisor"), St. Paul, Minnesota, has been retained by the Issuer to serve as financial advisor with respect to the Series 2012 Bonds. The Financial Advisor has assisted the Issuer in matters relating to the planning, structuring, and issuance of the Series 2012 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 2012 Bonds.

## **RELATIONSHIP OF PARTIES**

The Bank, which is providing the Letters of Credit in support of the Series 2012 Bonds, is also the parent company of RBC Capital Markets, LLC, the Underwriter and the Remarketing Agent for the Series 2012 Bonds.

## **LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or contesting the validity of the Series 2012 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 2012 Bonds or the existence or powers of the Issuer.

## **RATINGS**

The Series 2012 Bonds are expected to be given the long-term ratings of "AA-" by Standard & Poor's ("S&P"), "AA" by Fitch Ratings ("Fitch"), and "AA" by Dominion Bond Rating Service ("DBRS"), and the short-term ratings of "A-1+" by S&P, "F1+" by Fitch, and "R-1 (high)" by DBRS, with the understanding that the Bank will deliver the Letters of Credit securing payment of the principal of and interest on, and the purchase price upon tender of, the Series 2012 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 2012 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 Preliminary 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 and/or in electronic format to comply with SEC Rule 15c2-12(b)(4) and the rules of the Municipal Securities Rulemaking Board (the “MSRB”).

### **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 2012 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 the Owners of the Bonds as provided in the Disclosure Agreement.

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 the MSRB’s Electronic Municipal Market Access System (“EMMA”) information pursuant to the Disclosure Agreement, including annual financial information and notice of Reportable Events as described in the Disclosure Agreement.

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 2012 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.

The Issuer failed to file its annual financial reports for fiscal years 2009 and 2010 on a timely basis; however, these reports have since been filed and the Issuer has otherwise been in compliance with all continuing disclosure undertakings during the past five years.

### **ERISA Considerations**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary and prohibited transaction restrictions on the activities of 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”), on Individual Retirement Accounts (“IRAs”) described in Section 408(b) of the Code and on certain other plans described in Section 4975(e)(1) 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. While assets of such plans may be invested in the Series 2012 Bonds without regard to the ERISA and Code considerations described below, they may nevertheless be subject to the provisions of applicable federal, state local or foreign law that are substantially similar to these ERISA and Code provisions. Accordingly, fiduciaries of such plans should consult with their counsel in considering

whether to purchase such Bonds. For example, any governmental or non-electing church plan which is exempt from taxation under Section 401(a) and 501(a) of the Code is subject to the prohibited transaction rules set forth in Section 503 of the Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification (unless, under the circumstances, such diversification is clearly not prudent) 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. The definitions of "Party in Interest" and "Disqualified Person" are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) a fiduciary with respect to a plan; (2) a person providing services to a plan; and (3) an employer or employee organization any of whose employees or members are covered by the plan. 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 2012 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 (29 C.F.R. 2510.3-101, as modified by section 3(42) of ERISA) (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 is not authority directly on point, the Issuer believes that, at the date of this Official Statement, the Series 2012 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. However, without regard to whether the Series 2012 Bonds are treated as an equity interest for such purposes, the acquisition or holding of Series 2012 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.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person, and the acquisition of any of the Series 2012 Bonds by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain "status-based" exemptions from the prohibited transaction rules could be applicable if the plan fiduciary making the decision to acquire a Series 2012 Bond is a bank, insurance company or registered investment adviser and certain conditions are met. Included among these exemptions are: Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by certain "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." Typically, IRAs are not represented by banks, insurance companies or registered investment advisors so that, practically speaking, these status-based exemptions may be unavailable. Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (which may be applicable to IRAs) provides for an exemption for transactions involving "adequate consideration" with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate's) status as a service provider to the Benefit Plan involved and none of which is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Series 2012 Bonds, or that, if available, the exemption would cover all possible prohibited transactions.

Any ERISA Plan fiduciary considering whether to purchase Series 2012 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 and the applicability of any similar state or federal law.

It is the responsibility of each purchaser (and each subsequent transferee) of the Series 2012 Bonds to ensure that its purchase, holding and transfer of such Bonds is not a prohibited transaction.

### **Legal Opinions**

The Series 2012 Bonds will be approved as to legality and certain other matters by Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, 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/ Larry Pogemiller  
Director

**APPENDIX A**

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

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# **MINNESOTA OFFICE OF HIGHER EDUCATION**

(A Component Unit of the State of Minnesota)

Saint Paul, Minnesota

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

Year Ended June 30, 2011

# MINNESOTA OFFICE OF HIGHER EDUCATION

## TABLE OF CONTENTS June 30, 2011

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Independent Auditors' Report	i
Management's Discussion and Analysis	ii – xi
Basic Financial Statements	
Government-Wide Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary (Enterprise) Fund – Loan Capital Fund	7
Statement of Cash Flows – Proprietary (Enterprise) Fund – Loan Capital Fund	8
Index to Notes to the Financial Statements	9
Notes to Financial Statements	10 – 30
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	31
Notes to Required Supplementary Information	32
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	34

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## 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, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2011, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Minnesota Office of Higher Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

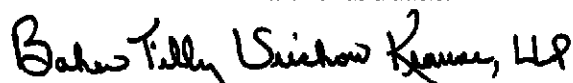
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

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, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnesota Office of Higher Education's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Minneapolis, Minnesota  
September 29, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### UNAUDITED

Our discussion and analysis of the financial performance of Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2011.

#### Introduction

*Minnesota Statutes, 136A; Minnesota Rules 4800-4880*

THE MINNESOTA OFFICE OF HIGHER EDUCATION works to:

- Help students achieve 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 employs 65 FTE of which 25 are state funded.

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 Postsecondary Child Care Grant Program, State Work Study Program, and the Public Safety Officers' Survivors Benefit 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 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.

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 postsecondary institutions meet state standards in order to operate legally in Minnesota.

## **Financial Highlights**

- The Agency's net assets increased \$14.6 million or 3.8% from fiscal year 2010 to 2011, mainly as a result of student loan financing activities.
- The Agency received \$152 million for fiscal year 2011 state appropriations in addition to the \$8.4 million carry forward from the previous fiscal year. An additional \$35 million was initially appropriated for fiscal year 2011 but the funds were needed in fiscal year 2010 to fund state grants. Remaining unexpended funds will be returned to the state's General Fund. The Agency received \$224 million for fiscal year 2010 appropriations (\$35 million was initially appropriated to fiscal year 2011) in addition to a \$0.2 million carry forward from the previous year.
- The Loan Capital Fund issued 16,323 and 22,681 new loans in fiscal years 2011 and 2010, respectively, with the average student loan amount of \$5,219 and \$5,217, respectively.
- Loan Receivables in the Loan Capital Fund shrunk by \$16.0 million or 2.2% during fiscal year 2011 and grew by \$21.6 million or 3.0% during fiscal year 2010.
- 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, 2011 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- The Agency issued \$53.4 million in fixed rate revenue bonds during fiscal year 2011. Over the course of the fiscal year \$18.1 million of Auction Rate Securities bonds were repurchased from investors and subsequently cancelled.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Agency's basic financial statements consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. The report also contains other supplementary information.

## **Government-Wide Financial Statements**

The two government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances in a manner similar to private-sector business entities. The *Statement of Net Assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *Statement of Activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused compensated absences). The government-wide financial statements can be found on pages 1 and 2 of this report.

In the Statements of Net Assets 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, 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.

## **Fund Financial Statements**

The fund financial statements begin on page 3 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. The Agency's two kinds of funds — governmental and proprietary — use different accounting approaches.

- ***Governmental Funds*** — Governmental funds are used for primarily the same functions reported as governmental activities. The governmental fund financial statements are used to analyze resources available in the near-term to manage the Agency's near-term financial obligations. These funds are reported using the modified accrual basis of accounting. Governmental fund information assists the reader in determining whether there are enough financial resources to finance the Agency's programs in the near-term. The differences are illustrated between governmental activities and governmental funds in a statement following each governmental fund financial statement.
- ***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 government-wide financial statements. 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.

## **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional detail that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 10 of this report.

## **Required Supplemental Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the Agency's budget and actual results of its major governmental fund. This information can be found beginning on page 31 of this report.

## **Additional Supplemental Information**

Following the required supplemental information are combining statements for the non-major governmental funds.

## **The Agency as a Whole**

The Agency's combined net assets increased by \$14.6 million or 3.8%. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Agency's governmental and business-type activities.

**Table 1**  
**Net Assets**

	<b>2011</b>			<b>2010</b>		
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>
<b>Assets</b>						
Current and other assets	\$ 5,213,662	\$ 1,024,517,852	\$ 1,029,731,514	\$ 12,441,552	\$ 968,730,784	\$ 981,172,336
Capital assets—net	8,848	5,899	14,747	13,224	8,816	22,040
Deferred charges	-	-	-	-	3,665,008	3,665,008
<b>Total assets</b>	<u>5,222,510</u>	<u>1,024,523,751</u>	<u>1,029,746,261</u>	<u>12,454,776</u>	<u>972,404,608</u>	<u>984,859,384</u>
<b>Liabilities</b>						
Current liabilities	4,207,536	912,549	5,120,085	11,679,811	1,007,753	12,687,564
Non-current liabilities	417,752	631,450,879	631,868,631	427,637	593,586,644	594,014,281
<b>Total liabilities</b>	<u>4,625,288</u>	<u>632,363,428</u>	<u>636,988,716</u>	<u>12,107,448</u>	<u>594,594,397</u>	<u>606,701,845</u>
<b>Net assets</b>						
Invested in capital assets	8,848	5,899	14,747	13,224	8,816	22,040
Restricted for future federal program expenditures	-	-	-	4,907	-	4,907
Restricted for grants and licensing	325,720	-	325,720	163,566	-	163,566
Restricted for debt service	-	392,154,424	392,154,424	-	377,801,395	377,801,395
Unrestricted	262,654	-	262,654	165,631	-	165,631
<b>Total net assets</b>	<u>\$ 597,222</u>	<u>\$ 392,160,323</u>	<u>\$ 392,757,545</u>	<u>\$ 347,328</u>	<u>\$ 377,810,211</u>	<u>\$ 378,157,539</u>

Net assets of the Agency's governmental activities increased by \$249,894 during the current fiscal year. 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 assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — increased from \$165,631 at June 30, 2010 to \$262,654 at the end of this year.

Net loans receivable have decreased by approximately \$16.0 million, or 2.2%, to \$718 million. This decrease is largely due to changes in federal legislation regarding preferred lender requirements for nonfederal student loans.

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, 2011, the Agency has accrued \$4,404,649 in excess revenue on the 2004B, 2005B, and 2006 tax exempt bond issues based on internal estimated calculations.

**Table 2**  
**Changes in Net Assets**

	<b>2011</b>			<b>2010</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 795,964	\$ 31,435,520	\$ 32,231,484	\$ 636,039	\$ 35,357,613	\$ 35,993,652
State appropriations	157,524,487	-	157,524,487	215,532,003	-	215,532,003
Federal appropriations	5,294,121	-	5,294,121	5,889,977	-	5,889,977
Total revenues	<u>163,614,572</u>	<u>31,435,520</u>	<u>195,050,092</u>	<u>222,058,019</u>	<u>35,357,613</u>	<u>257,415,632</u>
<b>EXPENSES</b>						
Program expenses						
General government	577,864	17,085,408	17,663,272	1,064,263	17,471,123	18,535,386
State appropriations	157,492,664	-	157,492,664	215,541,979	-	215,541,979
Federal grants	5,294,150	-	5,294,150	5,851,544	-	5,851,544
Total expenses	<u>163,364,678</u>	<u>17,085,408</u>	<u>180,450,086</u>	<u>222,457,786</u>	<u>17,471,123</u>	<u>239,928,909</u>
CHANGE IN NET ASSETS	<u>\$ 249,894</u>	<u>\$ 14,350,112</u>	<u>\$ 14,600,006</u>	<u>\$ (399,767)</u>	<u>\$ 17,886,490</u>	<u>\$ 17,486,723</u>

### *Governmental Activities*

Revenues for the Agency's governmental activities (see Table 2) decreased by \$58.4 million (or 26.3%) to \$163.6 million, while total expenses decreased by \$59.1 million (or 26.6%). 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 appropriation expenditures decreased by \$58.0 million to \$157.5 million. \$168.9 million was appropriated by the legislature for the state grant program. If the appropriation for either year of the biennium is insufficient for the state grant program, the appropriation for the other year is available for it. \$35.0 million appropriated for fiscal year 2011 was transferred to fiscal year 2010 during fiscal year 2010.

The Agency currently receives 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*

The excess of revenues over expenses of the Agency's business-type activities was \$14.4 million in fiscal year 2011, which was 83.9% of expenses.

## **Financial Analysis of the Agency's Major Funds**

### *Governmental Funds*

The General Fund is the chief governmental fund of the Agency, approximately 96% of the Agency's governmental spending. At the end of fiscal year 2011, the fund balance was \$0. Since the state operates on a biennial budget, every other year all appropriation resources not expended are returned to the state's General Fund.

For the General Fund, student grant payments were \$148 million, a significant decrease from \$205 million in fiscal year 2010. Grant aid to postsecondary institutions and organizations increased \$0.2 million to \$1.8 million. Employee salaries remained essentially the same as in fiscal year 2010.

### *Proprietary Fund*

The Agency's proprietary fund statement provides the same type of information found in the government-wide financial statements, but in greater detail. Revenues of the Agency's proprietary fund (see Table 2) decreased by 11.1% and expenses decreased by 2.2%. In fiscal year 2011, there was a lower return for interest and investment interest income. The current interest rate charged to SELF II, SELF III, SELF IV and SELF V program variable student loans is set a rate of 2.25%, 3.80%, 3.80% and 3.80%, respectively. The SELF V program gives borrowers the option of a 7.25% fixed rate student loan. Rates for the SELF II program have increased 0.25% over the past fiscal year, and rates for the SELF III and SELF IV programs have varied 0.10% over the past fiscal year. Under the SELF IV and SELF V programs, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance. The SELF IV and SELF V programs calculate the interest rate charged to borrowers with the same method as the SELF III program.

### *General Fund Budgetary Highlights*

Over the course of the fiscal year, changes were made to the Agency's budget. Funds appropriated to the Achieve Scholarship program were needed to fund the State Grant program. \$35.0 million of the fiscal year 2011 appropriation was used in fiscal year 2010 due to insufficient state grant funds. Actual expenditures were \$1,203,795 below the total budgeted expenditures.

## **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 2010 by \$0.7 million. As of June 30, 2011, the fair value of the Agency's investments was greater than cost by \$28,485. 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.

## DEBT ADMINISTRATION

At year-end, the Agency had \$626,800,000 in bonds outstanding — as shown in Table 3

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

	<b>2011</b>			<b>2010</b>		
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>
Revenue bonds	\$ -	\$ 626.8	\$ 626.8	\$ -	\$ 590	\$ 590

Since 1984, the Agency's revenue bond rating had been AAA, the highest rating possible, in 2008 the 1999, 2002, 2003, 2004, 2005, and 2006 supplemental revenue bonds rating were downgraded to A2 as a result of Municipal Bond Insurance Association, Inc.'s (MBIA) downgrade to A2 in the same year.

The 2008 supplemental revenue bonds have a rating of Aa1 by Moody's rating agency and AA- by Fitch rating agency.

The 2010 supplemental revenue bonds have a rating of AA by S&P rating agency and AA- by Fitch rating agency.

Other obligations of the Agency include accrued vacation pay and sick leave and the arbitrage liability. More detailed information about the Agency's long-term liabilities is presented in Note III.E. 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 2011 budget, rates, and fees that will be charged for the business-type activities. Student loan debt has increased substantially the last decade. This increase has required the Agency to seek additional funding through the issuance of taxable and tax-exempt (AMT) bonds. However, due to federal legislative changes in 2010, school officials are more restricted in directing students to specific student loan programs. This has resulted in a decrease in the issuance of SELF student loans.

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 which 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 SELF IV program began in July 2006 with minor changes. The SELF V program began in October 2010 with a fixed and variable interest rate option. The current SELF III, SELF IV and SELF V margin is 3.5%. 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 V loan program variable rate 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 and SELF IV margin.

In 2010 the state legislature approved an increase in the annual loan limit to \$10,000 for students enrolled in a bachelor's degree program, postbaccalaureate, or graduate program. Effective October 25, 2010, the undergraduate student annual loan limits for non-four year degree programs in grade levels 1, 2, and 3 have a limit of \$7,500. The undergraduate student annual loan limits for four year degree programs in grade levels 1, 2, 3, 4 and 5 have a limit of \$10,000. Due largely to unstable financial market conditions, in July 2008 the federal loan limit was increased \$2,000 for undergraduate loans. This has resulted in a lower volume of student loans to low cost schools, such as public community and technical colleges.

The increases in college tuitions experienced over the past few years have increased the average amount of loans outstanding for each student. If the national economic volatility continues to negatively impact employment, the Agency could be required to increase its allowance for loan losses.

Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2012. For the current biennium, the private tuition maximums used in the state grant formula are a maximum of \$10,488 for students enrolled in four-year programs and \$5,808 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at \$7,000 for fiscal year 2012. 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. If the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it. \$35 million of the state grant fiscal year 2011 appropriation was transferred to fiscal year 2010. \$0.4 million of unused state grant funds at the end of fiscal year 2011 will be transferred back to the state's General Fund. Due to a shortfall in state revenue for fiscal year 2011, Agency appropriations were reduced by \$1.8 million.

The maximum annual award for Postsecondary Child Care Grants is set at \$2,600 for the current biennium.

The Agency intends to issue bonds in fiscal year 2012. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, and administrative expenses.

In 2011 the state legislature no longer funded some of the Agency's small scholarship and grant programs. The Technical and Community College Emergency Grants and the Achieve Scholarship program will no longer be funded.

The Minnesota GI 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 administers 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's cash and investment balance decreased \$88.4 million, and the loans receivable – net balance decreased \$16.0 million. Over the course of the fiscal year the Agency repurchased and subsequently cancelled \$18.1 million of Auction Rate Securities (ARS) bonds. In the upcoming fiscal year, the Agency intends to issue new bonds and refinance a portion or all of the remaining outstanding ARS bonds.

In February 2008 the Agency's ARS 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 one-month 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. When MBIA's rating fell below the Moody's Investors Service rating of A2 in November 2008, Moody's subsequently maintained the A2 rating on the bonds due to the underlying collateral of the SELF loans. On June 30, 2011 the average taxable bond interest rate of the ARS bonds was 1.19% and the average tax-exempt bond interest rate was 0.23%.

### **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

## STATEMENT OF NET ASSETS June 30, 2011

		Governmental	Business-	
	<b>ASSETS</b>	Activities	type	Totals
			Activities	
<b>CURRENT ASSETS</b>				
Cash and investments		\$ 3,896,021	\$ 101,108,578	\$ 105,004,599
Receivables				
Accounts		519,625	811,052	1,330,677
Interest		-	2,436,376	2,436,376
Loans receivable - net		-	88,837,769	88,837,769
Due from other governments		798,016	-	798,016
Prepaid expenses		-	203,910	203,910
Total Current Assets		<u>5,213,662</u>	<u>193,397,685</u>	<u>198,611,347</u>
<b>NON-CURRENT ASSETS</b>				
Restricted cash and investments		-	197,720,719	197,720,719
Loans receivable - net		-	629,252,099	629,252,099
Debt issuance costs, at cost less accumulated amortization of \$1,133,177		-	4,147,349	4,147,349
Capital assets, net of depreciation		8,848	5,899	14,747
Total Non-Current Assets		<u>8,848</u>	<u>831,126,066</u>	<u>831,134,914</u>
Total Assets		<u>5,222,510</u>	<u>1,024,523,751</u>	<u>1,029,746,261</u>
	<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>				
Accounts payable		2,176,297	177,805	2,354,102
Accrued liabilities		257,129	81,514	338,643
Accrued interest		-	630,850	630,850
Due to other governments		108,881	-	108,881
Due to primary government - unspent appropriations		1,665,229	-	1,665,229
Compensated absences payable		38,613	22,380	60,993
Total Current Liabilities		<u>4,246,149</u>	<u>912,549</u>	<u>5,158,698</u>
<b>NON-CURRENT LIABILITIES</b>				
Compensated absences payable		379,139	193,181	572,320
Arbitrage liability		-	4,404,649	4,404,649
Revenue bonds payable		-	626,853,049	626,853,049
Total Non-Current Liabilities		<u>379,139</u>	<u>631,450,879</u>	<u>631,830,018</u>
Total Liabilities		<u>4,625,288</u>	<u>632,363,428</u>	<u>636,988,716</u>
	<b>NET ASSETS</b>			
Invested in capital assets		8,848	5,899	14,747
Restricted for licensing and grant administration		325,720	-	325,720
Restricted for debt service		-	392,154,424	392,154,424
Unrestricted		262,654	-	262,654
<b>TOTAL NET ASSETS</b>		<u>\$ 597,222</u>	<u>\$ 392,160,323</u>	<u>\$ 392,757,545</u>

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF ACTIVITIES For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	
Governmental Activities						
State appropriations	\$ 157,492,664	\$ -	\$ 157,524,487	\$ 31,823	\$ -	\$ 31,823
Federal grants	5,294,150	-	5,294,121	(29)	-	(29)
Registration and licensing fees and other	577,864	795,964	-	218,100	-	218,100
Total Governmental Activities	<u>163,364,678</u>	<u>795,964</u>	<u>162,818,608</u>	<u>249,894</u>	<u>-</u>	<u>249,894</u>
Business-type Activities						
Loan capital fund	<u>17,085,408</u>	<u>31,435,520</u>	<u>-</u>	<u>-</u>	<u>14,350,112</u>	<u>14,350,112</u>
Totals	<u>\$ 180,450,086</u>	<u>\$ 32,231,484</u>	<u>\$ 162,818,608</u>			
<b>Change in Net Assets</b>				249,894	14,350,112	14,600,006
NET ASSETS - Beginning of Year				<u>347,328</u>	<u>377,810,211</u>	<u>378,157,539</u>
<b>NET ASSETS - END OF YEAR</b>				<u>\$ 597,222</u>	<u>\$ 392,160,323</u>	<u>\$ 392,757,545</u>

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2011

	General	Other Governmental Funds	Totals
<b>ASSETS</b>			
Cash and investments	\$ 2,842,247	\$ 1,053,774	\$ 3,896,021
Accounts receivable	241,043	278,582	519,625
Due from other governments	<u>116,823</u>	<u>681,193</u>	<u>798,016</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,200,113</u></b>	<b><u>\$ 2,013,549</u></b>	<b><u>\$ 5,213,662</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 1,403,040	\$ 773,257	\$ 2,176,297
Accrued liabilities	131,844	125,285	257,129
Due to other governments	-	108,881	108,881
Due to primary government - unspent appropriations	<u>1,665,229</u>	<u>-</u>	<u>1,665,229</u>
Total Liabilities	<u>3,200,113</u>	<u>1,007,423</u>	<u>4,207,536</u>
Fund Balances			
Restricted for licensing and grant administration		325,720	325,720
Assigned	<u>-</u>	<u>680,406</u>	<u>680,406</u>
Total Fund Balances	<u>-</u>	<u>1,006,126</u>	<u>1,006,126</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 3,200,113</u></b>	<b><u>\$ 2,013,549</u></b>	<b><u>\$ 5,213,662</u></b>

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS June 30, 2011

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Total fund balance - governmental funds	\$	1,006,126
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in government activities are not financial  
resources and therefore are not reported in the fund statements.

Capital assets at year end consist of:

Capital assets	\$	60,847	
Accumulated depreciation		<u>(51,999)</u>	8,848

Certain liabilities are not due in the current period and  
therefore are not reported in the fund statements. These  
liabilities at year end consist of compensated absences payable.

(417,752)

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

**\$ 597,222**

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS For the Year Ended June 30, 2011

	General	Other Governmental Funds	Totals
<b>REVENUES</b>			
State appropriations	\$ 157,524,487	\$ -	\$ 157,524,487
Federal grants	-	5,294,121	5,294,121
Registration and licensing fees	-	438,068	438,068
Other revenue	-	357,896	357,896
Total Revenues	<u>157,524,487</u>	<u>6,090,085</u>	<u>163,614,572</u>
<b>EXPENDITURES</b>			
General government	2,651,118	583,972	3,235,090
State and other grants	154,873,369	-	154,873,369
Federal grants	-	5,299,028	5,299,028
Total Expenditures	<u>157,524,487</u>	<u>5,883,000</u>	<u>163,407,487</u>
<b>Excess of revenues over expenditures</b>	-	207,085	207,085
FUND BALANCE - Beginning of Year	-	799,041	799,041
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 1,006,126</u>	<u>\$ 1,006,126</u>

See accompanying notes to financial statements.

## MINNESOTA OFFICE OF HIGHER EDUCATION

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2011

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Net change in fund balances - total governmental funds	\$	207,085
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of these assets is allocated over their  
estimated useful lives and reported as depreciation expense. The following  
differ in their presentation in the two statements:

Depreciation is reported in the government-wide statements	(4,376)
--	---------

Some expenses in the statement of activities do not require the use of current  
financial resources and, therefore, are not reported as expenditures in the  
governmental funds. The following did not require the use of current  
financial resources:

Compensated absences payable	<u>47,185</u>
------------------------------	---------------

<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>249,894</u></b>
--	-----------	-----------------------

## MINNESOTA OFFICE OF HIGHER EDUCATION

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND For the Year Ended June 30, 2011

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#### OPERATING REVENUES

Interest on student loans	\$ 27,797,450
---------------------------	---------------

#### OPERATING EXPENSES

General and administrative	8,087,023
----------------------------	-----------

Provision for loans losses - net	<u>2,076,057</u>
----------------------------------	------------------

Total Operating Expenses	<u>10,163,080</u>
--------------------------	-------------------

Operating Income	<u>17,634,370</u>
------------------	-------------------

#### NON-OPERATING REVENUES (EXPENSES)

Gain on repurchased bonds	3,084,000
---------------------------	-----------

Investment income	554,070
-------------------	---------

Interest expense	(6,804,600)
------------------	-------------

Amortization expense	<u>(117,728)</u>
----------------------	------------------

Total Non-operating Revenues (Expenses)	<u>(3,284,258)</u>
---	--------------------

CHANGE IN NET ASSETS	14,350,112
----------------------	------------

NET ASSETS - Beginning of Year	<u>377,810,211</u>
--------------------------------	--------------------

NET ASSETS - END OF YEAR	<u>\$ 392,160,323</u>
--------------------------	-----------------------

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF CASH FLOWS PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND For the Year Ended June 30, 2011

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from loan holders	\$ 126,995,311
Cash paid for loan origination	(84,954,206)
Cash paid to employees and suppliers	(9,109,778)
Net Cash Flows From Operating Activities	<u>32,931,327</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(182,428,290)
Proceeds from maturity of investments	180,372,868
Interest received from investments	581,426
Net Cash Flows From Investing Activities	<u>(1,473,996)</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from bonds	58,079,051
Bonds purchased and cancelled	(18,100,000)
Capitalized bond issuance costs	(742,072)
Interest paid on bonds	(5,419,141)
Net Cash Flows From Noncapital Financing Activities	<u>33,817,838</u>

Net Increase in Cash and Cash Equivalents	65,275,169
---	------------

CASH AND CASH EQUIVALENTS - Beginning of Year	<u>205,668,588</u>
---	--------------------

CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 270,943,757</u>
---	-----------------------

### RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and investments per Statement of Net Assets	\$ 101,108,578
Restricted cash and investments per Statement of Net Assets	197,720,719
Less: Non-cash equivalents	<u>(27,885,540)</u>

CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u>\$ 270,943,757</u>
---	-----------------------

### RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income	\$ 17,634,370
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income	
Depreciation	2,917
Provision for loan loss	8,505,734
Write-off of loans	(8,770,878)
Decrease in fair value of investments	(21,761)
Origination of student loans	(84,954,206)
Principal payments on student loans	101,039,723
Changes in assets and liabilities	
Interest receivable	117,451
Other receivable and prepaid expenses	(252,545)
Accounts payable and accruals	<u>(369,478)</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 32,931,327</u>
--	----------------------

### NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES

The agency had a \$3,084,000 gain on bonds purchased and cancelled.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## INDEX TO NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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NOTE	Page
I. Summary of Significant Accounting Policies	10
A. Reporting Entity	10
B. Government-Wide and Fund Financial Statements	10
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	12
D. Assets, Liabilities, and Net Assets or Equity	13
1. Deposits and Investments	13
2. Receivables	14
3. Prepaid Expenses	14
4. Restricted Assets	14
5. Capital Assets	14
6. Other Assets – Debt Issuance Costs	14
7. Compensated Absences	15
8. Long-Term Obligations	15
9. Claims and Judgments	16
10. Equity Classifications	16
II. Stewardship, Compliance, and Accountability	18
A. Budgetary Information	18
III. Detailed Notes on All Funds	18
A. Deposits and Investments	18
B. Receivables	20
C. Restricted Assets	22
D. Capital Assets	23
E. Long-Term Obligations	24
F. Net Assets	28
IV. Other Information	28
A. Employees' Retirement System	28
B. Risk Management	29
C. Commitments and Contingencies	29
D. Effect of New Accounting Standards on Current Period Financial Statements	30
E. Subsequent Event	30

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The accounting policies of the Minnesota Office of Higher Education conform to generally accepted accounting principles as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

#### **A. REPORTING ENTITY**

Effective July 1, 1995, the Minnesota Office of Higher Education (formerly known as Minnesota Higher Education Services Office) (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.

The Agency's financial statements are presented discretely in the State of Minnesota's Comprehensive Annual Financial Report as a component unit.

#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

##### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity, since the reporting entity has no fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through state appropriations and federal grants. Business-type activities are generally financed by fees and charges from student loans.

The statement of activities demonstrates 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. The Agency does not allocate indirect expenses to functions in the statement of activities. 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 or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

##### ***Fund Financial Statements***

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)**

##### ***Fund Financial Statements (cont.)***

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the Agency believes is particularly important to financial statement users may be reported as a major fund.

The Minnesota Office of Higher Education reports the following major governmental funds:

General Fund – accounts for the Agency's primary operating activities. It is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund is used to account and report for the funds received and disbursed for the State of Minnesota's financial aid programs.

The Minnesota Office of Higher Education reports the following major enterprise funds:

Loan Capital Fund (LCF) – accounts for the Agency's student loan activities including the Supplemental Loan programs (SELF II, SELF III, and SELF IV), Graduated Repayment Loan programs (GRIP), and payment of expenses of administering such programs. In addition, the Loan Capital Fund is used to account for related long-term debt payable and interest expense.

The Minnesota Office of Higher Education reports the following non-major governmental funds:

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Miscellaneous Grant Fund (non-Federal Grants and licensing)  
Federal Grant Fund (Federal Grants)

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION***

##### ***Government-Wide Financial Statements***

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Unbilled receivables are recorded as revenues when services are provided.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board guidance issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Agency's funds for indirect costs. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

##### ***Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay 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 recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

State appropriations are recognized in the year designated by Minnesota Statutes. Federal grants are recognized in the year during which the eligible expenditures are made. If the amounts of federal grants cannot be reasonably estimated, or realization is not reasonably assured, they are not recognized as revenue in the current year. Amounts owed to the Agency which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

Revenues susceptible to accrual include federal grants and interest on investments. Other general revenues such as registration and licensing fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)**

##### ***Fund Financial Statements*** (cont.)

The Agency may report deferred revenues on its governmental funds balance sheet. For governmental fund financial statements, 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 before the Agency has a legal claim to them, as when grant monies are received prior to the incurrence of 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 from the balance sheet and revenue is recognized.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

##### ***All Financial Statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

##### ***1. Deposits and Investments***

For purposes of the statement of cash flows, the Agency considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Minnesota Statutes 136A.16 Subd. 8 and 11A.24 describe the investments the Agency is authorized to have.

The Agency has adopted an investment policy that addresses investment risks. That policy follows the state statute for allowable investments; except the Agency may only invest in obligations maturing within three years of the date of purchase except those invested in the debt service reserve funds which can be invested to the bond maturity date. In addition, the Agency's investment policy outlines the maximum percentage of any type of deposit or investment it may have at one time and the maximum percentage of investment securities to be held at one bank or bank investment subsidiary.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

See Note III.A. for further information.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)***

##### ***2. Receivables***

Loans receivable have been shown net of an allowance for uncollectible accounts.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

##### ***3. Prepaid Expenses***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### ***4. Restricted Assets***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Restricted assets will be used for issuing new student loans and retirement of related long-term debt.

##### ***5. Capital Assets***

###### ***Government-Wide Statements***

Capital assets, which includes equipment, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than \$30,000 for general capital assets, and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The Agency's only category of capital asset is equipment. The estimated useful life of the equipment is 5 years.

###### ***Fund Financial Statements***

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

##### ***6. Other Assets – Debt Issuance Costs***

For the government-wide and the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue using a method that produces substantially the same results as the effective interest method.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)***

##### ***7. Compensated Absences***

Under terms of employment, employees are granted sick leave and vacation time in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested sick leave and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Employees are not compensated for unused sick leave upon termination; however, unused sick leave enters into the computation of severance pay. 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.

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.

Accumulated sick leave and vacation time liabilities at June 30, 2011 are determined on the basis of current salary rates.

##### ***8. Long-Term Obligations***

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist of bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

The Agency is restricted on the amount of interest that can be earned on nontaxable loans compared to interest expense. This limit is 2% and in the current year, the yield exceeded this limit and an arbitrage liability was recorded.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)**

##### **9. Claims and Judgments**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental fund types if it has matured. Claims and judgments are recorded in the government-wide statements and enterprise funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

##### **10. Equity Classifications**

###### ***Government-Wide Statements***

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

###### ***Fund Statements***

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, the Agency classifies governmental fund balance as follows:

- a. Nonspendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted – Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### **D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)**

##### **10. Equity Classifications (cont.)**

###### ***Fund Statements (cont.)***

- c. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action of the Director. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the Director that originally created the commitment.
- d. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The Director may take official action to assign amounts. (2) All remaining positive spendable amounts in governmental funds, other than the general fund, are neither restricted nor committed. Assignments may take place after the end of the reporting period.
- e. Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

The Agency considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the Agency would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

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### NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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#### A. BUDGETARY INFORMATION

The State of Minnesota operates on a biennial budget. Every other year Agency appropriations must be approved by the Senate and the House of Representatives, and signed by the governor for the upcoming two year period, which begins in July of odd numbered years. Budgets for each appropriation awarded to the Agency are prepared by the Agency and submitted to the Minnesota Management and Budget Agency and set up in the state's accounting system.

Expenditures cannot legally exceed the total initially appropriated unless supplemental appropriations are enacted into law.

The budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (year ended June 30, 2010) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2011) of the biennium.

Unspent appropriations at the end of a biennium shall be returned to the fund from which appropriated. The Agency's expenditures are classified according to the State administrative guidelines. Agency funds are disbursed by the Minnesota Management and Budget Agency.

A budget has been legally adopted for the Agency's general fund. The budgeted amounts presented include any amendments made. The chief financial officer may authorize transfers of budgeted amounts between appropriations as allowable by state statutes.

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### NOTE III – DETAILED NOTES ON ALL FUNDS

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#### A. DEPOSITS AND INVESTMENTS

The Agency's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Money market mutual fund investments	\$ 234,231,042	\$ 234,003,028	None
Commercial paper	27,885,539	27,885,539	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled Cash held by State Treasury	40,608,737	40,608,737	N/A
Total Cash and Investments	<u>\$ 302,725,318</u>	<u>\$ 302,497,304</u>	
Reconciliation to financial statements			
Per statement of net assets			
Cash and investments	\$ 105,004,599		
Restricted cash and investments	<u>197,720,719</u>		
Total Cash and Investments	<u>\$ 302,725,318</u>		

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

---

#### **A. DEPOSITS AND INVESTMENTS (cont.)**

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and an unlimited amount for noninterest bearing accounts.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash.

#### ***Custodial Credit Risk***

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Agency's deposits may not be returned to the Agency.

As of June 30, 2011, the Agency did not have any deposits exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of June 30, 2011, the Agency had \$15,035,289 of investments exposed to custodial credit risk.

#### ***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2011, the Agency's investments in commercial paper for US Bank Open IB Monthly and FCAR Owner Trust I were rated A-1+ and P-1 by Standard & Poor's and Moody's, respectively.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

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### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

---

#### A. DEPOSITS AND INVESTMENTS (cont.)

##### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of an Agency's investment in a single issuer.

As of June 30, 2011, the Agency's investments in commercial paper were concentrated as follows:

	<u>Percentage of Portfolio</u>
US Bank	53.92%
FCAR Owner Trust	46.08%

##### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As of June 30, 2011, the Agency's investment of commercial paper had a fair value of \$27,885,539 and a weighted average maturity of .55 years.

See Note I.D.1. for further information on deposit and investment policies.

#### B. RECEIVABLES

Receivables as of year end for the Agency's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

<u>Fund</u>	<u>Gross Receivables</u>	<u>Allowance For Uncollectibles</u>	<u>Net Receivables</u>	<u>Amounts Not Expected to Be Collected Within One Year</u>
General	\$ 357,866	\$ -	\$ 357,866	\$ -
Loan Capital	731,548,468	10,211,172	721,337,296	629,252,099
Nonmajor Funds	959,775	-	959,775	-

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 14% of the balance is expected to be collected during fiscal year 2012.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

---

### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

---

#### **B. RECEIVABLES (cont.)**

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 2.0%. The interest rate cannot change more than two percentage points in any four consecutive calendar quarters. The rate was 2% as of June 30, 2011.

SELF III loans, offered for the first time in May of 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 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2011.

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 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2011.

SELF V loans, offered for the first time in October 2010, 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 3.5%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.8% as of June 30, 2011.

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, SELF IV, and SELF V loans at June 30, 2011 was \$728,145,307.

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, 2011 was \$155,373.

SELF and GRIP loans are unsecured. However, the Agency does require a credit worthy cosigner on each loan, and it is able to intercept state tax refunds for both borrower and cosigner in the event of default in addition to other collection methods.

An allowance for uncollectible SELF II, SELF III, SELF IV, and SELF V loans is provided for in the financial statements, and an equal amount of the allowance is maintained as restricted cash in the loan capital fund. 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 loan capital fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.4% of the total outstanding loan balance and also designates restricted cash 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 restricted cash in the loan capital fund. The restricted cash has been deposited with the Minnesota Management and Budget Agency. Recoveries on defaulted SELF loans are credited to the loan capital as revenue in the year received.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

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#### **B. RECEIVABLES (cont.)**

The activity for the allowance for losses on all loan types for the year ended June 30, 2011 is as follows:

Beginning balance	\$ 10,476,316
Provision for loan losses	8,505,734
Write-off of loans	<u>(8,770,878)</u>
Ending Balance	<u>\$ 10,211,172</u>

Recovery on defaulted loans of \$6,429,677 for the year ended June 30, 2011 is recognized as a reduction in the provision for loan losses.

#### **Debt Issuance Costs**

SELF II, SELF III, SELF IV, and SELF V 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. 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 year ended June 30, 2011 was \$471,276.

#### **C. RESTRICTED ASSETS**

The following represent the balances of the restricted assets:

##### **Long Term Debt Accounts**

Acquisition	–	Funds are originally deposited into this fund at the issuance of the bond and used to finance student loans.
Revenue	–	Used to deposit student loan payments of principal and interest. Payments from this account are made to investors for bond interest and to finance additional student loans.
Surplus	–	Used to deposit excess funds from the revenue account and to finance additional student loans.
Debt Service Reserve	–	Used to reserve funds based on bond indenture requirements for potential deficiencies in the revenue account or the surplus account.
Redemption	–	Used to segregate resources accumulated for payment to investors for the redemption of bond securities.
Student Loan	–	Used to hold only student loans transferred to the trustee from the issuer and all student loans made by the issuer with amounts provided under the indenture.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

#### C. RESTRICTED ASSETS (cont.)

##### **Bad Debt Reserve Account**

The loan capital fund established a bad debt reserve account to purchase uncollectible student loans. This account equals the allowance for uncollectible SELF and GRIP loans. This fund is replenished quarterly.

Following is a list of restricted assets at June 30, 2011:

	Restricted Assets
Acquisition account	\$ 48,262,263
Revenue account	108,312,253
Surplus account	7,708,551
Debt service reserve account	19,511,520
Student loan account	3,714,960
Bad debt reserve account	<u>10,211,172</u>
Total Restricted Assets	<u>\$ 197,720,719</u>

#### D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets being depreciated				
Equipment	\$ 60,847	\$ -	\$ -	\$ 60,847
Less: Accumulated depreciation for				
Equipment	<u>(47,623)</u>	<u>(4,376)</u>	<u>-</u>	<u>(51,999)</u>
Capital Assets, Net of Depreciation	<u>\$ 13,224</u>	<u>\$ (4,376)</u>	<u>\$ -</u>	<u>\$ 8,848</u>

\$4,376 of depreciation expense was charged to the governmental activities function of state appropriations.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

#### D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type Activities</b>				
<u>Loan Capital Fund</u>				
Capital assets being depreciated				
Equipment	\$ 14,586	\$ -	\$ -	\$ 14,586
Less: Accumulated depreciation for				
Equipment	(5,770)	(2,917)	-	(8,687)
Net Loan Capital Fund	<u>\$ 8,816</u>	<u>\$ (2,917)</u>	<u>\$ -</u>	<u>\$ 5,899</u>

\$2,917 of depreciation expense was charged to the loan capital fund.

#### E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Other Liabilities					
Vested compensated absences	\$ 464,937	\$ 189,503	\$ 236,688	\$ 417,752	\$ 38,613
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
Revenue bonds	\$ 590,100,000	\$ 53,400,000	\$ 18,100,000	\$ 625,400,000	\$ -
Add/(Subtract) Deferred Amounts For:					
(Discounts)/Premiums	-	1,595,051	142,002	1,453,049	-
Subtotal	<u>590,100,000</u>	<u>54,995,051</u>	<u>18,242,002</u>	<u>626,853,049</u>	<u>-</u>
Other Liabilities					
Vested compensated absences	240,663	52,929	78,031	215,561	22,380
Arbitrage liability	<u>3,267,588</u>	<u>1,137,061</u>	<u>-</u>	<u>4,404,649</u>	<u>-</u>
Total other liabilities	<u>3,508,251</u>	<u>1,189,990</u>	<u>78,031</u>	<u>4,620,210</u>	<u>22,380</u>
Total Business-type Activities					
Long-Term Liabilities	<u>\$ 593,608,251</u>	<u>\$ 56,185,041</u>	<u>\$ 18,320,033</u>	<u>\$ 631,473,259</u>	<u>\$ 22,380</u>

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

In accordance with Minnesota Statutes, the aggregate amount of revenue bonds, issued directly by the Agency, outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed \$850,000,000. Revenue bonds outstanding at year end were \$625,400,000.

All Supplemental Student Loan Program Variable Rate Revenue Bonds were issued to provide SELF II, III, and IV student loans to borrowers. All Supplemental Student Loan Program Fixed Rate Revenue Bonds were issued to provide SELF V student loans to borrowers.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2011

### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

#### E. LONG-TERM OBLIGATIONS (cont.)

	Date of Issue	Final Maturity	6-30-11 Interest Rates	Interest Rates Reset (days)	Original Indebted- ness	Balance 6-30-11
<u>Supplemental Student Loan Program Variable Rate Revenue Bonds</u>						
Series 1999A taxable revenue bonds	Nov 99	Nov 34	1.186%	7	\$ 61,200,000	\$ 42,800,000
Series 2002A taxable revenue bonds	Jan 02	Jan 37	1.186%	7	68,200,000	66,000,000
Series 2002B revenue bonds	Jan 02	Jan 37	.175%	35	27,100,000	27,100,000
Series 2003A taxable revenue bonds	Mar 03	May 38	1.190%	28	64,700,000	51,800,000
Series 2003B revenue bonds	Mar 03	May 38	.175%	35	10,300,000	10,300,000
Series 2004A taxable revenue bonds	July 04	May 39	1.190%	28	67,000,000	45,500,000
Series 2004B revenue bonds	July 04	May 39	.210%	35	88,500,000	88,500,000
Series 2005B revenue bonds	July 05	May 40	.280%	35	70,000,000	70,000,000
Series 2006 revenue bonds	Nov 06	May 41	.228%	35	70,000,000	70,000,000
Series 2008A taxable revenue bonds	Dec 08	Dec 43	.160%	7	66,700,000	66,700,000
Series 2008B revenue bonds	Dec 08	Dec 43	.080%	7	33,300,000	33,300,000
<u>Supplemental Student Loan Program Fixed Rate Revenue Bonds</u>						
Series 2010 revenue bonds	Dec 10	Nov 29	2 – 5%	n/a	53,400,000	53,400,000
Total Business-type Activities Revenue Bonds						<u>\$ 625,400,000</u>

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2011 rates for variable rate bonds, are as follows:

<u>Years Ending June 30</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 5,653,778	\$ 5,653,778
2013	360,000	5,653,778	6,013,778
2014	1,135,000	5,646,575	6,781,575
2015	1,090,000	5,612,528	6,702,528
2016	3,045,000	5,579,828	8,624,828
2017 - 2021	21,570,000	25,269,883	46,839,883
2022 - 2026	18,150,000	20,079,130	38,229,130
2027 - 2031	8,050,000	17,100,130	25,150,130
2032 - 2036	42,800,000	15,424,522	58,224,522
2037 - 2041	429,200,000	6,525,631	435,725,631
2042 - 2044	100,000,000	400,080	100,400,080
Totals	<u>\$ 625,400,000</u>	<u>\$ 112,945,863</u>	<u>\$ 738,345,863</u>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

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#### *E. LONG-TERM OBLIGATIONS (cont.)*

The interest rates on all of the Series 1999A, 2002A, 2002B, 2003A, 2003B, 2004A, 2004B, 2005B, and 2006 variable rate bonds are reset periodically as shown in the detailed revenue debt schedule above. The rates on all of these bonds are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1%; 17%; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25%. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14%; or the three month average of the three-month T-Bill plus an applicable spread of 1.25%. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15% and 12%, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity on the Series 2008A and Series 2008B bonds.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2% to 5%. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.62% for the year ended June 30, 2011.

All the bond series are secured by the revenues derived by the Agency from student loans financed by the proceeds of the bonds.

The Agency maintains insurance coverage as additional collateral for the auction rate bonds. The fees to maintain this coverage are calculated as 0.12% for Series 1999A, 2002A, 2002B and 2006; 0.14% for Series 2003A and 2003B; and 0.125% for Series 2004A, 2004B, and 2005B of the outstanding principal amount per year. General and administrative expenses include insurance fees of \$622,465 for the year ended June 30, 2011.

The Agency maintains an unsecured irrevocable direct-pay letter of credit as additional collateral for the Series 2008A and Series 2008B bonds. The fee to maintain this letter of credit is 0.7% of the outstanding principal amount per year. In addition there is a remarketing fee of 0.1% of the outstanding principal amount per year. General and administrative expenses include letter of credit and remarketing fees of \$834,257 for the year ended June 30, 2011. The letter of credit expires December 16, 2011 and has a provision to extend automatically for one year. After this the Agency must request an extension 240 days prior to the expiration date.

There is no additional collateral maintained for the Series 2010 bonds.

Except for the Series 2010 bond issue, for all bonds the Agency is required to maintain a debt service account equal to 2% of the outstanding revenue bond balance. The amount required to be on deposit at year end is \$11,440,000 and the Agency met this requirement. For the Series 2010 bonds the Agency is required to maintain a debt service account equal to the maximum amount scheduled to be due during the current or any future fiscal year. The amount required to be on deposit at year end is \$7,708,000 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures. The Agency believes it is in compliance with all significant limitations and restrictions.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

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#### *E. LONG-TERM OBLIGATIONS (cont.)*

All bond series are to be repaid solely from the money and investments held by the trustees. For all bonds, an early repayment provision exists. For the Series 2002B, 2003B, 2004B, 2005B, and 2006 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 Series 1999A, 2002A, 2003A, and 2004A taxable bond issues, 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. For the Series 2008A and 2008B bonds, the Agency must give written notice to exercise its option to redeem bonds not less than 15 days but no greater than 60 days prior to the redemption date. For the Series 2010 tax-exempt bonds, bonds maturing on or after November 1, 2021 are subject to optional redemption on any date after November 1, 2020. The agency must give written notice to exercise its option to redeem bonds not less than 35 days prior to the redemption.

During 2010 the Agency used \$15,016,000 of available cash to purchase \$18,100,000 of outstanding bonds on the secondary market. These bonds were subsequently cancelled by the Agency. Details of these transactions are as follows:

<u>Date Purchased and Cancelled</u>	<u>Bond Issue Series</u>	<u>Amount Purchased and Cancelled</u>
February 2011	1999A	\$ 10,700,000
February 2011	2003A	1,600,000
March 2011	2002A	2,000,000
March 2011	2003A	3,200,000
March 2011	2004A	600,000
Total Purchased and Cancelled		<u>\$ 18,100,000</u>

#### ***Arbitrage Regulations***

The \$352,600,000 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, 2011, the Agency accrued a liability of \$4,404,649 resulting from the excess yield on interest rates.

#### ***Other Debt Information***

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated by the general, miscellaneous grant, and federal grant funds.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

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#### **F. NET ASSETS**

Certain net assets are classified in the statement of net assets as restricted because their use is limited. The business-type activities report restricted net assets 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, 2011, the business-type activities restricted net assets are restricted for debt service.

The Agency's business-type activities net assets (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:

Years Ending June 30,	
2011	\$ 425,000,000
2012	450,000,000
2013	475,000,000
2014	500,000,000
2015	525,000,000
2016	550,000,000
2017	575,000,000
2018	590,000,000
2019	605,000,000
2020	620,000,000
2021 and thereafter	635,000,000

As the Agency's net assets are less than the required minimum per the bond covenant, the net assets are shown first as invested in capital assets and then as restricted for loan capital fund use, as required in the bond financial covenants.

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### NOTE IV – OTHER INFORMATION

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#### **A. EMPLOYEES' RETIREMENT SYSTEM**

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, 2011 and 2010 was \$186,936 and \$183,448, respectively. The total covered payroll of the Agency for the years ended June 30, 2011 and 2010 was \$3,705,104 and \$3,675,694, 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 5% of their total compensation with a matching the Agency contribution of 5%. The contribution rates for the SERF are not actuarially determined, but rather are determined by the state statute.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE IV – OTHER INFORMATION (cont.)

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#### **A. EMPLOYEES' RETIREMENT SYSTEM (cont.)**

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, 2010 (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, Minnesota 55107-1425  
651 296 2761

As of June 30, 2010, the SERF had a projected benefit obligation of \$8,960,391,000, unfunded liabilities of \$1,303,680,000, and net assets available for benefits, at fair value, of \$10,264,071,000. As of June 30, 2009, the SERF had a projected benefit obligation of \$9,030,401,000, unfunded liabilities of \$1,482,359,000, and net assets available for benefits, at fair value, of \$10,512,760,000. 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, 2010, Comprehensive Annual Financial Report.

#### **B. RISK MANAGEMENT**

The Agency is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The Agency is self insured through the State of Minnesota for all types of losses. A fee is paid annually for property insurance and an administrative fee is paid annually for workers' compensation, but no other premiums are paid.

#### **C. COMMITMENTS AND CONTINGENCIES**

From time to time, the Agency is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Agency's attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Agency's financial position or results of operations.

The Agency has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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### NOTE IV – OTHER INFORMATION (cont.)

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#### **C. COMMITMENTS AND CONTINGENCIES (cont.)**

Funding for the operating budget of the Agency's general fund comes from the State of Minnesota. The Agency's general fund is dependent on continued approval and funding by the Minnesota governor and legislature, through their budget processes. The State of Minnesota is currently experiencing budget problems. Any changes made by the State to appropriations for the Agency's general fund could have a significant impact on the future operating results of the Agency.

#### **D. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Agency has not yet determined the impact of these new GASB statements.

#### **E. SUBSEQUENT EVENT**

The agency will be issuing \$85 million of revenue bonds in October, 2011 to refinance certain existing debt and provide additional new funding.

**REQUIRED SUPPLEMENTARY INFORMATION**

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
General Administration	\$ 2,785,000	\$ 2,164,760	\$ 2,165,551	\$ 792
Safety Office Survivors	100,000	73,806	73,806	-
MN College Savings Program	700,000	323,146	323,146	-
Child Care Grant Program	6,684,000	6,840,729	6,840,729	-
MN Link Gateway and Minitex Library	6,031,000	5,827,102	5,827,102	-
State Grant Program	109,138,000	119,002,118	119,002,118	-
State Work Study	14,944,000	13,572,801	13,572,801	-
Interstate Reciprocity	2,750,000	4,016,443	4,016,443	-
Achieve Scholarship Program	4,350,000	764,421	764,421	-
Midwest Compact	95,000	95,000	95,000	-
Other Small Programs	357,000	381,400	381,400	-
United Family Practice	467,000	467,000	467,000	-
Tech/CC - Emergency Grants	150,000	-	-	-
MN GI Bill Program	-	1,092,280	1,092,280	-
Intervention College Attendance	746,000	886,736	886,736	-
American Indian Scholarship	2,000,000	2,015,952	2,015,952	-
Total Revenues	151,297,000	157,523,695	157,524,487	792
<b>EXPENDITURES</b>				
General Administration	2,615,000	2,786,255	2,165,551	620,703
Safety Office Survivors	100,000	121,672	73,806	47,866
MN College Savings Program	700,000	328,284	323,146	5,138
Child Care Grant Program	6,684,000	6,882,830	6,840,729	42,101
MN Link Gateway and Minitex Library	5,826,000	5,827,102	5,827,102	-
State Grant Program	113,488,000	119,370,214	119,002,118	368,096
State Work Study	13,176,000	13,608,351	13,572,801	35,550
Interstate Reciprocity	3,014,000	4,016,443	4,016,443	-
Achieve Scholarship Program	-	764,421	764,421	-
Midwest Compact	95,000	95,000	95,000	-
Other Small Programs	357,000	422,621	381,400	41,221
United Family Practice	467,000	467,000	467,000	-
Tech/CC - Emergency Grants	100,000	-	-	-
MN GI Bill Program	1,394,000	1,092,280	1,092,280	-
Intervention College Attendance	746,000	902,734	886,736	15,998
American Indian Scholarship	2,000,000	2,043,074	2,015,952	27,122
Total Expenditures	150,762,000	158,728,282	157,524,487	1,203,795
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 535,000</b>	<b>\$ (1,204,587)</b>	<b>\$ -</b>	<b>\$ 1,204,587</b>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2011

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### ***Budgetary Information***

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting.

## **SUPPLEMENTARY INFORMATION**

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS June 30, 2011

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
<b>ASSETS</b>			
Cash and investments	\$ 1,024,439	\$ 29,335	\$ 1,053,774
Accounts receivable	33,006	245,576	278,582
Due from other governments	-	681,193	681,193
<b>TOTAL ASSETS</b>	<b>\$ 1,057,445</b>	<b>\$ 956,104</b>	<b>\$ 2,013,549</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 22,928	\$ 750,329	\$ 773,257
Accrued liabilities	28,391	96,894	125,285
Due to other governments	-	108,881	108,881
<b>Total Liabilities</b>	<b>51,319</b>	<b>956,104</b>	<b>1,007,423</b>
<b>Fund Balances</b>			
Restricted for licensing and grant administration	325,720	-	325,720
Assigned	680,406	-	680,406
<b>Total Fund Balances</b>	<b>1,006,126</b>	<b>-</b>	<b>1,006,126</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,057,445</b>	<b>\$ 956,104</b>	<b>\$ 2,013,549</b>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended June 30, 2011

	Miscellaneous Grant Fund	Federal Grant Fund	Totals
<b>REVENUES</b>			
Federal grants	\$ -	\$ 5,294,121	\$ 5,294,121
Registration and licensing fees	438,068	-	438,068
Other revenue	357,896	-	357,896
Total Revenues	<u>795,964</u>	<u>5,294,121</u>	<u>6,090,085</u>
<b>EXPENDITURES</b>			
General government	583,972	-	583,972
Federal grants	-	5,299,028	5,299,028
Total Expenditures	<u>583,972</u>	<u>5,299,028</u>	<u>5,883,000</u>
<b>Excess (deficiency) of revenues over expenditures</b>	211,992	(4,907)	207,085
<b>FUND BALANCE - Beginning of Year</b>	<u>794,134</u>	<u>4,907</u>	<u>799,041</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,006,126</u>	<u>\$ -</u>	<u>\$ 1,006,126</u>

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## **APPENDIX B**

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

The following is a brief summary of certain terms used in the General Indenture, the First Supplemental Indenture and the foregoing Official Statement. The descriptions below do not purport to be comprehensive or definitive. All references in these definitions 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. Such summary does not purport to be complete and is subject to change prior to delivery of the Series 2012 Bonds.

#### **DEFINITIONS OF CERTAIN TERMS**

“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.002 through 136A.1787, as amended.

“Adjustable Rate Bonds” means those Bonds the terms of which 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.

“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 2012 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 2012 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 2012 Taxable 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 LIBOR, as the same may be adjusted from time to time or (2) if such index is no longer available, the comparable index of taxable seven day tender municipal bonds selected by the Remarketing Agent (unless no Remarketing Agent is then functioning as such, and then the Trustee).

“Applicable VRDB Cost” means, as of the applicable Rate Determination Date, the average, weighted by the outstanding principal balance of each series of VRDBs as a percentage of the aggregate outstanding principal balance of all VRDBs, of the sum of: (a) the Applicable VRDB Rate for each series of VRDBs and (b) the Applicable VRDB Fees for each series of VRDBs, in each case, as of such date.

“Applicable VRDB Fees” means, (i) for any VRDBs not held by the Bank, the sum of (a) the Credit Enhancement Fees payable on each Rate Determination Date, and (b) the Remarketing Agent Fees payable on each Rate Determination Date, in each case expressed as an annual percentage rate applied against the applicable principal amount of VRDBs, and (ii) in the case of VRDBs held by the Bank, zero percent per annum (0.0%).

“Applicable VRDB Rate” means, for any VRDBs, the rate established for such series of VRDBs by the Remarketing Agent on each Rate Determination Date, or in the case of VRDBs held by the Bank, the Bank Rate (as defined in the Bank Agreement) in effect for such VRDBs on each Rate Determination 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 such Supplemental Indenture.

“Authorized Denominations” means (a) with respect to Series 2012 Bonds in a Short Term Mode, \$100,000 and any integral multiple of \$1,000 above \$100,000, (b) with respect to Series 2012 Bonds in a Long Term Mode, \$5,000 and any integral multiple thereof, and (c) the “Authorized Denominations” as defined in the First Supplemental Indenture with respect to Series 2012 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 Owners.

“Average VRDB Cost” means, for each VRDB Cost Calculation Period, the simple average of the Applicable VRDB Cost in effect on each Rate Determination Date, including the current Rate Determination Date, rounded to the nearest one thousandth of one percent.

“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 September 1, 2012, among the Issuer, the Trustee and the Servicer.

“Bank Agreement” means a Credit Facility Agreement and/or Liquidity Facility Agreement.

“Bank Bond Rate” means the interest rate, if any, specified in the Bank 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 Bank 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 any Series 2012 Bond registered in the name of DTC and that is purchased pursuant to a Facility, or the Beneficial Owner of which is, the Bank (or, if directed in writing by the Bank, its nominee or designee). Series 2012 Bonds shall be Bank Bonds during the period beginning on the date such Series 2012 Bonds are pledged, or registered in the name of the Bank or, if directed in writing by the Bank, its nominee or designee, until the date on which such Series 2012 Bonds are remarketed to a purchaser identified by the Remarketing Agent or until the date on which the Provider elects pursuant to the First Supplemental Indenture to not sell such Series 2012 Bonds 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 is 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 the General Indenture.

“Bond Counsel” means the firm of Fryberger, Buchanan, Smith & Frederick, P.A., 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 Series 2012 Bond Purchase Fund created and established pursuant to the First Supplemental Indenture.

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

“Bond Year” means the period established in a Supplemental Indenture for a Series of Bonds. With respect to the Series 2012 Bonds, “Bond Year” means (a) the period from the Issue Date to the last day of August, 2013, and (b) each succeeding 12-month period beginning on September 1 of each year thereafter while the Series 2012 Bonds are outstanding.

“Book-Entry Form” or “Book-Entry System” means 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 Beneficial Owners.

“Borrower Benefits” means (a) a reduction in the interest rate on Student Loans as 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 to borrowers 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. Borrower Benefits are not currently provided by the Issuer.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which the Trustee, the paying agent for the Bonds or the Remarketing Agent is required or authorized to be closed and (iii) a day on which the office of a Provider at which drawings under a Facility are to be received is required or authorized by law or executive order to be closed. 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 Bank Agreement).

“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 means 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 in the Indenture.

“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.

“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 Providers, Remarketing Agent Fees, 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 flows through the stated maturity of the Outstanding Bonds based upon existing facts and, to the extent not so based, upon assumptions accepted by the 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 Bank 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 Bank 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” means the Cash Flow Projection delivered in conjunction with the issuance of a Series of Bonds.

“Closing Date” means the Issue Date of the Series 2012 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 2012 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 last 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.

“Contingent Amount” has the meaning assigned to such term in the Bank Agreement.

“Contingent Default Amount” has the meaning assigned to such term in the Bank Agreement.

“Cosigner” means an individual who has entered into an agreement with the Issuer to guarantee a Student Loan. The Cosigner must (i) be a Creditworthy Cosigner, at least 24 years old or, if a sibling of the borrower, be at least 18 years old, must reside in the United States of America and be either a citizen or a permanent resident of the United States of America; or (ii) otherwise meets the requirements of Minnesota Rules, Part 4850.0011, Subpart 10, as amended; provided that no amendment to such rule after the date of the General Indenture shall apply to Student Loans unless a credit confirmation has been received with respect thereto.

“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 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, Issuer staff travel and expenses related to a Series 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 written notice from each Credit Provider then providing a Credit Facility for the Series 2012 Bonds, confirming that the action proposed by the Issuer is approved by the Credit Provider.

“Credit Enhancement Fees” means the ongoing commitment fees payable by the Issuer to a Credit Provider in consideration for the issuance of a Credit Facility by such 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 2012 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 Credit Provider’s failure to honor a properly presented and conforming drawing under the related Credit Facility.

“Credit Facility Purchase Subaccount” means the subaccount with that name established within each account in the Bond Purchase Fund pursuant to the First Supplemental Indenture.

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

“Credit Provider” means the issuer of the Credit Facility, and upon the effectiveness of an Alternate Credit Facility, the issuer of such Alternate Credit Facility. The initial Credit Provider is Royal Bank of Canada, acting through its WFC, New York branch. When used in the First Supplemental Indenture at a time when there is more than one Credit Facility securing the Series 2012 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 either: (a) 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; or (b) otherwise meets the requirements of Minnesota Rules, Part 4850.0011, Subpart 9, as amended; provided that no amendment to such rule after the date of the General Indenture shall apply to Student Loans unless a Credit Confirmation has been received with respect thereto.

“Current Mode” means the Mode then prevailing with respect to the Series 2012 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 an Issuer Order, with written notice thereof to the Trustee.

“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 any Bonds.

“Debt Service Reserve Fund” means the fund created by that name under 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 all Series of Bonds then Outstanding. The Debt Service Reserve Requirement for the Series 2012 Bonds is \$3,750,000.

“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 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 totally and permanently disabled (the documentation as to which has been approved by the Issuer), (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 the 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 and under certain circumstances specified in the Supplemental Indenture, must be consented to by the Issuer and the Provider. The Designated Day for the Series 2012 Bonds during the Weekly Rate Period shall be Thursday of each week, commencing with the earlier of the Issue Date or 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.

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

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

“Electronic Means” means telecopy, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by first class mail, postage prepaid.

“Eligible Institution” has the meaning given in Section 136A.15 of the Act and generally means a postsecondary institution which: (a) 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 or (b) is located in the State and (i) is operated by the State or the Board of Regents of the University of Minnesota; or (ii) is operated privately and, as determined by the Issuer, (A) maintains academic standards substantially equivalent to those of comparable institutions operated in the State; (B) is licensed or registered as a postsecondary institution by the Issuer; and (C) participates in the federal Pell Grant program under Title IV of the Higher Education Act of 1965, Public Law 89-329, as amended or requires every student who enrolls to sign a disclosure form, provided by the Issuer, stating that the institution is not participating in the federal Pell Grant program. An institution that offers only graduate-level degrees or graduate-level nondegree programs, or that offers only degrees or programs that do not meet the required minimum program length to participate in the federal Pell Grant program, is an eligible institution if the institution is licensed or registered as a postsecondary institution by the Issuer. Each Eligible Institution is required to have its 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 under the heading “SUMMARY OF THE INDENTURE, THE GENERAL INDENTURE, Defaults and Remedies, Events of Default.”

“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 in the First Supplemental Indenture or in the General Indenture, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds pursuant to the General Indenture) shall exceed 116% (or (1) such greater percentage as required by the Credit Facility Agreement, or (2) except as limited in (1) above, such lesser percentage with a Credit Confirmation) of the sum of the principal and accrued interest on Outstanding Series 2012 Bonds as evidenced in a Certificate of an Authorized Representative delivered 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 of such Series 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 Treasury Regulations, Section 1.148-4 and 1.148-5, respectively, or such other applicable regulations under the Code.

“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 the end of the first Bond Year after the Issue Date for a Series of Bonds and the last day of each 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.

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

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

“Facility” means any Credit Facility and/or any Liquidity Facility.

“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 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 between the Issuer and the Trustee dated as of September 1, 2012, as amended and supplemented from time to time, pursuant to which the Series 2012 Bonds are issued.

“Fiscal Year” means a 12-month period commencing on the 1st day of July of any year, or such other 12-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 an Issuer Order, with written notice thereof to the Trustee.

“Fixed Mode” means a period of time when the Series 2012 Bonds bear interest at the Fixed Rate.

“Fixed Rate” means the per annum interest rate on Series 2012 Bonds in the Fixed Mode determined pursuant to the First Supplemental Indenture.

“Fixed Rate Bonds” or “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 12 months after the date of issue thereof, and when used with reference to the First Supplemental Indenture, means a Series 2012 Bond in the Fixed Mode.

“Fixed Rate Period” means, for Series 2012 Bonds in the Fixed Mode, the period from the Mode Change Date upon which such Series 2012 Bonds were converted to the Fixed Mode to but not including the Stated Maturity for such Series 2012 Bonds.

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

“Funds and Accounts” means (i) 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 the General Indenture; (ii) the Bond Purchase Fund and accounts and subaccounts therein (established pursuant to the First Supplemental Indenture); and (iii) any other fund established in or pursuant to a Supplemental 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 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.

“General Indenture” means the General Indenture between the Issuer and the Trustee dated as of September 1, 2012, as amended and supplemented from time to time, pursuant to which the Series 2012 Bonds are issued.

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

“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 Treasury Regulations, Section 1.148-1(b).

“Indenture” means the General Indenture together with any Supplemental Indenture 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 Remarketing Agent and any Tender Agent, as approved by the Credit Provider, and any such additional agent or agents 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 2012 Bonds bear interest at an Indexed Rate.

“Indexed Rate” means the per annum interest rate on the Series 2012 Bonds in the Indexed Mode determined pursuant to the First Supplemental Indenture.

“Indexed Rate Bond” means a Series 2012 Bond so identified in the First Supplemental Indenture.

“Indexed Rate Conversion Date” means the date on which any of the Series 2012 Bonds of either Series are converted to Indexed Rate Bonds, which date shall be an Interest Payment Date.

“Indexed Rate Period” means, for Series 2012 Bonds in the Indexed Mode, the period of time as designated in the First Supplemental Indenture.

“Initial Credit Facility Agreement” means the Letter of Credit and Reimbursement Agreement dated as of September 1, 2012, 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 2012 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 Issue Date of the Series 2012 Bonds) and shall end on the day preceding the succeeding Interest Payment Date.

“Interest Payment Date” means each date on which interest is to be paid on any Series 2012 Bonds and is (a) with respect to Bank Bonds, as set forth in the Bank Agreement, as applicable, (b) with respect to Series 2012 Tax Exempt Bonds other than Bank Bonds, (i) each May 1 and November 1, commencing November 1, 2012, (ii) the Stated Maturity, and (iii) each Mode Change Date for such Series 2012 Tax Exempt Bonds, (c) with respect to Series 2012 Taxable Bonds other than Bank Bonds (i) the first Business Day of each month, commencing October 1, 2012, (ii) the Stated Maturity, and (iii) each Mode Change Date for such Series 2012 Taxable Bonds, and (d) with respect to Series 2012 Bonds which have been converted to the Fixed Mode, as provided in the First Supplemental Indenture.

“Interest Period” means, for Series 2012 Bonds in a particular Mode, the period of time that such Series 2012 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 2012 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 the General Indenture and approved by the Credit Provider.

“Investment” has the meaning stated in Treasury Regulations, Section 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 U.S. 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.

“Investment Securities,” (1) 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 Bank Agreement or Supplemental Indenture and which, if not otherwise specified, shall be valued at par:

(a) Government Obligations which 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 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 insured by federal agencies, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other Depository, including the Trustee or any of its affiliates, provided that, at the time of deposit or purchase such Depository has senior debt rated "Aa" or higher by Moody's and, if commercial paper is outstanding, commercial paper which is rated "P-1" by Moody's and if rated by Fitch "AA" and "F1+." 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 Moody's, "AAA" if rated by S&P and "AAA" if rated by Fitch issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(d) United States dollar-denominated deposit accounts insured by federal agencies, federal funds and banker's acceptances with a domestic commercial bank which has a rating on its short-term certificates of deposit on the date of purchase of "P-1" by Moody's, "A-1+" if rated by S&P and "F1+" if rated 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); and if maturity is more than or equal to 90 days, it must also be rated "Aaa" by Moody's;

(e) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, "A-1+" if rated by S&P and "F1+" if rated by Fitch and which matures not more than 270 days after the date of purchase; and 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 a bank (which may include the Trustee or any of its affiliates) which is a member of the Federal Deposit Insurance Corporation, the outstanding, unsecured debt securities of which are rated "Aaa" by Moody's, provided that the collateral for such repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized by Minnesota Statutes, Section 11A.24;

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

(h) money market funds investing in securities complying with the requirements of Minnesota Statutes, Section 11A.24 (as determined by the Issuer), having a rating from each rating agency rating such fund in the highest investment category applicable to money market funds granted by such rating agency 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;

(i) other forms of investment complying with the requirements of Minnesota Statutes, Section 11A.24, 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

(2) when used with reference to the First Supplemental Indenture, means any of the following securities, if and to the extent the same are at the time legal for investment of moneys and funds of the Issuer held under the Indenture:

- (a) direct obligations of the United States of America or obligations guaranteed as to full and timely payment both as to principal and interest by the United States of America;
- (b) investments in a money market fund invested in obligations described in (a) above; and
- (c) any other investment consented to in writing by the Bank and complying with Minnesota Statutes, Section 11A.24.

“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, and with respect to the Series 2012 Bonds, means September \_\_\_, 2012.

“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 Bond” means any Series 2012 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 Bank 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 United States 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 Liquidity Provider’s failure to honor a properly presented and conforming drawing under the related Liquidity Facility.

“Liquidity Facility Purchase Subaccount” means the subaccount with that name established within each account in the Bond Purchase Fund pursuant to the First Supplemental Indenture.

“Liquidity Provider” means the provider of a Liquidity Facility, and upon the effectiveness of an Alternate Credit Facility, the issuer of such Alternate Credit Facility. When used herein at a time when there is more than one Liquidity Facility securing the Series 2012 Bonds, references to the “Liquidity Provider” shall, unless the context clearly contemplates a reference to all Liquidity Providers, be deemed to refer only to a particular Liquidity Provider.

“Loan Origination Period” means the period beginning on the Closing Date and ending on November 1, 2014; provided that (i) for purposes of mandatory redemption of the Series 2012B Bonds and with respect to Student Loans partially, but not fully, disbursed prior to November 1, 2014, this period ends on January 31, 2015, and (ii) this period may be further extended with the prior written consent of the Credit Provider.

“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 2012 Bond in the Variable Mode, each of such dates shall be a Mandatory Tender Date only if a Facility is in effect pursuant to which the Provider is obligated to pay or advance funds to pay the Purchase Price of the Series 2012 Bonds tendered on such date):

- (a) for Series 2012 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 fifth 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 Series 2012 Bonds will not subsequently be remarketed under the Facility that is expiring);
- (e) if a Facility is in effect and a Provider has given a notice of termination to the Trustee and the Issuer requesting a mandatory tender of the Series 2012 Bonds pursuant to the related 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 Provider prior to the applicable Tender Notice Deadline;
- (f) each date established by the Issuer for mandatory tender pursuant to the First Supplemental Indenture, provided that the Provider shall have given its prior written consent thereto to the extent required by the Bank Agreement;
- (g) if a Credit Facility is in effect, the Business Day after receipt by the Trustee (by 9:00 a.m. local time for said Trustee) of (i) written notice from the Credit Provider that an event of default under the Credit Facility Agreement has occurred (directing the Trustee to cause the Series 2012 Bonds to be mandatorily tendered) or (ii) written notice from the Credit Provider, following a drawing under a Credit Facility to pay interest on the Series 2012 Bonds, that the Credit Provider will not reinstate such Credit Facility with respect to such drawing; and
- (h) the Rate Determination Date immediately following the Rate Determination Date of the occurrence of a VRDB Trigger Event.

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 Owners of all Series 2012 Bonds subject to mandatory tender pursuant to the First Supplemental Indenture that states (a) that all such Series 2012 Bonds are to be purchased, (b) the Mandatory Tender Date on which such Series 2012 Bonds are to be purchased, and (c) applicable instructions with respect to such purchase and the tender of such Series 2012 Bonds for payment of the Purchase Price.

“Maturity” when used with respect to the Series 2012 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, maturity 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 Bank Agreement and (b) the maximum lawful nonusurious interest rate allowed under applicable law.

“Maximum Bond Interest Rate” means so long as a Facility is in effect, the lesser of either (1) (a) (i) with respect to Series 2012 Taxable Bonds which are not Bank Bonds, 15% per annum (or, with respect to Bank Bonds, such other rate as may be provided in the Bank Agreement), and (ii) with respect to Series 2012 Tax Exempt Bonds which are not Bank Bonds, 12% per annum (or with respect to Bank Bonds, such other rate as may be provided in the Bank Agreement) or (b) such higher rate that may be established from time to time pursuant to a Supplemental Indenture or amendment thereto after receipt of a Favorable Opinion, or (2) the maximum lawful nonusurious interest rate allowed under applicable law. Any higher rate under clause (1) (b) of the preceding sentence may subsequently be reduced to the rate described in clause (1) (a) of the preceding sentence.

“Maximum VRDB Cost” means, for each VRDB Cost Calculation Period, the sum of: (i) the average LIBOR, rounded to the nearest one thousandth of one percent, and (ii) the Maximum VRDB Spread.

“Maximum VRDB Spread” means, for each VRDB Cost Calculation Period, 1.60% per annum, or such other amount if the Trustee shall have received a Rating Confirmation that such other amount will not adversely affect the ratings assigned by such Rating Agency on any Series 2012 Bonds then Outstanding.

“Mode” means, as the context may require, the Weekly Mode, the Monthly Mode, the Term Mode, the Fixed Mode, an Indexed Mode or another mode established pursuant to the First Supplemental Indenture. Initially, the Series 2012 Bonds are in the Weekly Mode.

“Mode Change Date” means, with respect to Series 2012 Bonds in a particular Mode, the day on which another Mode for such Series 2012 Bonds begins, and includes a date on which Series 2012 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 2012 Bonds.

“Monthly Mode” means the Mode during which the Series 2012 Bonds bear interest at the Monthly Rate.

“Monthly Payment Date” means the 5th Business Day prior to the end 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 2012 Bonds in the Monthly Mode determined pursuant to the First Supplemental Indenture.

“Monthly Rate Period” means the period when a Series 2012 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 2012 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 Provider, 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 an Issuer Order, with written notice thereof to the Trustee.

“MSRB” means the Municipal Securities Rulemaking Board.

“National Repository” means the MSRB’s Electronic Municipal Market Access System operated by the MSRB as a national repository for continuing disclosure under 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.

“New Mode” means a change from the Mode then prevailing with respect to the Series 2012 Bonds to another Mode.

“Nonpurpose Investments” has the meaning stated in Treasury Regulations, Section 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 2012 Bonds, the Remarketing Agent and the Provider.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“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 2012 Bonds to be purchased pursuant to the First Supplemental Indenture, (b) the Purchase Date on which such Series 2012 Bonds are to be purchased, (c) that the notice is irrevocable and (d) applicable payment instructions with respect to the Series 2012 Bonds being tendered for purchase.

“Originate” or “Origination” means, with respect to a Student Loan, the disbursement of the proceeds of such Student Loan to a borrower. If a Student Loan is to be made in two or more disbursements, each such disbursement shall constitute an Origination of such Student Loan.

“Outstanding” when used with reference to Bonds means, as of any date, all Bonds, including any Bonds held in custody for the benefit of any 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 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 the General Indenture; and (d) any Bond paid or deemed to have been paid as provided in the General Indenture.

“Owner, “owner,” “Registered Owner” or words of similar import, when used with reference to a Bond, means the Person who is the registered owner of such Bond as shown on the registration books maintained by the Registrar.

“Participant” means a broker-dealer, bank or other financial institution from time to time for which the Securities Depository effects book-entry transfers and pledges of securities deposited with the 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 such 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.

“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 Office” means the office of the party indicated, as set forth in the First Supplemental Indenture or the General Indenture.

“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.

“Prior Bonds” means, collectively, the Series 1999A Bonds, the Series 2002B Bonds, the Series 2003A Bonds, the Series 2003B Bonds, the Series 2004B Bonds, the Series 2005B Bonds and the Series 2006 Bonds.

“Prior Indenture” means the Indenture of Trust, dated as of November 1, 1999, as amended and supplemented, between the Issuer and the Prior Trustee, relating to the Prior Bonds.

“Prior Trustee” means Wells Fargo Bank, National Association, as successor to Norwest Bank Minnesota, National Association.

“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 Provider following the date of issuance of any Class or Series of Bonds for which a 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 under the General Indenture (or by the Trustee on behalf of the Issuer); (vi) fees and expenses associated with the delivery of a substitute 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.

“Provider” means any Credit Provider and/or any Liquidity Provider.

“Purchase Date” means any date established for the mandatory or optional tender of Adjustable Rate Bonds, established in accordance with the terms of the First Supplemental Indenture. With respect to the Series 2012 Bonds, “Purchase Date” means (a) for a Series 2012 Bond in the Weekly Mode or the Monthly Mode, any Business Day selected by the Owner of such Series 2012 Bond pursuant to the provisions of the First Supplemental Indenture, and (b) any Mandatory Tender Date

“Purchase Fund” means the fund by that name created in accordance with the General Indenture.

“Purchase Price” means an amount equal to (a) the unpaid principal amount of any Series 2012 Bonds issued under the First Supplemental Indenture purchased on any Purchase Date, plus (b) in the case of any purchase of such Series 2012 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 any series of the Series 2012 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 Mode Change

Date, and (ii) in all cases, the applicable Designated Day (the initial Designated Day for the Weekly Rate Period being each Thursday); (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 Rate 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. Notwithstanding the foregoing, while the Series 2012 Bonds are Bank Bonds, the interest rate on the Series 2012 Bonds will continue to be determined on each Rate Determination Date applicable to the Weekly Mode for purposes of calculating the Average VRDB Cost.

“Rating Agency” or “Rating Agencies” means one or more of 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 under the Indenture, 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, other than Fitch and S&P, 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. With respect to Fitch, “Rating Confirmation” means notice to Fitch by the Issuer of the action the Issuer proposes to take.

“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 Treasury Regulations, Section 1.148-3.

“Rebate Fund” means the fund, if any, by that name created in accordance with the General Indenture.

“Record Date” means the Business Day before an Interest Payment Date with respect to the Series 2012 Bonds.

“Recycling Period” means the period of time, as the same may be extended from time to time, described under the heading DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—SUMMARY OF THE FIRST SUPPLEMENTAL INDENTURE—Recycling Limitations.

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

“Redemption Price” means, with respect to any Series 2012 Bond, the principal amount thereof, plus accrued interest to the Redemption Date.

“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, LLC, 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 Provider (if any). When used at a time when more than one Remarketing Agent is acting under the First Supplemental Indenture, the term “the Remarketing Agent” means, as the context dictates, either all such Remarketing Agents collectively, or only each Remarketing Agent acting with respect to particular Series 2012 Bonds.

“Remarketing Agent Fees” means the fees and expenses of any Remarketing Agent then acting under a Supplemental Indenture, as such fees may be limited in the Supplemental Indenture or Bank Agreement with respect to a series of Bonds.

“Remarketing Agreement” means the Remarketing Agreement, dated as of September 1, 2012, between the Issuer and the Remarketing Agent, and any amendments or supplements thereto, such amendments or supplements with the prior written consent of the Provider (if any).

“Remarketing Proceeds Subaccount” means the subaccount by that name established within each account in the Bond Purchase Fund pursuant to the First Supplemental Indenture.

“Request” means a request by the Trustee under the Liquidity Facility for the payment of Purchase Price of Series 2012 Bonds tendered in accordance with the terms of the First Supplemental Indenture.

“Responsible Officer” when used with respect to a Trustee means the chair or vice chair of its board of directors, the chair or vice chair of the executive committee of its board of directors, the president, any vice president (whether or not designated by a number or a word or words added before or after the title “vice president”), the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer (whether or not designated by a word or words added before or after the title “trust officer”) or assistant trust officer, the controller and any assistant controller or any other officer or employee of such Trustee authorized to perform functions similar to those performed by any of the above designated officers and having responsibility for the administration of the General Indenture and shall also mean, with respect to a particular corporate trust matter any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

“Revenue Fund” means the fund by that name created under 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” means 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, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by an Issuer Order, with written notice thereof 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 any Series of the Bonds, or (b) if the Issuer discontinues use of the Securities Depository with the prior written 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 applicable Series of Bonds and which is selected by the Issuer with the prior written consent of the Trustee and the Credit Provider.

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

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

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

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

“SELF V” means phase five of the Student Educational Loan Fund Program operated by the Issuer.

“SELF Participation Agreement” means a written agreement between the Issuer and an Eligible Institution, signed by the chief executive officer of the Eligible Institution pursuant to which the Eligible Institution agrees to perform certain administrative procedures.

“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 a Student Loan Fund, other than Defaulted Student Loans, and (b) all cash and Investment Securities held in the related Funds and Accounts (valued as set forth in the First Supplemental Indenture or General Indenture), plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds pursuant to the General Indenture) to (2) the sum of the principal and accrued interest on all Outstanding Class I Bonds.

“Serial Bonds” means the Series 2012 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.

“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, redemption privilege 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 1999A Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 1999 Series A (Taxable).

“Series 2002B Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 2002 Series B (AMT).

“Series 2003A Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 2003 Series A (Taxable).

“Series 2003B Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 2003 Series B (AMT).

“Series 2004B Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 2004 Series B (Tax-Exempt).

“Series 2005B Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 2005 Series B (AMT).

“Series 2006 Bonds” means the Issuer’s Supplemental Student Loan Program Revenue Bonds, 2006 Series (Tax-Exempt).

“Series 2012 Bonds” means, collectively, the Series 2012 Taxable Bonds and the Series 2012 Tax Exempt Bonds.

“Series 2012 Tax Exempt Bonds” means the Series 2012B Bonds.

“Series 2012 Taxable Bonds” mean the Series 2012A Bonds.

“Series 2012A Bond Purchase Account” means the account by that name within the Bond Purchase Fund created in the First Supplemental Indenture.

“Series 2012A Bonds” means the Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series A (Taxable) authorized by the First Supplemental Indenture.

“Series 2012B Bond Purchase Account” means the account by that name within the Bond Purchase Fund created in the First Supplemental Indenture.

“Series 2012B Bonds” means the Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series B (AMT) authorized by the First Supplemental Indenture.

“Servicer” means Firstmark Services LLC, the principal office of which is located at 121 South 13th Street Suite 201, Lincoln, NE 68508, and its successors and assigns, and any successor Servicer appointed by the Issuer and approved by the Provider in its sole discretion.

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

“Servicing Fees” means (i) the monthly fees due to any Servicer for servicing the Student Loans, as such fees may be limited in a Supplemental Indenture or Bank Agreement with respect to a Series of Bonds, and (ii) the fees of any custodian under a custodian agreement with respect to the Bonds.

“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 2012 Bond in the Weekly Mode for which a rate is not set pursuant to 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 of principal 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 for payment of defaulted interest.

“State” means the State of Minnesota.

“State Debt Service Reserve Fund Payment” means a payment received by or on behalf of the Issuer from the State, pursuant to Section 136A.1787 of the Act, to replenish a Debt Service Reserve Fund.

“State Shortfall Payment” means a payment received by or on behalf of the Issuer from the State, pursuant to Section 136A.1787 of the Act, with respect to an expected shortfall in the moneys available to pay principal of and interest on the Bonds when due and payable.

“Stated Maturity” means the final payment date for each series of the Series 2012 Bonds as specified on the cover page of the Official Statement for the Series 2012 Bonds.

“Student Loan” or “Loan” means a loan made by the Issuer to a borrower under its Supplemental Loan Program that is, pursuant to the terms of the Indenture (1) refinanced or Originated with moneys in the Acquisition Fund, the Revenue Fund or the Surplus Fund and credited to the Student Loan Fund, (2) received in exchange for another Student Loan upon the sale thereof or substitution therefor in accordance with 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 a loan released from the lien of the Indenture and sold or exchanged, as permitted in the Indenture, to any purchaser, including the Issuer.

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

“Student Loan Program” means the program for the financing 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 the General Indenture.

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

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

“Tender Agent” means any commercial bank or trust company appointed by the Issuer in accordance with 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 15 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 Series 2012 Bonds will not subsequently be remarketed under the 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;
  - (iv) the date the Trustee receives notice of the occurrence of a VRDB Trigger Event;
  - (v) for all other Mandatory Tender Dates, not less than 15 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 Mode under which the Series 2012 Bonds bear interest at the Term Rate, selected in accordance with the First Supplemental Indenture.

“Term Rate” means the per annum interest rate for Series 2012 Bonds in the Term Mode determined pursuant to the First Supplemental Indenture.

“Term Rate Period” means, with respect to a Series 2012 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 the First Supplemental Indenture and, thereafter, the period from (and including) the beginning date of each successive Interest Period selected for such Series 2012 Bonds by the Issuer pursuant to the First Supplemental Indenture while such Series 2012 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” means, 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 LIBOR during the calendar quarter immediately preceding the interest rate adjustment date.

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

- Clause 1: 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.
- Clause 2: All general intangibles or payment intangibles or electronic chattel paper related to the Student Loans.
- Clause 3: 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 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.

Clause 4: All State Debt Service Reserve Fund Payments and State Shortfall Payments.

Clause 5: The rights of the Issuer in and to the Servicing Agreement as the same relates to Student Loans.

Clause 6: 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 hereunder by the Issuer or by anyone on its behalf or with its prior written consent, to the Trustee, which is authorized 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.

Clause 7: All proceeds of the foregoing.

“Trustee” means Wells Fargo Bank, National Association and its successor or successors and any other person at any time substituted in its place pursuant to the General Indenture, with the prior written consent of the Credit Provider.

“Trustee Fee” means an amount equal to the amounts set forth in any Trustee Fee Agreement. The Trustee Fee shall not exceed the amount set forth in the closing cash flows for the Bonds without the prior written consent of the Credit Provider, if any.

“Trustee Fee Agreement” means the Trustee Fee Agreement dated as of September 1, 2012, as the same may be amended from time to time, and any other agreement or agreements between the Issuer and the Trustee relating to the Trustee’s fees for its services rendered and to be rendered under the General Indenture and under any Supplemental Indenture.

“UCC” means the Uniform Commercial Code as in effect in the State.

“Undelivered Bonds” means any Adjustable Rate Bonds, the Owner of which has submitted a demand that such Bonds be repurchased by the Issuer on a designated Purchase Date or which are subject to mandatory tender for purchase in accordance with the terms of a Supplemental Indenture, and which are not, in fact, delivered for repurchase on the specified Purchase Date by the Owners thereof, but as to which the Purchase Price has been set aside in the Purchase Fund.

“U.S. Treasury” means the Department of the Treasury of the United States of America, or any successor to its functions.

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

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

“VRDB Cost Calculation Period” means, for VRDBs, the period beginning on the Issue Date and ending on each subsequent Rate Determination Date for such Series 2012 Bonds.

“VRDB Trigger Event” means the day that the Average VRDB Cost is in excess of the Maximum VRDB Cost.

“VRDBs” means the Series 2012 Bonds while Outstanding under the Indenture at a Variable Rate.

“Weekly Mode” means the Mode under which the Series 2012 Bonds bear interest at the Weekly Rate.

“Weekly Rate” means the per annum interest rate on Series 2012 Bonds in the Weekly Mode determined pursuant to the First Supplemental Indenture.

“Weekly Rate Period” means the period when a Series 2012 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 2012 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.

“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 Treasury Regulations, Section 1.148-5 and (2) the Bonds of a Series means the actuarial “yield” of the Bonds of such Series, as defined in Treasury Regulations, Section 1.148-4.

“Yield Reduction Payment” means the minimum amounts payable to the U.S. Treasury as described in Treasury Regulations, Section 1.148-5(c).

## **SUMMARY OF THE GENERAL INDENTURE**

The following is a brief description of certain provisions of the General Indenture. All references herein to the General Indenture are qualified in their entirety by reference to the definitive form of such document, a copy of which is available for review at the offices of the Underwriter, and, after issuance, at the office of the Trustee. Such summary does not purport to be complete and is subject to change prior to delivery of the Series 2012 Bonds.

In the General Indenture, the Issuer bargains, assigns, pledges and grants a security interest in the Trust Estate to the Trustee for the benefit of the Owners, any Provider and any counterparty to an Interest Rate Exchange Agreement, 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 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 contained in the General Indenture and any Supplemental Indenture, and (iii) the payment of all amounts owing under any Bank Agreement or Interest Rate Exchange Agreement.

### **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 or any Supplemental Indenture. The Bonds do not represent or constitute a debt or pledge of the faith and credit of the State, or grant to the Owner or Owners thereof any right to have the State levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. The Bonds are payable solely from the rentals, revenues, and other income, charges and moneys as are pledged for their payment in accordance with the General Indenture. The Bonds are not a general obligation of the Issuer. Neither the members of the Issuer nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

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, (iv) in connection with the foregoing, to set aside the amount the Issuer determines is necessary for a reserve, and (v) to pay Costs of Issuance and Program Expenses, obligations of the Issuer in the form of Bonds are 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 discussed below under the heading “SUMMARY OF THE GENERAL INDENTURE, Terms of the Bonds, Conditions Precedent to Delivery of Bonds” are satisfied.

Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be authenticated and delivered upon Issuer Order, 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) one or more Opinions 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, are 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) enforceable in accordance with their terms; (ii) such Bonds are valid and binding obligations of the Issuer enforceable in accordance with their terms; (iii) pursuant to the General 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) 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; and (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 the General Indenture;

(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 General Indenture, (i) a Rating Confirmation and Credit Confirmation with respect to all other Bonds Outstanding under such General Indenture, 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 General 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 the General Indenture.

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

Pledge Effected by Indenture; Priority. The Trust Estate is pledged to the Trustee for the benefit of the Owners, Providers and any counterparties to any Interest Rate Exchange Agreement. To the fullest extent provided by applicable law, the money and property pledged under the General Indenture 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) Credit Proceeds Fund; (d) Surplus Fund; (e) Debt Service Reserve Fund; and (f) Acquisition 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 Provider and any counterparty to an Interest Rate Exchange Agreement has no right, title or interest therein or thereto. The Trustee is also authorized for the purpose of facilitating administration of the Trust Estate to create accounts 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 by the Issuer from other trust estates of the Issuer or otherwise and all Student Loans made by the Issuer with amounts provided under the 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 accounts in the Student Loan Fund. If accounts 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 account.

The Issuer shall execute (if required by law) 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 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 or cause to be filed continuation statements as needed.

At the direction of the Issuer, 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 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 the General Indenture and the Bank Agreement; (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 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 Bank 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, any State Shortfall Payments 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 on Student Loans, if any, together with any refunds of Student Loans, 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 below or in a Supplemental Indenture), 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, sufficient to pay the Trustee fee and Servicing Fees, together with any required late fees or interest thereon, to the extent such fees and expenses have not been paid from available funds of the Issuer not held under the Indenture;

(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 in the following order of priority:

(a) Remarketing Agent Fees and Credit Enhancement Fees relating to Class I Bonds to the extent such Remarketing Agent Fees and Credit Enhancement Fees have not been paid from available funds of the Issuer not held under the Indenture;

(b) interest payable on Class I Bonds which accrued during the prior Monthly Period together with any unreimbursed obligations relating to any drawing under the Facility to pay interest on any Class I Bonds (including the interest component of the Purchase Price), together with any required interest on such Facility;

(c) principal payable on Class I Bonds, after taking into account available moneys in the Credit Proceeds Fund together with any unreimbursed obligations relating to any drawing under the Facility to pay principal of any Class I Bonds (including the principal component of the Purchase Price);

(d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class I Bonds, together with any other amounts payable to a Provider pursuant to the related Bank Agreement (other than the amounts set forth in clauses (9) and (10) below) in each case when due and payable in accordance with such Interest Rate Exchange Agreement or Bank Agreement, as the case may be;

(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 in the following order of priority:

(a) Remarketing Agent Fees and Credit Enhancement Fees relating to Class II Bonds to the extent such Remarketing Agent Fees and Credit Enhancement Fees have not been paid from available funds of the Issuer not held under the Indenture;

(b) interest payable on Class II Bonds which accrued during the prior Monthly Period together with any unreimbursed obligations relating to any drawing under the Facility to pay interest on any Class II Bonds (including the interest component of the Purchase Price), together with any required interest on such Facility;

(c) principal payable on Class II Bonds, after taking into account available moneys in the Credit Proceeds Fund, together with any unreimbursed obligations relating to any drawing under the Facility to pay principal of any Class II Bonds (including the principal component of the Purchase Price);

(d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class II Bonds, together with any other amounts payable to a Provider pursuant to the related Bank Agreement (other than the amounts set forth in clauses (9) and (10) below) in each case when due and payable in accordance with such Interest Rate Exchange Agreement or Bank Agreement, as the case may be;

(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 in the following order of priority:

(a) Remarketing Agent Fees and Credit Enhancement Fees relating to Class III Bonds to the extent such Remarketing Agent Fees and Credit Enhancement Fees have not been paid from available funds of the Issuer not held under the Indenture;

(b) interest payable on Class III Bonds which accrued during the prior Monthly Period together with any unreimbursed obligations relating to any drawing under the Facility to pay interest on any Class III Bonds (including the interest component of the Purchase Price), together with any required interest on such Facility;

(c) principal payable on Class III Bonds, after taking into account available moneys in the Credit Proceeds Fund, together with any unreimbursed obligations relating to any drawing under the Facility to pay principal of any Class III Bonds (including the principal component of the Purchase Price);

(d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class III Bonds, together with any other amounts payable to a Provider pursuant to the related Bank Agreement (other than the amounts set forth in clauses (9) and (10) below) in each case when due and payable in accordance with such Interest Rate Exchange Agreement or Bank Agreement, as the case may be;

(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 in the following order of priority:

(a) Remarketing Agent Fees and Credit Enhancement Fees relating to Class IV Bonds to the extent such Remarketing Agent Fees and Credit Enhancement Fees have not been paid from available funds of the Issuer not held under the Indenture;

(b) interest payable on Class IV Bonds which accrued during the prior Monthly Period together with any unreimbursed obligations relating to any drawing under the Facility to pay interest on any Class IV Bonds (including the interest component of the Purchase Price), together with any required interest on such Facility;

(c) principal payable on Class IV Bonds, after taking into account available moneys in the Credit Proceeds Fund, together with any unreimbursed obligations relating to any drawing

under the Facility to pay principal of any Class IV Bonds (including the principal component of the Purchase Price);

(d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class IV Bonds, together with any other amounts payable to a Provider pursuant to the related Bank Agreement (other than the amounts set forth in clauses (9) and (10) below) in each case when due and payable in accordance with such Interest Rate Exchange Agreement or Bank Agreement, as the case may be;

(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 in the following order of priority:

(a) Remarketing Agent Fees and Credit Enhancement Fees relating to Class V Bonds to the extent such Remarketing Agent Fees and Credit Enhancement Fees have not been paid from available funds of the Issuer not held under the Indenture;

(b) interest payable on Class V Bonds which accrued during the prior Monthly Period together with any unreimbursed obligations relating to any drawing under the Facility to pay interest on any Class V Bonds (including the interest component of the Purchase Price), together with any required interest on such Facility;

(c) principal payable on Class V Bonds, after taking into account available moneys in the Credit Proceeds Fund, together with any unreimbursed obligations relating to any drawing under the Facility to pay principal of any Class V Bonds (including the principal component of the Purchase Price);

(d) amounts due (excluding any termination fees) under an Interest Rate Exchange Agreement relating to Class V Bonds, together with any other amounts payable to a Provider pursuant to the related Bank Agreement (other than the amounts set forth in clauses (9) and (10) below) in each case when due and payable in accordance with such Interest Rate Exchange Agreement or Bank Agreement, as the case may be;

(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 to the extent the amounts necessary to meet the Debt Service Reserve Requirement have not been paid from available funds of the Issuer not held under the Indenture;

(9) any other amounts due to Providers (other than any Contingent Amount or Contingent Default Amount) under the terms of the related Bank Agreement and any other amount due to the Trustee that is not paid in accordance with subparagraph (2) above, to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

(10) as required by any Bank Agreement, any Contingent Amount or Contingent Default Amount owed to a Provider to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

(11) amounts to pay (i) 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, and (ii) any other Program Expenses not otherwise paid in accordance with the above priority to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

(12) 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 the General Indenture; and

(13) 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 the General 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 10<sup>th</sup> 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 draws on the related Facility) to each 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 heading.

The Issuer by Issuer Order may elect to create two or more accounts 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 a Provider for payment of such Debt Service) from that Series' account and to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' account. The creation of such account is for tracking purposes only and all Bonds of the same Class shall be paid on a parity basis. In the event there are insufficient funds in the Revenue Fund account and Surplus Fund account for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from any Revenue Fund account or Surplus Fund account for another Series of Bonds of the same Class, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid in the order established above under the heading "SUMMARY OF THE GENERAL INDENTURE, Pledge of Indenture; Establishment of Funds and Accounts, Revenue Fund," provided, however, that funds advanced under a 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 the provisions discussed under the heading "SUMMARY OF THE GENERAL INDENTURE, Pledge of Indenture; Establishment of Funds and Accounts, Credit Proceeds Fund," 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 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 a Series to the initial purchasers thereof and the first Sinking Fund Payment date with respect to such Series, or from the last Sinking Fund Payment date to the next Sinking Fund Payment date with respect to such Series, 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 account in the Credit Proceeds Fund. The Trustee shall deposit into the designated account 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 in the General Indenture to the contrary, the Trustee shall only make payments of principal of and interest on, Redemption Price or Purchase Price (to the extent remarketing proceeds are not available for such purposes) on Bonds supported by a Direct Pay Credit Facility, 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 in the order specified therein.

**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 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 Securities, if as a result of such investment the Yield from the Issue Date of a Series of Bonds of all Investment Securities 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, the Debt Service Reserve Fund and the Rebate Fund to the extent required (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 Bank Agreement, to redeem Bonds held by any Provider or to reimburse the Provider for Bonds accelerated or mandatorily redeemed or purchased; (d) on any date, to Originate or refinance Student Loans at the direction of the Issuer, as more fully set forth in the General Indenture and as may be permitted by the Bank Agreement; and (e) to transfer money to the Issuer if permitted pursuant to the General Indenture, provided the Issuer gives prior written notice to any Provider and the Rating Agency.

The Issuer, by Issuer Order, may elect to create two or more accounts 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' account and, to the extent possible, shall pay expenses attributable to that Series of Bonds from that Series' account. The creation of such accounts is for tracking purposes only, and all Bonds of the same Class shall be paid on a parity basis. In the event there are insufficient funds in the Revenue Fund account and Surplus Fund account for a particular Series of Bonds to pay any amount then due, the Trustee shall make such payment from the Revenue Fund account or Surplus Fund account for another Series of Bonds of the same Class, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid prior to the amount due, in the order of priority discussed above under headings "SUMMARY OF THE GENERAL INDENTURE, Pledge of Indenture; Establishment of Funds and Accounts, Revenue Fund and Surplus Fund."

**Debt Service Reserve Fund.** The Trustee shall deposit in the Debt Service Reserve Fund the Debt Service Reserve Requirement specified in the related Supplemental Indenture, any transfers thereto from the Revenue Fund or Surplus Fund and any State Debt Service Reserve Fund Payments received by the Trustee. Amounts on deposit in a Series account of the Debt Service Reserve Fund shall be applied as provided below and to the payment of the final installment of principal of and interest on the Outstanding Bonds. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement (other than as a result of a State Debt Service

Reserve Fund payment), the Issuer shall by Issuer Order direct the Trustee to transfer such excess 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 paragraphs (1) through (7) under the heading “SUMMARY OF THE GENERAL INDENTURE, Pledge of Indenture; Establishment of Funds and Accounts, Revenue Fund” above.

The Issuer shall at all times maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement. If, as of December 1 in any year, the balance in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the Issuer shall file all notices, certificates and requests with the Governor of the State on such date as may be necessary or desirable to obtain a State Debt Service Reserve Fund Payment to restore the balance in the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

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.

Additionally, except as may be set forth in any Supplemental Indenture, the Trustee shall use the moneys in the Acquisition Fund, to the extent of any deficiency after applying the moneys in the Revenue Fund and the Surplus Fund, to the same uses as set forth above under the heading ‘SUMMARY OF THE GENERAL INDENTURE – Pledge of Indentures; Establishment of Funds and Accounts – Revenue Fund.’

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 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.

#### Order of Use of Amounts in Funds For Payment of Bonds and Reimbursement Obligations.

Except as may be set forth in any Supplemental Indenture, in the event there shall be on any Bond Payment Date a deficiency in the amounts to be applied to the payment of principal or interest on the Bonds or to the payment of amounts due under any Interest Rate Exchange Agreement, the Trustee shall make up such deficiency by transfer of moneys for that purpose from the applicable accounts in the named funds in the following order of priority: Revenue Fund, Surplus Fund, Acquisition Fund and Debt Service Reserve Fund; provided however, that the Trustee shall make up a deficiency in the payment of termination fees due under any Interest Rate Exchange Agreement only from amounts in the Revenue Fund and the Surplus Fund.

If at any time there are insufficient moneys to reimburse a Provider for the full amount of any drawing made under its Facility, plus any additional interest which may have accrued on such drawing pursuant to the terms of the related Bank Agreement or Facility, the Trustee shall apply moneys on deposit, first, in any account in the Revenue Fund, second, in any account in the Surplus Fund, third, in any account in the Acquisition Fund and fourth, in any account in the Debt Service Reserve Fund as reimbursement to such Provider, to the extent of such insufficiency.

#### **Deficiency Filings**

Debt Service Reserve Fund. Issuer shall semiannually by May 15 and November 15 of each year, commencing November 15, 2012, cause the Trustee to value the Debt Service Reserve Fund. The Director of the Issuer shall annually, on or before December 1 of each year, commencing December 1, 2012, make and deliver to the Governor of the State, in accordance with Section 136A.1787 of the Act, a Certificate stating the sums, if any, required to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement as of such December 1. All State Debt Service Reserve Fund Payments received by the Issuer from the State shall be immediately transferred to the Trustee and upon receipt thereof by the Trustee, be deposited in the Debt Service Reserve Fund and applied in accordance with the General Indenture.

Revenue Fund. The Issuer shall by November 15 of each year, commencing November 15, 2012, determine whether, taking into account all moneys (including Revenues to be received) available for payment of the Bonds under the General Indenture, there will be a shortfall in the amounts necessary to pay principal and interest due and payable on the Bonds during the current or immediately following Fiscal Year. The Director of the Issuer shall annually, on or before December 1 of each year, commencing December 1, 2012, make and deliver to the Governor of the State, in accordance with Section 136A.1787 of the Act, a Certificate stating the sums, if any, to be needed during the current or immediately following Fiscal Year, together with other funds pledged under the General Indenture, and estimated to be received during such years (and available for such payment in each such years), for the payment of principal and interest due and payable in each such year on the Bonds. All State Shortfall Payments received by the Issuer from the State shall be immediately transferred to the Trustee and, upon receipt thereof by the Trustee, be deposited in the Revenue Fund and applied in accordance with the terms of the Indenture and any Supplemental Indenture.

General. All moneys to be paid to the Issuer as described under the heading, “SUMMARY OF THE GENERAL INDENTURE, Deficiency Filings” are subject to appropriation by the State legislature for such purpose from time to time. The State legislature has no legal obligation to make such appropriations, and the provisions of the Act described herein do not constitute a legally enforceable obligation on the part of the State.

### **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 and the interest, if any, thereon or Redemption Price of every Bond, at the dates and places and in the manner stated in the Bonds.

#### 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 the 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 summarized under the heading “SUMMARY OF THE GENERAL INDENTURE, Particular Covenants, Covenants Regarding Student Loans” below is true.

(c) Subject to the terms of the Bank Agreement, 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, 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 Bank 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 Provider, if any, and the 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) Subject to the terms of the Bank Agreement, the Issuer may at any time and from time to time exchange 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 such 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.

**Covenants Regarding Student Loans.** In the General Indenture, the Issuer covenants that all Student Loans to be acquired thereunder will meet the following criteria at the time of such acquisition:

(a) Each Student Loan is evidenced by an executed promissory note, either manually or electronically signed by the borrower and a Creditworthy Cosigner, which note is a valid and binding obligation of the borrower and the Creditworthy Cosigner, enforceable by or on behalf of the holder thereof in accordance with its terms, subject to bankruptcy, insolvency and other laws relating to or affecting creditors' rights.

(b) The amount of the unpaid principal balance of each Student Loan is true and owing, and no counterclaim, offset, defense or right to rescission exists with respect to any such Loan which can be asserted and maintained or which, with notice, lapse of time, or the occurrence or failure to occur of any act or event, could be asserted and maintained by the borrower against the Issuer or the assignee thereof. The Issuer shall take all reasonable actions to assure that no maker of a Student Loan has or may acquire a defense to the payment thereof.

(c) No Student Loan has a payment that is delinquent (delinquent, for this purpose, meaning that a payment has not been made within 30 days of its due date).

(d) The Issuer has full right, title and interest in each Student Loan free and clear of all liens, pledges or encumbrances whatsoever.

(e) Each Student Loan was made in compliance with all applicable local, state and federal laws, rules and regulations, including without limitation all applicable nondiscrimination, truth-in-lending, consumer credit and usury laws.

(f) All Loan documentation shall be delivered to the Servicer (as custodian for the Trustee) prior to disbursement of amounts to Originate or refinance such Loan.

(g) Each Student Loan is accruing interest (whether or not such interest is being paid currently, by the borrower, or is being capitalized).

**Issuance of Additional Bonds; Interest Rate Exchange Agreements.** After the issuance of the initial Series of Bonds under the General Indenture, and except as provided under the heading "SUMMARY OF THE GENERAL INDENTURE, Terms of the Bonds, Conditions Precedent to Delivery of Bonds," the Issuer shall not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a lien or charge on the Trust Estate, except as follows: (1) additional Series of Bonds may be issued from time to time, which may have any Class designation and which may be superior to, on a parity with, or subordinate to one or more Series of Bonds or Interest Rate Exchange Agreements; and (2) Interest Rate Exchange Agreements may be entered into from time to time which may have any Class designation and which may be superior to, on a parity with or

subordinate to one or more Series of Bonds or Interest Rate Exchange Agreements, so long as the Issuer is authorized by State law to enter into such agreements. The Issuer shall not enter into an Interest Rate Exchange Agreement without obtaining a Rating Confirmation and Credit Confirmation.

### **Supplemental Indenture 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 prior written consent of the 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 is 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 may be 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 or subseries thereof, 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 provision 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 on any of the Bonds; (m) to provide for the orderly sale or remarketing of Bonds; (n) to make any other change which, as set forth in 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, as set forth in an Opinion of Counsel, is not to the prejudice of the Trustee or the Owners; (p) to make any change that affects only the rights of a Provider which has issued a Facility with respect to any of the Bonds, with the prior written consent of such Provider; (q) to conform provisions under the Indenture with respect to variable rate bonds to the prevailing market practices to the extent deemed reasonable and necessary by the Issuer; (r) to modify, alter, amend or supplement the General Indenture, including any Supplemental Indenture, to provide for one or more subseries of any Series for the purpose of a partial conversion of the interest rate mode on such Series; or (s) to modify, alter, amend or supplement the Indenture, including any Supplemental Indenture, in any other respect, including amendments which would otherwise be described in this paragraph (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; or (ii) if notice of the proposed Supplemental Indenture is given to Owners (in the same manner as notices of redemption are given) at least 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. 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 of the General Indenture if all such tenders or demands for purchase are timely honored; 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.

## **Supplemental Indenture Requiring Consent of Owners**

Except as provided above any modification of or amendment to the General Indenture and of the rights and obligations of the Issuer, a Provider or the Owners of the Bonds of any particular Series, may be made by a Supplemental Indenture, with the prior written consent of each 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 all the Owners 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 Provider has issued a Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Provider has filed to honor a properly presented and conforming drawing under the Facility, the Provider shall be considered as the Owner of all 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 General Indenture.

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 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 thereof 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 Provider), or shall reduce the percentages of such Series of Bonds or Class within that Series of Bonds for the purpose of the Owners' consenting to any modification of or amendment to the General Indenture or otherwise affect the Classes of Bonds, or shall change or modify any of the rights or obligations of any Indenture Agent without its written assent thereto. 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" under the General Indenture:

- (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 Bond 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 General 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 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 prior written consent of the 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 the General Indenture without the prior written consent of the Provider;
- (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 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 Supplemental Indenture, or (iii) for a Series of Bonds secured by a Credit Facility, failure of the Credit Provider to reinstate such Credit Facility under the terms of the applicable Credit Facility; or

(f) the occurrence of one or more of the following events: (i) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the Issuer; (ii) the commencement by or against the Issuer of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the Issuer or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the application for or consent to or acquiesce in the appointment of a trustee, receiver, liquidator, custodian or other similar official for the Issuer or any substantial part of its property; (iii) the making by the Issuer of general assignment for the benefit of creditors; (iv) the inability or failure of the Issuer to generally pay its debts as they become due or any admission by the Issuer in writing of its inability to pay its debts generally as they become due; (v) the declaration of a moratorium with respect to the payment of the debts of the Issuer; or (vi) the initiation by the Issuer of any action in furtherance of or to authorize any of the foregoing; or

(g) any event specified in a Supplemental Indenture to be an Event of Default.

Remedies. (a) Upon the occurrence of any Event of Default specified in paragraphs (a), (b), (e) or (f) described above, or upon the occurrence and continuance of any Event of Default specified in paragraphs (c) or (d) above, the Trustee shall promptly notify the Issuer, any 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 below under the heading “Owners’ Direction of Proceedings” 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) above, 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 an Event of Default specified in (c) or (d) above, the Trustee may, after written notice to the Issuer, and upon the written direction of the Owners, as provided below under the heading “Owners’ Direction of Proceedings,” but with the prior written consent of the Provider, immediately 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 Facility for the Bonds previously in effect is fully reinstated and in full force and effect.

(b) If Bonds secured by a Facility are accelerated upon Provider direction or prior written consent, the Trustee shall make a drawing on the 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 Provider related to such draw on the Facility, interest on the Bonds shall cease to accrue after such date of acceleration. Such drawing shall be made notwithstanding any right of the Provider to control remedies provided below under the heading "Owners' Direction of Proceedings."

(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 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 paragraph (k) below, but only at the written direction of the Provider, if any, and shall not be liable to any Owner, Provider or the Issuer by reason of such selection, liquidation or sale.

(g) Whenever moneys are to be applied pursuant to the remedies provisions of the General Indenture irrespective of and whether other remedies authorized under the General 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 prior written consent of the Provider and as may be required by law and apply the proceeds thereof in accordance with the provisions described under this heading at the direction of the Provider or with the Provider's prior written consent.

(h) Upon such sale, the Trustee, with prior written consent or at the direction of the 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 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.

(i) To the extent that funds are not otherwise available to pay amounts due to a Provider under its Bank Agreement, and unless otherwise provided in a Supplemental Indenture, the Trustee, at the request and at the direction of the Provider (except as provided in paragraph (k) below, shall convey or sell and deliver Student Loans purchased with assets of the Trust Estate to the Provider in partial or complete satisfaction of such obligations of the Issuer, subject to the acceptance of such Student Loans by the Provider at a purchase price equal to the principal outstanding plus accrued interest.

(j) 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.

(k) Should an event of default under a Bank Agreement have occurred and be continuing unremedied for more than 15 days or sooner, if the Bonds have been accelerated, the Provider under such Bank 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 below.

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 any Paying Agents shall be insufficient for the payment of principal of and interest on or Redemption Price then due on the Bonds, or to reimburse a Provider for all obligations of the Issuer under the Bank Agreement, such funds (other than funds held for the payment of particular Bonds pursuant to the General Indenture or which have theretofore become due at maturity) and any other amounts received or collected by the Trustee acting pursuant to this paragraph, 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 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 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, together with amounts required to reimburse a Provider for any draws on its Facility to pay interest on any Class I Bonds and any required interest on such Facility 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 the principal component of the Redemption Price of any Class I Bonds which shall have become due together with amounts required to reimburse a Provider for any draws on its Facility to pay principal of any Class I Bonds and, if the amounts available shall not be sufficient to pay in full all such principal amounts due, then to the payment thereof ratably, according to the amounts of principal or the principal component of the Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

THIRD: To the payment of any other amounts then due and owing under a Bank Agreement with respect to the Class I Bonds and unpaid installments of amounts due on any Interest Rate Exchange Agreements relating to Class I Bonds (excluding termination fees) in the order of the maturity of such installments.

FOURTH: To the payment to the Persons entitled thereto of all installments of interest then due on Class II Bonds, together with amounts required to reimburse a Provider for any draws on its

Facility to pay interest on any Class II Bonds and any required interest on such Facility 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.

FIFTH: To the payment to the Persons entitled thereto of the unpaid principal or the principal component of the Redemption Price of any Class II Bonds which shall have become due together with amounts required to reimburse a Provider for any draws on its Facility to pay principal of any Class II Bonds and, if the amounts available shall not be sufficient to pay in full all such principal amounts due, then to the payment thereof ratably, according to the amounts of principal or the principal component of the Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

SIXTH: To the payment of any other amounts then due and owing under a Bank Agreement with respect to the Class II Bonds and unpaid installments of amounts due on any Interest Rate Exchange Agreements relating to Class II Bonds (excluding termination fees) in the order of the maturity of such installments.

SEVENTH: To the payment to the Persons entitled thereto of all installments of interest then due on Class III Bonds, together with amounts required to reimburse a Provider for any draws on its Facility to pay interest on any Class III Bonds and any required interest on such Facility 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.

EIGHTH: To the payment to the Persons entitled thereto of the unpaid principal or the principal component of the Redemption Price of any Class III Bonds which shall have become due together with amounts required to reimburse a Provider for any draws on its Facility to pay principal of any Class III Bonds and, if the amounts available shall not be sufficient to pay in full all such principal amounts due, then to the payment thereof ratably, according to the amounts of principal or the principal component of the Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

NINTH: To the payment of any other amounts then due and owing under a Bank Agreement with respect to the Class III Bonds and unpaid, installments of amounts due on any Interest Rate Exchange Agreements relating to Class III Bonds (excluding termination fees) in order of the maturity of such installments.

TENTH: To the payment to the Persons entitled thereto of all installments of interest then due on Class IV Bonds, together with amounts required to reimburse a Provider for any draws on its Facility to pay interest on any Class IV Bonds and any required interest on such Facility 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.

ELEVENTH: To the payment to the Persons entitled thereto of the unpaid principal or the principal component of the Redemption Price of any Class IV Bonds which shall have become due together with amounts required to reimburse a Provider for any draws on its Facility to pay principal of any Class IV Bonds and, if the amounts available shall not be sufficient to pay in full all such principal amounts due, then to the payment thereof ratably, according to the amounts of principal or the principal component of the Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

TWELFTH: To the payment of any other amounts then due and owing under a Bank Agreement with respect to the Class IV Bonds and unpaid, installments of amounts due on any Interest Rate Exchange Agreements relating to Class IV Bonds (excluding termination fees) in order of the maturity of such installments.

THIRTEENTH: 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 the principal component of the Redemption Price which shall have become due and, if the amounts available shall not be sufficient to pay such principal or the principal component of the Redemption Price in full, then to the payment thereof ratably, according to the amounts of principal or the principal component of the 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.

FOURTEENTH: To the payment of any other amounts then due and owing under a Bank Agreement with respect to the Class V Bonds and 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, to the payment of any amounts then due and owing under a Bank Agreement or Facility with respect to the Class I Bonds and to payments on Interest Rate Exchange Agreements related to Class I Bonds (excluding termination fees) without preference of priority of any amount due and owing with respect to the foregoing over any other amount due and owing with respect to the foregoing whether principal, interest or any other amount, excluding termination fees on Interest Rate Exchange Agreements related to Class I Bonds, ratably, according to the amounts due 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, Bank Agreement, Facility or Interest Rate Exchange Agreements relating to Class I Bonds (excluding termination fees); second, to the payment of the principal and interest then due and unpaid upon the Class II Bonds, to the payment of any amounts then due and owing under a Bank Agreement or Facility with respect to the Class II Bonds and to payments on Interest Rate Exchange Agreements related to Class II Bonds (excluding termination fees) without preference of priority of any amount due and owing with respect to the foregoing over any other amount due and owing with respect to the foregoing whether principal, interest or any other amount, excluding termination fees on Interest Rate Exchange Agreements related to Class II Bonds, ratably, according to the amounts due 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 II Bonds, Bank Agreement, Facility or Interest Rate Exchange Agreements relating to Class II Bonds (excluding termination fees); third, to the payment of the principal and interest then due and unpaid upon the Class III Bonds, to the payment of any amounts then due and owing under a Bank Agreement or Facility with respect to the Class III Bonds and to payments on Interest Rate Exchange Agreements related to Class III Bonds (excluding termination fees) without preference of priority of any amount due and owing with respect to the foregoing over any other amount due and owing with respect to the foregoing whether principal, interest or any other amount, excluding termination fees on Interest Rate Exchange Agreements related to Class III Bonds, ratably, according to the amounts due 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 III Bonds, Bank Agreement, Facility or Interest Rate Exchange Agreements relating to Class III Bonds (excluding termination fees); fourth, to the payment of the principal and interest then due and unpaid upon the Class IV Bonds, to the payment of any amounts then due and owing under a Bank Agreement or Facility with respect to the Class IV Bonds and to payments on Interest Rate Exchange Agreements related to Class IV Bonds (excluding termination fees) without preference of priority of any amount due and owing with respect to the foregoing over any other amount due and owing with respect to the foregoing whether principal, interest or any other amount, excluding termination fees on Interest Rate

Exchange Agreements related to Class IV Bonds, ratably, according to the amounts due 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 IV Bonds, Bank Agreement, Facility or Interest Rate Exchange Agreements relating to Class IV Bonds (excluding termination fees); fifth, to the payment of the principal and interest then due and unpaid upon Bonds and Interest Rate Exchange Agreements (excluding termination fees) By Class in Descending Priority, commencing with Class V, without preference of priority of any amount due and owing with respect to the foregoing over any other amount due and owing with respect to the foregoing, whether principal, interest or any other amount, excluding termination fees on Interest Rate Exchange Agreements relating to such Bonds ratably, according to the amounts due to the Persons entitled thereto without any discrimination or preference with respect to Bonds not paid pursuant to paragraph (a)(i) THIRTEENTH under this heading; and sixth, to the payment of termination fees due under any Interest Rate Exchange Agreement By Class in Descending Priority with respect to termination fees not paid pursuant to paragraph (a)(i) FOURTEENTH under this heading.

(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 the General Indenture, then (subject to the provisions of paragraph (ii) above 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 paragraph (a)(i) above.

(iv) With respect to any payment made under the foregoing provisions, 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 and the Credit Provider shall be reimbursed for the drawing in the priority given to such Bonds in paragraphs (a)(i) and (ii) above.

(b) Whenever moneys are to be applied by the Trustee pursuant to the foregoing provisions, 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 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 prior written 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 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, the provisions

described under this heading shall control. Upon the occurrence of an Event of Default described in paragraphs (c) or (d) under the heading “SUMMARY OF THE GENERAL INDENTURE, Defaults and Remedies, Events of Default,” the Provider or the Owners of not less than 100% in principal amount of the Bonds of the most senior Class then Outstanding with the prior written consent of the Provider, or, upon the occurrence of an Event of Default described in paragraphs (a), (b) or (e) under said heading, the Provider or the Owners of a majority in the principal amount of the Bonds of the most senior Class then Outstanding, with the prior written consent of the Provider, shall have the right to direct the Trustee to take all or any of the actions described under the heading “SUMMARY OF THE GENERAL INDENTURE, Defaults and Remedies, Remedies.” In the event that such Provider or Owners with the prior written consent of the 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 Provider or the Owners of the requisite percentage in principal amount of the Bonds of the most senior Class then Outstanding with the prior written consent of the Provider may exercise such rights.

In the event that a Provider has issued a Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Provider has filed to honor a properly presented and conforming drawing under the related 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 all of such Series of Bonds or Class within that Series of Bonds solely for the purpose of directing the actions of the Trustee under the General Indenture. All rights and remedies described herein 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 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 General Indenture, if the Trustee receives contrary direction from the Owners and the 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 has not failed to honor a properly presented and conforming 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 has not failed to honor a properly presented and conforming 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 Provider are not met, the Trustee shall act on the direction of the Owners, provided the direction complies with the requirements of the Indenture.

#### Limitation on Rights of Bondholders.

(a) Except as otherwise specifically provided in 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 his, her, 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 related Indenture, except in the manner provided in said 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 his, her, its or their 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 General 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, among others:

(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 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 Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the circumstances in the conduct of his or her 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 and the Trustee shall not be responsible for any misconduct or negligence on the part of any attorney, agent or receiver appointed by it with due care, 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 Estate. 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 General 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 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. To the extent permitted by law, the Issuer shall hold the Trustee harmless for any error or omission resulting from the Trustee's reliance upon the Issuer, any other Indenture Agent 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.

(f) For so long as Wells Fargo Bank, National Association is the Trustee, it will also be the Paying Agent and Registrar for the Bonds.

**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 60 days' written notice to the Issuer and each Provider, and mailing notice thereof specifying the date when such resignation shall take effect, to the Owners, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, in which event such resignation shall take effect immediately on the appointment of such successor. Notwithstanding the foregoing, no resignation of the Trustee shall become effective until a successor Trustee has been appointed and accepted its appointment and each Facility has been properly transferred to the successor Trustee in accordance with its respective terms.

**Removal of Trustee.** The Trustee shall be removed by the Issuer, with the prior written consent of the 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 attorneys-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 prior written consent of the 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 in writing by a Provider providing a Facility for the most senior Class of Bonds which has such right pursuant to the applicable Bank Agreement, by filing with the Trustee an instrument signed by an Authorized Representative and the 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 Facility then in effect has been properly transferred to a successor Trustee in accordance with its 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 and with the prior written consent of the Provider 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 of its resignation, 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 satisfactory to the Provider. 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 (i) the Issuer shall pay or cause to be paid to the Owners of the Bonds, the principal and interest to become due thereon or Redemption Price at the times and in the manner stipulated in the Bonds and in the Indenture; (ii) the Issuer shall pay or cause to be paid (A) all Rebate Amounts and Excess Interest required to be paid to the U.S. Treasury, (B) to each Indenture Agent its fees, costs and expenses, (C) to each Provider all amounts owing under each Facility or Bank Agreement relating thereto, (D) to each Remarketing Agent all Remarketing Agent Fees, and (E) to each counterparty to any Interest Rate Exchange Agreement all amounts owing to it; and (iii) the Facility has been returned to the Provider and marked "cancelled," then the pledge of the Trust Estate, including any Revenues and other moneys, securities, funds and property hereby pledged, and all other rights granted by the Indenture 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.

(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 the 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 U.S. Treasury) 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 the General Indenture and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal and interest or Redemption Price, if any, on said Bonds. Neither Governmental Obligations or moneys deposited with the Trustee 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 and interest on or Redemption Price, if any, 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 and interest or Redemption Price, if any, 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. Notwithstanding the foregoing, defeasance of the Bonds pursuant to the provisions of this paragraph shall not modify or affect any rights of any Owner to optionally tender Bonds as provided in a Supplemental Indenture or permit the release of any Facility.

(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 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 certified to be available by the Issuer, is further 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 Provider for a drawing on the 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 Facility or release the money in the redemption account until the Bonds have been redeemed in full with either a drawing on the Facility or, if there is a failure to pay under the 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.

(f) If any Bond shall not be presented for payment following its maturity, the Trustee, based on an Issuer Order and an Opinion of Counsel, shall turn over the money held by it for payment of such Bond to the persons entitled thereto under the applicable state unclaimed property or escheat laws.

Nonliability of Officers. It is expressly a condition of the General Indenture that any agreements, covenants or representations contained in the 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.

Third-Party Beneficiary. So long as a Facility is in effect or any amounts remain payable under a Bank Agreement, the Provider shall be an express third-party beneficiary of the provisions of the General Indenture, with the power to enforce the same.

When Provider Consent Not Required.

(a) Any provision of the General Indenture to the contrary notwithstanding, if under any provision of the General Indenture any action is to be taken only with the prior written consent or approval of the Credit Provider, if at the time such consent or approval would otherwise be called for and the Credit Provider has failed to honor a properly presented and conforming drawing made under the Credit Facility, then the prior written consent or approval of the Credit Provider shall not be required.

(b) Any provision of the General Indenture to the contrary notwithstanding, if under any provision of the General Indenture any action is to be taken only with the prior written consent or approval of the Liquidity Provider, if at the time such consent or approval would otherwise be called for and the Liquidity Provider has failed to honor a properly presented and conforming drawing made under the Liquidity Facility or Liquidity Facility Agreement, then the prior written consent or approval of the Liquidity Provider shall not be required.

**SUMMARY OF THE FIRST SUPPLEMENTAL INDENTURE**

The First Supplemental Indenture amends and supplements the General Indenture. The descriptions below do not purport to be comprehensive or definitive. The following are brief descriptions of certain provisions of the First Supplemental Indenture. All references herein to the First Supplemental Indenture are qualified in their entirety by reference to the definitive form of such document, a copy of which is available for review at the offices of the Underwriter, and, after issuance, at the office of the Trustee.

## **Authorization, Terms and Issuance of Series 2012 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 described above pursuant to and subject to the terms, conditions and limitations established in the General Indenture and the First Supplemental Indenture. The Series 2012 Bonds shall be issued only in fully registered form and shall constitute “Class I Bonds” under the General Indenture. The Series 2012 Bonds shall be issued in two series and designated as follows:

(i) Series 2012A Bonds. “Minnesota Office of Higher Education Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series A (Taxable)” issued in the original aggregate principal amount of \$66,800,000 pursuant to and subject to the terms, conditions and limitations established in the General Indenture and the First Supplement; and

(ii) Series 2012B Bonds. “Minnesota Office of Higher Education Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series B (AMT)” issued in the original aggregate principal amount of \$308,200,000 pursuant to and subject to the terms, conditions and limitations established in the General Indenture and the First Supplement.

Purposes of Issuance. The Series 2012 Bonds are issued for the purposes of obtaining funds to finance or refinance Student Loans, to prepay the outstanding principal amount of the Prior Bonds and to fund the Debt Service Reserve Requirement.

## **Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2012 Bonds; and Use and Disbursements of Funds**

Funds and Accounts. The net proceeds of the sale of the Series 2012 Bonds together with a contribution of funds by the Issuer, will be deposited as provided above under “PLAN OF FINANCING – Sources and Uses of Funds.” Moneys deposited in various Funds and Accounts will be applied as provided in “SECURITY AND SOURCE OF REPAYMENT – Pledged Funds” above.

Payment of Program Expenses. The Issuer shall pay all Program Expenses from any available funds not held under the Indenture. Subject to the limitations set forth in the Bank Agreement, to the extent not so paid, the Trustee (with the prior written consent of each Provider) shall pay Program Expenses from amounts available therefor in the Revenue Fund to the extent provided in the General Indenture. If the Issuer fails to pay all Program Expenses from any available funds not held under the Indenture as required thereunder, the Issuer shall notify the Rating Agency and each Provider of such failure and the Trustee may with the consent of each Provider and shall at the direction of each Provider pursue all available remedies against the Issuer as set forth in the General Indenture.

### Recycling Limitations.

(a) Unless otherwise provided in the Bank Agreement, Student Loans may not be Originated or refinanced under the General Indenture with proceeds of the Series 2012A Bonds or other amounts credited to the accounts established for the Series 2012A Bonds pursuant to the First Supplemental Indenture.

(b) Unless otherwise provided in the Bank Agreement, Student Loans may be Originated or refinanced under the General Indenture with proceeds of the Series 2012B Bonds or other amounts credited to the accounts established for the Series 2012B Bonds pursuant to the First Supplemental Indenture, (i) prior to November 1, 2015, provided that if, prior to that date, the 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 Series 2012 Bonds, amounts payable to Providers, Program Expenses or to make required deposits to the credit of the Rebate Fund and the Excess Interest Fund, the Provider may direct the Issuer not to Originate or refinance Student Loans from such proceeds or amounts; and (ii) on and after November 1, 2015, with the prior written consent of the Provider.

Accounts for Series 2012 Bonds. The Trustee shall establish a separate account with respect to each series of the Series 2012 Bonds in each of the Acquisition Fund, Debt Service Reserve Fund, Student Loan Fund, Revenue Fund and the Surplus Fund.

Limitation on Sale of Loans. Subject to the limitations set forth in the Bank Agreement, 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 the General Indenture) shall be less than 116% of the sum of principal and accrued interest on all Outstanding Series 2012 Bonds (other than Class V Bonds), the Issuer shall not direct the sale of Student Loans except as provided below and the Bank Agreement, unless the Issuer shall have received a Credit Confirmation (all as calculated and determined by the Issuer and evidenced in a Certificate of an Authorized Representative delivered to the Trustee).

Purchase or Replacement of Defaulted Student Loans. Subject to the limitations set forth in the Bank Agreement, the Issuer shall calculate the Senior Asset Coverage Ratio quarterly, beginning with the quarter ended December 31, 2012, and provide such calculation to the Trustee and the Provider within 25 days of the end of each quarter. To the extent the Senior Asset Coverage Ratio so calculated is below 101% for any calendar quarter, the Issuer shall purchase or replace any Student Loan in the applicable account of the Student Loan Fund that becomes a Defaulted Student Loan during the succeeding calendar quarter from any available funds of the Issuer not held under the Indenture. The Issuer shall also purchase any Student Loan as required by the Bank Agreement.

To the extent the Issuer is required to so purchase or replace any Defaulted Student Loan in a Series 2012A Account of the Student Loan Fund, it shall do so within 30 days after such Student Loan becomes a Defaulted Student Loan. If the Issuer elects to purchase the Defaulted Student Loan, the purchase price shall be par plus accrued interest, if any. If the Issuer replaces such a Defaulted Student Loan with a new Student Loan, such replacement Student Loan shall have a principal balance and accrued interest thereon at least equal in the aggregate to that of the Defaulted Student Loan and the maturity of the replacement Student Loan shall not be later than the Stated Maturity of the Series 2012A Bonds, shall be credited to the Series 2012A Account of the Student Loan Fund and shall be deemed to have been acquired with the proceeds of the Series 2012A Bonds.

To the extent the Issuer is required to so purchase or replace any Defaulted Student Loan in any account of the Student Loan Fund, it shall do so within 30 days after such Student Loan becomes a Defaulted Student Loan. If the Issuer elects to purchase the Defaulted Student Loan, the purchase price shall be par plus accrued interest, if any. If the Issuer replaces such a Defaulted Student Loan with a new Student Loan, such replacement Student Loan shall have a principal balance and accrued interest thereon at least equal in the aggregate to that of the Defaulted Student Loan and the maturity of the replacement Student Loan shall not be later than the Stated Maturity of the related series of Series 2012 Bonds, shall be credited to the related account of the Student Loan Fund and shall be deemed to have been acquired with the proceeds of the related series of Series 2012 Bonds.

If the Issuer fails to purchase or replace any Defaulted Student Loan as required hereunder, the Issuer shall notify the Rating Agency and the Provider of such failure and the Trustee may with the consent of the Provider and shall at the direction of the Provider pursue all available remedies as set forth in the Indenture and any recovery of amounts with respect to any such Defaulted Student Loan shall be credited to the related account in the Revenue Fund.

Cash Flow Projections. The Issuer shall provide Cash Flow Projections to the Provider as required by the Bank Agreement.

Student Loan Requirements. In the First Supplemental Indenture, the Issuer covenants that all Student Loans Originated meet or will meet the following criteria unless otherwise assumed in the Cash Flow Projection for the Series 2012 Bonds or if the Issuer obtains a Credit Confirmation, provided, however, that the provisions of (a) and (b) need be met only when the Student Loan was or is Originated:

(a) The borrower of each Student Loan is either enrolled in an Eligible Institution in the State or a State 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, master, 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 Cosigner;

(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 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 the First Supplemental Indenture, or (3) an interest rate that has been approved by Credit Confirmation.

(d) The maximum amount of the Student Loan is (1) \$10,000 per year for students enrolled in bachelor's degree, post-baccalaureate or graduate program; subject to a cumulative maximum of \$50,000 for undergraduate and \$70,000 for undergraduate and graduate school combined, and (2) \$7,500 per year for students enrolled in all other programs, subject to a maximum of \$37,500; provided that other maximums may be approved by Credit Confirmation;

(e) (1) For each SELF II and SELF III Student Loan, the quarterly interest payments begin within three 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.

(2) For each SELF IV Student Loan, the quarterly interest payments begin within three 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 seven 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 shall not exceed 10 years from graduation/termination. For SELF IV Loans, if the aggregate principal loan balances from all SELF phases are \$18,750 or greater, the repayment period shall not 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.

(3) For each SELF V Student Loan, the quarterly interest payments begin within three 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 V Loans are required to enter repayment no later than nine years after the first disbursement date on the loan. For SELF V Loans, if the aggregate principal loan balances from all SELF phases are less than \$20,000, the repayment period shall not exceed 10 years from graduation/termination; if the balances are at least \$20,000 but less than \$40,000, the SELF V Loans must be paid off within 15 years from graduation/termination; and if the balances are \$40,000 or greater, the SELF V Loans must be paid off within 20 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. If payment is not received on the due date it is considered late, and late notices are sent beginning on the 16<sup>th</sup> day of delinquency. Payment demands upon the Creditworthy Cosigner begin on the 30<sup>th</sup> day of delinquency, and the loan is considered in default on the 165<sup>th</sup> 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 that the Issuer charges on Student Loans to be less than 2.0%.

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 Provider. Upon the request of the 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 Provider. Such report shall report such compliance in writing (or otherwise describe any noncompliance in such detail as shall be reasonably satisfactory to the Provider), and the Issuer shall provide such report to the 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, due to a delay in the Servicer's performance, a required audit of the Servicer is not received by July 1 in any year 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 Provider arrange for the prompt substitution of a Servicer for the Student Loans satisfactory to the 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 Provider. The Servicer may also be required to be replaced as provided in the Bank Agreement.

In the First Supplemental Indenture, the Issuer covenants that: the Servicing Agreement shall provide that the Issuer may terminate the Servicing Agreement and will terminate the Servicing Agreement, at the direction of the 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 60 days after written notice to the Servicer; all amendments to the Servicing Agreement must be consented to by the Provider; the Servicing Agreement shall provide that the Servicer shall service the Student Loans if the Provider is the owner of the Student Loans (a third-party beneficiary) and the Provider pays the fees for such accounts; pursuant to the Servicing Agreement, the Servicer will act as bailee and agent of the Student Loans for the Trustee; 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; all written information required under this paragraph shall be delivered within 15 days after receipt thereof by the Issuer; and the Servicer may also be required to be replaced as provided in the Credit Facility Agreement.

Borrower Benefits. The Issuer is authorized to offer Borrower Benefits to the borrower of each Student Loan financed with proceeds of the Series 2012 Bonds provided that the 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.

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## APPENDIX C

### BOOK-ENTRY ONLY SYSTEM

DTC is to act as securities depository for the Series 2012 Bonds. The Series 2012 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 2012 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 a Standard & Poor's Ratings Service's ("S&P") rating of AA+. 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 2012 Bonds under the DTC system must be made by or through Direct Participants, which are to receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 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 2012 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 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 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 2012 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 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 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 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Bonds, such as redemptions, tenders, defaults, and

proposed amendments to the Series 2012 Bond documents. For example, Beneficial Owners of Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 Bonds, to such Remarketing Agent. The requirement for delivery of Series 2012 Bonds in connection with an optional tender or a mandatory purchase would be satisfied when the ownership rights in the Series 2012 Bonds are transferred between Direct Participants on DTC's records as reflected in the appropriate book-entry credits of tendered Series 2012 Bonds to the respective Remarketing Agents' DTC accounts.

DTC may discontinue providing its services as depository with respect to the Series 2012 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 2012 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 2012 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 2012 BONDS, OR (E) ANY OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF THE SERIES 2012 BONDS.

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

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**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**

\_\_\_\_\_, 2012

Minnesota Office of Higher Education  
1450 Energy Park Drive, Suite 350  
St. Paul, MN 55108

Wells Fargo Bank, National Association  
625 Marquette MAC N9311-163  
Minneapolis, MN 55479

RBC Capital Markets, LLC  
Three World Financial Center, 9<sup>th</sup> Floor  
200 Vesey Street  
New York, NY 10281-8098

Royal Bank of Canada  
Three World Financial Center  
200 Vesey Street  
New York, NY 10281-8098

Standard & Poor's Rating Services  
55 Water Street  
New York, NY 10041

DBRS, Inc.  
140 Broadway, 35<sup>th</sup> Floor  
New York, NY 10005

Fitch Ratings  
One State Street Plaza, 31<sup>st</sup> Floor  
New York, NY 10004

RE: Minnesota Office of Higher Education  
\$375,000,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the authorization, issuance and delivery by the Minnesota Office of Higher Education (the "Issuer"), of the above-referenced Bonds dated the date hereof (the "Bonds"). The Bonds are comprised of the following:

\$66,800,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds,  
2012 Series A (Taxable) (the "Series A Bonds")  
\$308,200,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds,  
2012 Series B (AMT) (the "Series B Bonds")

The Bonds are issued pursuant to Minnesota Statutes, Sections 136A.15 through 136A.1785 (the "Act"). We are providing this opinion pursuant to (a) Section 2.5(a)(2)(A), (B), (E) and (F) of the General Indenture referred to below; (b) Section 6(i)(4) of the Bond Purchase Agreement referred to below; and (c) Section 3.01(vii) of the Reimbursement Agreement referred to below. Capitalized terms used but not defined have the meanings given in the Indenture referred to below.

For the purpose of rendering this opinion, we have examined:

- A. the General Indenture, dated as of September 1, 2012 (the "General Indenture"), by and between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee");
- B. the First Supplemental Indenture, dated as of September 1, 2012, by and between the Issuer and the Trustee (the "First Supplement," and together with the General Indenture, the "Indenture");
- C. the form of the Bonds;

D. the Assignment of Student Loans by the Issuer to the Trustee, the form of which is attached to the First Supplement as Exhibit C, to be executed in connection with each origination or refinancing of Student Loans as further described in the General Indenture;

E. the Bond Purchase Agreement dated September \_\_, 2012 (“Bond Purchase Agreement”), between the Issuer and RBC Capital Markets, LLC (“RBCCM LLC”);

F. the Letter of Credit and Reimbursement Agreement, dated as of September 1, 2012, between the Issuer and Royal Bank of Canada (the “Credit Provider”), acting through its WFC, New York, Branch, and agreed to and acknowledged by the Trustee;

G. The Fee Agreement executed and delivered on the \_\_ day of September, 2012, between the Issuer and the Credit Provider (the “Fee Agreement”);

H. the Bailment Agreement, made as of September 1, 2012 (the “Bailment Agreement”), among Firstmark Services LLC (the “Servicer”), the Issuer and the Trustee;

I. the form of Bailment Notice by the Issuer and the Trustee and acknowledged by the Servicer, which is attached to the Bailment Agreement as Exhibit A, to be executed in connection with each assignment of Student Loans;

J. the Remarketing Agreement, dated as of September 1, 2012, between the Issuer and RBCCM LLC, as remarketing agent;

K. the Trustee Fee Agreement, dated September 1, 2012, between the Issuer and the Trustee;

L. the Continuing Disclosure Agreement, dated as of September 1, 2012, executed and delivered by the Issuer and Wells Fargo Bank, National Association;

M. the SELF Loan Servicing Contract, dated as of January 1, 2008, between the Issuer and the Servicer;

N. the opinion of the Attorney General of the State of Minnesota, dated the date hereof, as to validity and enforceability of the Notes identified therein (“Attorney General’s Opinion as to Notes”);

O. the opinion of the Attorney General of the State of Minnesota, dated the date hereof, as to validity and enforceability of the Issuer Documents referred to below (“Attorney General’s Opinion as to Documents” and, together with the Attorney General’s Opinion as to Notes, the “Attorney General’s Opinions”);

P. certified copies of resolutions of the Issuer approving and authorizing the execution of the Bonds, the Bond Documents referred to below and other documents; and

Q. such other documents as we consider necessary in order to render this opinion. (The documents listed at A, B, E, H, J and L above are herein referred to as the “Bond Documents.” The documents listed at F, G, K and M above are herein referred to as the “Issuer Documents.”)

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials without undertaking to verify such facts by independent investigation. We have relied upon the Attorney General’s Opinions as to: (A) the due organization and existence of the Issuer under the laws of the State of Minnesota (the “State”); (B) the due and valid authorization, execution and delivery by the Issuer of the Issuer Documents and the enforceability of such documents against the Issuer; and (C) the power and authority of the Issuer to execute, deliver, perform and carry out its obligations under the Issuer Documents.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement relating to the Bonds and we express no opinion relating thereto.

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 on the date hereof).

Based upon such examination, assuming (i) the authenticity of all documents submitted to us as originals and the authenticity of the originals; (ii) the conformity to original documents of all documents submitted to us as certified or photostatic copies; (iii) the genuineness of the signatures on all documents submitted to us; and (iv) the accuracy of the facts and representations stated in all documents submitted to us, and on the basis of federal and State laws, regulations, rulings and decisions in effect and as construed on the date hereof, but excluding any pending legislation which may have a retroactive date prior to the date hereof, it is our opinion that:

1. The Issuer is an agency of the State and has full power and authority under the Constitution and laws of the State, including the Act, to execute and deliver the Bonds and the Bond Documents and to carry out the terms thereof.

2. The Bond Documents have been duly authorized, executed and delivered by the Issuer and, assuming the due authorization, execution and delivery thereof by the other parties thereto, are valid and binding upon the Issuer, enforceable in accordance with their terms.

3. The Bonds have been duly and validly authorized and issued in accordance with the constitution and statutes of the State and with the Indenture and are valid and binding obligations of the Issuer, enforceable in accordance with their terms.

4. All consents, approvals, licenses or exemptions of, or 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 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.

5. The execution and delivery by the Issuer of the Bonds and the Bond Documents will not, to 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 our knowledge, any applicable law, administrative regulation, order or court decree.

6. To 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 Bonds and the Bond Documents.

7. The Series B Bonds, as of the date of their issuance, bear interest which is (a) not includable in gross income of the recipient for federal income tax purposes or in the taxable net income of individuals, trusts, and estates for State income tax purposes; (b) includable for purposes of computing the State franchise tax imposed on corporations and financial institutions and measured by income; and (c) an item of tax preference which is included in "alternative minimum taxable income" for purposes of the federal and State alternative minimum taxes.

The exemption from gross income under the Internal Revenue Code of 1986, as amended (the "Code") may become inapplicable with respect to the Series B Bonds, as of either the date of issuance of the Series B Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (1) the proceeds of the Series B Bonds being expended in a manner or for a use inconsistent with certain applicable requirements of

Sections 141 and 144 of the Code and (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. The Series B Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Code.

The opinion expressed in paragraph 7 above is further subject to the condition of compliance by the Issuer and the Trustee with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 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. The Issuer and the Trustee have covenanted to comply with each such requirement. Noncompliance with such requirements could result in the inclusion of interest on the Series 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 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 Bonds.

Our opinions in paragraphs 2 and 3 above concerning enforceability, insofar as such opinions relate to indemnification provisions, are subject to the effect of federal and State securities laws and public policy relating thereto.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the Bond Documents are subject to and may be limited by (I) state and federal laws, rulings, decisions and 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); (II) the effect of any applicable bankruptcy, moratorium, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors’ or secured creditors’ rights or laws relating to creditors’ or secured creditors’ rights against public instrumentalities heretofore or hereafter enacted to the extent constitutionally applicable; and (III) the exercise of judicial discretion in appropriate cases.

Our opinions expressed above are limited to the law of the State and the federal law of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the law of any other jurisdiction. This opinion is rendered as of the date set forth above and we express no opinion as to circumstances or events which may occur subsequent to such date.

Respectfully submitted,

## APPENDIX E

### LOAN PORTFOLIO COMPOSITION (UNAUDITED)

The following tables illustrate certain characteristics of the student loan portfolio that is expected to secure the Series 2012 Bonds on the Closing Date. This information is based upon data as of June 30, 2012, except as noted, and includes estimates for the characteristics of second disbursements for certain student loans that were only partially disbursed as of such date.

Series 2012B Bond proceeds in the amount of \$100 million will be deposited to the Series 2012B Account of the Acquisition Fund and used to purchase, originate or refinance Student Loans within 24 months of the Closing Date. The Issuer anticipates that this money will mostly be used to acquire variable rate SELF V Student Loans, which will then become part of the Trust Estate. Subject to certain requirements, Student Loans may be originated or refinanced with proceeds of the Series 2012B Bonds or other amounts held under the Trust Estate with respect to the Series 2012B Bonds until November 1, 2015. The portfolio description below does not include the additional Student Loans to be financed with the proceeds of the Series 2012B Bonds.

#### PORTFOLIO SUMMARY

Total Current Principal Balance	\$330,531,710
Number of Borrowers	65,652
Average Balance per Borrower	\$5,035
Number of Loans	111,453
Average Balance per Loan	\$2,966
Weighted Average Remaining Term	95 Months
SELF II, SELF III & SELF IV Loan Interest Rate as of July 1, 2012 <sup>(1)</sup>	3.429%

<sup>(1)</sup> SELF II interest rates are adjusted quarterly, based upon the quarterly average of the investment interest rates on weekly auctions of 13-week United States Treasury bills, plus a current, applicable margin of 2.0%. SELF III, SELF IV and SELF V 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 PHASE

<u>Loan Phase</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
SELF II Loans	\$13,360,552	4.0%	13,768	12.4%
SELF III Loans	92,865,302	28.1	44,297	39.7
SELF IV Loans	<u>224,305,856</u>	<u>67.9</u>	<u>53,388</u>	<u>47.9</u>
Total	<u>\$330,531,710</u>	<u>100.0%</u>	<u>111,453</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	\$45,908,464	13.9%	9,613	8.6%
Grace	34,864,044	10.5	7,502	6.7
Extended Grace	29,118,639	8.8	6,624	5.9
Forbearance	556,793	0.2	162	0.1
Repayment	218,710,408	66.2	87,143	78.2
Claim	<u>1,373,361</u>	<u>0.4</u>	<u>409</u>	<u>0.4</u>
Total	<u>\$330,531,710</u>	<u>100.0%</u>	<u>111,453</u>	<u>100.0%</u>

#### 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	\$9,199,185	2.8%	14,282	12.8%
25 to 36	12,893,733	3.9	10,087	9.1
37 to 48	19,081,214	5.8	10,721	9.6
49 to 60	28,136,553	8.5	12,323	11.1
61 to 72	33,087,473	10.0	11,854	10.6
73 to 84	34,881,773	10.6	10,380	9.3
85 to 96	40,825,818	12.4	10,352	9.3
97 to 108	36,279,685	11.0	8,235	7.4
109 to 120	36,087,131	10.9	7,458	6.7
121 to 132	25,053,493	7.6	4,908	4.4
133 to 144	19,405,959	5.9	3,923	3.5
145 to 156	17,805,209	5.4	3,573	3.2
157 to 168	17,327,247	5.2	3,256	2.9
169 to 180	<u>465,749</u>	<u>0.1</u>	<u>82</u>	<u>0.1</u>
Total	<u>330,530,223</u>	<u>100.0%</u>	<u>111,434</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)	\$312,662,878	94.6%	105,807	94.9%
31+ days past due	<u>17,868,832</u>	<u>5.4</u>	<u>5,646</u>	<u>5.1</u>
Total	<u>\$330,531,710</u>	<u>100.0%</u>	<u>111,453</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>
2-Year/Community College	\$41,382,281	12.5%	17,232	15.5%
4-Year and Graduate	261,658,049	79.2	85,266	76.5
Graduate	4,308,568	1.3	1,310	1.2
Proprietary	<u>23,182,812</u>	<u>7.0</u>	<u>7,645</u>	<u>6.9</u>
Total	<u>\$330,531,710</u>	<u>100.0%</u>	<u>111,453</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	\$790,801	0.2%	3,517	3.2%
\$500 to \$999	3,174,116	1.0	5,445	4.9
\$1,000 to \$1,999	14,939,396	4.5	13,209	11.9
\$2,000 to \$2,999	22,049,209	6.7	12,354	11.1
\$3,000 to \$3,999	27,122,303	8.2	11,481	10.3
\$4,000 to \$5,999	55,596,988	16.8	18,445	16.5
\$6,000 to \$7,999	71,080,101	21.5	16,395	14.7
\$8,000 to \$9,999	27,627,319	8.4	7,902	7.1
\$10,000 to \$14,999	75,261,736	22.8	15,968	14.3
\$15,000 to \$19,999	22,866,992	6.9	4,869	4.4
\$20,000 to \$24,999	8,501,880	2.6	1,601	1.4
\$25,000 to \$29,999	1,362,993	0.4	238	0.2
\$30,000 to \$34,999	122,432	0.0	21	0.0
\$35,000 to \$39,999	35,442	0.0	8	0.0
Total	<u>\$330,531,710</u>	<u>100.0%</u>	<u>111,453</u>	<u>100.0%</u>

#### BREAKDOWN BY MONTHS SINCE NOTE DATE

<u>Months Since Note Date</u>	<u>Current Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
13 to 24 months	\$343,598	0.1%	61	0.1%
25 to 36 months	61,927,755	18.7	12,785	11.5
37 to 48 months	70,052,582	21.2	14,856	13.3
49 to 60 months	30,082,340	9.1	7,996	7.2
61 to 72 months	64,730,387	19.6	18,858	16.9
More than 73 months	<u>103,395,049</u>	<u>31.3</u>	<u>56,897</u>	<u>51.1</u>
Total	<u>\$330,531,710</u>	<u>100.0%</u>	<u>111,453</u>	<u>100.0%</u>

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## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of September 1, 2012 (the “Disclosure Agreement”), is executed and delivered by the Minnesota Office of Higher Education (the “Issuer”) and Wells Fargo Bank, National Association (the “Dissemination Agent”) in connection with the issuance by the Issuer of its \$66,800,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series A (Taxable) and \$308,200,000 Adjustable Rate Supplemental Student Loan Program Revenue Bonds, 2012 Series B (AMT) (together, the “Bonds”). The Bonds are being issued pursuant to a General Indenture, dated as of September 1, 2012 (the “General Indenture”), between the Issuer and Wells Fargo Bank, National Association, as trustee (the “Trustee”), as amended and supplemented by the First Supplemental Indenture, dated as of September 1, 2012 (the “First Supplemental Indenture”), between the Issuer and the Trustee (the “First Supplemental Indenture” and together with the General Indenture, the “Indenture”).

The Issuer represents and warrants that it is the only “obligated person” in respect of the Bonds within the meaning of the Rule (defined below) and that it has complied in all material respects with all undertakings previously entered into by it under the Rule.

Section 1. Purpose of this Disclosure Agreement. This Disclosure Agreement constitutes the written undertaking of the Issuer, for the benefit of the Bondholders (defined below and including any beneficial owners thereof when the Bonds are held in the book-entry system) to the extent stated herein and as required by the Rule (defined below).

Section 2. Definitions. In addition to the definitions set forth above and 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” is comprised of 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 each Fiscal Year for which Financial Information Disclosure is required hereunder, containing balance sheets as of the end of such Fiscal Year and a statement of operations, changes in fund balance and cash flows for such Fiscal Year, and showing in comparative form such figures for the preceding Fiscal Year, prepared in accordance with GAAP, or, if and to the extent such financial statements have not been prepared in accordance with GAAP 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 his or her knowledge; and

(2) to the extent not included in the financial statements referred to in paragraph (1) above, 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 by the Chief Financial Officer of the Issuer to 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 principal amount of outstanding bonds of the Issuer as of the end of the current Fiscal Year, the operating budget of the Issuer for the current Fiscal Year and summary financial data for 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 SELF Loans originated and the principal balance of SELF Loans as of the end of such Fiscal Year of the type contained

under the caption “THE SUPPLEMENTAL STUDENT LOAN PROGRAM—SELF Program Overview” in the Official Statement.

(c) Information for the most recent Fiscal Year regarding loan loss, recovery experience and borrower delinquencies with respect to SELF II, III, IV and V Loans of the type contained under the caption “THE SUPPLEMENTAL STUDENT LOAN PROGRAM—Loss and Delinquency Experience for the Student Loan Portfolio” in the Official Statement.

“Annual Report Date” means the date not later than 120 days after the end of each of the Issuer’s Fiscal Years.

“Annual Submission Date” means the date which is five days prior to each Annual Report Date.

“Beneficial Owners” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Bondholder” means the registered owner of any Bond appearing on the registration books maintained by the Registrar or Beneficial Owner of any Bond, if the Beneficial Owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee.

“Disclosure Representative” means the Chief Financial Officer of the Issuer, or such other person as the Issuer shall designate in a writing submitted to the Dissemination Agent from time to time.

“Dissemination Agent” means the Dissemination Agent, if any, designated in writing by the Disclosure Representative pursuant to the terms hereof. Initially, Wells Fargo Bank, National Association shall act as the Dissemination Agent.

“EMMA” means the Electronic Municipal Market Access system operated by the MSRB for electronic filing of information in accordance with the Rule.

“Financial Information Disclosure” means the dissemination of Annual Financial Information as set forth in Section 3.

“GAAP” means 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.

“IRS” means the Internal Revenue Service or any successor to its functions.

“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; the current website address of which is [www.msrb.org](http://www.msrb.org) and [www.emma.msrb.org](http://www.emma.msrb.org) (for municipal disclosures and market data).

“Official Statement” means the Official Statement dated September 25, 2012, delivered in connection with the original issue and sale of the Bonds.

“Reportable Event” means any of the following events with respect to the Bonds, as applicable:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (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, if any, or their failure to perform;
- (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of Bonds, or other events affecting the tax-exempt status of the Bonds;
- (7) modifications to rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) the consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

“Reportable Event Notice” means written or electronic notice of a Reportable Event prepared in accordance with applicable federal securities laws and the regulations of the MSRB.

“Rule” means 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.

“SEC” means the Securities and Exchange Commission or any successor to its functions.

“Tax-exempt” means that interest on the Series 2012B Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

### Section 3. Undertaking to Provide Ongoing Disclosure.

(a) *General.* It is the express intention of the Issuer that the Bondholders (including any Beneficial Owners thereof when the Bonds are in the book-entry system) be a beneficiary of this Disclosure Agreement with the right to enforce this Section directly against the Issuer to the extent set forth in Section 9 hereof.

(b) *Information Required.* The Issuer, as an “obligated person” within the meaning of the Rule, undertakes to provide the following information:

- (1) Annual Financial Information and
- (2) Reportable Event Notices.

(c) *Annual Financial Information.*

(1) The Issuer shall provide, or shall cause the Dissemination Agent while any Bonds are outstanding to provide, Annual Financial Information to the MSRB through EMMA not later than each Annual Report Date, commencing with the Fiscal Year ending June 30, 2012. In addition, on each Annual 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.

(2) It shall be sufficient if the Disclosure Representative provides to the MSRB through EMMA the Annual Financial Information by specific reference to documents previously provided to the MSRB or filed with the SEC and, if such a document is a final official statement within the meaning of the Rule, available from the MSRB. The Dissemination Agent shall clearly identify in the Annual Financial Information each document so incorporated by reference.

(3) The Disclosure Representative may adjust the Annual Submission Date and the Annual Report Date if the Issuer changes its fiscal year by providing written notice of the change of fiscal year and the new Annual Submission Date and Annual Report Date to the Dissemination Agent, if any, the Issuer and the MSRB, if any; provided that the new Annual Report Date shall be 120 days after the end of the new fiscal year and the new Annual Submission Date shall be five days prior to the Annual Report Date, and provided further that the period between the final Annual Report Date relating to the former fiscal year and the initial Annual Report Date relating to the new fiscal year shall not exceed one year in duration.

(d) *Reportable Events.*

(1) Whenever the Issuer obtains knowledge of the occurrence of a Reportable Event for which a determination of materiality is required, the Issuer shall as soon as possible determine if such event would constitute material information for holders of the Bonds. For the purposes of the event identified in clause (12) under the definition of "Reportable Event," the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(2) If a Reportable Event occurs while any Bonds are outstanding, the Disclosure Representative, or the Dissemination Agent, if any, shall provide a Reportable Event Notice in a timely manner not in excess of ten business days after the occurrence of the Reportable Event to the MSRB through EMMA and to the Issuer. Each Reportable Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(3) 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 would require the Disclosure Representative to provide a Reportable Event Notice pursuant to paragraph (2) 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 paragraph (2). If in response to a notice under this paragraph (3), the Disclosure Representative determines that the event would require a Reportable Event Notice, the Disclosure Representative shall so notify the Trustee and not be required to report the occurrence pursuant to

paragraph (2). The Trustee and the Dissemination Agent shall have no responsibility for determining whether any occurrence may constitute a Reportable Event.

(e) *Designation of Dissemination Agent.* 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.

(f) *The Dissemination Agent.* If a Dissemination Agent has been designated, the Dissemination Agent shall:

(1) Without further direction or instruction from the Disclosure Representative provide in a timely manner to the Issuer and the MSRB through EMMA, notice of any failure while any Bonds are outstanding by the Dissemination Agent to provide to the MSRB Financial Information Disclosure on or before the dates on which such information is due as provided herein (whether caused by failure of the Disclosure Representative to provide such information to the Dissemination Agent by the dates on which such information is required to be submitted to the Dissemination Agent or for any other reason);

(2) If the Disclosure Representative provides to the Dissemination Agent information relating to the Issuer or the Bonds, which information is not designated as a Reportable Event Notice, and directs the Dissemination Agent to provide such information to information repositories, provide such information in a timely manner to the Issuer and the MSRB through EMMA;

(3) If by the Annual 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); and

(4) File a report with the Disclosure Representative certifying that the Financial Information Disclosure has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all parties to which it was provided.

(g) *Transmission Requirements.* Unless otherwise required by law and subject to technical and economic feasibility, 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 Issuer's information.

(h) *Annual Financial Statements Unavailable.* 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 Annual Report Date and the Annual Submission Date, unaudited financial statements in the format required as part of the Annual Financial Information and, within ten days after the receipt of the audited financial statements, the Issuer shall provide the audited financial statements.

(i) *Change in Issuer Operations.* 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.

(j) *Amendment.* If the Annual Financial Information is changed or this Disclosure Agreement is amended as permitted by this Section 3 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.

Section 4. Obligated Persons.

(a) In the event that any other person subsequently becomes obligated 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 Financial Information Disclosure and notices of Reportable 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 Issuer, the Trustee, and the MSRB.

(c) If the Issuer’s obligations under the Indenture are assumed in full by some other person or entity, such person or entity, in a written agreement satisfactory in form and substance to the Trustee, shall 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 Financial Information Disclosure and Reportable 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 Chief Financial Officer of the Issuer, shall be the Disclosure Representative.

Section 7. Amendment; Waiver.

(a) Notwithstanding any other provisions of this Disclosure Agreement, the Issuer and the Dissemination Agent, if any, may amend this Disclosure Agreement (and the Dissemination Agent shall not unreasonably withhold such agreement to amend this Disclosure Agreement if so requested by the Issuer) and any provisions of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Issuer and the Dissemination Agent, if any, to the effect that (i) such amendment or waiver (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 as to which a provision has been waived 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 waiver 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.

(b) In the event that the Rule is amended in the future, the Issuer and the Dissemination Agent, if any, agree that this Disclosure Agreement will be amended, in accordance with the provisions of this Section 7 to cause the undertaking contained in this Disclosure Agreement to comply with the requirements of the Rule, as amended.

(c) 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).

(d) If the Annual Financial Information is amended pursuant to this Section 7, the Issuer agrees to provide to the MSRB 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 Financial Information Disclosure or notice of occurrence of a Reportable 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 Bondholders or beneficial owners of at least 25% aggregate principal amount of Outstanding Bonds, shall (solely to the extent indemnified to its satisfaction, including attorneys' fees and expenses) 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. Any Bondholder or Beneficial Owner may take any actions as may be necessary or appropriate to require the provisions of information and notices under Section 3(b) by the dates as set forth herein. A default under this Disclosure Agreement shall not be deemed an Event of Default under 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.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and to the extent permitted by law, 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.

(b) 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 or representations 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 Financial Information Disclosure or any Reportable Event disclosure, or any opinions or representations 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.

(c) If the Dissemination Agent is other than the Issuer, no provision of this 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.

(d) The Dissemination Agent's obligation to deliver the information at the times and with the contents described in Section 3 above shall be limited to the extent the Disclosure Representative has provided such information to the Dissemination Agent as required hereby. The Dissemination Agent may conclusively rely upon any written representation of the Disclosure Representative required hereby.

(e) The Dissemination Agent shall have no duty to prepare any Reportable Event Notice, nor shall the Dissemination Agent be responsible for filing any Reportable Event Notice not provided to it by the Issuer or the Disclosure Representative in a timely manner and in a form suitable for filing. The Dissemination Agent shall not be responsible in any manner for the content of any Reportable Event Notice prepared by the Issuer or the Disclosure Representative pursuant to this Disclosure Agreement.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Trustee and the Bondholders (including any Beneficial Owners thereof when the Bonds are in a book-entry system) from time to time of the Bonds to the extent stated herein, and shall create no rights in any other person or entity.

Section 12. Compensation. The Issuer 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. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

Section 15. Notices. Notices required hereunder shall be given to the Issuer, the Dissemination Agent, and the Trustee 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 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.

IN WITNESS WHEREOF, the parties hereto have caused this Disclosure Agreement to be executed by their respective duly authorized representatives.

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

MINNESOTA OFFICE OF HIGHER EDUCATION

By: \_\_\_\_\_  
Director

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