

REIMBURSEMENT AGREEMENT  
COMPLIANCE CERTIFICATE

Financial Statement Date: **June 30, 2013**

To: Royal Bank of Canada

Ladies and Gentlemen:


Reference is made to that certain Reimbursement Agreement, dated as of September 1, 2012 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement"), between the Minnesota Office of Higher Education (the "Issuer") and the Royal Bank of Canada (the "Bank"). Any term capitalized but not defined herein shall have the meaning ascribed thereto under the Agreement.

The undersigned hereby certifies as of the date hereof that he/she is the chief financial officer of the Issuer, and that, as such, he/she is authorized to execute and deliver this Certificate to the Bank on the behalf of Issuer, and that:

1. Attached hereto are the audited financial statements required by Section 5.01(f)(i) of the Agreement for the fiscal year of the Issuer ended as of the above date.
2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and conditions (financial or otherwise) of Issuer during the accounting period covered by the attached financial statements.
3. A review of the activities of Issuer during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period, the Issuer performed and observed all its Obligations under the Agreement and the Related Documents, and to the best knowledge of the undersigned during such fiscal period, the Issuer performed and observed each covenant and condition of the Agreement and Related Documents applicable to it, and no Default or Event of Default has occurred and is continuing.
4. The representations and warranties of Issuer contained in Section 4 of the Agreement are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.
5. The reports and information attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of October 8, 2013.

MINNESOTA OFFICE OF HIGHER EDUCATION

By:   
Name: Timothy M. Geraghty  
Title: Chief Financial Officer



**Minnesota Office of Higher Education - Financial Information**  
**Fiscal Year Ending June 30, 2013**

*Operating Budget.* As of September 30, 2013, the Agency's 2013-2014 operating budget, exclusive of its supplemental student loan programs, is \$234,727,247, of which it is anticipated \$6,758,892 will come from federal appropriations, \$227,644,355 from State appropriations, and \$324,000 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 ("LCF"), which is maintained as an Enterprise Fund of the Agency, is the funding source for the Agency's student loan activities, both present and future. Certain summary financial information for the LCF for the past three years is presented in the table below. The Agency anticipates using money in the LCF 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 in the Indenture to replace or repurchase Defaulted Student Loans. The LCF is not pledged to pay bonds in any indenture.

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

|  | Fiscal Year Ended June 30, |                   |                   |
|--|----------------------------|-------------------|-------------------|
|  | <u>2013</u>                | <u>2012</u>       | <u>2011</u>       |
| Total assets                                     | \$1,031,349,450            | \$973,136,601     | \$1,024,517,852   |
| Total cash and investments                       | 363,436,259                | 266,241,935       | 298,829,297       |
| Total loans outstanding, less allowance for loss | 659,968,207                | 708,712,735       | 728,301,040       |
| Allowance for loan losses                        | 10,730,389                 | 9,932,462         | 10,211,172        |
| <br>Total revenues                               | <br>27,569,165             | <br>44,191,954    | <br>31,435,520    |
| Total expenses                                   | <u>17,925,774</u>          | <u>17,944,572</u> | <u>17,085,408</u> |
| Excess of revenues over expenses                 | 9,643,391                  | 26,247,382        | 14,350,112        |
| <br>Total fund balance                           | <br>\$428,051,096          | <br>\$418,407,705 | <br>\$392,160,323 |

## 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.

Together, MHECB, MHESO, and the Agency have originated approximately \$1.8 billion of loans under the SELF I, SELF II, SELF III, SELF IV and SELF V Programs through June 30, 2013. The following table shows the outstanding principal balance of SELF I, SELF II, SELF III, SELF IV and SELF V loans at the dates indicated:

(\$ in Thousands)

| <u>As of June 30,</u> | <u>SELF I</u> | <u>SELF II</u> | <u>SELF III</u> | <u>SELF IV</u> | <u>SELF V</u> | <u>Total</u> |
|-----------------------|---------------|----------------|-----------------|----------------|---------------|--------------|
| 2013                  | \$0           | \$8,756        | \$111,093       | \$386,486      | \$163,001     | \$669,336    |
| 2012                  | \$0           | \$18,366       | \$152,156       | \$434,126      | \$102,610     | \$707,258    |
| 2011                  | \$0           | \$34,138       | \$195,824       | \$475,124      | \$21,568      | \$726,754    |
| 2010                  | \$0           | \$56,037       | \$240,259       | \$446,156      |               | \$742,452    |
| 2009                  | \$0           | \$83,012       | \$283,864       | \$353,916      |               | \$720,792    |
| 2008                  | \$0           | \$114,250      | \$328,321       | \$248,630      |               | \$691,201    |
| 2007                  | \$0           | \$151,527      | \$375,487       | \$120,613      |               | \$647,627    |
| 2006                  | \$0           | \$194,312      | \$412,123       | \$412,123      |               | \$606,435    |
| 2005                  | \$0           | \$240,387      | \$322,308       | \$322,308      |               | \$562,695    |
| 2004                  | \$0           | \$284,895      | \$205,913       | \$205,913      |               | \$490,808    |
| 2003                  | \$2           | \$330,223      | \$99,346        | \$99,346       |               | \$431,574    |
| 2002                  | \$9           | \$369,839      | 1524            | 1524           |               | \$373,374    |
| 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       |

The Agency (and previously MHECB and MHESO), finances the origination of SELF loans with the proceeds of revenue bond issues and amounts available in the Loan Capital Fund. Although the Agency receives State and Federal appropriations, the SELF program is designed to be self-sustaining, and such appropriations are neither available for use in the SELF Program nor available for the payment of principal and interest on any of the associated revenue bonds.

#### **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 2013, and borrower delinquencies, shown on a quarterly basis for quarters ending June 2012 through June 2013. There can be no assurance, however, that the loss or delinquency experience for the Program in the future will be similar to the historical experience set forth below.

# SELF I, SELF II, SELF III & SELF IV Programs

## Loss Experience for the Student Loan Portfolio

|  | 12 Months<br>Ended June<br>30, 2013 | 12 Months<br>Ended June<br>30, 2012 | 12 Months<br>Ended June<br>30, 2011 | 12 Months<br>Ended June<br>30, 2010 | 12 Months<br>Ended June<br>30, 2009 | 12 Months<br>Ended June<br>30, 2008 | 12 Months<br>Ended June<br>30, 2007 | 12 Months<br>Ended June<br>30, 2006 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Average Receivables<br>Outstanding**                           | \$692,465,872                       | \$724,346,551                       | \$744,174,880                       | \$743,031,663                       | \$720,792,038                       | \$683,659,921                       | \$640,710,305                       | \$597,529,720                       |
| Gross Losses   | \$7,312,082                         | \$8,720,108                         | \$8,770,878                         | \$8,310,373                         | \$8,819,170                         | \$8,775,825                         | \$7,594,400                         | \$7,301,755                         |
| Recoveries   | <u>7,273,012</u>                    | <u>7,052,974</u>                    | <u>6,429,677</u>                    | <u>6,747,614</u>                    | <u>6,237,918</u>                    | <u>6,292,991</u>                    | <u>5,776,841</u>                    | <u>4,682,884</u>                    |
| Net Losses*  | \$ 39,070                           | \$1,667,134                         | \$2,341,201                         | \$1,562,759                         | \$2,581,252                         | \$2,482,834                         | \$1,817,559                         | \$2,618,871                         |
| Net Losses as Percentage of<br>Average Receivables Outstanding | 0.01%                               | 0.23%                               | 0.31%                               | 0.21%                               | 0.36%                               | 0.36%                               | 0.28%                               | 0.44%                               |

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

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

## Delinquencies for the Student Loan Portfolio for all SELF Loan Programs

(Dollars in Thousands)

|                 | June 30, 2012 |            | Sept 30, 2012 |            | December 31, 2012 |            | March 31, 2013 |            | June 30, 2013 |            |
|-----------------|---------------|------------|---------------|------------|-------------------|------------|----------------|------------|---------------|------------|
| Days Delinquent | Amount        | %          | Amount        | %          | Amount            | %          | Amount         | %          | Amount        | %          |
| 15-29           | \$15,383      | 2.2%       | \$12,393      | 1.8%       | \$15,645          | 2.3%       | \$21,077       | 3.1%       | \$12,617      | 1.9%       |
| 30-44           | 19,530        | 2.8        | 20,347        | 2.9        | 24,173            | 3.5        | 11,997         | 1.7        | 20,321        | 3.0        |
| 45-59           | 4,617         | 0.6        | 4,575         | 0.6        | 6,107             | 0.9        | 2,153          | 0.3        | 5,009         | 0.8        |
| 60-89           | 6,068         | 0.9        | 5,703         | 0.8        | 5,489             | 0.8        | 4,154          | 0.6        | 5,195         | 0.8        |
| 90-119          | 2,561         | 0.4        | 2,891         | 0.4        | 2,805             | 0.4        | 1,517          | 0.2        | 2,202         | 0.3        |
| 120 and Over    | <u>2,390</u>  | <u>0.3</u> | <u>2,323</u>  | <u>0.3</u> | <u>2,481</u>      | <u>0.4</u> | <u>1,585</u>   | <u>0.2</u> | <u>1,872</u>  | <u>0.3</u> |
| Total           | \$50,549      | 7.2%       | \$48,232      | 6.8%       | \$56,700          | 8.3%       | \$42,483       | 6.1%       | \$47,216      | 7.1%       |