

NEW ISSUE: DTC BOOK-ENTRY-ONLY

EXPECTED RATING:

S&amp;P: "AA(sf)"

See "RATING" herein

*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 and as construed on the date of delivery of the Series 2018 Bonds, but excluding any pending legislation which may have a retroactive date prior to the date of delivery of the Series 2018 Bonds and assuming compliance with the covenants set forth in the Indenture (as defined herein), the Series 2018 Bonds bear interest which is (i) 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 of Minnesota income tax purposes; (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 individuals and the Minnesota alternative minimum tax imposed on individuals, trusts and estates. See the caption "TAX MATTERS" herein.*



**\$54,535,000**  
**MINNESOTA OFFICE OF HIGHER EDUCATION**  
**SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**  
**2018 SENIOR SERIES (AMT)**

**Dated: Date of Delivery****Due: November 1, as shown on the inside front cover**

The Minnesota Office of Higher Education (the "Issuer") will issue its \$54,535,000 Supplemental Student Loan Program Revenue Bonds, 2018 Senior Series (the "Series 2018 Bonds") pursuant to a General Indenture, dated as of November 1, 2018 (the "General Indenture"), as supplemented by a First Supplemental Indenture, dated as of November 1, 2018 (the "First Supplement," and together with the General Indenture, the "Indenture"), each between the Issuer and U.S. Bank National Association, as trustee (the "Trustee").

The Series 2018 Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or integral multiples thereof. Interest will be payable by the Trustee to the registered owners of the Series 2018 Bonds on each May 1 and November 1, commencing May 1, 2019. As originally issued, the Series 2018 Bonds 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 2018 Bonds. Individual purchases of the Series 2018 Bonds are to be made in Book-Entry Form only. Purchasers of the Series 2018 Bonds will not receive certificates representing their interest in Series 2018 Bonds purchased. So long as DTC is the registered owner of the Series 2018 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2018 Bonds will be made directly to DTC. Disbursements of such payments to DTC participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants and Indirect Participants. See "APPENDIX C—BOOK-ENTRY-ONLY SYSTEM" hereto. U.S. Bank National Association will serve as Trustee as well as Paying Agent and Registrar for the Series 2018 Bonds.

The Series 2018 Bonds are being issued to provide the Issuer with moneys to (a) finance fixed-rate student loans Originated under the SELF V phase of the Issuer's SELF Program, and (b) fund the Debt Service Reserve Fund. See the caption "SOURCES AND USES OF FUNDS" herein.

The Series 2018 Bonds are subject to redemption prior to maturity as described herein. See the caption "THE SERIES 2018 BONDS—Redemption Provisions" herein.

The Indenture provides for the issuance of multiple series and classes of bonds (collectively, the "Bonds") as described herein. The Series 2018 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture, and constitute "senior bonds" under the Indenture. The Indenture permits the further issuance of additional Bonds payable on a parity with, or subordinate to, the Series 2018 Bonds.

The Bonds, including the Series 2018 Bonds, are payable solely from the Student Loans, money and investments held by the Trustee under the Indenture. The Bonds, including the Series 2018 Bonds, may also benefit from amounts payable to the Issuer by the State of Minnesota (the "State") with respect to the Debt Service Reserve Fund or otherwise with respect to the Bonds, including the Series 2018 Bonds, pursuant to Minnesota Statutes Section 136A.1787, subject to and dependent upon annual appropriations by the legislature of the State for such purpose, as more fully described herein. See the caption "SECURITY AND SOURCE OF REPAYMENT—Statutory Provisions Providing for Legislative Appropriations" herein. Such provision does not constitute a legally enforceable obligation on the part of the State or create a debt or liability on behalf of the State enforceable against the State.

THE BONDS, INCLUDING THE SERIES 2018 BONDS, ARE SPECIAL LIMITED, NOT GENERAL, OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE. THE BONDS, INCLUDING THE SERIES 2018 BONDS, AND THE INTEREST THEREON DO NOT REPRESENT OR CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE EXTENT PROVIDED IN THE INDENTURE), OR GRANT TO THE OWNERS 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, INCLUDING THE SERIES 2018 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 2018 Bonds are offered when, as and if issued and received by the underwriter named below (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, Kutak Rock LLP. It is expected that the Series 2018 Bonds will be available for delivery at DTC on or about November 27, 2018.

## MATURITY SCHEDULE

**\$54,535,000**

**Minnesota Office of Higher Education  
Supplemental Student Loan Program Revenue Bonds  
2018 Senior Series**

### Serial Bonds

<b>Maturity Date (November 1)</b>	<b>Principal Amounts</b>	<b>Interest Rate</b>	<b>Price</b>	<b>Yield</b>	<b>CUSIP<sup>®*</sup></b>
2022	\$1,335,000	5.000%	107.779%	2.890%	60416M BF9
2023	1,290,000	5.000	109.048	3.010	60416M BG7
2024	2,640,000	5.000	109.986	3.140	60416M BH5
2025	2,640,000	5.000	110.709	3.260	60416M BJ1
2026	2,405,000	5.000	111.402	3.350	60416M BK8

### Term Bonds

<b>Maturity Date (November 1)</b>	<b>Principal Amounts</b>	<b>Interest Rate</b>	<b>Price</b>	<b>Yield</b>	<b>CUSIP<sup>®*</sup></b>
2037	\$44,225,000	4.000%	98.689%	4.100%	60416M BL6

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\* ©Copyright 2018, American Bankers Association. CUSIP data herein is provided by S&P Global Market Intelligence. The CUSIP numbers listed above are being provided solely for the convenience of Owners of the Series 2018 Bonds only at the time of issuance of the Series 2018 Bonds. No assurance can be given that the CUSIP numbers for the Series 2018 Bonds will remain the same after the date of issuance and delivery of the Series 2018 Bonds.

This Official Statement does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Underwriter to subscribe for or purchase, any of the Series 2018 Bonds in any circumstances or in any state or other jurisdiction where such offer or invitation is unlawful. Except as set forth herein, no action has been taken or will be taken to register or qualify the Series 2018 Bonds or otherwise to permit a public offering of the Series 2018 Bonds in any jurisdiction where actions for that purpose would be required. The distribution of this Official Statement and the offering of the Series 2018 Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Official Statement comes are required by the Issuer and the Underwriter to inform themselves about and to observe any such restrictions. This Official Statement has been prepared by the Issuer solely for use in connection with the proposed offering of the Series 2018 Bonds described herein.

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 Depository Trust Company (“DTC”), Nelnet Servicing, LLC (“Nelnet Servicing” and the current “Servicer”), 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 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, policies, 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 upon request to the Trustee.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING AND WEIGH THE MERITS AND RISKS INVOLVED WITH OWNERSHIP OF THE SERIES 2018 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 their officers, employees or agents

as investment, legal, accounting, regulatory or tax advice. Prior to any investment in the Series 2018 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 2018 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 (the "Securities Act"). 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 2018 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 2018 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 2018 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 2018 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 2018 Bonds on any exchange, including any exchange in either Europe or the United States.

The Series 2018 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 2018 Bonds may be sold without delivery of this Official Statement.

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE SERIES 2018 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 WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SERIES 2018 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET FOR A LIMITED PERIOD. HOWEVER, THERE IS NO OBLIGATION TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

#### **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, you 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 captions "INVESTMENT CONSIDERATIONS" and "SECURITY AND SOURCE OF REPAYMENT—Anticipated Sufficiency of Revenues" herein.

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, you should not place undue reliance on the forward-looking statements.

You 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.

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## SUMMARY STATEMENT

*The following information is furnished solely to provide limited introductory information regarding the Series 2018 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. 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—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—CERTAIN DEFINITIONS” hereto.*

**Issuer** ..... The Minnesota Office of Higher Education, an executive branch agency of the State of Minnesota (the “State”).

**Series 2018 Bonds**..... \$54,535,000 Supplemental Student Loan Program Revenue Bonds, 2018 Senior Series (the “Series 2018 Bonds”).

**Interest Payments**..... Interest on the Series 2018 Bonds is payable on May 1 and November 1 commencing May 1, 2019.

### **Security and Source of**

**Repayment**..... The Series 2018 Bonds, as well as any additional Bonds issued under the Indenture, are payable solely from and secured by the Issuer’s pledge to the Trustee under the Indenture of (a) all Student Loans, and all documentation thereof, whether in tangible or intangible form, including all agreements, notes (whether manually or electronically signed) and all other documents or electronic records evidencing such Student Loans or extensions and renewals thereof; (b) all general intangibles, payment intangibles, or electronic chattel paper related to the Student Loans; (c) all proceeds of the Bonds, Revenues and any other amounts at any time contained in the Funds and Accounts, excluding the Rebate Fund and 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); (d) all State Debt Service Reserve Fund Payments and State Shortfall Payments (if appropriated by the State as described below); (e) the rights of the Issuer in and to each Servicing Agreement solely as it relates to Student Loans; (f) any and all other real or personal property of every name and nature, by delivery or by writing of any kind, conveyed, mortgaged, pledged, assigned or transferred by the Issuer or by anyone on its behalf or with its prior written consent, to the Trustee as and for additional security under the Indenture; and (g) all proceeds of the foregoing (collectively, the “Trust Estate”).

The Bonds, including the Series 2018 Bonds, may also benefit from amounts payable to the Issuer by the State of Minnesota (the “State”) with respect to the Debt Service Reserve Fund or otherwise with respect to the Bonds, including the Series 2018 Bonds, pursuant to Minnesota Statutes Section 136A.1787, subject to and dependent upon annual appropriations by the legislature of the State for such purpose, as more fully described herein. See the captions “SECURITY AND SOURCE OF

REPAYMENT—Statutory Provisions Providing for Legislative Appropriations” herein. Such provision does not constitute a legally enforceable obligation on the part of the State or create a debt or liability on behalf of the State enforceable against the State.

**Use of Bond Proceeds.....**The Series 2018 Bond proceeds are to be applied to (a) Finance approximately \$24.1 million of fixed-rate student loans (“SELF V Loans”) Originated under the SELF V phase of the Issuer’s SELF Program (See the caption “STUDENT LOAN PROGRAM” herein) currently financed in the Issuer’s Loan Capital Fund, (b) Finance approximately \$29.2 million of fixed-rate SELF V Loans during the Loan Origination Period, (c) fund the Debt Service Reserve Fund and (d) pay the Underwriter’s discount. The Loan Origination Period will expire on February 29, 2020, subject to extension thereafter upon satisfaction of the requirements of an Event Notification with respect to such extension. In addition, on the date of issuance of the Series 2018 Bonds, the Issuer will (i) pledge to the Trust Estate and deposit SELF V Loans with an aggregate principal amount of approximately \$16.2 million to the Student Loan Fund, (ii) deposit an amount equal to the Underwriter’s discount (\$548,109) to the Series 2018 Account of the Acquisition Fund to Finance additional fixed-rate SELF V Loans during the Loan Origination Period and (iii) pay the costs of issuing the Series 2018 Bonds, other than the Underwriter’s discount. See the caption “SOURCES AND USES OF FUNDS” herein.

**Redemption.....**The Series 2018 Bonds maturing November 1, 2037 are subject to sinking fund redemption, at a Redemption Price of 100% of principal, without premium, to the extent moneys are available therefor under the Indenture, as described herein. All Series 2018 Bonds are subject to redemption, at a Redemption Price of 100% of principal, plus accrued interest to the date of redemption, plus, in the case of the redemption of Series 2018 Premium Bonds, the Unamortized Premium with respect to such Series 2018 Premium Bonds, from certain unexpended proceeds of the Series 2018 Bonds remaining in the Series 2018 Account of the Acquisition Fund, if any, as of the end of the Loan Origination Period. Series 2018 Bonds maturing on November 1, 2037 are also subject to special optional redemption and special mandatory redemption, in each case at a Redemption Price of 100% of principal, without premium, plus accrued interest to the date of redemption, from certain Excess Revenues available therefor under the Indenture allocable to the Series 2018 Bonds as described herein. Series 2018 Bonds maturing on November 1, 2037 are also subject to optional redemption on any date on and after November 1, 2026 at a Redemption Price of 100% of principal, without premium, plus accrued interest to the date of redemption. See the caption “THE SERIES 2018 BONDS—Redemption Provisions” herein.

**Additional Bonds.....**The Indenture provides for the issuance of multiple series and classes of bonds (collectively, the “Bonds”) as described herein. Bonds may be issued as Class I Bonds or “senior bonds” (the “Senior Bonds”) or as Class II Bonds or “subordinate bonds” (the “Subordinate Bonds”) pursuant to the Indenture. The Senior Bonds have certain payment and other priorities over the Subordinate Bonds, as more further described

herein. The Series 2018 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture, and constitute Class I Bonds or Senior Bonds under the Indenture. Any additional Bonds may Finance student loans originated under any Student Loan Program operated by the Issuer; however, the issuance of such additional Bonds requires the Issuer to satisfy the requirements of an Event Notification. See the caption “STUDENT LOAN PROGRAM” herein.

**Special Limited Obligations ....**THE BONDS, INCLUDING THE SERIES 2018 BONDS, ARE SPECIAL LIMITED, NOT GENERAL, OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE. THE BONDS, INCLUDING THE SERIES 2018 BONDS AND THE INTEREST THEREON DO NOT REPRESENT OR CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE EXTENT PROVIDED IN THE INDENTURE), OR GRANT TO THE OWNERS 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, INCLUDING THE SERIES 2018 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.

**Rating.....**The Series 2018 Bonds are expected to be rated “AA(sf) by S&P Global Ratings (“S&P”). Such rating reflects only the view of S&P and an explanation of the significance of such rating can only be obtained from S&P. See the caption “RATING” herein.

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## **OFFICIAL STATEMENT**

**\$54,535,000**

### **MINNESOTA OFFICE OF HIGHER EDUCATION SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS 2018 SENIOR SERIES**

#### **INTRODUCTORY STATEMENT**

This Official Statement, including the cover page and the Appendices hereto, sets forth certain information concerning the \$54,535,000 Supplemental Student Loan Program Revenue Bonds, 2018 Senior Series (the “Series 2018 Bonds”) to be issued by the Minnesota Office of Higher Education (the “Issuer”). The Series 2018 Bonds will be issued pursuant to a General Indenture, dated as of November 1, 2018 (the “General Indenture”), as supplemented by a First Supplemental Indenture, dated as of November 1, 2018 (the “First Supplement,” and together with the General Indenture, the “Indenture”), each between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”), and in accordance with the provisions of Minnesota Statutes, Sections 136A.15 to 136A.1787, as amended (the “Act”). The Indenture provides for the issuance of multiple series and classes of bonds (collectively, the “Bonds”) as described herein. Bonds may be issued as Class I Bonds or “senior bonds” (the “Senior Bonds”) or as Class II or “subordinate bonds” (the “Subordinate Bonds”) pursuant to the Indenture. The Senior Bonds have certain payment and other priorities over the Subordinate Bonds, as more further described herein.

The principal amount of Bonds that may be issued under the Indenture is not limited. The Series 2018 Bonds are the first series of Bonds to be issued by the Issuer under the Indenture, and constitute Class I Bonds or Senior Bonds under the Indenture. Additional Bonds may hereafter be issued under the Indenture on a parity with, or subordinate to, the Series 2018 Bonds. See “SECURITY AND SOURCE OF REPAYMENT” herein. The Act limits the aggregate amount of revenue bonds of the Issuer, whether issued under the Indenture or other trust indentures, that may be outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, to \$850,000,000 (under current law).

The Issuer will use the proceeds of the sale of the Series 2018 Bonds to (a) Finance approximately \$24.1 million of fixed-rate student loans (“SELF V Loans”) Originated under the SELF V phase of the Issuer’s SELF Program (See the caption “STUDENT LOAN PROGRAM” herein) currently financed in the Issuer’s Loan Capital Fund, (b) Finance approximately \$29.2 million of fixed-rate SELF V Loans during the Loan Origination Period, (c) fund the Debt Service Reserve Fund and (d) pay the Underwriter’s discount. The Loan Origination Period will expire on February 29, 2020, subject to extension thereafter upon satisfaction of the requirements of an Event Notification with respect to such extension. In addition, on the date of issuance of the Series 2018 Bonds, the Issuer will (i) pledge to the Trust Estate and deposit SELF V Loans with an aggregate principal amount of approximately \$16.2 million to the Student Loan Fund, (ii) deposit an amount equal to the Underwriter’s discount (\$548,109) to the Series 2018 Account of the Acquisition Fund to Finance additional fixed-rate SELF V Loans during the Loan Origination Period and (iii) pay the costs of issuing the Series 2018 Bonds, other than the Underwriter’s discount, from sources other than Series 2018 Bond proceeds. See the caption “SOURCES AND USES OF FUNDS” herein.

The Student Loans Originated with proceeds of the Series 2018 Bonds and the Student Loans initially pledged to the Trust Estate by the Issuer will be fixed-rate loans originated by the Issuer under the SELF V phase of its SELF Program that require a Cosigner. In addition, the SELF V phase of the SELF Program offers variable-rate loans that will not be Financed with proceeds of the Series 2018 Bonds or initially pledged to the Trust Estate by the Issuer, but may be Financed with proceeds of additional Bonds or pledged to the Trust Estate by the Issuer in the future. The Student Loans are not insured or guaranteed. Any additional Bonds may Finance student loans Originated under any supplemental student loan program

operated by the Issuer (the “Student Loan Program” and the loans Originated with proceeds of Bonds, including the SELF V Loans Originated in connection with the issuance of the Series 2018 Bonds, or otherwise pledged to the Trust Estate, the “Student Loans”); however, the issuance of such additional Bonds requires the Issuer to satisfy the requirements of an Event Notification. See the caption “STUDENT LOAN PROGRAM” herein. The Revenues held in the Revenue Fund 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 Capitalized Interest Fund, the Redemption Fund, and the Surplus Fund, and the investment income on these Funds are pledged to the payment of the Series 2018 Bonds and all other Bonds issued under the Indenture.

The Bonds, including the Series 2018 Bonds, are special, limited obligations of the Issuer payable solely from the Student Loans, money and other investments held by the Trustee and pledged by the Issuer as part of the Trust Estate pursuant to the Indenture.

This Official Statement and the Appendices hereto contain descriptions of, among other matters, the Series 2018 Bonds, the Issuer, the SELF V phase of the SELF Program, the SELF Refi Program 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 2018 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 upon request to the Trustee.

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—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—CERTAIN DEFINITIONS” hereto.

## **INVESTMENT CONSIDERATIONS**

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 2018 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 2018 Bonds. Such factors are not intended to be a complete list of all factors which may be material to such decision. Additional risks relating to an investment in the Series 2018 Bonds are described throughout this Official Statement, whether or not specifically designated as risks. There can be no assurance that other considerations will not become material in the future.

### **Defaults and Delinquencies on the Student Loans**

The Revenues derived by the Issuer from payments of principal of and interest on the Student Loans could be materially and adversely affected by increases in defaults and delinquencies on payments of principal of and interest on the Student Loans. Significant increases in college tuition experienced over the last several years have significantly increased the average amount of outstanding loans for each student. The Issuer has no obligation to replace any Student Loan that becomes delinquent or goes into default.

### **Student Loans May Be Forgiven upon the Death or Permanent Disability of the Borrower**

The Student Loans are eligible for loan write-off if the Borrower dies or becomes permanently disabled. If the Borrower meets these requirements, the Borrower’s and any Cosigner’s obligations to repay such Student Loan will be cancelled, which will reduce the Revenues available to the Issuer to pay the

Bonds, including the Series 2018 Bonds. See the caption “STUDENT LOAN PROGRAM—SELF V Terms and Conditions—*Death and Disability Provisions*” herein.

### **The Student Loans Are Unsecured and Do Not Have the Benefit of a Guaranty Agency**

The Student Loans are private, or alternative, student loans, are not originated pursuant to the Higher Education Act of 1965, as amended, and are not, and will not be, guaranteed by any governmental entity or third party guarantor. In addition, the Student Loans to be pledged to the Trust Estate will be unsecured; however, the SELF V Loans are required to have Cosigners. Therefore, the receipt by the Trustee of principal and interest on the Student Loans will be dependent on the ability and willingness of the Borrowers or the Cosigners to make these payments. See the caption “General Economic Conditions” below and the caption “STUDENT LOAN PROGRAM” herein.

### **Sufficiency and Timing of Receipt of Revenues**

Upon issuance of the Series 2018 Bonds, it is anticipated that the initial Class I Bonds Parity Ratio will be not less than 130.5%, which is based on the net amount of cash and Investment Securities on deposit in the Funds and Accounts under the Indenture derived from the net proceeds of the Series 2018 Bonds plus Student Loans initially pledged to the Trust Estate by the Issuer in principal amount over the aggregate principal amount of the Outstanding Bonds. In addition, the Issuer expects, and the Cash Flow Projections prepared in connection with the issuance of the Series 2018 Bonds indicate, 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 2018 Bonds when due. This expectation is based upon an analysis of the Cash Flow Projections, using assumptions which the Issuer believes are reasonable, regarding (a) the characteristics and expected performance of the Student Loans, (b) amounts to be deposited in the Debt Service Reserve Fund, (c) investment earnings on amounts on deposit in the Funds and Accounts under the Indenture (excluding the Rebate Fund and the Excess Interest Fund), and (d) the amount and timing of payment of Program Expenses. The assumptions regarding expected performance of the Student Loans are derived in part from the Issuer’s historical experience in the administration of its Student Loan Program. There can be no assurance, however, that the Student Loans anticipated to be Financed with the proceeds of the Series 2018 Bonds or pledged by the Issuer to the Trust Estate will be Financed or pledged as anticipated, that interest and principal payments from such Student Loans and from Student Loans Financed with the proceeds of the Series 2018 Bonds and any additional Bonds will be received as anticipated or that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized. Furthermore, future events over which the Issuer has no control may adversely affect the Issuer’s actual receipt of Revenues and other amounts pursuant to the Indenture.

Receipt of principal of and interest on Student Loans may occur earlier than anticipated, causing an unanticipated redemption of Series 2018 Bonds, due to various factors, including, without limitation: (a) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Issuer’s Student Loan portfolio expected to be held pursuant to the Indenture, (b) the commencement of principal repayment by Borrowers on earlier dates than are assumed based upon the current analysis of the Issuer’s Student Loan portfolio expected to be held under the Indenture, and (c) economic conditions that induce Borrowers to refinance or repay their loans prior to maturity.

Delay in the receipt of principal of and interest on Student Loans may adversely affect payment of the principal of and interest on the Bonds, including the Series 2018 Bonds, when due. Receipt of principal of and interest on Student Loans may be delayed due to numerous factors including, without limitation: (a) additional extended grace periods for up to 24 additional months (during which interest, but not principal, payments are required to be made) occurring after grace periods granted automatically for the first 12 months after the Borrower ceases to be enrolled as at least a Half-time Student or leaves school;

(b) Borrowers entering into interest only payment periods due to a return to school or other eligible purposes; (c) forbearance being granted to Borrowers; (d) loans in delinquency for periods longer than assumed; (e) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Issuer's Student Loan portfolio expected to be held under the Indenture; and (f) the commencement of principal repayment by Borrowers at dates later than those assumed based upon the current analysis of the Student Loan portfolio expected to be held under the Indenture.

If actual receipt of the Revenues and other amounts under the Indenture or actual expenditures (including, without limitation, Program Expenses) vary materially from those projected, the Issuer may be unable to pay the principal of and interest on the Bonds, including the Series 2018 Bonds. In the event that Revenues and other amounts to be received under the Indenture are insufficient to pay the principal of and interest on the Bonds, including the Series 2018 Bonds, when due, the Indenture authorizes, and under certain circumstances requires, the Trustee, upon written notice or actual knowledge of a Responsible Officer of an Event of Default, to sell the Student Loans and all other assets comprising the Trust Estate and accelerate the maturity of the Bonds, including the Series 2018 Bonds. It is possible, however, that the Trustee would not be able to sell the Student Loans and the other assets comprising the Trust Estate in a timely manner or for an amount sufficient to permit payment of the principal of and accrued interest on all Outstanding Bonds, including the Series 2018 Bonds, when due.

#### **There Will Be No Market Valuation of the Student Loans**

The Student Loans are not being valued at their fair market value as determined by any independent advisor, but will be valued based upon the principal of and accrued interest to be received by the Issuer according to the terms of the Student Loans.

#### **Early Redemption of the Series 2018 Bonds**

The Series 2018 Bonds maturing on November 1, 2037 are subject to sinking fund redemption, at a Redemption Price of 100% of principal, without premium, to the extent moneys are available therefor under the Indenture, as described herein. All Series 2018 Bonds are subject to redemption, at a Redemption Price of 100% of principal, plus accrued interest to the date of redemption, plus, in the case of the redemption of Series 2018 Premium Bonds, the Unamortized Premium with respect to such Series 2018 Premium Bonds, from certain unexpended proceeds of the Series 2018 Bonds and certain other amounts remaining in the Series 2018 Account of the Acquisition Fund, if any, as of the end of the Loan Origination Period. Series 2018 Bonds maturing on November 1, 2037 are subject to optional redemption on any date on and after November 1, 2026 at a Redemption Price of 100% of principal, plus accrued interest to the date of redemption. Series 2018 Bonds maturing on November 1, 2037 are also subject to special optional redemption and special mandatory redemption, in each case at a Redemption Price of 100% of principal, without premium, plus accrued interest to the date of redemption, from certain Excess Revenues allocable to the Series 2018 Bonds as described herein available therefor under the Indenture. Excess Revenues may result from Student Loan portfolio payment performance that exceeds assumptions utilized by the Issuer for purposes of structuring the Series 2018 Bonds. Student Loans are subject to prepayment without penalty. Numerous sources of such prepayment, including loans from sources other than the Issuer, are available to Student Loan Borrowers. See the caption "THE SERIES 2018 BONDS—Redemption Provisions" herein.

#### **Issuance of Additional Bonds May Affect Excess Revenue Redemption**

The Issuer reserves the right to issue additional Bonds, and the issuance of such additional Bonds may affect the amount of Excess Revenues available to redeem Series 2018 Bonds. See the caption "SECURITY AND SOURCE OF REPAYMENT—Pledged Funds—*Revenue Fund*" herein.



## **Risk of Non-Origination**

The SELF V Loans to be Originated by the Issuer with the proceeds of the Series 2018 Bonds are expected to bear effective interest rates and to offer other terms and conditions that are competitive with fixed-rate education loans that are currently made available by other lenders. However, interest rates applicable to fixed-rate loans made to fund the costs of postsecondary education, or interest rates applicable to other loans available to Borrowers, may decline significantly during the Loan Origination Period, or other material changes may occur in competing education loan programs. In addition, fixed-rate SELF V Loans compete with variable-rate loans, including variable-rate loans offered by the Issuer (see the caption “Competition From Variable-Rate SELF V Loans” below) as well as other student loan programs. There is no assurance that the Issuer will be able to apply the full amount of Series 2018 Bond proceeds and allocable Revenues which are currently expected to be made available therefor to the Origination of Student Loans. The demand for education loans is affected by a number of factors, including general economic conditions, student perceptions of the value of postsecondary education and their ability to participate in postsecondary education programs on at least a half-time basis, factors affecting the costs of postsecondary education and the availability of other forms of financial assistance, the ability of Borrowers and Cosigners to satisfy credit criteria and the schedule upon which students and their families must pay postsecondary education costs, which is generally based upon an academic year commencing in September, or upon semesters commencing in September and January. See the caption “General Economic Conditions” below.

The Loan Origination Period will expire on February 29, 2020, subject to extension thereafter upon satisfaction of the requirements of an Event Notification with respect to such extension. If the Issuer is unable to fully apply all amounts available to Originate SELF V Loans prior to expiration of the Loan Origination Period, unexpended moneys in the Series 2018 Account of the Acquisition Fund would be transferred to the Redemption Fund and used to redeem Series 2018 Bonds. The Issuer reserves the right to apply moneys in the Series 2018 Account of the Acquisition Fund, moneys in the Series 2018 Account of the Surplus Fund and other moneys available to it to Originate SELF V Loans in the manner it deems most advantageous to SELF V Loan Borrowers and the Issuer. See the caption “THE SERIES 2018 BONDS—Redemption Provisions—*Mandatory Redemption Resulting From Non-Origination*” herein.

## **Limited Obligations of the Issuer**

The Bonds, including the Series 2018 Bonds, are special, limited obligations of the Issuer payable solely from the Student Loans, money and investments held by the Trustee, and pledged by the Issuer, as part of the Trust Estate pursuant to the Indenture. The Bonds, including the Series 2018 Bonds, and interest thereon do not constitute or give rise to a pecuniary liability of the State or any agency (other than the Issuer, to the extent provided in the Indenture) or political subdivision thereof. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision of the State (including the Issuer) is pledged to the payment of the principal of or the interest on the Bonds, including the Series 2018 Bonds. The Issuer has no taxing power.

No assurance can be given that sufficient Revenues will be derived from the Student Loans, 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 Bonds, including the Series 2018 Bonds. The Student Loans held under the Indenture are not subject to acceleration of principal in the event of any such deficiency. See the caption “SECURITY AND SOURCE OF REPAYMENT—Cash Flow Projections” herein.

## **The Obligations of the Trustee and the Servicer are Limited**

The duties, actions and obligations of each of the Trustee and the Servicer are limited to such duties, actions and obligations specifically set forth in the transaction documents and no implied covenants, duties or obligations are read into the transaction documents. Neither the Trustee nor the Servicer has any duty or obligation to take any additional action unless specifically directed to take such action and satisfactorily indemnified therefor and subject to the terms of the transaction documents. Additionally, certain of the duties and obligations of such parties are dependent upon receipt of information from other parties. Any failure of one party to timely and accurately deliver any information, or perform its duties and obligations, could prevent another party from being able to fulfill its duties and obligations.

## **Statutory Provisions Providing for Legislative Appropriations**

Section 136A.1787 of the Act provides for a specific budgetary procedure with respect to bonds issued by the Issuer, under which the Issuer is required to annually determine and certify to the Governor of the State on or before December 1, the amount, if any, (a) needed to restore the Issuer's Loan Capital Fund to the minimum amount required by its indentures, not to exceed the maximum amount of principal and interest to become due and payable in any subsequent year on all outstanding bonds and notes of the Issuer; (b) determined by the Issuer to be needed in the immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, to pay principal and interest due and payable in that year on all outstanding bonds and notes of the Issuer; and (c) needed to restore any debt service reserve fund securing any outstanding bonds or notes of the Issuer. The Governor is required to include and submit all such certified amounts to the State legislature in the Governor's budget for the following fiscal year, or in the Governor's supplemental budget if the regular budget has previously been approved.

These provisions of the Act would permit the Issuer to ask the State for amounts sufficient to (a) cure any deficiency in the Debt Service Reserve Fund as of December 1 in a given year, and (b) cover any expected shortfall in the moneys available to pay principal and interest on the Bonds, including the Series 2018 Bonds, in the following fiscal year. These amounts, if appropriated by the legislature and made available to the Issuer, would be paid to the Issuer on or after the following July 1, which is the beginning of the next fiscal year. No such amounts would be available to cure any additional deficiency in the Debt Service Reserve Fund occurring after such December 1, nor to cover any shortfalls in moneys available to pay principal and interest on the Bonds, including the Series 2018 Bonds, during the current fiscal year, although any such shortfalls then existing or expected to occur should be considered in determining the expected shortfall for the following fiscal year.

The Act contains no provision establishing any right of Owners of the Bonds, including the Series 2018 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.

However, any appropriations so made to the Issuer 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, 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 program is 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.

There is no statutory limitation on the amount of bonds which may be issued by the Issuer that would be subject to the provisions of Section 136A.1787 of the Act.

See the caption "SECURITY AND SOURCE OF REPAYMENT—Statutory Provisions Providing for Legislative Appropriations" herein.

### **Financial Condition of the Issuer**

The Issuer's audited financial statements as of and for the year ended June 30, 2017 are attached hereto as Appendix A. An investor, in making an investment decision with respect to the Series 2018 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 Bonds, including the Series 2018 Bonds. However, the Issuer will pay the costs of issuing the Series 2018 Bonds, other than the Underwriter's discount, from sources other than the Trust Estate.

### **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. In the event of the removal of the Servicer and the appointment of a successor Servicer, there may be additional costs associated with the transfer of such duties to the successor Servicer, including, but not limited to, an increase in the servicing fees the successor Servicer charges.

### **Risks Relating to Commingling of Payments on Student Loans**

Payments received on the Student Loans generally are deposited into an account in the name of the Servicer each business day. Payments received on the Student Loans may not always be segregated from payments the Servicer receives on other student loans it services, and payments received on the Student Loans that are part of the Trust Estate may not be segregated from payments received on other student loans that are not part of the Trust Estate. Such amounts that relate to the Student Loans are required by the Indenture to be forwarded to the Trustee for deposit into the Revenue Fund within two Business Days of receipt. If the Servicer fails to transfer such funds to the Trustee, Owners may suffer a loss.

## **Bankruptcy or Insolvency of the Servicer Could Result in Payment Delays to Owners**

Nelnet Servicing acts as the Servicer with respect to the Student Loans. In the event of a default by the Servicer resulting from events of insolvency or bankruptcy, a court, conservator, receiver or liquidator may have the power to prevent the appointment of a successor Servicer, and delays in collections of the Student Loans may occur. Any delay in the collections of Student Loans may delay payments to Owners.

## **Dependence on Third-Party Servicer**

The Issuer is currently dependent on a third party to service its SELF Loans and its SELF Refi Loans (each as defined herein), including the Student Loans to be Financed with proceeds of the Bonds, including the Series 2018 Bonds. As of the date of this Official Statement, Nelnet Servicing, LLC (“Nelnet Servicing”), a subsidiary of Nelnet, Inc., is acting as servicer with respect to all SELF Loans pursuant to an agreement that expires on April 30, 2023, unless extended an additional five years to April 30, 2028; provided, however, the Issuer or Nelnet Servicing may terminate such agreement upon 180 days’ notice, and the Issuer may terminate such agreement if Nelnet Servicing refuses or fails to perform in a material fashion any part of its obligations thereunder, and fails or refuses to correct said action or lack of action within 60 days after receipt of written notice. The Issuer has the right, under the Indenture, to appoint a different or successor Servicer, subject to satisfaction of the requirements of an Event Notification as to such successor or additional Servicer. The Cash Flow Projections relied upon by the Issuer in structuring the Series 2018 Bond issue provide for the payment of all anticipated Program Expenses (including the fees and expenses of the Servicer) from moneys in the Trust Estate, and include certain assumptions with respect to servicing costs which were based upon this current agreement (it is the intent and past practice of the Issuer to pay Program Expenses from funds not held as part of the Trust Estate). 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 each Rating Agency at the assumed level of servicing cost upon expiration of the current Servicing Agreement. Furthermore, provisions of the First Supplement restrict payment of Program Expenses (which includes the fees and expenses of the Servicer) from moneys in the Trust Estate to those assumed in the Cash Flow Projections delivered to the Trustee on the date of issuance of the Series 2018 Bonds, or updated Cash Flow Projections if the requirements of an Event Notification have been satisfied with respect to any such excess. See “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—SUMMARIES OF DOCUMENTS—The First Supplement—*Limitation on Program Expenses Paid From Revenue Fund*” hereto.

## **Enforceability of Remedies**

The Bonds, including the Series 2018 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 2018 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 Bonds, including the Series 2018 Bonds. To perfect such security interest in the Student Loans, the Trustee must take (a) possession and/or control of the promissory notes evidencing such Student Loans, either directly or constructively through a custodian or bailee; or (b) file a financing statement. The Servicer will hold or control the original promissory note with respect to each Student Loan as bailee for the Trustee for purposes of perfecting the Trustee's security interest therein and a financing statement will be filed. For all Student Loans pledged to the Trust Estate under the Indenture, the Servicer will hold the related promissory note as agent for the Trustee. The Servicer shall release the promissory note to the Issuer only if such promissory note has been paid in full, a death or disability claim has been filed or if any payment under such promissory note is 120 days or more delinquent; provided that no such delinquent promissory note held as part of the Trust Estate shall be so released if the Student Loan Default Rate (as defined in the Bailment Agreement) exceeds 14%. 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.

## **Prepayment of Student Loans**

Student Loans may be prepaid by Borrowers at any time. For this purpose the term "prepayments" includes repayments in full or in part and liquidations due to default. The rate of prepayments on the loans may be influenced by a variety of economic, social, and other factors affecting borrowers, including interest rates, the availability of alternative financing and the general job market for graduates of institutions of higher education. To the extent that Student Loans are prepaid or liquidated, the proceeds of such prepayments or liquidations may be used to redeem the Series 2018 Bonds maturing on November 1, 2037, which otherwise would have been redeemed at a later date. See the caption "THE SERIES 2018 BONDS—Redemption Provisions" herein.

## **Redemption of the Series 2018 Bonds May Create Reinvestment Risks**

Student Loans may be prepaid by Borrowers at any time without penalty and the Issuer may use such prepayments to prepay the Bonds, including the Series 2018 Bonds maturing on November 1, 2037, pursuant to the special optional redemption, special mandatory redemption, or optional redemption provisions of the Indenture. See the caption "THE SERIES 2018 BONDS—Redemption Provisions" herein. If the Series 2018 Bonds maturing on November 1, 2037 are redeemed prior to their stated maturities, Owners may not be able to reinvest their funds at the same yield as the yield on such Series 2018 Bonds and may suffer adverse effects if such Series 2018 Bonds were purchased at a premium or discount. The Issuer cannot predict the prepayment rate of any Student Loans Financed with proceeds of the Bonds, including the Series 2018 Bonds maturing on November 1, 2037, and reinvestment risks or reductions in yield resulting from prepayment will be borne entirely by the affected Owners. The rate of prepayments may be influenced by economic and other factors, such as interest rates, the availability of other financing options and the general job market.

## **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 issued by the Issuer and outstanding at any one time, whether issued under the Indenture or other trust indentures, not including refunded bonds or otherwise defeased or discharged bonds, cannot exceed \$850,000,000 (under current law). As of June 30,

2018, the Issuer had outstanding \$463.7 million of bonds. See the caption “MINNESOTA OFFICE OF HIGHER EDUCATION—Financial Information—*Prior Financing Activities*” herein.

In order to (a) Finance Student Loans; (b) refund obligations of the Issuer; (c) in conjunction with the foregoing, set aside amounts for a reserve; (d) fund the Capitalized Interest Fund; and (e) pay Costs of Issuance or Program Expenses, the Issuer is authorized to issue Bonds under the General Indenture from time to time in one or more Classes or Series. The Issuer may issue additional Bonds on a parity with, or subordinate to, the Series 2018 Bonds. Any additional Bonds may Finance student loans originated under any Student Loan Program operated by the Issuer; however, the issuance of such additional Bonds requires the Issuer to satisfy the requirements of an Event Notification. See the caption “STUDENT LOAN PROGRAM” herein. In addition, the Issuer has previously issued bonds under separate trust indentures (see the caption “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 General Indenture, nor would the assets securing those bonds secure Bonds, including the Series 2018 Bonds, issued under the Indenture.

### **Possibility of Reduced Payments From Borrowers Called to Active Military Service**

Current military operations have increased the number of citizens who are in active military service, including persons in reserve status who have been called or will be called to active duty. The 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 a loan (including a Student 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.

### **Lack of Liquidity**

There currently is no secondary market for the Series 2018 Bonds. There is no assurance that any market will develop or, if it does develop, that it will continue or will provide investors with a sufficient level of liquidity of investment. If a secondary market for the Series 2018 Bonds does develop, the spread between the bid price and the asked price for the Series 2018 Bonds may widen, thereby reducing the net proceeds to the investor from the sale of its Series 2018 Bonds. The Issuer does not intend to list the Series 2018 Bonds on any exchange, including any exchange in either Europe or the United States. Under current market conditions, an investor may not be able to sell its Series 2018 Bonds when it wants to do so (it may be required to bear the financial risks of an investment in the Series 2018 Bonds for an indefinite period of time) or it may not be able to obtain the price that it wishes to receive. The market values of the Series 2018 Bonds may fluctuate and movements in price may be significant.

### **Market Disruptions**

There have periodically been severe disruptions in the United States financial markets. Such disruptions of credit markets may make it difficult for the Issuer to obtain financing in the future for the phases of its Student Loan Program. If the Issuer is unable to procure financing for its future needs, the Issuer would be limited in its ability to Originate new Student Loans. These limitations could result in students borrowing from other sources. These circumstances may adversely impact the long-term viability of the Student Loan Program and, thus, impair the ability of the Issuer to pay principal of and interest on the Bonds, including the Series 2018 Bonds.

## **Principal Amount of Bonds Outstanding May Exceed Principal Amount of Assets in the Trust Estate; Possible Loss After an Event of Default**

The principal amount of Bonds, including the Series 2018 Bonds, Outstanding at any time may exceed the principal amount of Student Loans and other assets in the Trust Estate held by the Trustee under the Indenture. If an Event of Default occurs and the assets in the Trust Estate are liquidated, the Student Loans might have to be sold at a premium in order for the Owners to avoid a loss. The Issuer cannot predict the rate or timing of accelerated payments of principal or the occurrence of an Event of Default. Payment of principal of and interest on the Bonds, including the Series 2018 Bonds, is dependent upon collections on the Student Loans. If the income from the Student Loans pledged to the Trust Estate does not generally exceed the interest expense on the Bonds and Program Expenses, funds available therefor in the Trust Estate may be insufficient to repay the Bonds, including the Series 2018 Bonds.

## **Competition May Reduce Demand or Increase Prepayments on Student Loans**

In addition to the Student Loan Program, there are a number of other sources available to students and/or their parents to finance or refinance the costs of higher education. Such other sources include, but are not limited to, loans offered pursuant to the Federal Direct Student Loan Program and by other education lenders generally. The terms and availability of education loan financing, and of education loan consolidation financing, from sources other than the Issuer vary and are subject to change from time to time. Although the Issuer believes that Student Loans will be competitive in the current prevailing market for education loans, the availability of such other lending sources in general and of the federal programs described herein in particular may impact adversely the number and amount of loans which may be Originated under the Student Loan Program. In addition, the availability of education loan consolidation financing from the Issuer and other sources may materially increase the rate of prepayment actually experienced by the Issuer with respect to Student Loans. There can be no assurance as to the availability to students of other forms of financial assistance that may reduce demand for Student Loans. Potential sources of such financial assistance include the state and federal government, as well as public and private educational institutions. See the caption “STUDENT LOAN PROGRAM” herein.

## **Competition From Variable-Rate SELF V Loans**

The variable-rate SELF V Loan has an interest rate that is currently lower than the fixed-rate SELF V Loan. There is a risk that borrowers will select variable-rate loans over fixed-rate loans, which may result in the inability of the Issuer to apply the full amount of Series 2018 Bond proceeds to be made available under the Indenture for the Origination of fixed-rate SELF V Loans. See the caption “Risk of Non-Origination” above. The SELF V Loan variable rate is set at (a) an index rate of the average three-month London Interbank Offered Rates (“LIBOR”) for the prior calendar quarter rounded to the nearest 1/10 of 1% plus (b) a margin set by the Issuer, which the Issuer may reset as of the first day of each calendar quarter. The fourth quarter 2018 SELF V Loan variable rate is 4.30%.

## **The Composition and Characteristics of the Student Loans Will Change Over Time**

The Student Loans the Issuer intends to Finance during the Loan Origination Period and the Recycling Period relating to the Series 2018 Bonds, together with the Student Loans expected to be pledged by the Issuer to the Trust Estate upon the issuance of the Series 2018 Bonds, are described in this Official Statement. See the caption “ESTIMATED SOURCES AND USES OF PROCEEDS” and “THE STUDENT LOANS” herein.

The Loan Origination Period and the Recycling Period relating to the Series 2018 Bonds terminate on February 29, 2020, subject to extension thereafter upon satisfaction of the requirements of an Event

Notification with respect to such extension. See the caption “INTRODUCTION” herein. During the Recycling Period relating to the Series 2018 Bonds, and any Recycling Period relating to any additional Bonds that may be issued by the Issuer under the Indenture, certain amounts received with respect to such Student Loans may be used to Finance additional Student Loans during such Recycling Period. Additional Bonds may also be issued and the proceeds thereof used to Finance other Student Loans that will become part of the Trust Estate. The characteristics of the Student Loan portfolio within the Trust Estate will change from time to time due to the Origination of new Student Loans, changes in terms of the Student Loan Program, sales or exchanges of loans and scheduled amortization, prepayments, delinquencies and defaults on the Student Loans.

The aggregate characteristics of the Student Loans expected to be pledged to the Trust Estate upon the issuance of the Series 2018 Bonds may vary from the information presented herein, since the information presented herein is as of July 31, 2018 and the date of issuance for the Series 2018 Bonds will occur after that date. The aggregate characteristics may also vary as a result of the inclusion of Student Loans not described herein or the exclusion of Student Loans that are described herein, in each case for the reasons described in the preceding paragraph.

### **Geographic Concentration of Student Loans**

The concentration of the Student Loans in specific geographic areas may increase the risk of losses on the Student Loans. Economic conditions in the states where borrowers reside may affect the delinquency, loan loss and recovery experience with respect to the Student Loans. As of July 31, 2018, approximately 87% and 6% of the Student Loans by principal balance were to Borrowers with current billing addresses in the States of Minnesota and Wisconsin, respectively. See the table titled “Geographic Distribution of the Student Loans as of July 31, 2018” under the caption “THE STUDENT LOANS” herein. As of such date, no other state accounts for more than 5% of the Student Loans by principal balance. Economic conditions in any state or region may decline over time and from time to time. Because of the concentrations of the Borrowers in the States of Minnesota and Wisconsin, any adverse economic conditions adversely and disproportionately affecting those states may have a greater effect on the repayment of the Bonds, including the Series 2018 Bonds, than if these concentrations did not exist.

### **Limited Performance History for the Student Loans; Performance of Student Loans May Differ From Historical Performance of Previous SELF Loans**

The Issuer began offering loans under the SELF V phase of the SELF Program during the 2010-2011 academic year; thus, there is only a limited amount of historical performance information for the SELF V Loans. This Official Statement contains information with respect to the origination and payment experience of previously originated loans under SELF II through SELF IV phases of the SELF Program, all of which bear interest at variable rates, as well as previously originated SELF V Loans (with both fixed and variable rates). See the caption “STUDENT LOAN PROGRAM” herein. Such information is included for general reference purposes only and is not intended as a representation that the origination and payment experience of the SELF V Loans Originated with the proceeds of the Series 2018 Bonds or otherwise initially pledged to the Trust Estate by the Issuer (which will bear interest at fixed rates) will be similar to that of previously originated loans under SELF II through SELF IV phases of the SELF Program and the previously originated SELF V Loans (particularly those with variable rates) during any period or over the respective lives of such loans.

There can be no assurance that the performance of the Student Loans will in fact be consistent with that of previously originated SELF II through SELF IV loans or previously originated SELF V Loans (particularly those with variable rates). Previously originated SELF II through SELF IV loans have a variety of variable interest rates, as do certain of the previously originated SELF V Loans. In addition, the



Issuer has, from time to time, modified the credit criteria and certain other origination and repayment terms applicable to SELF II through SELF IV loans. As a result, previously originated SELF II through SELF IV loans were originated on the basis of credit criteria that differ, and bear terms that differ, in certain respects from those expected to be applicable to the fixed-rate SELF V Loans to be included within the Trust Estate. Although the Issuer believes that such differences have proven to not have a material adverse effect on the overall performance to date of SELF II through SELF IV loans that have been originated during different periods, there can be no assurance that no such effect will result in the future. There can be no assurance that the ability of Borrowers to repay their Student Loans, or the likelihood that Borrowers will prepay their Student Loans, may not differ materially from that of Borrowers of previously originated SELF II through SELF IV loans and previously originated SELF V Loans (particularly those with variable rates).

### **Consumer Protection Lending Laws**

Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions. In some cases, this liability could affect an assignee's ability to enforce consumer finance contracts such as the Student Loans.

Currently, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 preserves the changes made in the 1998 amendments to the Bankruptcy Code which had removed one of the two exceptions to non-dischargeability of student loans making it more difficult to discharge a student loan in bankruptcy. Bankruptcy reform legislative proposals to alter the non-dischargeability of student loans have been discussed and/or introduced in the Congress of the United States among which include proposals to allow private student loans to be dischargeable in bankruptcy. No assurance can be given as to whether these or any alternative bankruptcy reform legislative proposals will be enacted at the federal level or whether State loan programs such as the SELF V phase of the SELF Program would be affected.

### **Dodd-Frank Act**

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") to reform and strengthen supervision of the U.S. financial services industry. The Dodd-Frank Act required the creation of new federal regulatory agencies, and granted additional authority and responsibilities to existing regulatory agencies to identify and address emerging systemic risks posed by financial services activities. The Dodd-Frank Act has resulted in comprehensive changes to the regulation of most financial institutions operating in the United States. It also fostered new regulation in the business and the markets in which the Issuer operates. Specifically, significant new regulation has occurred in many areas of consumer financial products and services, including private education loans. Under the Dodd-Frank Act, entities such as the Issuer are subject to regulations developed by an agency designed to regulate federal consumer financial protection laws, the Bureau of Consumer Financial Protection (the "CFPB"). The CFPB is an independent agency that is housed within the Federal Reserve Board, but is not subject to Federal Reserve Board jurisdiction or to the Congressional appropriations process. It has substantial power to regulate financial products and services received by consumers from both banks and non-bank lenders including rulemaking authority in enumerated areas of federal law traditionally applicable to consumer lending such as truth in lending, fair credit reporting and fair debt collection. In addition, the Dodd-Frank Act provides for significant enforcement authority, including authorization of state attorneys general to bring lawsuits under federal consumer protection laws with the consent of the CFPB.

In December 2013, the CFPB adopted a rule that enables it to supervise certain non-bank student loan servicers that service more than one million borrower accounts, to ensure that bank and non-bank servicers follow the same rules in the student loan servicing market. The rule covers both federal and private student loans, and gives the CFPB broad authority to examine, investigate, supervise, and otherwise regulate student loan servicers, including the authority to impose fines and require changes with respect to any practices that the CFPB finds to be unfair, deceptive, or abusive. Nelnet Servicing, the current Servicer of the Student Loans, services more than one million student loan borrower accounts. The CFPB began conducting its initial supervisory examinations of the large non-bank student loan servicers after the rule became effective in March 2014. If the CFPB were to determine that a Servicer is not in compliance, it is possible that this could result in material adverse consequences to such Servicer, including, without limitation, settlements, fines, penalties, adverse regulatory actions, changes in a Servicer's business practices, or other actions. In May 2015, the CFPB launched a public inquiry into student loan servicing practices throughout the industry. In September 2015, the CFPB issued a report discussing public comments submitted in response to the inquiry and, in consultation with the Department of Education and Department of the Treasury, released recommendations to reform student loan servicing to improve borrower outcomes and reduce defaults. In July 2016, the Department of Education expanded on these joint principles by outlining enhanced customer service standards and protections that will be incorporated into federal servicing contracts and guidelines. The CFPB has also announced that it may issue student loan servicing rules in the future. We are unable to estimate at this time any potential financial or other impact to the Servicer that could result from these developments.

The full effect of the Dodd-Frank Act will depend significantly upon the content and implementation of the rules and regulations issued, and still to be issued, pursuant to its provisions and to the administration and enforcement of such requirements. It is unclear what the operational impact of these developments will be on the Issuer, but it is possible that the Issuer's operational expenses may be materially increased. No assurance can be given that these developments will not have an adverse effect on the security, market value or liquidity of the Bonds, including the Series 2018 Bonds.

### **Investigations and Inquiries of the Student Loan Industry**

A number of state attorneys general and the U.S. Senate Committee on Health, Education, Labor and Pensions have conducted broad inquiries or investigations of the activities of various participants in the student loan industry, including, but not limited to, activities that may involve perceived conflicts of interest.

There is no assurance that the Issuer or a Servicer will not be subject to inquiries or investigations. While the ultimate outcome of any inquiry or investigation cannot be predicted, it is possible that these inquiries or investigations and regulatory developments may materially affect each of the Issuer's and a Servicer's ability to perform its obligations under the Indenture or the Issuer's ability to pay principal of and interest on the Bonds, including the Series 2018 Bonds, from assets in the Trust Estate.

### **General Economic Conditions**

A downturn in the economy resulting in increasing unemployment either regionally or nationally may result in increased defaults by Borrowers in repaying Student Loans. Failures by Borrowers to pay timely the principal of and interest on the Student Loans or an increase in grace periods or forbearances could affect the timing and amount of available funds for any monthly collection period and the ability to pay principal of and interest on the Series 2018 Bonds. See the caption "Sufficiency and Timing of Receipt of Revenues" above. The effect of these factors, including the effect on the timing and amount of available funds for any monthly collection period and the ability to pay principal of and interest on the Bonds, including the Series 2018 Bonds, is impossible to predict.

## **Certain Amendments to the Indenture and Other Actions Upon an Event Notification or Consent of Fewer Than All Owners**

Certain changes may be made to the Indenture or other actions taken upon satisfaction of the requirements of an Event Notification and without the consent of the Owners. Such changes include, but are not limited to, the issuance of additional Bonds, certain amendments to the definition of “Investment Securities,” a change in the Servicer, a decrease in the Minimum Class I Bonds Parity Ratio, an increase in the amount of Program Expenses, a reduction in the Debt Service Reserve Requirement, changes to certain criteria for the Student Loans set forth in the First Supplement and extensions of the Loan Origination Period and Recycling Period with respect to amounts in the Acquisition Fund and the Surplus Fund. See the captions “THE SERIES 2018 BONDS—Redemption Provisions—*Mandatory Redemption Resulting From Non-Origination*,” “SECURITY AND SOURCE OF REPAYMENT—Pledged Funds—*Surplus Fund*” and “LOAN SERVICING AND COLLECTIONS—The Servicer” herein and “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE” hereto.

“*Event Notification*” means that the Issuer has given each Rating Agency notice of a proposed action, failure to act, or other event specified in the notice, at least 10 days prior to the occurrence of such event and the Issuer reasonably believes that the proposed action, failure to act, or other event specified in the Event Notification will not adversely affect the Owners of the Bonds.

Under the Indenture, Owners of specified percentages of the aggregate principal amount of the Bonds may amend or supplement or waive provisions of the Indenture without the consent of the other Owners. There is no recourse to non-consenting Owners if the requisite percentage of Owners have consented on these matters. The Owners may vote in a manner which impairs the ability to pay principal and interest on other Bonds, including the Series 2018 Bonds. See “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—The General Indenture—*Supplemental Indentures Not Requiring Consent of Owners*” and “—*Supplemental Indentures Requiring Consent of Owners*” hereto.

## **The Rating of the Series 2018 Bonds is Not a Recommendation to Purchase; Rating May Change**

The rating is not a recommendation to purchase, hold, or sell the Series 2018 Bonds, inasmuch as the rating does not comment as to the market price or suitability for a potential purchaser as an investor. An additional rating agency may rate the Bonds, including the Series 2018 Bonds, and that rating may not be equivalent to the initial rating described in this Official Statement. A rating may be increased, lowered or withdrawn by any Rating Agency at any time if, in such Rating Agency’s judgment, circumstances so warrant. A downgrade in the rating of the Bonds, including the Series 2018 Bonds, is likely to decrease the price a subsequent purchaser will be willing to pay for the Series 2018 Bonds.

## **There is the Potential for Conflicts of Interest and Regulatory Scrutiny with Respect to a Rating Agency Rating the Series 2018 Bonds**

It may be perceived that a Rating Agency, including S&P, has a conflict of interest that may have affected the rating assigned to the Series 2018 Bonds where, as is the industry standard and the case with the rating of the Series 2018 Bonds, the Issuer pays the fees charged by a Rating Agency for its rating services.

Furthermore, rating agencies, including S&P, have been and may continue to be under scrutiny by federal and state legislative and regulatory bodies for their roles in the financial crisis and such scrutiny and any actions such legislative and regulatory bodies may take as a result thereof may also have an adverse

effect on the price that a subsequent purchaser would be willing to pay for the Series 2018 Bonds and an Owner's ability to resell its Series 2018 Bonds.

### **Risks Relating to Book-Entry Registration**

The Series 2018 Bonds will be represented by certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in an individual investor's name or the name of its nominee. Unless and until definitive securities are issued, beneficial owners of the Series 2018 Bonds will not be recognized by the Trustee as Owners as that term is used in the Indenture. Until definitive securities are issued, beneficial owners of the Series 2018 Bonds will only be able to exercise the rights of Owners indirectly through The Depository Trust Company and its participating organizations. See "APPENDIX C—BOOK-ENTRY-ONLY SYSTEM" hereto.

## **THE SERIES 2018 BONDS**

### **General**

The Series 2018 Bonds are to be dated the date of issuance and will bear interest from their dated date. Interest will be payable on May 1 and November 1 of each year, commencing May 1, 2019, to the Owners of the Series 2018 Bonds as of the Record Date, which is the April 15 or October 15 immediately preceding each Interest Payment Date. The Series 2018 Bonds will bear interest at the interest rates per annum, and will mature on November 1 in each of the years and in the principal amounts shown on the inside front cover of this Official Statement. In any case where the date fixed for the payment of principal or interest on the Series 2018 Bonds shall not be a Business Day, then payment of such principal or interest need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for the payment thereof.

The Series 2018 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 2018 Bonds. Individual purchases of the Series 2018 Bonds will be made in Book-Entry Form only in the principal amount of Authorized Denominations. Purchasers of the Series 2018 Bonds will not receive certificates representing their interests in the Series 2018 Bonds purchased. See "APPENDIX C—BOOK-ENTRY-ONLY SYSTEM" hereto.

The Series 2018 Bonds are subject to redemption as described under the caption "Redemption Provisions" below.

### **Places of Payment**

So long as Cede & Co. is the Owner of the Series 2018 Bonds, all payments of principal of and interest on the Series 2018 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 as defined in Appendix C hereto. See "APPENDIX C—BOOK-ENTRY-ONLY SYSTEM" hereto.

The principal of all Series 2018 Bonds shall be payable at the designated office of the Trustee upon presentation and surrender of the Series 2018 Bonds, and payment of the interest on each Series 2018 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 (the "Owner"), except as otherwise described in "APPENDIX C—BOOK-ENTRY-ONLY SYSTEM" hereto, by wire transfer in immediately available funds, and if such wire transfer information is unavailable, by check or draft mailed on the Interest Payment

Date to the 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.

### **Exchange and Transfer of Series 2018 Bonds**

At the option of the Owner, Series 2018 Bonds may be exchanged at the designated office of the Trustee for a like aggregate principal amount of fully registered Series 2018 Bonds of the same Series, Class, interest rate and Stated Maturity in Authorized Denominations. Upon surrender for transfer of any Series 2018 Bond at the designated office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Owner or their attorney duly authorized in writing, a new Series 2018 Bond or Series 2018 Bonds of the same interest rate and of like Series, Class 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 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 2018 Bond during the period of fifteen days next preceding the giving of notice of redemption. After the giving of such notice of redemption, the Trustee shall not be required to transfer or exchange any Series 2018 Bond, which Series 2018 Bond or portion thereof has been called for redemption.

Notwithstanding the above, it should be understood that while the Series 2018 Bonds are in the book-entry system, (a) all rights of ownership must be exercised through DTC and the book-entry system, and (b) notices that are to be given to Owners by the Issuer or the Trustee will be given only to DTC. See "APPENDIX C—BOOK-ENTRY-ONLY SYSTEM" hereto.

### **Redemption Provisions**

The Indenture sets forth the provisions for the acceleration of the Series 2018 Bonds and for the redemption of certain of the Series 2018 Bonds prior to maturity, as described below. The Issuer may elect to redeem such Series 2018 Bonds, as described below, upon notice to the Trustee of the Redemption Date, principal amounts, Series, Class and maturities of such Series 2018 Bonds to be redeemed, and the source of moneys to be applied to the payment of the Redemption Price. In the event that the Series 2018 Bonds of any Series, Class or 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 2018 Bonds maturing on and prior to November 1, 2026 are not subject to optional redemption prior to maturity. The Series 2018 Bonds maturing on November 1, 2037 are subject to redemption prior to maturity at the option of the Issuer, in whole or in part, in such amounts as the Issuer may direct, on any date on or after November 1, 2026 at a Redemption Price equal to the principal amount thereof being redeemed, without premium, plus accrued interest, if any, to the Redemption Date.

***Special Optional Redemption from Excess Revenues.*** The Series 2018 Bonds maturing on November 1, 2037 are subject to optional redemption prior to their Stated Maturity, in whole or in part, on each Interest Payment Date that is a Potential Special Optional Excess Revenues Redemption Date, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest, if any, to the Redemption Date, in such amounts as the Issuer may direct; provided that the Series 2018 Bonds may only be redeemed from Excess Revenues derived from Student Loans Financed with proceeds of the Series 2018 Bonds or Student Loans pledged to the Trust Estate in connection with the issuance of the Series 2018 Bonds.

“*Potential Special Optional Excess Revenues Redemption Date*” means each Interest Payment Date (a) which occurs during the Recycling Period, or (b)(i) on which the Class I Bonds Parity Ratio exceeds 132% (or such lesser percentage as to which the requirements of an Event Notification have been satisfied as to such lower percentage) and (ii)(A) the Value of (I) all Student Loans and (II) all cash and Investment Securities in the Funds and Accounts (excluding the Rebate Fund, the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds under Article XII of the General Indenture) exceeds (B) the Outstanding principal amount of the Bonds and accrued interest thereon, plus accrued and unpaid Program Expenses, together with any required late fees or interest thereon, plus \$15,000,000 (or such lesser amount as to which the requirements of an Event Notification have been satisfied).

“*Excess Revenues*” means, as of the second-to-last Business Day of each March and September, any funds transferred on each Monthly Deposit Date occurring prior to each such date to the Surplus Fund in accordance with the General Indenture and remaining in the Surplus Fund, after taking into account amounts necessary (a) if such Interest Payment Date is also a Principal Payment Date, to pay the principal and interest due and payable on the Bonds on such Interest Payment Date; (b) if such Interest Payment Date is not a Principal Payment Date, to pay the interest due and payable on the Bonds on such Interest Payment Date and one-half of the principal due and payable on the next succeeding Principal Payment Date; and (c) to make all other payments or transfers required to be made from the Revenue Fund on the next Monthly Deposit Date under clauses (a) through (h) of the second paragraph under the caption “SECURITY AND SOURCE OF REPAYMENT—Pledged Funds—*Revenue Fund*” herein (determined without respect to any special redemption of Bonds from Excess Revenues permitted under the applicable Supplemental Indenture) and from the Surplus Fund under clauses (a) and (b) set forth under the caption “SECURITY AND SOURCE OF REPAYMENT—Pledged Funds—*Surplus Fund*” herein, on or prior to such Interest Payment Date

***Sinking Fund Redemption.*** The Series 2018 Bonds maturing on November 1, 2037 (the “Series 2018 Term Bonds”) are subject to sinking fund redemption and shall be redeemed at par plus accrued interest on the dates and in the principal amounts as follows:

<b>Due November 1</b>	<b>Amount</b>
2027	\$4,445,000
2028	4,385,000
2029	4,100,000
2030	3,000,000
2031	3,000,000
2032	2,900,000
2033	2,900,000
2034	3,275,000
2035	3,875,000
2036	3,875,000
2037*	8,470,000

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\*Stated Maturity.

Each such payment is referred to as a “Sinking Fund Payment” and the due date for each Sinking Fund Payment is referred to as a “Sinking Fund Payment Date.” The amounts which would otherwise be available for a Sinking Fund Payment on the Series 2018 Term Bonds may be applied, prior to notice of sinking fund redemption, to the purchase for cancellation of Series 2018 Term Bonds subject to such sinking fund redemption at prices not exceeding par, plus accrued interest to the date of purchase, in which event the principal amount of Series 2018 Term Bonds scheduled to be redeemed on the immediately

succeeding Sinking Fund Payment Date will be reduced by the principal amount of Series 2018 Term Bonds so purchased.

Any retirement of Series 2018 Term Bonds, other than by redemption pursuant to these provisions or purchase and delivery by the Issuer to the Trustee for cancellation, shall result in the reduction of the remaining Sinking Fund Payments of the Series 2018 Term Bonds in reverse order of Sinking Fund Payment Dates.

***Mandatory Redemption Resulting from Non-Origination.*** The Series 2018 Bonds are subject to redemption prior to their Stated Maturity, in whole or in part, on any date, at a Redemption Price equal to the principal amount thereof being redeemed, plus (a) accrued interest, if any, to the Redemption Date; and (b) in the case of the redemption of Series 2018 Premium Bonds, the Unamortized Premium with respect to such Series 2018 Premium Bonds, from original proceeds of the Series 2018 Bonds and all other amounts initially available to Finance Student Loans upon issuance of the Series 2018 Bonds remaining in the Series 2018 Account of the Acquisition Fund at the expiration of the Loan Origination Period. The Loan Origination Period starts on the date of issuance of the Series 2018 Bonds and ends on February 29, 2020; provided that this period may be further extended thereafter upon satisfaction of the requirements of an Event Notification with respect to such extension.

Series 2018 Premium Bonds are those Series 2018 Bonds with an offering price in excess of 100%, as set forth in the inside front cover of this Official Statement. “Unamortized Premium” means, with respect to a Series 2018 Premium Bond, the unamortized portion of the amount by which the offering price of such Series 2018 Premium Bond, as set forth in the inside front cover of this Official Statement, exceeded 100%. The methodology applied by the Issuer to calculate the unamortized portion of such amount for a given Series 2018 Premium Bond will use the yield of such Series 2018 Premium Bond stated on the inside front cover of this Official Statement to calculate a price based on the Redemption Date, semiannual compounding, and a 360-day year consisting of twelve 30-day months. The excess of the calculated price over 100% will be the unamortized portion.

***Special Mandatory Redemption from Excess Revenues.*** The Series 2018 Bonds maturing on November 1, 2037 are subject to mandatory redemption prior to their Stated Maturity, in whole or in part, on each Interest Payment Date occurring after the end of the Recycling Period, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest, if any, to the Redemption Date, from all Excess Revenues which do not constitute Excess Coverage derived from Student Loans Financed with proceeds of the Series 2018 Bonds or Student Loans pledged to the Trust Estate in connection with the issuance of the Series 2018 Bonds. Any such redemption of Series 2018 Term Bonds is to be credited against Sinking Fund Payments applicable to such Stated Maturity as described under the caption “*Sinking Fund Redemption*” above.

***Notice and Effect of Redemption.*** On the date designated for redemption by notice as provided under the Indenture, the Series 2018 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 2018 Bonds and such Series 2018 Bonds shall no longer be entitled to any benefit or security under the Indenture. Notice is to be given not less than 30 nor more than 60 days prior to the date fixed for redemption.

If at the time of mailing of any notice of optional redemption there are not on deposit with the Trustee moneys sufficient to redeem all the Series 2018 Bonds called for redemption, such notice will state that such redemption is conditioned upon receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the Redemption Price on the Series 2018 Bonds to be redeemed and that if such moneys have not been so received by the redemption date, said notice will be of no force

and effect and the Issuer will not be required to redeem such Series 2018 Bonds. In the event that such moneys are not so received by the redemption date, such Series 2018 Bonds will not be redeemed and the Trustee will 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 Bonds, including the Series 2018 Bonds, after an Event of Default under the Indenture, the principal and the accrued interest on such Bonds, including the Series 2018 Bonds, through the date of acceleration shall, without further action, become and be immediately due and payable.

***Selection of Series 2018 Bonds to be Redeemed.*** Moneys available for any redemption of the Series 2018 Bonds are required to be applied to the redemption of Series 2018 Bonds as follows: Series 2018 Bonds will be selected by the Trustee pro rata from each Stated Maturity of Series 2018 Bonds based upon the principal balance of such Stated Maturity and the principal balance of all other Stated Maturities, or in such other manner as the Issuer may direct by Issuer Order; provided, that the Issuer has submitted a Cash Flow Projection to the Trustee demonstrating that such other manner of selection will not adversely affect the Issuer's ability to pay Debt Service on the Outstanding Bonds, including the Series 2018 Bonds, or (to the extent the Issuer fails to pay Program Expenses from other available sources) Program Expenses, or to make the required deposits to the credit of the Rebate Fund and the Excess Interest Fund.

Except as may be provided in a Supplemental Indenture for a Series, other than the Series 2018 Bonds, Subordinate Bonds, or Class II Bonds, shall not be redeemed or subject to redemption if the Class I Bonds Parity Ratio is less than 132% (or such lesser percentage as to which the requirements of an Event Notification have been satisfied).

Subject to DTC procedures relating to redemption of bonds, if less than all of a Stated Maturity of the Series 2018 Bonds is to be redeemed, the Trustee shall select the portions thereof to be redeemed by lot or by such other method deemed fair and reasonable by the Trustee.

## **SECURITY AND SOURCE OF REPAYMENT**

### **Limited Obligations**

The Bonds, including the Series 2018 Bonds, are special limited, not general, obligations of the Issuer payable solely from the Student Loans, money, and investments held by the Trustee, and pledged by the Issuer as part of the Trust Estate pursuant to the Indenture, subject to the application thereof to the purposes and on the conditions specified in the Indenture. The Bonds, including the Series 2018 Bonds, and the interest thereon do not represent or constitute a debt or pledge of the faith and credit of the State or any agency or political subdivision thereof (except the Issuer, to the extent provided in the Indenture), or grant to the Owners 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 Indenture. The Bonds do not constitute or give rise to a pecuniary liability of the State or any agency or political subdivision thereof, other than the Issuer. Neither the Issuer nor the State shall be obligated to pay the principal of or interest on the Bonds, including the Series 2018 Bonds, except from the Issuer's moneys and funds pledged to the Trust Estate under the Indenture. Neither the faith nor credit nor the taxing power of the State or any agency or political subdivision thereof (including the Issuer) is pledged to the payment of the principal of or the interest on the Bonds, including the Series 2018 Bonds. The Issuer has no taxing power.



## **Statutory Provisions Providing for Legislative Appropriations**

The State in 2009 enacted the following statute creating a moral obligation on the part of the State specifically related to the financing of the Issuer's SELF Loans and the issuance of bonds by the Issuer:

### **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 immediately ensuing 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 that 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 following fiscal year, or in a governor's budget for the immediately following fiscal year. If the office determines that 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 the governor's supplemental budget if the regular budget for that year has previously been enacted.

The Issuer each year calculates its need for amounts pursuant to clauses (a)(2) and (3) above with respect to the Bonds, including the Series 2018 Bonds, prior to December 1 in each year. Its need for amounts under clause (a)(2) will be determined based on its projections with respect to the sufficiency of the revenues and other amounts available under the General Indenture and all Supplemental Indentures to pay all principal and interest due and payable on all outstanding Bonds, including the Series 2018 Bonds, during the fiscal year beginning the following July 1. Its need for amounts under clause (a)(3) will be determined based on any deficiency in the amount required to be on deposit in the Debt Service Reserve Fund as of such December 1. The State's fiscal year starts on July 1 of a given calendar year, and ends on June 30 of the following year. The State legislature adopts a budget for each fiscal year of a biennium (consisting of each two-year period commencing on July 1 of odd-numbered years), generally in May of the fiscal year preceding the start of such biennium. If the Issuer delivers a certificate to the Governor prior to December 1 in the year preceding commencement of a biennium, the Governor is obligated to include the Issuer's needed amount with respect to the Bonds, including the Series 2018 Bonds, in the budget for the fiscal year starting the following July 1. The legislature, if it determines to provide funds for this purpose, will appropriate the amounts in the budget for such fiscal year. If the Issuer delivers a certificate prior to December 1 in the year preceding the second year of a biennium, the Governor is to include the

Issuer's needed amount with respect to the Bonds, including the Series 2018 Bonds, in a supplemental budget for the fiscal year starting the following July 1. The legislature, if it determines to provide funds for this purpose, will appropriate the amounts in the supplemental budget for such fiscal year. 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, has the ability under Minnesota 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. See the caption "INVESTMENT CONSIDERATIONS—Statutory Provisions Providing for Legislative Appropriations" herein.

### **Anticipated Sufficiency of Revenues**

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 Bonds, including the Series 2018 Bonds, when due. This expectation is based upon an analysis of Cash Flow Projections, using assumptions which the Issuer believes are reasonable, regarding (a) the characteristics and expected performance of the Student Loans pledged to the Student Loan Fund, the payments on which are to be deposited to the Revenue Fund, (b) amounts to be deposited in the Debt Service Reserve Fund and the Capitalized Interest Fund, (c) investment earnings on amounts on deposit in the Funds and Accounts under the Indenture (excluding the Rebate Fund and the Excess Interest Fund), and (d) the amount and timing of Program Expenses (the "Cash Flow Projections"). It is the intent and past practice of the Issuer to pay Program Expenses from funds not held under the Indenture. The assumptions regarding expected performance of the Student Loans are derived from the Issuer's experience in the administration of its historical phases of its Student Loan Program. See, however, the caption "INVESTMENT CONSIDERATIONS—Sufficiency and Timing of Receipt of Revenues" herein.

Under the Indenture, Program Expenses are required to be paid prior to the payment of principal of or interest on the Bonds, including the Series 2018 Bonds. See the caption "Pledged Funds—*Revenue Fund*" below. Such Program Expenses consist of (a) the fees and expenses of the Servicer, the Trustee and any other Indenture Agent, together with any required late fees or interest thereon; and (b) expenses incurred for the Issuer's maintenance and operation of the Student Loan Program as a direct consequence of the Indenture, the Bonds, including the Series 2018 Bonds, or the Student Loans pledged to the Trust Estate by the Issuer under the Indenture, including the reasonable fees and expenses of attorneys, agents, financial advisors, municipal advisors, consultants, accountants, Rebate Analysts and other professionals, attributable to such maintenance and operation. The Cash Flow Projections performed in connection with the issuance of the Series 2018 Bonds demonstrate that funds expected to be available under the Indenture should be sufficient to pay both these Program Expenses (in the amounts and timing assumed in the Cash Flow Projections) and the principal of and interest on the Series 2018 Bonds; however, provisions of the First Supplement restrict payment of Program Expenses from moneys in the Trust Estate to those assumed in the Cash Flow Projections delivered to the Trustee on the date of issuance of the Series 2018 Bonds, or updated Cash Flow Projections if the requirements of an Event Notification have been satisfied with respect to any such excess. See "APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—The First Supplement—*Limitation on Program Expenses Paid From Revenue Fund*" hereto.

### **Pledged Funds**

The Bonds, including the Series 2018 Bonds, are secured by the Issuer's pledge to the Trustee under the Indenture of (a) all Student Loans, and all documentation thereof, whether in tangible or intangible form, including all agreements, notes (whether manually or electronically signed) and all other documents or electronic records evidencing such Student Loans or extensions and renewals thereof; (b) all

general intangibles, payment intangibles, or electronic chattel paper related to the Student Loans; (c) all proceeds of the Bonds, Revenues and any other amounts at any time contained in the Funds and Accounts, excluding the Rebate Fund and 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); (d) all State Debt Service Reserve Fund Payments and State Shortfall Payments; (e) the rights of the Issuer in and to each Servicing Agreement solely as it relates to Student Loans; (f) any and all other real or personal property of every name and nature, by delivery or by writing of any kind, conveyed, mortgaged, pledged, assigned or transferred by the Issuer or by anyone on its behalf or with its prior written consent, to the Trustee as and for additional security under the Indenture; and (g) all proceeds of the foregoing (collectively, the “Trust Estate”). See “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE” hereto.

**Revenue Fund.** The Revenue Fund receives (i) the Revenues, (ii) amounts described in any Supplemental Indenture, (iii) any amounts specified to be transferred thereto from another Fund and (iv) any other amounts required to be deposited therein by Issuer Order.

On each Monthly Deposit Date, money in the Revenue Fund is required to be applied according to the terms of the Indenture in the following order of priority, to pay or deposit:

(a) amounts specified in an Issuer Order necessary, if any, to maintain the Rebate Fund and the Excess Interest Fund at their respective required levels;

(b) any unpaid Program Expenses (subject to the limitations described in “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—The First Supplement—*Limitation on Program Expenses Paid From Revenue Fund*” hereto, as well as any other limitations contained in a subsequent Supplemental Indenture), and, except as provided in the succeeding paragraph, if funds are not sufficient, pro rata on the basis of Program Expenses then owed, unless the Issuer has notified the Trustee that it has paid Program Expenses from a source of funds outside the Trust Estate;

(c) interest payable on each Series of Senior Bonds (or Class I Bonds) during the related Monthly Period, and thereafter to increase the balance in the Accounts in the Revenue Fund in respect of interest due and payable on each Series of Senior Bonds on the next applicable Interest Payment Date;

(d) principal due and payable on each Series of Senior Bonds at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Senior Bonds during the related Monthly Period, and thereafter, to increase the balance in the Accounts in the Revenue Fund in respect of principal due and payable at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Senior Bonds on the next applicable Principal Payment Date;

(e) interest payable on each Series of Subordinate Bonds (or Class II Bonds) during the related Monthly Period, and, if the amount available is not sufficient to pay in full the interest then due, then to the payment thereof ratably, according to the aggregate amount of interest due on such date, and thereafter to increase the balance in the Accounts in the Revenue Fund in respect of interest due and payable on each Series of Subordinate Bonds on the next applicable Interest Payment Date;

(f) principal due and payable on each Series of Subordinate Bonds at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Subordinate Bonds during the related Monthly Period, and, if the amount available is not sufficient to pay in full the principal then due, then to the payment thereof ratably, according to the aggregate amount of principal due on such date, and thereafter, to increase the balance in the Accounts in the Revenue Fund in respect of principal due and payable at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds) on each Series of Subordinate Bonds on the next applicable Principal Payment Date;

(g) in the Debt Service Reserve Fund, any amount necessary to maintain the Debt Service Reserve Fund at the Debt Service Reserve Requirement;

(h) other than with respect to the Series 2018 Bonds, (A) all other principal payable on each Series of Bonds (other than Cumulative Sinking Fund Term Bonds, and with Senior Bonds paid prior to Subordinate Bonds) during the related Monthly Period as provided in a Supplemental Indenture and (B) with respect to Cumulative Sinking Fund Term Bonds, to increase the balance in the Revenue Fund in respect of all other principal due and payable on each Series of Cumulative Sinking Fund Term Bonds (with Senior Bonds paid prior to Subordinate Bonds) on the next Principal Payment Date;

(i) provided the full amount of any principal payments due on each Series of Outstanding Bonds on the next succeeding Principal Payment Date for each such Series are on deposit in the applicable Accounts in the Revenue Fund, the remainder to the credit of the Surplus Fund.

In the event amounts are payable to more than one Person under any of the preceding clauses, and the moneys available are insufficient to pay all amounts payable, the available moneys are required to be applied pro rata to the payment to each Person based upon the amount payable thereto, except that any amounts due and payable to the Trustee as Program Expenses will be paid prior to payment to any other Person and prior to any proration of payments. In addition, cash and investment securities on deposit in accounts established for the Subordinate Bonds are available to pay the payment requirements on the Senior Bonds.

The Issuer may elect to create two or more Accounts in the Revenue Fund and the Surplus Fund; each for the deposit of Revenues allocable to a Series (or portion thereof), as determined by the Issuer. The creation of Accounts is for administrative purposes only and all Bonds of the same Class shall be paid on a parity basis. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof from that Series' Account and, to the extent possible, shall pay expenses attributable to that Series from that Series' Account. Notwithstanding the foregoing, in the event there are insufficient funds in an Account for a particular Series in the Revenue Fund and the Surplus Fund to pay any amount then due (other than amounts allocable to the Origination of Student Loans and Sinking Fund Payments on Cumulative Sinking Fund Term Bonds), and the Issuer has not paid the deficiency from funds not held under the Indenture, the Trustee will make such payment from Accounts in the Revenue Fund or the Surplus Fund for another Series, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to Accounts) prior to the amount due, in the order established above and under the caption "Surplus Fund" below.

For purposes of clauses (c) and (e) above, interest on Bonds shall be accounted for as follows:

- (i) to the extent an Interest Payment Date occurs during the related Monthly Period, an amount equal to the interest due on such Interest Payment Date will be applied to the payment of such interest when due By Class in Descending Priority; provided that, to the extent provided in the applicable Supplemental Indenture, amounts may be drawn from an Account established for a Class of Bonds in the Capitalized Interest Fund and applied to the payment of such interest on such Class when due; and
- (ii) to the extent interest will accrue but not be payable during the related Monthly Period, an amount equal to all accrued interest, By Class in Descending Priority, through the end of such Monthly Period will be retained in the Revenue Fund; provided that, to the extent provided in the applicable Supplemental Indenture, amounts may be drawn from an Account established for a Class of Bonds in the Capitalized Interest Fund and applied to the payment of such interest on such Class when due.

For purposes of clauses (d), (f) and (h) above, the principal amount of Bonds due at the Stated Maturity thereof or on a Sinking Fund Payment Date therefor shall be accounted for as follows:

- (i) to the extent a Principal Payment Date occurs during the related Monthly Period, an amount equal to the principal due on such Principal Payment Date will be applied to the payment of such principal when due By Class in Descending Priority; and
- (ii) to the extent principal is not payable during the related Monthly Period, but will be payable on a Principal Payment Date occurring during a Monthly Period commencing within 12 months of the related Monthly Period, an amount will be retained in the Revenue Fund, By Class in Descending Priority, as of each Monthly Deposit Date:
  - (A) in the case of principal due at Stated Maturity or on a Sinking Fund Payment Date other than Sinking Fund Payment Dates of Cumulative Sinking Fund Term Bonds, equal to 1/12th of such principal for each of the 12 Monthly Deposit Dates occurring prior to the Principal Payment Date on which such principal is payable; and
  - (B) in the case of principal due on a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds, equal to 1/11th of such principal for each of the 11 Monthly Deposit Dates occurring prior to the Monthly Period preceding the Monthly Period in which such principal is payable.

**Capitalized Interest Fund.** There are no amounts presently on deposit in the Capitalized Interest Fund, and no amounts will be deposited to the Capitalized Interest Fund upon the issuance of the Series 2018 Bonds.

**Debt Service Reserve Fund.** On the date of issuance of the Series 2018 Bonds, the Issuer will direct the Trustee to deposit into the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement from net proceeds of the sale of the Series 2018 Bonds. See the caption "SOURCES AND USES OF FUNDS" herein. The Debt Service Reserve Requirement with respect to the Series 2018 Bonds is equal to, as of any date of calculation, the greater of (a) 2.0% of the Outstanding principal amount of Series 2018 Bonds or (b) 1.0% of the initial principal amount of the Series 2018 Bonds; provided, however, that the Debt Service Reserve Requirement may be reduced if the Issuer has satisfied the requirements of an Event Notification.

Amounts in the Debt Service Reserve Fund will be invested in Investment Securities. See “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE—Definitions” hereto.

Amounts held in the Debt Service Reserve Fund are required to be applied as necessary to make up on a Bond Payment Date any deficiency in the amounts on deposit in the Revenue Fund to pay Bond principal or interest and the other purposes listed as clauses (a) through (f) under the caption “*Revenue Fund*” above, but only after application of moneys from, in order, the Revenue Fund, the Surplus Fund, the Capitalized Interest Fund, and the 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), as required under a Supplemental Indenture, the Issuer may by Issuer Order direct the Trustee to transfer the excess and all earnings thereon to the Revenue Fund. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Fund Requirement as a result of a State Debt Service Reserve Fund Payment, the Issuer may by Issuer Order 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 Bonds, including the Series 2018 Bonds. On or before the fifth Business Day prior to each Interest Payment Date (or any other date at the Issuer’s request), the Trustee shall value the Debt Service Reserve Fund to determine whether the Debt Service Reserve Requirement has been satisfied and shortfalls shall be replenished from amounts on deposit in the Revenue Fund as described under the caption “*Revenue Fund*” above, from the Surplus Fund, or from State Debt Service Reserve Fund Payments received by the Trustee. See also “APPENDIX B—DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE INDENTURE” hereto.

If, as of December 1 in any year, the balance in the Debt Service Reserve Fund is less than or projected to be less than the Debt Service Reserve Requirement, the Issuer is required to take the measures described under the caption “Statutory Provisions Providing for Legislative Appropriations” above.

***Acquisition Fund.*** On the date of issuance of the Series 2018 Bonds, after making the deposit described above to the Debt Service Reserve Fund, remaining net proceeds from the sale of the Series 2018 Bonds will be deposited to the Series 2018 Account of the Acquisition Fund. In addition, on the date of issuance, the Issuer will deposit an amount equal to the Underwriter’s discount (\$548,109) to the Series 2018 Account of the Acquisition Fund. See the caption “SOURCES AND USES OF FUNDS” herein. Such moneys are expected to be used throughout the Loan Origination Period to Finance Student Loans. Additionally, except as set forth in any Supplemental Indenture and in accordance with an Issuer Order, the Trustee is required to apply the moneys in the Acquisition Fund By Class in Descending Priority, to the extent of any deficiency after applying the moneys in the Revenue Fund, the Surplus Fund and (to the extent provided in a Supplemental Indenture) the Capitalized Interest Fund, to the same uses as set forth under the caption “*Revenue Fund*” above.

***Student Loan Fund.*** All Student Loans transferred to the Trustee by the Issuer, including those Financed with proceeds from the Series 2018 Bonds or any Revenues under the Indenture, will be deposited to the related accounts of the Student Loan Fund. On the date of issuance of the Series 2018 Bonds, the Issuer will deposit SELF V Loans with an aggregate principal amount of approximately \$16.2 million to the Student Loan Fund. The Student Loan Fund shall hold only Student Loans and no other assets of any kind whatsoever.

***Surplus Fund.*** The Trustee will in accordance with an Issuer Order, other than transfers described under the caption “*Revenue Fund*” above, deposit in the Surplus Fund all amounts required to be transferred thereto from the Revenue Fund and, except as directed in a Supplemental Indenture, all amounts transferred from any other trust estate of the Issuer. The moneys in the Surplus Fund shall be invested in Investment

Securities (as defined in the Indenture). Any earnings on or income from such investments shall be transferred to the Revenue Fund. The Trustee shall use the moneys in the Surplus Fund for the following purposes in the following order of priority, as described in the Indenture and in accordance with an Issuer Order:

- (a) to make deposits to the Excess Interest Fund and the Rebate Fund to the extent required;
- (b) to the extent there is a required transfer 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;
- (c) to make deposits to the Redemption Fund as specified in an Issuer Order to meet the mandatory redemption requirements required by and provided in any applicable Supplemental Indenture (other than (A) principal due at Stated Maturity or on a Sinking Fund Payment Date and (B) a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds);
- (d) to the extent such moneys constitute Excess Coverage:
  - (i) to payment of amounts due to the Trustee (including any unpaid fees, expenses and indemnities) that are not Program Expenses, to the extent such amount has not been paid from available funds of the Issuer not held under the Indenture;
  - (ii) to payment of any other unpaid Program Expenses; and if funds are not sufficient, pro rata on the basis of Program Expenses then owed, to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;
  - (iii) to pay any amounts payable by the Issuer to the Underwriter pursuant to the indemnification provisions of the related Bond Purchase Agreement;
- (e) to Finance Student Loans, subject to certain restrictions contained in the Indenture; provided that under the First Supplement, moneys from the Series 2018 Account of the Surplus Fund can only be used to Finance Student Loans during the Recycling Period, which is the period beginning on the date of delivery of the Series 2018 Bonds and ending on February 29, 2020; provided that this period may be extended thereafter upon satisfaction of the requirements of an Event Notification with respect to such extension;
- (f) to make deposits to the Redemption Fund for the optional redemption of Bonds as specified in an Issuer Order or as required by and as provided in any applicable Supplemental Indenture; and
- (g) to transfer money to the Issuer if permitted as described below.

Not later than either March 15 or September 15 in each year while Bonds are Outstanding, the Issuer may deliver to the Trustee an Issuer Order demonstrating that there is Excess Coverage on deposit under the Indenture and specifying the amount thereof in the Surplus Fund. The Trustee in accordance with such Issuer Order shall thereupon release such amount from the Surplus Fund to the Issuer for any of the Issuer's governmental purposes after the payment of any amounts described in clauses (a) through (f) above from the Surplus Fund. Excess Coverage is the amount, expressed in dollars, by which (a) the Value of (i) all Student Loans plus (ii) all cash and Investment Securities held in the Funds and Accounts (except for the Rebate Fund and the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds),

exceeds (b) 132% (or such lesser percentage as to which the requirements of an Event Notification have been satisfied) of the sum of (i) the principal and accrued interest on all Outstanding Class I Bonds, including the Series 2018 Bonds, plus (ii) accrued and unpaid Program Expenses, together with any required late fees or interest thereon; provided, that, (A) the Value of (I) all Student Loans and (II) all cash and Investment Securities in the Funds and Accounts (excluding the Rebate Fund, the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds under Article XII) exceeds (B) the principal amount of Outstanding Bonds and accrued interest thereon, plus accrued and unpaid Program Expenses, together with any required late fees or interest thereon, by at least \$15.0 million (or such lesser amount as to which the requirements of an Event Notification have been satisfied).

***Order of Use of Amounts in Funds for Payment of Bonds.*** Except as set forth in any Supplemental Indenture, in the event there is on any Bond Payment Date a deficiency in the amounts to be applied to the payment of Debt Service on the Bonds, the Trustee will make up such deficiency By Class in Descending Priority by transfer of moneys for that purpose from the named Funds, in the following order of priority and pursuant to an Issuer Order: Revenue Fund, Surplus Fund, Capitalized Interest Fund (to the extent provided in a Supplemental Indenture), Acquisition Fund, Debt Service Reserve Fund and Redemption Fund (solely with respect to Bonds for which notice of payment or redemption of Bonds has not been given).

## **Financial Covenants**

The Issuer will covenant that so long as Bonds, including the Series 2018 Bonds, shall remain Outstanding the Issuer will comply with the following:

***Tangible Net Worth.*** So long as the Bonds shall remain Outstanding, the Issuer will not permit its Tangible Net Worth less any loans to the State of Minnesota to be less than the following designated amounts on and after the corresponding designated dates; provided that failure to comply with this covenant shall not be an Event of Default unless the Issuer has withdrawn money from its Loan Capital Fund for a purpose other than to pay Program Expenses or expenses related to the administration of student loans made by the Issuer, to originate loans under the Student Loan Program, to repurchase defaulted student loans held under an Issuer indenture or for any other purpose authorized under Section 136A.1785 of the Act:

<b>(June 30)</b>	<b>Tangible Net Worth</b>
2018	\$600,000,000
2019	625,000,000
2020 and thereafter	650,000,000

For purposes of this provision, “Tangible Net Worth” means, as of any date of determination, the aggregate net worth of the Issuer’s Loan Capital Fund determined in accordance with GAAP, less the book value of all assets of the Loan Capital Fund that are treated as intangibles under GAAP.

***Limitation on Student Loans.*** The Issuer will use moneys in the Series 2018 Account of the Acquisition Fund and moneys in the Series 2018 Account of the Surplus Fund to Finance Pre-funded Loans subject to the following limits:

- (a) not more than 2% may consist of Student Loans to borrowers attending Proprietary Schools, the Cosigner of which has a FICO Score of less than 670 (including Cosigners with no FICO Score);



(b) not more than 5% may consist of Student Loans to Borrowers attending Proprietary Schools;

(c) not more than 1% may consist of Student Loans to borrowers, the Cosigner of which has no FICO Score;

(d) not more than 17% may consist of Student Loans to borrowers attending Non-Proprietary Schools, the Cosigner of which has a FICO Score of less than 670; and

(e) at least 40% must consist of Student Loans to Borrowers attending Non-Proprietary Schools, the Cosigner of which has a FICO Score of at least 740.

Compliance with all concentration limits will be tested quarterly during the Loan Origination Period, using the following calculation: the sum of the Original Principal Balance of Pre-funded Loans Originated within each applicable category at the end of each quarter, divided by the aggregate Original Principal Balance of Pre-funded Loans outstanding at the end of each quarter.

#### **Owner Consent to Certain Actions Under Indenture**

Whenever in this Official Statement the requirements of an Event Notification must be satisfied with respect to any proposed action, failure to act or other event, the written consent of the Majority Owners of affected Bonds to any proposed action, failure to act or other event is required, to the extent that such Bonds no longer carry a rating from a Rating Agency.

#### **SOURCES AND USES OF FUNDS**

The following tables set forth the sources and uses of the proceeds of the Series 2018 Bonds:

##### **Sources of Funds:**

Principal Amount of Series 2018 Bonds	\$54,535,000
Net Premium	<u>461,345</u>
Total	<u>\$54,996,345</u>

##### **Use of Funds:**

Deposit to Series 2018 Account of the Acquisition Fund	\$53,357,536
Deposit to Series 2018 Account of the Debt Service Reserve Fund	1,090,700
Underwriter's Discount	<u>548,109</u>
Total	<u>\$54,996,345</u>

In addition, on the date of issuance of the Series 2018 Bonds, the Issuer will (i) deposit SELF V Loans with an aggregate principal amount of approximately \$16.2 million to the Student Loan Fund and (ii) deposit an amount equal to the Underwriter's discount (\$548,109) to the Series 2018 Account of the Acquisition Fund to Finance additional fixed-rate SELF V Loans during the Loan Origination Period. The remaining Costs of issuance, including the fees and certain expenses of the Municipal Advisor, the Trustee, the Rating Agency, Bond Counsel and other miscellaneous costs, will be paid from separate funds provided by the Issuer.

## **MINNESOTA OFFICE OF HIGHER EDUCATION**

### **Description of the Issuer**

The Issuer is an executive branch agency of the State responsible for the coordination and administration of higher education programs among the various public and private institutions of higher education in the State or attended by residents of the State and have entered into an Institutional Participation Agreement. The Issuer administers its private student loan program, known as the Student Educational Loan Fund (the “SELF Program,” and the loans made thereunder, collectively, the “SELF Loans”), and a student loan refinancing program, SELF Refi (the “SELF Refi Program” and the loans made thereunder, collectively, the “SELF Refi Loans”). The Issuer also manages financial aid programs including scholarship, grant, work study and reciprocity programs.

The Issuer currently has a staff of 66 people, of which 14 full-time equivalent employees are assigned to the administration of the Student Loan Program. The remaining 52 employees are involved with the Issuer’s administration of other financial aid programs, as well as research and facilitation of higher education programs in the State and communication of information to parents and students regarding higher education.

### **History**

In 1965, the Minnesota State Legislature created the Minnesota Liaison and Facilities Commission for Higher Education. In 1967, the name was changed to Coordinating Commission, and in 1975 it became the Minnesota Higher Education Coordinating Board (“MHECB”). In 1995, the agency was restructured and renamed the Minnesota Higher Education Services Office (“MHESO”). In 2003, the Minnesota Legislature gave MHESO cabinet level status as an executive branch agency with a Commissioner 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 (the “GSL Program”), 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. There are no outstanding GSL Program loans.

In 1983, MHECB was authorized by the State Legislature to establish and supervise loan programs other than the federally guaranteed programs. In June 1985, MHECB established a loan program known as the Student Educational Loan Fund I (“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 (“SELF II”). Approximately \$654 million of loans were originated under SELF II, of which none are outstanding.

In May 2002, MHESO established the third phase of its SELF Program known as SELF III (“SELF III”). Approximately \$490 million of loans have been originated under SELF III. No new loans

are being originated under SELF III. Approximately \$4.8 million of such loans were outstanding as of June 30, 2018.

In July 2006, the Issuer established the fourth phase of its SELF Program known as SELF IV (“SELF IV”). Approximately \$575 million of loans have been originated under SELF IV. No new loans are being originated under SELF IV. Approximately \$137 million of such loans were outstanding as of June 30, 2018.

In October 2010 the Issuer established the fifth phase of its SELF Program known as SELF V (“SELF V”). Approximately \$491 million of loans have been originated under SELF V. Approximately \$354 million of such loans were outstanding as of June 30, 2018. See the caption “STUDENT LOAN PROGRAM—SELF Loans Overview” herein.

In January 2016 the Issuer established the SELF Refi Program. Approximately \$49 million of loans have been originated under the SELF Refi Program. Approximately \$25 million of such loans were outstanding as of June 30, 2018.

### **The Issuer’s Management Team**

The individuals primarily responsible for the overall management and operations of the Issuer’s Student Loan Program are as follows:

***Lawrence J. Pogemiller, Commissioner.*** Mr. Pogemiller was appointed Commissioner of the Minnesota Office of Higher Education by Governor Mark Dayton in November, 2011. Prior to becoming Commissioner, Mr. Pogemiller had a distinguished career in the Minnesota State Senate, representing a Minneapolis District for 30 years. His district included the University of Minnesota’s main campus and Augsburg College, a private liberal arts college, as well as several for profit postsecondary providers.

Mr. Pogemiller’s service in the Minnesota State Senate including serving as Senate Majority Leader from 2007 to 2010, after having previously served as chair of the Senate Tax and Senate Education Committees. He was honored by the University of Minnesota Alumni Association as Legislator of the Year in 1996, 2001 and 2005.

Mr. Pogemiller graduated from the University of Minnesota with his Bachelor of Science in Transportation Engineering, and earned his Masters of Public Administration from Harvard’s John F. Kennedy School of Government. He also studied for (but did not complete) his doctorate at the University of Minnesota’s Graduate School of Economics.

***Timothy M. Geraghty, Chief Financial Officer.*** Mr. Geraghty has been employed by the Issuer since February 1976. He was Accounting Director from November 1989 to December 1997; was the Issuer’s Director of Financial Services from 1998 to 2004 and was 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 Student Loan Program and internal controls of administrative policies for the Issuer.

Mr. Geraghty received an Associate of Arts from Anoka-Ramsey Community College and a bachelor’s degree in Business Administration from the University of Minnesota.

***Marilyn A. Kosir, Student Loan Program Manager.*** Ms. Kosir joined the Issuer in 1989 as an Accounting Officer responsible for the Loan Capital Fund financial statements and investments, annual audit, and defaulted loan recoveries. She became the Student Loan Manager in 1995. Ms. Kosir is currently

responsible for program operation and administration of the Issuer's Student Loan Program, which includes the SELF Program and the SELF Refi Program. Her duties involve formulation and implementation of rules, policies and procedures, bond issue preparation and supervision of staff in the loan origination and loan default collection areas. She also oversees the activities and performance of the Issuer's loan servicer.

Ms. Kosir served as Financial Institutions Examiner for the Minnesota Department of Commerce for six years prior to joining the Issuer and holds a Bachelor's of Science Degree in Finance from St. Cloud State University and a Master's of Public Administration Degree from Hamline University.

***Robert C. Helgeson, Audit Manager.*** Mr. Helgeson joined the Issuer in 2010, and is currently 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 SELF Refi Loans and providing guidance in the operation and administrative responsibilities of the SELF Program and the SELF Refi 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. He holds a Bachelor's of Arts Degree in Accounting from Gustavus Adolphus College, and is a Certified Public Accountant (inactive).

***Dr. Thomas W. Sanford, Postsecondary Finance & Accountability Manager.*** Dr. Sanford joined the Issuer in 2014, and is currently responsible for postsecondary finance research that informs the Commissioner, Governor's Office and State Legislature, on postsecondary finance policy, trends, and issues impacting Minnesota in order to achieve state priorities. Dr. Sanford served as an Assistant Commissioner and Director of Research at the Tennessee Higher Education Commission (THEC) for three years prior to joining the Issuer. Prior to his time at THEC, Dr. Sanford worked at Synovus Financial Corporation and SunTrust Bank. He holds a Ph.D. from the University of Minnesota with a minor in Quantitative Methods.

***Poawit Yang, Accounting Manager.*** Mr. Yang joined the Issuer in 2017, and is currently responsible for the fiscal and investment functions of the Issuer's Student Loan Program, which involves preparation of monthly financial reports and bond indenture compliance reports. He also supervises Financial Services accounts payable and payroll staff to ensure appropriate financial records and controls are maintained for daily fiscal operations. Prior to joining the Issuer, Mr. Yang served for 10 years as a Business Manager for the University of Wisconsin-Milwaukee. He also holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Milwaukee.

***Andrew D. Wold, Esq., Senior Staff Attorney.*** Mr. Wold joined the Issuer in 2016, and is currently responsible for managing the SELF Loan Legal Division. He developed the policies and procedures to internalize the collection of defaulted student loans through the legal process, thereby preserving the rights of the program in those defaulted accounts. Mr. Wold supervises the division's legal staff, and advises all other loan staff as to the implications of the legal process. Prior to joining the Issuer, Mr. Wold worked as the lead associate attorney at one of the top consumer collections law firms in Minnesota, and before that as General Counsel at a privately owned collection agency.

Mr. Wold obtained his Bachelor of Arts degree from the University of Minnesota with a double-major in English and Spanish. He received his legal education at Saint Louis University School of Law, where he received a prestigious Academic Excellence Award and completed a concentration in civil litigation. Mr. Wold is currently a licensed attorney in Minnesota, Wisconsin, and Illinois.

## Financial Information

**Prior Financing Activities.** The Issuer and its predecessors have issued \$2.4 billion in aggregate principal amount of revenue bonds under its various phases of its loan program since 1973, almost half relating to its previous lending activities under the GSL Program. The Issuer and its predecessors discontinued originating federal loans in 1988, and as of June 30, 2018, there are no outstanding loans or revenue bonds related to the GSL program in the Loan Capital Fund.

Approximately \$1.8 billion of the revenue bonds previously issued by the Issuer and its predecessors is related to its Student Loan Program. Of this amount, six series of bonds (2010 Series (which is no longer outstanding), 2012 Series A and B and 2017 Series A, B and C) aggregating \$464 million in principal amount remained outstanding as of June 30, 2018 (the “Prior Outstanding Bonds”). The Prior Outstanding Bonds were issued under indentures other than the Indenture pursuant to which the Series 2018 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. None of the bonds issued by the Issuer and its predecessors constitute debt of the State.

**Operating Budget.** The Issuer’s 2018-2019 operating budget, exclusive of its Student Loan Program, is \$277,524,000, of which approximately \$3,536,000 will come from federal appropriations, \$261,266,000 from state appropriations, and \$12,722,000 from miscellaneous special appropriations. None of these funds are available for use in the SELF Program or any other Student Loan Program. 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 five 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. As of June 30, 2018, the Loan Capital Fund had unrestricted cash and investments of \$251.9 million. The Loan Capital Fund is not pledged to pay the Bonds, including the Series 2018 Bonds, or any other amounts payable under the Indenture.

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### Summary Financial Data for the Loan Capital Fund

	Fiscal Year Ended June 30,				
	2018 <sup>(1)</sup>	2017	2016	2015	2014
<b>Assets</b>					
Total cash and investments	\$453,806,886	\$416,448,368	\$380,885,734	\$403,860,509	\$359,722,357
Total SELF loans receivable, net	512,779,850	536,600,862	558,705,915	569,199,729	615,769,851
Other assets	<u>2,008,383</u>	<u>2,699,546</u>	<u>2,636,224</u>	<u>3,320,191</u>	<u>3,530,642</u>
<b>Total Assets</b>	<b>\$968,595,119</b>	<b>\$955,748,776</b>	<b>\$942,227,873</b>	<b>\$976,380,429</b>	<b>\$979,022,850</b>
<i>Total Deferred Outflows of Resources</i>	\$2,277,165	\$2,277,165	\$133,789	\$49,491	--
<b>Liabilities</b>					
Accounts Payable	\$ 698,339	\$ 868,018	\$ 739,832	\$ 1,231,530	\$ 1,059,042
Bond Interest Payable	1,574,115	1,072,950	798,170	264,826	247,514
Bonds payable, net	463,830,109	468,217,895	471,430,191	519,515,905	536,469,166
Other liabilities	<u>3,470,577</u>	<u>3,501,713</u>	<u>664,793</u>	<u>647,605</u>	<u>220,022</u>
<b>Total Liabilities</b>	<b>\$469,573,141</b>	<b>\$473,660,576</b>	<b>\$473,632,986</b>	<b>\$521,659,866</b>	<b>\$537,995,744</b>
<i>Total Deferred Inflows of Resources</i>	\$294,267	\$294,267	\$553,514	\$569,718	--
<b>Total Net Position</b>	<b>\$501,004,876</b>	<b>\$484,071,098</b>	<b>\$468,175,162</b>	<b>\$454,200,336</b>	<b>\$441,027,106</b>
<b>Change in Position</b>	<b>\$16,933,778</b>	<b>\$15,895,936</b>	<b>\$13,974,826</b>	<b>\$13,173,230</b>	<b>\$12,976,010</b>

<sup>(1)</sup>Unaudited.

For more detailed information concerning the Loan Capital Fund, please refer to “APPENDIX A—FINANCIAL STATEMENTS OF THE MINNESOTA OFFICE OF HIGHER EDUCATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2017” hereto.

### STUDENT LOAN PROGRAM

#### SELF Loans Overview

**Background.** MHECB, MHESO, and subsequently the Issuer were authorized by the State Legislature in 1983 to establish and administer loan programs other than the GSL Program. MHECB began originating supplemental loans in June of 1985 under SELF I and completed originations under SELF I in September of 1988. At that time MHECB began originating loans under SELF II. In May 2002, MHESO established SELF III and in July 2006 the Issuer established SELF IV. SELF I through SELF IV loans were all variable-rate loans. The Issuer began offering fixed-rate and variable-rate loans under SELF V in October 2010. In January 2016 the Issuer also began offering refinancing of student loans under the SELF Refi Program. Currently, all student loans originated by the Issuer are made pursuant to the SELF V phase of the SELF Program or the SELF Refi Program.

Together, MHECB, MHESO, and the Issuer have originated approximately \$2.2 billion of loans under the SELF I, SELF II, SELF III, SELF IV and SELF V phases of the SELF Program and the SELF Refi Program through June 30, 2018. The following table shows the outstanding principal balance of loans originated under the SELF I, SELF II, SELF III, SELF IV and SELF V phases of the SELF Program and under the SELF Refi Program at the dates indicated:

As of June 30,	(\$ in Thousands)						
	SELF I	SELF II	SELF III	SELF IV	SELF V	SELF Refi	Total
2018	\$ 0	\$ 0	\$ 4,798	\$136,924	\$354,589	\$24,807	\$521,118
2017	0	3	12,268	180,785	325,548	26,724	518,604
2016	0	190	25,577	230,511	289,224	22,291	545,502
2015	0	1,023	46,470	283,410	247,566	—	578,469
2014	0	3,436	75,535	336,763	210,063	—	625,797
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	—	726,654
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

The Issuer originates SELF Loans and SELF Refi 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 Student Loan Program is required by statute to be self-sustaining, and such appropriations are neither available for use in the Student Loan Program nor available for the payment of principal of and interest on any of the associated revenue bonds (including the Series 2018 Bonds). Notwithstanding the foregoing, appropriations that may be made under Minnesota Statute Section 136A.1787 may be applied to debt service and/or debt service reserve funds. See the caption “SECURITY AND SOURCE OF PAYMENT—Statutory Provisions Providing for Legislative Appropriations” herein.

## SELF V Terms and Conditions

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

The following paragraphs describe the initial terms, conditions and applicable rules and policies pertinent to SELF V. In the past, the Issuer has modified and supplemented terms, conditions, rules and policies on its SELF Program and reserves the right to modify and supplement them relating to SELF V in the future with regard to any SELF V Loans pledged to secure payment of the Bonds, including the Series 2018 Bonds.

***Fixed-Rate and Variable-Rate Loans.*** The SELF V phase is a continuation of the Issuer's SELF Program that began in 1985. Unlike previous phases of the SELF Program, SELF V offers both fixed-rate and variable-rate loans. Only fixed-rate SELF V Loans will be Financed with proceeds of the Series 2018 Bonds or initially pledged to the Trust Estate by the Issuer; however, variable-rate SELF V Loans may be Financed with proceeds of additional Bonds or pledged to the Trust Estate by the Issuer in the future. The current interest rate on the fixed-rate SELF V Loans is 6.0%. The SELF V Loan variable rate is set at (a) an index rate of the average prior calendar quarter three-month LIBOR rounded to the nearest 1/10 of 1% plus (b) a margin set by the Issuer, which the Issuer may reset as of the first day of each calendar quarter, subject to a maximum adjustment of 3.0% during any 12-month period. The current margin on the variable-rate SELF V Loans is 2.0%.

***Loan Size.*** The size of individual loans is determined by the appropriate campus financial aid administrator after giving consideration to: (a) the cost of attendance as defined by the institution; (b) other federal financial aid, including both loans and grants, that have been accepted by the student; (c) other state and institutional financial aid that the student is eligible to receive; and (d) other financial aid known to have been awarded to or received by the student from other private sources. The amount of the SELF V 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 V Loan amount is \$500. The maximum SELF V Loan amounts are designed to protect students from accumulating unreasonable levels of debt burden. Prior to July 1, 2015, maximum SELF V Loan amounts were:

(a) for students enrolled in a bachelor's degree program, post-baccalaureate, or graduate program, the annual loan amount per year was \$10,000, subject to a cumulative maximum of \$50,000 for non-graduate programs and \$70,000 combined total for non-graduate and graduate programs; and

(b) \$7,500 per year for undergraduates in Non-four-year Schools, subject to a cumulative maximum of \$22,500.

Effective July 1, 2015, the Issuer has the authority to determine the annual and cumulative maximum loan amounts. The following limits are in effect for the 2018-2019 Academic Year:

(a) for students enrolled in a bachelor's degree program, post-baccalaureate, or graduate program, the annual loan amount per year is \$20,000, subject to a cumulative maximum of \$100,000 for non-graduate programs and \$140,000 combined total for non-graduate and graduate programs;



(b) \$7,500 per year for all other students, other than students enrolled in Short-term Programs (a program less than one Academic Year in length), subject to a cumulative maximum of \$22,500; and

(c) \$3,500 per year for students enrolled in Short-term Programs, subject to a cumulative maximum of \$7,500 (this refinement was implemented in June 2016).

***Borrower Benefits.*** Although the Issuer has not offered borrower benefits, the Issuer has the option to offer borrower benefits to eligible Borrowers, such as a reduction of 0.25% in the interest rate on SELF V Loans for those Borrowers who make automatic (“ACH”) payments. The Issuer anticipates that any borrower benefits offered will be offered to all Borrowers in the Student Loan Program. Any borrower benefits so offered will not exceed the assumptions provided to the Rating Agency in conjunction with the issuance of the Series 2018 Bonds unless the Issuer has complied with the requirements of an Event Notification.

***Loan Disbursement.*** SELF V Loans are disbursed in accordance with applicable periods of enrollment. For example, an applicant eligible to receive a \$20,000 SELF V Loan and attending a two-semester school would usually receive a payment via their school for \$10,000 at the beginning of each semester.

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

Under the standard repayment plan for SELF V Loans, quarterly interest payments begin within three months of first disbursement. Monthly interest payments are then required for 12 months after the Borrower leaves school or is no longer enrolled as at least a Half-time Student. Monthly principal and interest payments begin on the thirteenth month after the Borrower ceases to be enrolled as at least a Half-time Student or leaves school, unless the Borrower has already entered repayment, but no later than nine years after the date of the first loan disbursement of each of a Borrower’s loans. The SELF V Loan maximum repayment term is (a) 10 years if the loan balances are less than \$20,000; (b) 15 years if the loan balances are \$20,000 or more but less than \$40,000; or (c) 20 years if the loan balances are \$40,000 or more. Specified time periods include interest only periods of up to one year and grace periods of up to two years. The minimum monthly payment for a Borrower with one or more SELF V Loans in repayment is \$50.00.

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. Interest payments during the in-school period that are delinquent in excess of 120 days from the billing date may be capitalized. Capitalization of past due interest is limited to two occasions before filing a claim.

A forbearance may be granted in those instances when the Borrower and Cosigner experience hardship in making payments of principal and/or interest. A forbearance is granted upon receipt of a signed request by the Borrower and the Cosigner and is limited to 120 days, renewable for another 120 days upon receipt of an additional signed request. The Issuer may change the forbearance policy as it relates to Student Loans subject to satisfying the requirements of an Event Notification.

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. A rehabilitation program is available for Borrowers who defaulted on their SELF V Loans, unless such

SELF V Loan has been turned over to a collection agency or such SELF V Loan is in default for a second time.

**Claims.** If after exercising due diligence, and after 120 days from the billing date, the Servicer on behalf of the Issuer fails to collect a payment from a Borrower or the Cosigner, a claim must be filed to the bad debt reserve by the Issuer for the outstanding principal of the SELF V Loan plus accrued interest. Claims are paid in four categories:

(a) A claim for death of the Borrower must be filed by the Issuer upon receipt of a death record. The Cosigner's obligation to make any further payment of principal and interest on a SELF V Loan is canceled as of the date of death.

(b) If the Borrower becomes totally and permanently disabled, a claim must be filed by the Servicer on behalf of the Issuer upon receipt of proper medical documentation. The Borrower's and Cosigner's obligation to make any further payment of principal and interest on a SELF V Loan is canceled as of the date of approval of the medical documentation by the Issuer.

(c) If a Borrower or Cosigner fails to perform any of the conditions of the promissory note, a claim must be filed by the Issuer.

(d) If a Borrower is adjudicated bankrupt and has liability for the SELF V Loan discharged, the Cosigner remains liable for unpaid principal and interest. If the Cosigner fails to perform any of the conditions of the promissory note, the Issuer shall file a claim.

**Death and Disability Provisions.** The obligation of the Borrower and the Cosigner to repay the SELF V Loan is forgiven due to the death or total and permanent disability of the Borrower. Total and permanent disability means a disability resulting from an injury or illness that is expected to continue indefinitely or result in death and that interferes with the Borrower's ability to make loan payments because the Borrower is unable to work or earn money, as certified by a doctor of medicine or osteopathic medicine, legally authorized to practice in a state. A Borrower is not considered totally and permanently disabled on the basis of a condition that existed at the time the loan was made.

In addition, a Borrower is able to apply for temporary total disability status if they have a qualifying disability which is anticipated to last at least four months, but no longer than three years. A Borrower who has a temporary total disability is granted a period of nonaccrual of interest upon written request to the Issuer, effective the date the temporary total disability documentation is approved and accepted by the Issuer, if the Issuer determines that the Borrower has a temporary total disability and if the temporary total disability of the Borrower occurred after all disbursements of the SELF V Loan were made. Interest does not accrue during an approved nonaccrual of interest period and no payments will be required to be made during this time. A nonaccrual of interest period may be granted for up to one year at a time with a maximum of no more than three years. At the end of the nonaccrual of interest period the Borrower must resume payments at an amount necessary to repay the SELF V Loan in the time period required by the promissory note unless a payment extension agreement has been entered into with the Issuer.

**Eligible Institutions.** An Eligible Institution is defined as a postsecondary institution that is located in the State and:

(a) is operated by the State or the Board of Regents of the University of Minnesota; or

- (b) is operated privately and, as determined by the Issuer:
  - (i) maintains academic standards equivalent to those of comparable institutions operated in the State;
  - (ii) is licensed or registered as a postsecondary institution by the Issuer; and
  - (iii) participates in the Federal Pell Grant Program under Title IV of the Higher Education Act of 1965, Public Law 89-329, as amended.

It should be noted that there are fewer than 10 institutions participating in the SELF Program that do not participate in the Pell Grant Program and are not required to do so because they were participating institutions when the rules were changed in 2010. Institutions that only offer graduate-level degrees or graduate-level nondegree programs are not required to participate in the Pell Grant Program.

Institutions that offer only graduate-level degrees or graduate-level nondegree programs may be Eligible Institutions if licensed or registered as a postsecondary institution by the Issuer. An Eligible Institution that changes ownership must participate in the federal Pell Grant Program within four calendar years of the first ownership change to continue eligibility.

An institution not located in the State may qualify as an Eligible Institution if it is operated publicly or privately, it 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.

In addition, the chief executive officer of each institution wishing to qualify as an Eligible Institution must enter into an Institutional Participation Agreement with the Issuer in which the institution agrees to comply with the requirements of the Issuer's Student Loan Program including proper loan certification and disbursement of funds. Certification involves verifying and documenting the identity, eligible enrollment, satisfactory academic progress and cost of attendance of each Borrower, calculating maximum allowable loan eligibility and recommending a specific loan amount.

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

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

***Cosigner Credit Criteria.*** The Issuer underwrites each loan and assesses the creditworthiness of the Cosigner. The Cosigner must:

- (a) be a U.S. citizen or lawful permanent resident, and permanently reside in the United States;
- (b) be at least 24 years old, or 18 years old if a sibling of the Borrower;
- (c) have agreed to the release of information to a consumer credit reporting agency;
- (d) have no credit bureau balances discharged through bankruptcy;
- (e) have no garnishments, attachments, foreclosures, repossessions or suits;
- (f) have no more than \$300 combined total in unsatisfied credit or unsatisfied payment obligations such as charged-off loans, credit, medical, utility accounts, collection items and tax or mechanics liens; and
- (g) have no more than 5% of total credit bureau balances past due, unless the amount past due is \$300 or less.

### **SELF Refi Program Terms and Conditions**

The SELF Refi Program disbursed the first loans in 2016. The Issuer has the ability to make changes in the terms and conditions of the program other than the maximum loan limit which is established in statute. In the past, the Issuer has modified and supplemented terms, conditions or policies on its SELF Refi Program and reserves the right to modify and supplement them relating to the SELF Refi Program in the future with regard to all Student Loans pledged to secure payment of the Bonds, including the Series 2018 Bonds. It is not anticipated that SELF Refi Loans will be Financed with proceeds of the Series 2018 Bonds or initially pledged to the Trust Estate by the Issuer; however, fixed or variable-rate SELF Refi Loans may be Financed with proceeds of additional Bonds or pledged to the Trust Estate by the Issuer in the future.

***Fixed-Rate and Variable-Rate Loans.*** The SELF Refi Program offers both fixed-rate and variable-rate loans.

***Loan Limits.*** The minimum SELF Refi Loan amount is \$10,000. The maximum SELF Refi Loan amount is currently prescribed by statute at \$70,000. The Issuer further restricts the amount to \$25,000 for Borrowers who complete less than a four-year degree.

***Borrower Benefits.*** The same borrower benefits could be implemented for the SELF Refi Program as for SELF V. In addition, the SELF Refi Program has an option to have the loan reviewed for Cosigner release after 48 consecutive on-time payments. The Borrower must be a U.S. citizen and meet the credit criteria in existence at the time of the release request.

***Loan Repayment.*** The Borrower has the option to select a 5, 10 or 15 year repayment term based on the Borrower's debt-to-income qualification. SELF Refi Loans enter immediate repayment after disbursement, and there are no deferment options. A Borrower under a SELF Refi Loan is permitted two four-month forbearance periods over the life of the SELF Refi Loan. There is no penalty for early repayment of a SELF Refi Loan.

***Eligible Loans for Refinancing.*** Loans to be refinanced include federal loans and private loans that meet the federal definition of a “qualified student loan.”

***Eligible SELF Refi Borrowers.*** The Borrower must meet the following eligibility requirements:

- (a) be a current Minnesota resident;
- (b) earned a certificate, diploma, associate, bachelor or graduate degree;
- (c) have a minimum FICO Score to qualify with a Cosigner – current minimum is 650;
- (d) have a minimum FICO Score to qualify without a Cosigner – current minimum is 700;
- (e) have a maximum debt to income ratio - current maximum is 50% with a Cosigner and 45% without a Cosigner;
- (f) meet the credit criteria relating to delinquent or collection accounts;
- (g) be currently employed by the same employer for at least the last 60 days; and
- (h) have a Cosigner required if the Borrower is not a U.S. citizen or lawful permanent resident.

***Cosigner Eligibility Criteria.*** The Issuer underwrites each SELF Refi Loan and assesses the creditworthiness of the Cosigner. The Cosigner must:

- (i) be a U.S. citizen or lawful permanent resident;
- (j) be currently employed by the same employer for at least the last 60 days if utilizing employment income;
- (k) have a minimum FICO Score – current minimum 720;
- (l) have a maximum debt to income ratio – current maximum is 40%; and
- (m) meet credit criteria relating to delinquent or collection accounts.

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## Historical FICO Scores for SELF Loans

The Issuer began collecting FICO Scores for Cosigners in 2009. The following table sets forth the Cosigner FICO Scores for SELF Loans originated since 2009.

### SELF Loan Origination History by Cosigner FICO Score at Origination<sup>(1)</sup> since 2009 As of March 31, 2018

Cosigner FICO Score at Origination <sup>(1)</sup>	Number of Loans	Outstanding Balance (Millions)	Percent of Loans by Outstanding Balance
600 or Lower	4,730	\$ 28.6	3.8%
601 to 650	6,816	43.1	5.8
651 to 700	18,575	119.7	16.1
701 to 750	31,585	205.0	27.6
751 or Higher	<u>54,925</u>	<u>347.0</u>	<u>46.7</u>
Total	<u>116,631</u>	<u>\$743.4</u>	<u>100.0%</u>

<sup>(1)</sup> Cosigner FICO Score is based upon the most recent SELF Loan received.

## Delinquency Experience for SELF II through SELF IV and SELF V Loans

The tables that follow set forth, with regard to SELF II through SELF IV and SELF V Loans, borrower delinquencies (no SELF II Loans currently remain outstanding) as of June 30 for the years 2014 through 2018. Such information is included for general reference purposes only and is not intended as a representation that the payment experience of the Student Loans (which will initially be only fixed-rate SELF V Loans) will be similar to that of previously originated SELF II through SELF IV and SELF V Loans (particularly those with variable rates) during any period or over the respective lives of such loans. In particular, there can be no assurance that future borrower delinquencies for the SELF III, SELF IV and SELF V Loans (particularly those with variable rates) will be similar to the historical experience set forth below, or that future borrower delinquencies for the Student Loans included, and to be included, in the Trust Estate will be similar to the historical experience set forth below. See the caption “INVESTMENT CONSIDERATIONS—Performance of Student Loans May Differ From Historical Performance of Previous SELF Loans” herein.

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**Delinquencies for the SELF II through SELF IV Loans**  
(dollars in thousands)

Days Delinquent	June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Current	\$135,218,595	95.4%	\$183,678,501	95.2%	\$242,567,797	94.6%	\$273,831,402	92.8%	\$386,816,165	93.0%
15-29	2,408,465	1.7	3,150,872	1.6	4,635,944	1.8	7,538,648	2.6	9,570,599	2.3
30-44	1,934,343	1.4	2,852,137	1.5	4,492,968	1.8	6,555,176	2.2	10,427,558	2.5
45-59	646,158	0.5	933,318	0.5	1,471,284	0.6	2,760,937	0.9	2,825,913	0.7
60-89	795,878	0.6	1,364,190	0.7	1,629,104	0.6	2,288,973	0.8	3,328,559	0.8
90-119	361,039	0.3	489,892	0.3	803,307	0.3	1,280,639	0.4	1,474,352	0.4
120 and Over	321,376	0.2	554,512	0.3	721,707	0.3	755,535	0.3	1,322,818	0.3
Total	<u>\$141,685,854</u>	<u>100.0%</u>	<u>\$193,023,422</u>	<u>100.0%</u>	<u>\$256,322,112</u>	<u>100.0%</u>	<u>\$295,011,308</u>	<u>100.0%</u>	<u>\$415,765,964</u>	<u>100.0%</u>

**Delinquencies for the SELF V Loans**  
(dollars in thousands)

Days Delinquent	June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Current	\$332,434,505	93.8%	\$303,976,540	93.4%	\$268,973,701	93.0%	\$229,151,481	92.6%	\$191,988,197	91.4%
15-29	7,383,643	2.1	8,041,548	2.5	8,598,737	3.0	7,329,539	3.0	7,633,679	3.6
30-44	5,857,487	1.7	5,474,982	1.7	4,933,169	1.7	4,831,027	2.0	4,893,056	2.3
45-59	3,613	1.0	2,012	0.6	2,377	0.7	2,094	0.6	2,053	0.6
60-89	2,612	0.7	3,133	0.9	2,321	0.7	2,336	0.7	2,302	0.6
90-119	1,146	0.3	1,230	0.3	1,570	0.4	1,222	0.3	1,226	0.3
120 and Over	1,338	0.3	935	0.3	885	0.2	859	0.2	991	0.3
Total	<u>\$354,384,799</u>	<u>100.0%</u>	<u>\$325,333,933</u>	<u>100.0%</u>	<u>\$289,189,854</u>	<u>100.0%</u>	<u>\$247,514,524</u>	<u>100.0%</u>	<u>\$210,029,639</u>	<u>100.0%</u>

## Historical Loss Experience for SELF Loans

The following table sets forth, with regard to all SELF Loans originated by the Issuer since the beginning of its 1990 fiscal year, the amount of such loans that have defaulted, including for reasons of death or disability, and the amount of such defaults that have been recovered, in each case through August 31, 2018. Such information is included for general reference purposes only and is not intended as a representation that the repayment experience of the Student Loans (which will initially be only fixed-rate SELF V Loans) will be similar to that of previously originated SELF Loans (particularly those with variable rates) during any period or over the respective lives of such loans. In particular, there can be no assurance that the future loss and recovery experience for the SELF Loans (particularly those with variable rates) will be similar to the historical experience set forth below, or that the loss and recovery experience for the Student Loans included, and to be included, in the Trust Estate will be similar to the loss and recovery experience set forth below. See the caption “INVESTMENT CONSIDERATIONS—Performance of Student Loans May Differ From Historical Performance of Previous SELF Loans” herein.

**Cumulative Loan Origination, Default and Recovery Experience for SELF Loans  
July 1, 1990 through August 31, 2018**

<b>\$ Amount of SELF Loans Originated</b>	<b>\$ Amount of SELF Loans Defaulted</b>	<b>\$ Amount of Defaults Due to Death or Disability<sup>(1)</sup></b>	<b>Gross Cumulative Defaults (\$)<sup>(2)</sup></b>	<b>Gross Cumulative Default Rate (%)<sup>(2)</sup></b>	<b>\$ Amount of Net Defaults Recovered</b>	<b>Default Recovery Rate (%)<sup>(2)</sup></b>	<b>\$ Amount of Net Defaults Not Recovered</b>	<b>Net Cumulative Default Rate (%)<sup>(2)</sup></b>
\$2,169,152,608	\$127,795,478	\$5,644,811	\$122,150,667	5.63%	\$89,835,125	73.5%	\$32,315,542	1.49%

<sup>(1)</sup> This portion of defaults is forgiven, and therefore not eligible for recovery; <sup>(2)</sup> Excludes defaults due to death or disability.

As shown in the table above, of the \$2.2 billion of SELF Loans the Issuer has originated since 1990 a total of \$122.1 million (excluding defaults due to death or disability) have defaulted through August 31, 2018, or 5.63% of loans originated. Of this gross default amount, approximately \$89.8 million had been recovered through August 31, 2018, which translates to a cumulative recovery rate of 73.5% and a net cumulative default rate of 1.49%.

The table set forth below provides additional information regarding the Issuer’s historical loss experience for SELF Loans on a “static pool” basis for the 20 most recent repayment vintages, beginning with loans originated during the Issuer’s 1999 fiscal year. Such information is included for general reference purposes only and is not intended as a representation that the repayment experience of the Student Loans (which will initially be only fixed-rate SELF V Loans) will be similar to that of previously originated SELF Loans (particularly those with variable rates) during any period or over the respective lives of such loans. In particular, there can be no assurance that the future loss and recovery experience for the SELF Loans (particularly those with variable rates) will be similar to the historical experience set forth below, or that the loss and recovery experience for the Student Loans included, and to be included, in the Trust Estate will be similar to the loss and recovery experience set forth below. See the



caption “INVESTMENT CONSIDERATIONS—Performance of Student Loans May Differ From Historical Performance of Previous SELF Loans” herein.

**Static Pool Default Analysis for SELF Loans  
July 1, 1999 through August 31, 2018**

Fiscal Year	\$ Amount of Loans Entering Repayment	Gross Defaults by Repayment Vintage (\$)	Gross Defaults by Repayment Vintage (%)	Cumulative Gross Defaults by Year of Repayment														
				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15+
1999	\$68,281,060	\$3,531,616	5.17%	0.07%	0.61%	1.68%	2.47%	3.32%	3.96%	4.32%	4.64%	4.86%	4.99%	5.07%	5.12%	5.15%	5.16%	5.17%
2000	85,599,150	6,190,538	7.23%	0.08%	1.35%	2.67%	3.99%	4.99%	5.69%	6.20%	6.55%	6.82%	6.94%	7.05%	7.12%	7.18%	7.19%	7.23%
2001	98,241,084	7,036,981	7.16%	0.15%	1.39%	2.86%	3.97%	4.89%	5.62%	6.14%	6.52%	6.71%	6.92%	7.02%	7.09%	7.12%	7.15%	7.16%
2002	104,088,989	7,519,580	7.22%	0.17%	1.59%	2.77%	3.83%	4.84%	5.58%	6.12%	6.43%	6.68%	6.89%	7.03%	7.10%	7.16%	7.18%	7.22%
2003	107,239,140	7,209,476	6.72%	0.19%	1.29%	2.39%	3.44%	4.44%	5.19%	5.59%	6.00%	6.25%	6.43%	6.54%	6.63%	6.67%	6.70%	6.72%
2004	115,717,863	7,608,593	6.58%	0.16%	1.06%	2.43%	3.44%	4.49%	5.04%	5.45%	5.84%	6.09%	6.28%	6.43%	6.51%	6.54%	6.56%	6.58%
2005	135,544,578	8,386,516	6.19%	0.13%	1.22%	2.33%	3.40%	4.09%	4.69%	5.19%	5.52%	5.74%	5.91%	6.03%	6.12%	6.17%	6.18%	6.19%
2006	127,178,019	8,489,752	6.68%	0.26%	1.41%	2.79%	3.74%	4.44%	5.14%	5.63%	5.96%	6.25%	6.45%	6.56%	6.63%	6.67%	6.68%	
2007	135,310,394	9,086,195	6.72%	0.26%	1.55%	2.59%	3.55%	4.39%	5.12%	5.59%	5.99%	6.31%	6.49%	6.63%	6.71%	6.72%		
2008	141,572,007	9,193,658	6.49%	0.21%	1.17%	2.32%	3.37%	4.20%	4.93%	5.47%	5.91%	6.17%	6.36%	6.49%	6.49%			
2009	125,227,808	8,534,969	6.82%	0.19%	1.41%	2.68%	3.65%	4.55%	5.28%	5.89%	6.30%	6.59%	6.80%	6.82%				
2010	118,316,074	7,984,166	6.75%	0.23%	1.35%	2.61%	3.64%	4.62%	5.45%	6.00%	6.39%	6.72%	6.75%					
2011	85,189,038	5,355,911	6.29%	0.29%	1.50%	2.57%	3.53%	4.40%	5.14%	5.74%	6.22%	6.29%						
2012	85,416,423	4,454,991	5.22%	0.28%	1.33%	2.12%	2.91%	3.74%	4.34%	5.12%	5.22%							
2013	68,694,026	3,377,082	4.92%	0.43%	1.31%	2.28%	3.17%	3.87%	4.84%	4.92%								
2014	60,025,323	2,363,597	3.94%	0.38%	1.26%	2.25%	2.97%	3.88%	3.94%									
2015	54,448,352	2,002,964	3.68%	0.37%	1.37%	2.33%	3.57%	3.68%										
2016	66,706,770	1,456,671	2.18%	0.20%	0.92%	2.14%	2.18%											
2017	65,995,391	1,236,036	1.87%	0.35%	1.79%	1.87%												
2018	62,391,643	291,072	0.47%	0.33%	0.47%													

As shown in the table above, the gross cumulative default rate for SELF Loans originated by the Issuer since 1999 range from 0.47% for the least seasoned 2018 repayment vintage to 7.23% for the 2000 repayment vintage. The cumulative gross default rate for repayment vintages aged for at least five years, which excludes the 2014 through 2018 repayment vintages, is 6.49% through August 31, 2018.

## THE STUDENT LOANS

The Student Loans expected to be pledged to the Trust Estate upon the issuance of the Series 2018 Bonds are fixed-rate loans originated pursuant to SELF V. See the captions “SOURCES AND USES OF FUNDS,” “STUDENT LOAN PROGRAM” and “INVESTMENT CONSIDERATIONS—Certain Amendments to Indenture and Other Actions Upon an Event Notification or Consent of Fewer Than All Owners” herein.

The following tables describe certain characteristics of Student Loans expected to be pledged to the Trust Estate upon the issuance of the Series 2018 Bonds as of July 31, 2018. The Issuer expects that the characteristics of the Student Loans actually pledged will vary from these tables due to the continued amortization of such Student Loans between July 31, 2018 and the date of issuance of the Series 2018 Bonds and the pledge of additional loans. The sum of the characteristics may not add up to the total therefor in the following tables due to rounding.

### Composition of the Student Loans As of July 31, 2018

Aggregate Outstanding Principal Balance	\$40,477,766
Total Number of Borrowers	5,627
Average Outstanding Principal Balance per Borrower	\$7,193
Total Number of Loans	6,791
Average Outstanding Principal Balance per Loan	\$5,961
Weighted Average Borrower Interest Rate	6.51%
Weighted Average Remaining Term (months)	137.7
Weighted Average Interim Months <sup>(1)</sup>	21.4

<sup>(1)</sup> Average expected period during which the Student Loans will remain in School, Grace or Extended Grace status.

### Distribution of the Student Loans by Borrower Repayment Status As of July 31, 2018

Borrower Repayment Status	Number of Loans	Outstanding Balance	Percent of Loans by Outstanding Balance
School <sup>(1)</sup>	2,532	\$20,753,724	51.3%
Grace or Extended Grace <sup>(1)</sup>	747	5,051,365	12.5
Forbearance <sup>(2)</sup>	14	62,216	0.2
Repayment <sup>(3)</sup>	<u>3,498</u>	<u>14,610,461</u>	<u>36.1</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

<sup>(1)</sup> Interest-only payments are required during School status, Grace status and Extended Grace status.

<sup>(2)</sup> No payments are required during Forbearance status.

<sup>(3)</sup> Principal and interest payments are required during Repayment status.

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**Distribution of the Student Loans by Remaining Term to Scheduled Maturity  
As of July 31, 2018**

<b>Remaining Months Until Scheduled Maturity</b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
0 to 24	55	\$ 27,625	0.1%
25 to 36	112	165,983	0.4
37 to 48	431	1,026,378	2.5
49 to 60	489	1,474,758	3.6
61 to 72	372	1,271,283	3.1
73 to 84	344	1,382,830	3.4
85 to 96	241	1,128,620	2.8
97 to 108	459	2,062,834	5.1
109 to 120	2,030	13,717,341	33.9
121 to 132	320	1,656,597	4.1
133 to 144	306	1,702,446	4.2
145 to 156	180	1,097,053	2.7
157 to 168	108	608,103	1.5
169 to 180	981	9,230,176	22.8
181 to 192	35	212,427	0.5
193 to 220	75	550,600	1.4
221 to 260	<u>253</u>	<u>3,162,711</u>	<u>7.8</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

**Distribution of the Student Loans by Borrower Interest Rate  
As of July 31, 2018**

<b>Borrower Interest Rate</b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
6.00%	2,994	\$24,131,327	59.6%
7.25%	<u>3,797</u>	<u>16,346,439</u>	<u>40.4</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

**Distribution of the Student Loans by Payment Delinquency Status  
As of July 31, 2018**

<b>Payment Delinquency</b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
0 to 30 days	6,668	\$39,858,951	98.5%
31 to 60 days	123	618,815	1.5
61 or more days	<u>0</u>	<u>0</u>	<u>0.0</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

**Distribution of the Student Loans by School Type  
As of July 31, 2018**

<b>School Type</b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
Four-Year or Graduate <sup>(1)</sup>	5,799	\$36,485,503	90.1%
Two-Year <sup>(2)</sup>	589	2,480,906	6.1
Proprietary <sup>(3)</sup>	386	1,397,071	3.5
Unknown	<u>17</u>	<u>114,286</u>	<u>0.3</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

<sup>(1)</sup> Includes 4-year public, private nonprofit and for-profit schools offering 4-year and/or graduate degrees.

<sup>(2)</sup> Includes 2-year public, private nonprofit and for-profit schools offering diplomas, certificates or 2-year degrees.

<sup>(3)</sup> Includes for-profit vocational schools that do not offer 2-year, 4-year or graduate degrees.

**Distribution of the Student Loans by Loan Principal Balance  
As of July 31, 2018**

<b>Loan Principal Balance</b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
Less than \$500	89	\$ 27,193	0.1%
\$500 to \$999	227	179,668	0.4
\$1,000 to \$1,999	714	1,106,178	2.7
\$2,000 to \$2,999	809	2,022,199	5.0
\$3,000 to \$3,999	866	3,049,219	7.5
\$4,000 to \$5,999	1,337	6,642,331	16.4
\$6,000 to \$7,999	1,084	7,672,425	19.0
\$8,000 to \$9,999	800	7,226,072	17.9
\$10,000 to \$14,999	541	6,623,964	16.4
\$15,000 to \$19,999	296	5,368,518	13.3
\$20,000 to \$24,999	<u>28</u>	<u>560,000</u>	<u>1.4</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

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**Geographic Distribution of the Student Loans**  
**As of July 31, 2018**

<b>Geographic Location</b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
Alabama	1	\$ 3,519	0.0%*
Alaska	2	8,128	0.0*
Arizona	21	88,838	0.2
Arkansas	2	22,287	0.1
California	45	207,105	0.5
Colorado	46	220,965	0.5
Connecticut	3	41,799	0.1
Delaware	1	10,505	0.0*
District of Columbia	5	14,339	0.0*
Florida	15	57,829	0.1
Georgia	8	50,862	0.1
Idaho	1	4,191	0.0*
Illinois	58	429,624	1.1
Indiana	5	44,124	0.1
Iowa	55	309,598	0.8
Kansas	5	30,954	0.1
Louisiana	4	19,111	0.0*
Maine	1	4,199	0.0*
Maryland	13	39,041	0.1
Massachusetts	4	17,590	0.0*
Michigan	17	83,181	0.2
Minnesota	5,812	35,080,145	86.7
Mississippi	2	13,659	0.0*
Missouri	7	31,233	0.1
Montana	7	21,166	0.1
Nebraska	7	40,660	0.1
Nevada	10	51,419	0.1
New Hampshire	2	16,097	0.0*
New Jersey	2	19,925	0.0*
New Mexico	4	17,059	0.0*
New York	5	32,978	0.1
North Carolina	7	38,245	0.1
North Dakota	69	307,841	0.8
Ohio	8	33,861	0.1
Oklahoma	1	2,487	0.0*
Oregon	6	33,818	0.1
Pennsylvania	6	19,806	0.0*
Rhode Island	2	11,550	0.0*
South Carolina	3	14,414	0.0*
South Dakota	52	299,829	0.7
Tennessee	7	37,685	0.1
Texas	28	141,219	0.3
Utah	2	5,711	0.0*
Virginia	2	1,872	0.0*
Washington	14	50,083	0.1

Wisconsin	407	2,412,797	6.0
Wyoming	1	7,482	0.0*
Virgin Islands	1	11,450	0.0*
Foreign Country	5	15,486	0.0*
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

\* Less than 0.05%, but greater than 0.00%.

**Distribution of the Student Loans by Number of Months Since Origination<sup>(1)</sup>**  
**As of July 31, 2018**

<b>Number of Months Since Origination<sup>(1)</sup></b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
0 to 12 months	2,825	\$22,468,487	55.5%
13 to 24 months	169	1,662,840	4.1
25 to 60 months	0	0	0.0
61 to 72 months	549	3,071,424	7.6
More than 72 months	<u>3,248</u>	<u>13,275,015</u>	<u>32.8</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

<sup>(1)</sup>Since SELF V Loans enter interest-only repayment immediately, the number of months since the loan origination date provides an estimate for the number of payments made.

**Distribution of the Student Loans by Cosigner FICO Score at Origination<sup>(1)</sup>**  
**As of July 31, 2018**

<b>Cosigner FICO Score at Origination<sup>(1)(2)</sup></b>	<b>Number of Loans</b>	<b>Outstanding Balance</b>	<b>Percent of Loans by Outstanding Balance</b>
670 to 699	1,090	\$ 6,602,966	16.3%
700 to 739	1,921	11,492,670	28.4
740 to 850	<u>3,780</u>	<u>22,382,130</u>	<u>55.3</u>
Total	<u>6,791</u>	<u>\$40,477,766</u>	<u>100.0%</u>

<sup>(1)</sup> Cosigner FICO Score is based upon the most recent SELF V Loan received.

<sup>(2)</sup> Using the midpoint of each FICO Score band, the dollar-weighted average FICO Score is 745.

## LOAN SERVICING AND COLLECTIONS

### Servicer

The Issuer has contracted with Nelnet Servicing, LLC (“Nelnet Servicing”) to service the loans originated pursuant to its SELF Program and its SELF Refi Program. The expiration date of the agreement with Nelnet Servicing (the “Nelnet Servicing Agreement”) is April 30, 2023, unless extended an additional five years to April 30, 2028; provided, however, the Issuer or Nelnet Servicing may terminate the Nelnet Servicing Agreement upon 180 days’ notice and the Issuer may terminate the Nelnet Servicing Agreement if Nelnet Servicing refuses or fails to perform in a material fashion any part of its obligations thereunder, and fails or refuses to correct said action or lack of action within 60 days after receipt of written notice. Termination of the Nelnet Servicing Agreement, other than for non-performance, requires the payment of

deconversion fees by the Issuer. The Issuer has the right, under the Indenture, to appoint a different or successor Servicer of the Student Loans, subject to satisfaction of the requirements of an Event Notification as to such successor or additional Servicer.

While the Issuer's staff is primarily responsible for SELF Loan origination processing and defaulted loan collections, Nelnet Servicing is responsible for disbursing SELF Loans, originating and disbursing SELF Refi Loans and for effecting billing procedures, which commence with the first interest payment, and payment processing.

Nelnet Servicing, LLC is a wholly-owned subsidiary of Nelnet, Inc. Nelnet, Inc. began its education loan servicing operations on January 1, 1978, and Nelnet, Inc. and its subsidiary servicers provide student loan servicing that includes application processing, underwriting, fund disbursement, customer service, account maintenance, federal reporting and billing collections, payment processing, default aversion, claim filing and recovery/collection services. These activities are performed internally for Nelnet, Inc.'s and its affiliates' portfolios and for third party clients. Nelnet Servicing, LLC operations are focused in its Lincoln and Omaha, Nebraska and Highlands Ranch and Aurora, Colorado offices. As of June 30, 2018, Nelnet Servicing, LLC serviced \$470.7 billion in loans, consisting of \$37.6 billion of FFELP loans; \$15 billion of private education and consumer loans and \$418.1 billion of government owned loans. In addition, Nelnet Servicing, LLC provides back up servicing arrangements to assist nine entities for more than 900,000 borrowers along with hosting of 6.1 million borrowers on its servicing platforms.

### **Nelnet Servicing Agreement**

**General.** The Nelnet Servicing Agreement relates to all the Issuer's student loans, including the Student Loans, serviced by Nelnet Servicing on behalf of the Issuer. Pursuant to the Nelnet Servicing Agreement, Nelnet Servicing agrees to originate, disburse and service the SELF Loans and SELF Refi Loans in accordance with the Nelnet Servicing Agreement and all applicable rules and policies of the Issuer with respect to SELF Loans and SELF Refi Loans, including without limitation, the Minnesota Statutes Chapter 136A and the rules of the SELF Program and the SELF Refi Program.

**Indemnification.** Nelnet Servicing is required to indemnify and hold the Issuer harmless from all loss, liability and expense (including reasonable attorney's fees and expenses of litigation) arising out of or relating to Nelnet Servicing's acts or omissions with regard to the performance of services under the Nelnet Servicing Agreement (collectively "Losses"); provided, however, that Nelnet Servicing shall not be liable to the Issuer for Losses incurred by the Issuer in connection with Nelnet Servicing's performance of such services except where such Losses are the direct result of Nelnet Servicing's negligence or willful misconduct and then only to the extent that the failure to repay any SELF Loans and SELF Refi Loans results in a loss by the Issuer. Nelnet Servicing will not be liable for any loss resulting from its execution of any instructions from the Issuer or from the Nelnet Servicing's compliance with any state or federal law or with the rules and policies of the Issuer. The Issuer's liability is governed by the provisions of the Minnesota Tort Claims Act, Minnesota Statute § 3.736 *et seq.*

**Custodianship.** Nelnet Servicing agrees to act as bailee for the Trustee with respect to each promissory note evidencing a Student Loan Financed or pledged under the Indenture as collateral for the Bonds, including the Series 2018 Bonds. Nelnet Servicing will maintain essential original information and system records on its system for the Student Loans segregated from any other loans of Nelnet Servicing or any other party and clearly labeled so as to identify such Student Loans as the property of the Issuer and pledged to the Trust Estate as security for the Bonds, including the Series 2018 Bonds.

**Assignment of the Nelnet Servicing Agreement.** Nelnet Servicing may neither assign nor transfer any rights or obligations under the Nelnet Servicing Agreement without the prior consent of the Issuer. If,

in exercising the security interest granted by the Issuer pursuant to the Indenture, the Trustee becomes the owner of any Student Loans, Nelnet Servicing will continue to service such Student Loans pursuant to the Nelnet Servicing Agreement as long as the Trustee pays the fees due thereunder (which would be paid from the Revenues within the Indenture) and performs the obligations of the Issuer thereunder.

***Amendment of the Nelnet Servicing Agreement.*** No amendment, modification, termination or waiver of any provision of the Nelnet Servicing Agreement may be made unless the same is in writing signed by the party to be bound, subject to the obligations of the Issuer in the Indenture.

***Delinquency Procedures.*** If a Borrower becomes delinquent in the payment of a SELF Loan or a SELF Refi Loan, the Servicer institutes collection procedures with both the Borrower and Cosigner (as applicable), including computer-generated late notices and letters, telephone contact and other collection procedures.

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

<b># of Days Delinquent</b>	<b>Action Performed by Servicer</b>
16 Days Late	Notice is sent to Borrower
30 Days Late	Notice is sent to the Borrower and Cosigner; telephone call to Borrower
45 Days Late	Telephone call(s) to Borrower and Cosigner
60 Days Late	Letter to both Borrower and Cosigner
75 Days Late	Telephone call(s) to Borrower and Cosigner
90 Days Late	Notice of demand for payment to Borrower and Cosigner; telephone call(s) to Borrower and Cosigner
105 Days Late	Demand letters sent to both Borrower and Cosigner (printed on Issuer letterhead)
110 Days Late	Telephone call(s) to Borrower and Cosigner
120 Days Late	Servicer starts the claim process on Borrower and Cosigner

### **Issuer's Default Collection Procedures**

Once a SELF Loan or a SELF Refi Loan has become a defaulted loan, the Issuer will take one or more of the following actions:

- (a) work to effect repayment through the Minnesota Revenue Recapture Act (under which the Borrower and/or the Cosigner's state income tax, state lottery winnings and property tax refunds and other refunds may in certain circumstances be diverted to the Issuer to repay amounts owed relating to a defaulted SELF Loan or SELF Refi Loan);
- (b) take legal action against the Borrower for repayment;
- (c) take legal action against the Cosigner for repayment;
- (d) report the Borrower's defaulted loan to the credit bureau;
- (e) report the Cosigner's default to the credit bureau; and/or



(f) turn the account over to the Minnesota Department of Revenue or a private collection agency.

For purposes of the Issuer's default collection procedures, a defaulted loan is a loan as to which the principal or interest has remained unpaid for 120 days or more and the Borrower or Cosigner has not fulfilled the Issuer's requirement to bring the loan current. A loan is generally charged-off after the principal or interest has remained unpaid for 165 days.

## **TAX MATTERS**

### **Federal and Minnesota Tax Considerations**

As of the date of issuance, in the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, interest on the Series 2018 Bonds is, under existing Minnesota law and the Internal Revenue Code of 1986, as amended (the "Code"), (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 individuals 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 2018 Bonds, as of either the date of issuance of the Series 2018 Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (1) the proceeds of the Series 2018 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 2018 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 2018 Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2018 Bonds. No opinion is expressed regarding other federal tax consequences arising with respect to the Series 2018 Bonds. The Series 2018 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 2018 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 2018 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 Minnesota Statutes, Section 289A.50, subdivision 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 United States 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 2018 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 2018 Bonds to become taxable by Minnesota and the market value of the Series 2018 Bonds to decline.

### **Bond Premium**

The Series 2018 Bonds with stated maturities of November 1, 2022 through 2026 (the "Premium Bonds"), have been sold to the public at an amount in excess of the stated redemption price at maturity. Such excess of the purchase price of such Premium Bonds over the stated redemption price at maturity constitutes original issue premium with respect to such Premium Bonds. A purchaser of a Premium Bond must amortize any original issue premium over the term of such Premium Bond using constant yield principles, based on the purchaser's yield to maturity. As original issue premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or a decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Premium Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to State and local tax consequences of owning such Premium Bonds.

### **Original Issue Discount**

The Series 2018 Bonds maturing on November 1, 2037 (the "Discount Bonds") are being sold at a discount from the principal amount payable on the Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under

the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for State income tax purposes to the same extent that stated interest on such Discount Bonds would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the Owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption, or payment at maturity). Original issue discount is taxable under the State franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under Section 1288 pursuant to a constant yield method that reflects semiannual compounding on days that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of: (i) the product of (a) one-half of the yield on such Discount Bonds (adjusted as necessary for an initial short period), and (b) the adjusted issue price of such Discount Bonds, over (ii) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Discount Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Discount Bond.

No opinion is expressed as to State and local income tax treatment of original issue discount. It is possible under certain State and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Owners of Discount Bonds should consult their own advisors with respect to computation and accrual of original issue discount and with respect to the State and local tax consequences of owning such Discount Bonds.

## **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 2018 Bonds may adversely affect the value of, or the federal tax status of interest on, the Series 2018 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 state and federal tax treatment of obligations such as the Series 2018 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2018 Bonds will not have an adverse effect on the state or federal tax status of interest or other income on the Series 2018 Bonds or the market value of the Series 2018 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 2018 Bonds from gross income for federal or State income tax purposes.

Prospective purchasers of Series 2018 Bonds should consult with their own tax advisers with respect to any pending or proposed tax legislation. Bond counsel expresses no opinion regarding any pending or proposed federal tax legislation.

## **UNDERWRITING**

Subject to the terms and conditions to be set forth in a Bond Purchase Agreement (the “Bond Purchase Agreement”), between the Issuer and RBC Capital Markets, LLC, as underwriter (the “Underwriter”), the Underwriter has agreed to purchase the Series 2018 Bonds at a price equal to the principal amount of the Series 2018 Bonds (adjusted for any applicable initial issue discount or initial issue premium) less an underwriting fee equal to \$548,109. The initial public offering prices of the Series 2018 Bonds set forth on the inside front cover page may be changed without notice by the Underwriter. The Underwriter may offer and sell the Series 2018 Bonds to certain dealers (including dealers depositing Series 2018 Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the offering prices set forth on the inside front cover page hereof.

The Issuer has agreed to indemnify the Underwriter in the Bond Purchase Agreement to the extent permitted by law and, under certain limited circumstances, the Underwriter will indemnify the Issuer, against certain civil liabilities, including liabilities under the Securities Act.

## **MUNICIPAL ADVISOR**

The Issuer has retained SL Capital Strategies, as municipal advisor (the “Municipal Advisor”), in connection with the issuance of the Series 2018 Bonds. The Municipal Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. The Municipal Advisor has provided advice as to the plan of financing and the structuring of the Series 2018 Bonds and has reviewed and commented on certain legal documentation, including this Official Statement. The advice on the plan of financing and the structuring of the Series 2018 Bonds was based on materials provided by the Issuer and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated or otherwise verified the information provided by the Issuer or the information set forth in this Official Statement or any other information available to the Issuer with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement

## **LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or contesting the validity of the Series 2018 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 2018 Bonds or the existence or powers of the Issuer.

## **RATING**

The Series 2018 Bonds are expected to be rated “AA(sf)” by S&P Global Ratings (“S&P”). Such rating reflects only the view of S&P and an explanation of the significance of such rating can only be obtained from S&P. Assignment of such rating is a precondition to the issuance of the Series 2018 Bonds.

No assurance can be given that such rating will be continued for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect upon the market price or the marketability of the Series 2018 Bonds.

## **LEGAL MATTERS**

### **Continuing Disclosure**

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the SEC (the “Rule”), the Issuer will enter into a continuing disclosure agreement with respect to the Series 2018 Bonds (the “Continuing Disclosure Agreement”) setting forth the undertaking of the Issuer regarding continuing disclosure with respect to the Series 2018 Bonds. The proposed form of the Continuing Disclosure Agreement is set forth in Appendix E hereto. The Issuer has not failed to comply with any previous undertaking to provide annual reports or notices of material events in accordance with the Rule.

### **Availability of Other Issuer Information**

The Issuer has covenanted in the Indenture to make periodic information publicly available with respect to the Student Loans Financed with proceeds of the Series 2018 Bonds and other moneys available therefor in the Series 2018 Account of the Acquisition Fund (see the caption “SOURCES AND USES OF FUNDS” herein) no less frequently than quarterly, commencing with the calendar quarter ending December 31, 2018. The information required to be so made available is set forth in the First Supplement, and includes, among other items, outstanding Bond balances, loan portfolio characteristics, Fund and Account balances, the Class I Bonds Parity Ratio, and loan portfolio performance. The Issuer has reserved the right, however: (a) to determine the format in which such periodic information is presented, and (b) to make such periodic information available either by providing such information to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) website or by posting such information on the Issuer’s own publicly accessible website. Failure to comply with the foregoing provisions of the Indenture shall not constitute an Event of Default. However, to the extent permitted by law, any Owner may seek a court order for specific performance by the Issuer to comply with such provisions and to compel the Issuer to perform and carry out its obligations in this regard; provided, however, that the sole remedy for a failure to comply with these provisions shall be limited to an action to compel specific performance of such obligations and shall not include any rights to monetary damages.

### **Legal Opinions**

The Series 2018 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/ Lawrence J. Pogemiller  
Commissioner

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**APPENDIX A**

**FINANCIAL STATEMENTS OF THE MINNESOTA OFFICE OF HIGHER EDUCATION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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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

As of and for the Year Ended June 30, 2017

# MINNESOTA OFFICE OF HIGHER EDUCATION

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## INDEPENDENT AUDITORS' REPORT

To the Commissioner  
Minnesota Office of Higher Education  
St. Paul, Minnesota

### **Report on the Financial Statements**

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, 2017, and the related notes to the financial statements, which collectively comprise the Minnesota Office of Higher Education's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Minnesota Office of Higher Education's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Minnesota Office of Higher Education's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Commissioner  
Minnesota Office of Higher Education

### ***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, 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

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 supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of the Minnesota Office of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Minnesota Office of Higher Education's internal control over financial reporting and compliance.



Minneapolis, Minnesota  
October 6, 2017

**MINNESOTA OFFICE OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED**

Our discussion and analysis of the financial performance of the Minnesota Office of Higher Education (the "Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2017.

**Introduction**

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

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The Agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Agency 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 and collaboration among organizations that share responsibility for education in Minnesota.

The Agency employs a staff of 64 FTE, of which 26 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. However, statutory provisions authorize the Agency to request the Governor to include in the Governor's budget or supplemental budget 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 any bonds in the current or immediately following fiscal year.

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

The Minnesota State Grant Program (which provides more than \$180 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 enable thousands of Minnesota students to have financial access to, and choice of, postsecondary educational opportunities. Other core programs are the Student Educational Loan Fund ("SELF") and "SELF Refi", the Minnesota College Savings Plan, and the Interstate Tuition Reciprocity Program. The Agency's publications, 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.

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The Statewide Longitudinal Education Data System (SLEDS) is a tool to connect existing data from pre-kindergarten through completion of postsecondary education and into the workforce. SLEDS is a partnership between the Agency and the Departments of Education (MDE) and Employment and Economic Development (DEED). By bridging existing data with other incoming data, a range of educational programmatic and delivery questions can be answered to gauge the effectiveness of current programs and design targeted improvement strategies to help students.

Through state laws which undergird the registration and licensure of private colleges, universities, career schools, and certain out-of-state public postsecondary institutions, the Agency provides students with consumer protection by assuring that private postsecondary institutions meet state standards in order to operate legally in Minnesota. Minnesota is an approved SARA (State Authorization Reciprocity Agreement) state. An institution authorized under SARA criteria in its home state is considered authorized in all other SARA states.

**Financial Highlights**

- The Agency's net position increased \$17.8 million or 3.8% from fiscal year 2016 to 2017 mainly as a result of student loan financing activities.
- The Agency received \$249.4 million for fiscal year 2017 state appropriations. \$3.45 million will be deferred to fiscal year 2018, while \$279,694 has been cancelled and returned back to the state.
- The Minnesota College Savings Plan has increased to over \$1.33 billion in assets.
- The Loan Capital Fund issued 8,207 and 8,587 new loans in fiscal years 2017 and 2016, respectively, with the average student loan amount of \$8,048 and \$7,768, respectively.
- Net Loan Receivables in the Loan Capital Fund shrunk by \$22.1 million or 3.9% during fiscal year 2017 and shrunk by \$10.5 million or 1.8% during fiscal year 2016.
- In January 2016, the Agency implemented a new student loan refinancing program (SELF Refi). Approximately \$9.7 million refinance loans were disbursed in fiscal year 2017.
- The Agency has 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, 2017 the Agency has not entered into any interest rate exchange or swap agreements or other comparable interest rate protection agreements.
- Over the course of the 2017 fiscal year \$3.045 million of fixed rate bonds were redeemed.

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**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 Position presents information on all of the Agency's assets, liabilities, and deferred inflows of resources with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

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The *Statement of Activities* presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position 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 Position and the Statement of Activities, we divide the Agency into two kinds of activities:

- ***Governmental Activities*** — General appropriation funds are received by the Agency for the administration of postsecondary educational grant programs and the state 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 college and career schools and certain out-of-state public postsecondary institutions.
- ***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 loan programs currently being administered by the Agency are the Student Educational Loan Fund ("SELF") Program and the SELF Refi 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 proprietary 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.

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**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 and schedules for the state employees' retirement fund. This information can be found beginning on page 35 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 position increased by \$17.8 million or 3.8%. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Agency's governmental and business-type activities.

**Table 1  
Net Position**

	<b>2017</b>			<b>2016</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>
Assets						
Current and other assets	\$ 16,858,020	\$ 955,748,776	\$ 972,606,796	\$ 16,087,375	\$ 942,227,873	\$ 958,315,248
Deferred Outflows of Resources						
Pension related amounts	8,610,835	2,277,165	10,888,000	490,211	133,789	624,000
Liabilities						
Current liabilities	3,854,974	6,270,610	10,125,584	2,657,765	4,662,905	7,320,670
Non-current liabilities	12,588,204	467,389,966	479,978,170	1,804,499	468,970,081	470,774,580
Total liabilities	16,443,178	473,660,576	490,103,754	4,462,264	473,632,986	478,095,250
Deferred Inflows of Resources						
Unearned revenue	6,282,628	-	6,282,628	10,328,075	-	10,328,075
Pension related amounts	840,733	294,267	1,135,000	1,822,486	553,514	2,376,000
Total deferred inflows of resources	7,123,361	294,267	7,417,628	12,150,561	553,514	12,704,075
Net position						
Restricted for administration and financial aid programs	5,721,923	-	5,721,923	2,102,330	-	2,102,330
Restricted for debt service	-	484,071,098	484,071,098	-	468,175,162	468,175,162
Unrestricted (deficit)	(3,819,607)	-	(3,819,607)	(2,137,569)	-	(2,137,569)
Total net position	\$ 1,902,316	\$ 484,071,098	\$ 485,973,414	\$ (35,239)	\$ 468,175,162	\$ 468,139,923



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Net position of the Agency's governmental activities increased by \$1,937,555 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 position — the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — decreased from (\$2,137,569) at June 30, 2016 to (\$3,819,607) at the end of this year.

Net loans receivable have decreased by approximately \$22.1 million, or 3.9%, to \$536.6 million. In May 2015, the state legislature passed language allowing the maximum amount of the SELF loan to be determined annually by the Agency, not to exceed cost of attendance less all other financial aid. The Agency has set the maximum SELF loan amount at \$20,000 for four-year postsecondary and graduate programs.

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 earnings generated from the student loans must either be paid back to the IRS every 10 years or reduced through a decrease in the student loan interest rate charged, loan forgiveness programs, and/or borrower benefits. The Agency has no current arbitrage or excess yield liability.

**Table 2  
Changes in Net Position**

	<b>2017</b>			<b>2016</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	\$ 742,053	\$ 24,604,152	\$ 25,346,205	\$ 974,565	\$ 23,891,331	\$ 24,865,896
State appropriations	249,140,251	-	249,140,251	221,748,360	-	221,748,360
Federal grants	3,539,973	-	3,539,973	3,959,099	-	3,959,099
Investment income	-	2,453,851	2,453,851	-	1,104,320	1,104,320
Total revenues	<u>253,422,277</u>	<u>27,058,003</u>	<u>280,480,280</u>	<u>226,682,024</u>	<u>24,995,651</u>	<u>251,677,675</u>
<b>EXPENSES</b>						
Program expenses						
General government	-	11,162,067	11,162,067	786,545	11,020,825	11,807,370
State appropriations	247,277,202	-	247,277,202	221,893,833	-	221,893,833
Federal grants	<u>4,207,520</u>	<u>-</u>	<u>4,207,520</u>	<u>3,540,470</u>	<u>-</u>	<u>3,540,470</u>
Total expenses	<u>251,484,722</u>	<u>11,162,067</u>	<u>262,646,789</u>	<u>226,220,848</u>	<u>11,020,825</u>	<u>237,241,673</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,937,555</u>	<u>\$ 15,895,936</u>	<u>\$ 17,833,491</u>	<u>\$ 461,176</u>	<u>\$ 13,974,826</u>	<u>\$ 14,436,002</u>

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*Governmental Activities*

Revenues for the Agency's governmental activities (see Table 2) increased by \$26.7 million (or 11.8%) to \$253.4 million, while total expenses increased by \$25.3 million (11.2%). The increase in revenue was largely due to state appropriation revenue deferred from FY16 for state grant programs.

- State appropriation expenditures increased by \$27.4 million to \$249.1 million. \$182.2 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.

The Agency currently receives federal grant monies from four different programs within the U.S. Department of Education and the U.S. Department of Justice. These federal grants are designed to assist students in meeting their postsecondary education financial obligations, 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 \$15.9 million in fiscal year 2017, which was 142.4% of expenses.

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

*Governmental Funds*

The General Fund is the chief governmental fund of the Agency representing approximately 97.6% of the Agency's governmental spending. At the end of fiscal year 2017, 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. At the end of the first fiscal year, unused appropriations are deferred to the second fiscal year in the biennium.

For the General Fund, student grant payments were \$215.4 million, an increase from \$199.7 million in fiscal year 2016. Grant aid to postsecondary institutions and organizations increased \$1.2 million to \$3.8 million. Employee salaries increased .02% from fiscal year 2016. Interstate reciprocity increased \$3.4 million due to an increase in the number of Minnesota students attending North Dakota institutions.

*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) increased by 8.3% and expenses increased by 1.3%. In fiscal year 2017, there was a slightly higher return for interest and investment interest income. The current variable interest rate charged to SELF II, SELF III, SELF IV and SELF V program student loans is set at a rate of 2.50%, 3.50%, 3.50% and 3.50%, respectively. Rates for the SELF II program have increased 0.25% over the past fiscal year, and rates for the SELF III, SELF IV, and SELF V programs have increased 0.10% over the past fiscal year. The SELF III, SELF IV and SELF V variable rate loans use the same method to calculate the variable interest rate. Under the SELF IV and SELF V programs, loans have an optional extended repayment period depending upon the aggregate SELF student loan balance.

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The interest rate for the SELF V fixed rate program changes periodically. Rate changes are as follows:

Effective Date	Rate
10/2010	7.25%
05/2013	6.90%
04/2015	6.50%
08/2016	6.0%

The SELF Refi loan has a variety of rate and repayment term options.

<b>SELF Refi Loan current rates</b>			
Repayment Term	5 years	10 years	15 years
Fixed rate	4.25%	5.50%	6.75%
Variable rate	3.50%	4.15%	4.85%

*General Fund Budgetary Highlights*

Over the course of the fiscal year, changes were made to the Agency's budget. Actual expenditures were \$475,000 over the total original budgeted expenditures. Student grant aid is higher than expected for the current fiscal year. Unspent funding for fiscal year 2017 is \$3.73 million of which \$3.45 is deferred to fiscal year 2018 and \$279,694 is returned to the state. Funds deferred to fiscal year 2018 will be used for Fiscal Year 2017 financial obligations still outstanding.

**Cash Management**

Unexpended general appropriated funds are invested pursuant to Minnesota Statutes 11A under the State Board of Investment. 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 up from 2016 by \$1.35 million. As of June 30, 2017, the fair value of the Agency's investments was greater than cost by \$130,853. 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.

**Debt Administration**

At year-end, the Agency had \$467,970,000 in bonds outstanding — as shown in Table 3

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

	<b>2017</b>			<b>2016</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	\$ -	\$ 467.9	\$ 467.9	\$ -	\$ 471.0	\$ 471.0

The 2008 supplemental revenue bonds have a rating of Aa2 by Moody's rating agency and AA by Fitch rating agency.

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

The 2011A supplemental revenue bonds have a rating of Aa2 and the 2011B supplemental revenue bonds have a rating of Aa1 by Moody's rating agency.

The 2012B supplemental revenue bonds are currently held as a private placement bond and do not require a rating.

Other obligations of the Agency include accrued compensated absences and net pension liability. More detailed information about the Agency's long-term liabilities is presented in Note II.D. 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 2018 budget, rates, and fees that will be charged for the business-type activities.

The SELF loan program has several phases based on changes in calculating interest and other loan terms. For the SELF II phase, the current margin rate is set at 2.0%, the highest margin allowed under the SELF II phase, 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 phase of the loan 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 phase of the loan program began in July 2006 with minor changes. The SELF V phase of the loan program began in October 2010 with a fixed and variable interest rate option. The SELF III, SELF IV, and SELF V current margin is 2.40% for variable rate loans, a reduction of .40% from 2.80% in 2016.

For the fixed rate option of the SELF V phase of the loan program, effective August 1, 2016 the rate is set at 6.00% for new loans.

For the fixed rate option of the SELF Refi loan program, interest rates are as follows:

<b>SELF Refi Loan current rates</b>			
<b>Repayment Term</b>	<b>5 years</b>	<b>10 years</b>	<b>15 years</b>
<b>Fixed rate</b>	<b>4.25%</b>	<b>5.50%</b>	<b>6.75%</b>

For students enrolled in a bachelor's degree, post-baccalaureate, or graduate program the annual loan limit is \$20,000. The undergraduate student annual loan limit for non-four-year degree programs is \$7,500 and the annual loan limit for programs less than one year is \$3,500.

On November 1, 2016 the Agency redeemed \$3.045 million of fixed rate revenue bonds according to their scheduled redemption date.

On July 18, 2017 the Agency closed on Bond Series 2017A (\$66,700,000), 2017B (\$60,000,000), and 2017C (\$58,300,000) structured as a private placement transaction. The 2017 series bonds do not include any new debt and is a reissuance of the Series 2008A, 2008B, 2011A and 2011B bonds which had letters of credit set to expire on October 1, 2017. The transaction lowered the interest rate on the debt and allowed the Agency to restructure \$60,000,000 of the overall \$185,000,000 from tax-exempt variable rate to tax-exempt fixed-rate debt.

The contract with the Agency's third party loan servicer expires on April 30, 2018. The Agency is currently in the final stages of the contracting process that will ensure continued cost effective servicing of the SELF Loan Program while bringing increased technology and an enhanced borrower interface.

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Careful consideration was given to legislative goals and the Agency's mission when adopting the General Fund budget for fiscal year 2018. For fiscal year 2018, the private tuition maximums used in the state grant formula are a maximum of \$14,488 for students enrolled in four-year programs and \$5,790 for students enrolled in two-year programs. The living and miscellaneous expense allowance is set at \$9,135 for the upcoming fiscal year. Grant awards are based on the lesser of the average tuition and fees charged by the institution for the term or the maximum established by law. If the appropriation for either year of the biennium is insufficient, the appropriation for the other year is available for it.

The maximum annual award per eligible child for Postsecondary Child Care Grants is set at \$3,000 for the fiscal year 2018.

The MN Dream Act benefits are available for undocumented students who meet the eligibility requirements. Eligible students may receive in-state resident tuition rates at public colleges and universities; state financial aid; and privately funded financial aid through public colleges and universities.

The Minnesota GI Bill provides up to \$1,000 per term to eligible Minnesota resident students who are: veterans who have served in the U.S. armed forces at any time, spouses and dependents of veterans who have served in the U.S. armed forces at any time and who died or have a total and permanent disability as a direct result of their military service as well as non-veterans who have served in U.S. armed forces for a total of five years or more cumulatively and some part of that service is on or after September 11, 2001.

The Tribal College Supplemental Grant provides direct financial support to eligible tribal colleges in Minnesota to support the cost of providing higher education to students who are not members of a federally recognized American Indian tribe. Eligible tribal colleges can receive up to \$5,300 for each identified student on a full-time equivalent basis.

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 and, who has applied and is eligible for other existing state and federal scholarship and grant programs.

The MnSCU College Occupational Scholarship Pilot Program provides last dollar financial aid to recent high school, ABE, or GED graduates who are pursuing a Perkins-eligible certificate or associate's program in a "high need" program area as designated by the Department of Employment and Economic Development. This Pilot Program ends in fiscal year 2018.

The Spinal Cord and Traumatic Brain Injury Research Grant Program provides \$3 million for medical research grants over the biennium.

The Dual Training Competency Grants provide grants to institutions or programs that enter into agreements with employers to provide training to their employees. Competency standards are established in key occupations fields.

The Teacher Shortage Loan Repayment Program provides student loan repayment assistance to teachers providing classroom instruction in an identified teacher shortage area in Minnesota.

Funds were appropriated to the Office of Higher Education to improve and expand the Statewide Longitudinal Education System to provide policymakers, education and workforce leaders, researchers, and the public with data, research, and reports regarding students' educational outcomes and the effectiveness of educational and workforce programs.

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The Minnesota legislature, in May 2017, authorized new programs for the Agency to administer including:

- Emergency Assistance for Students to provide a matching grant program for institutions to provide emergency funding to students experiencing food and housing insecurities.
- Grants to Teacher Candidates provide grants to students who are in an approved teacher preparation program and who intend to teach in a shortage area after graduating and receiving their teaching license or belong to a racial or ethnic group underrepresented in the Minnesota teacher workforce.
- Agriculture Educators Loan Repayment Program provides student loan repayment assistance to qualifying teachers of Agriculture Education teaching in Minnesota.
- The 2009 Minnesota legislature created a Large Animal Veterinarian's Loan Forgiveness Program for large animal veterinarians who practice in designated rural areas that are considered underserved; and work full time in a practice that is at least 50 percent involved with the care of food animals. The 2017 legislature once again provided funding for this program.
- Aviation Loan Forgiveness provides student loan relief to pilots and aircraft technicians.
- Intellectual & Developmental Disabilities Grant provides financial assistance to students with intellectual and developmental disabilities that attend a Minnesota postsecondary institution.
- Loan Repayment Assistance Program provides debt relief to attorneys who provide representation or legal support to low-income clients. The funding will be transferred to the Loan Repayment Assistance Program of Minnesota.
- Minnesota Life College funding will be transferred to the Minnesota Life College (program for individuals on the autism spectrum) for need-based scholarships and tuition reduction.
- Sexual Violence Prevention & Outreach funds a position within the Agency that will be a statewide resource providing professional development and guidance on best practices for postsecondary institutions on campus sexual violence prevention and response.

The Agency's cash and investment balance increased by \$36 million and the loans receivable – net balance decreased \$22.1 million. Current outstanding bonds rely on the Loan Capital Fund for the payment of various bond fees, student loan servicing costs, reimbursement of defaulted loans, and administrative expenses.

**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 POSITION As of June 30, 2017

	Governmental Activities	Business- type Activities	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 15,550,646	\$ 171,945,108	\$ 187,495,754
Receivables			
Accounts	167,497	560,741	728,238
Interest	-	2,138,805	2,138,805
Loans receivable - net	-	85,614,910	85,614,910
Due from other governments	1,139,877	-	1,139,877
Total Current Assets	<u>16,858,020</u>	<u>260,259,564</u>	<u>277,117,584</u>
<b>NONCURRENT ASSETS</b>			
Restricted cash and investments	-	244,503,260	244,503,260
Loans receivable - net	-	450,985,952	450,985,952
Total Noncurrent Assets	<u>-</u>	<u>695,489,212</u>	<u>695,489,212</u>
<b>Total Assets</b>	<u>16,858,020</u>	<u>955,748,776</u>	<u>972,606,796</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related amounts	8,610,835	2,277,165	10,888,000
Total Deferred Outflows of Resources	<u>8,610,835</u>	<u>2,277,165</u>	<u>10,888,000</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	3,230,237	868,018	4,098,255
Accrued liabilities	269,824	55,993	325,817
Accrued interest	-	1,072,950	1,072,950
Due to other governments	42,673	-	42,673
Due to primary government - unspent appropriations	279,694	-	279,694
Compensated absences payable	32,546	18,649	51,195
Revenue bonds payable	-	4,255,000	4,255,000
Total Current Liabilities	<u>3,854,974</u>	<u>6,270,610</u>	<u>10,125,584</u>
<b>NONCURRENT LIABILITIES</b>			
Revenue bonds payable	-	463,962,895	463,962,895
Compensated absences payable	332,463	133,812	466,275
Net pension liability	12,255,741	3,293,259	15,549,000
Total Noncurrent Liabilities	<u>12,588,204</u>	<u>467,389,966</u>	<u>479,978,170</u>
<b>Total Liabilities</b>	<u>16,443,178</u>	<u>473,660,576</u>	<u>490,103,754</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned revenue	6,282,628	-	6,282,628
Pension related amounts	840,733	294,267	1,135,000
Total Deferred Inflows of Resources	<u>7,123,361</u>	<u>294,267</u>	<u>7,417,628</u>
<b>NET POSITION</b>			
Restricted for administration and financial aid programs	5,721,923	-	5,721,923
Restricted for debt service	-	484,071,098	484,071,098
Unrestricted (deficit)	<u>(3,819,607)</u>	<u>-</u>	<u>(3,819,607)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,902,316</u>	<u>\$ 484,071,098</u>	<u>\$ 485,973,414</u>

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF ACTIVITIES For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	Totals
Governmental Activities						
Administration and financial aid programs	\$ 247,277,202	\$ 742,053	\$ 249,140,251	\$ 2,605,102	\$ -	\$ 2,605,102
Federal grants	4,207,520	-	3,539,973	(667,547)	-	(667,547)
Total Governmental Activities	<u>251,484,722</u>	<u>742,053</u>	<u>252,680,224</u>	<u>1,937,555</u>	<u>-</u>	<u>1,937,555</u>
Business-type Activities						
Loan capital fund	<u>11,162,067</u>	<u>24,604,152</u>	<u>-</u>	<u>-</u>	<u>13,442,085</u>	<u>13,442,085</u>
Totals	<u>\$ 262,646,789</u>	<u>\$ 25,346,205</u>	<u>\$ 252,680,224</u>			
Investment income				<u>-</u>	<u>2,453,851</u>	<u>2,453,851</u>
<b>Change in Net Position</b>				<u>1,937,555</u>	<u>15,895,936</u>	<u>17,833,491</u>
NET POSITION (DEFICIT) - Beginning of Year				<u>(35,239)</u>	<u>468,175,162</u>	<u>468,139,923</u>
<b>NET POSITION - END OF YEAR</b>				<u>\$ 1,902,316</u>	<u>\$ 484,071,098</u>	<u>\$ 485,973,414</u>

See accompanying notes to financial statements.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## BALANCE SHEET GOVERNMENTAL FUNDS As of June 30, 2017

	General	Other Governmental Funds	Totals
<b>ASSETS</b>			
Cash and investments	\$ 8,708,524	\$ 6,842,122	\$ 15,550,646
Accounts receivable	90,864	76,633	167,497
Due from other governments	<u>437,428</u>	<u>702,449</u>	<u>1,139,877</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,236,816</u>	<u>\$ 7,621,204</u>	<u>\$ 16,858,020</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 2,530,265	\$ 699,972	\$ 3,230,237
Accrued liabilities	144,229	125,595	269,824
Due to other governments	-	42,673	42,673
Due to primary government - unspent appropriations	<u>279,694</u>	<u>-</u>	<u>279,694</u>
Total Liabilities	<u>2,954,188</u>	<u>868,240</u>	<u>3,822,428</u>
Deferred Inflows of Resources			
Unearned revenue	<u>6,282,628</u>	<u>-</u>	<u>6,282,628</u>
Total Deferred Inflows of Resources	<u>6,282,628</u>	<u>-</u>	<u>6,282,628</u>
Fund Balances			
Restricted for administration and financial aid programs	-	5,721,923	5,721,923
Assigned	<u>-</u>	<u>1,031,041</u>	<u>1,031,041</u>
Total Fund Balances	<u>-</u>	<u>6,752,964</u>	<u>6,752,964</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 9,236,816</u>	<u>\$ 7,621,204</u>	<u>\$ 16,858,020</u>

See accompanying notes to financial statements.

## MINNESOTA OFFICE OF HIGHER EDUCATION

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION As of June 30, 2017

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Total fund balance - governmental funds	\$ 6,752,964
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Amounts reported for governmental activities in the statement of net position  
are different because:

Some deferred outflows of resources and deferred inflows of resources  
do not relate to current financial resources and are not reported in the  
fund statements. These consist of:

Deferred outflow - pension related amounts	8,610,835
Deferred inflow - pension related amounts	(840,733)

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	(365,009)
Net pension liability	<u>(12,255,741)</u>

<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 1,902,316</u></b>
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# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2017

	General	Other Governmental Funds	Totals
<b>REVENUES</b>			
State appropriations	\$ 243,797,111	\$ 5,343,140	\$ 249,140,251
Federal grants	-	3,539,973	3,539,973
Registration and licensing fees	-	372,505	372,505
Other revenue	-	369,548	369,548
Total Revenues	<u>243,797,111</u>	<u>9,625,166</u>	<u>253,422,277</u>
<b>EXPENDITURES</b>			
Administration and financial aid programs	243,797,111	2,472,412	246,269,523
Federal grants	-	3,539,973	3,539,973
Total Expenditures	<u>243,797,111</u>	<u>6,012,385</u>	<u>249,809,496</u>
<b>Excess of revenues over expenditures</b>	-	3,612,781	3,612,781
FUND BALANCE - Beginning of Year	<u>-</u>	<u>3,140,183</u>	<u>3,140,183</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 6,752,964</u>	<u>\$ 6,752,964</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, 2017

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Net change in fund balances - total governmental funds	\$ 3,612,781
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Amounts reported for governmental activities in the statement of activities  
are different because:

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	33,549
Net pension liability	(10,811,152)
Deferred outflows of resources related to pensions	8,120,624
Deferred inflows of resources related to pensions	<u>981,753</u>

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 1,937,555</u></b>
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## MINNESOTA OFFICE OF HIGHER EDUCATION

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND For the Year Ended June 30, 2017

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**OPERATING REVENUES**

Interest on student loans	<u>\$ 24,604,152</u>
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**OPERATING EXPENSES**

General and administrative	7,977,780
Provision for loans losses - net	<u>(2,380,107)</u>
Total Operating Expenses	<u>5,597,673</u>

Operating Income	<u>19,006,479</u>
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**NONOPERATING REVENUES (EXPENSES)**

Investment income	2,453,851
Interest expense	<u>(5,564,394)</u>
Total Nonoperating Revenues (Expenses)	<u>(3,110,543)</u>

<b>CHANGE IN NET POSITION</b>	15,895,936
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NET POSITION - Beginning of Year	<u>468,175,162</u>
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<b>NET POSITION - END OF YEAR</b>	<u>\$ 484,071,098</u>
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# MINNESOTA OFFICE OF HIGHER EDUCATION

## STATEMENT OF CASH FLOWS PROPRIETARY (ENTERPRISE) FUND - LOAN CAPITAL FUND For the Year Ended June 30, 2017

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from loan holders	\$ 125,272,201
Cash paid for loan origination	(75,757,381)
Cash paid to employees and suppliers	<u>(7,752,910)</u>
Net Cash Flows From Operating Activities	<u>41,761,910</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(89,590,778)
Proceeds from maturity of investments	89,657,278
Interest received from investments	<u>2,266,442</u>
Net Cash Flows From Investing Activities	<u>2,332,942</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Bond redemption	(3,045,000)
Interest paid on bonds	<u>(5,456,910)</u>
Net Cash Flows From Noncapital Financing Activities	<u>(8,501,910)</u>

Net Increase in Cash and Cash Equivalents	35,592,942
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CASH AND CASH EQUIVALENTS - Beginning of Year	<u>350,892,073</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 386,485,015</u>
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### RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and investments per Statement of Net Position	\$ 171,945,108
Restricted cash and investments per Statement of Net Position	244,503,260
Less: Non-cash equivalents	<u>(29,963,353)</u>

CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS	<u>\$ 386,485,015</u>
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### RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income	\$ 19,006,479
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities	
Noncash items included in income/expense	
Provision for loan loss	3,917,067
Write-off of loans	(4,277,024)
Increase in net pension liability	2,854,848
Increase (decrease) in fair value of investments	(61,387)
Origination of student loans	(75,757,381)
Principal payments on student loans	98,222,391
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Interest receivable	76,234
Other receivables	73,045
Deferred outflows - pension related amounts	(2,143,376)
Accounts payable and accruals	110,261
Deferred inflows - pension related amounts	<u>(259,247)</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 41,761,910</u>
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### NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES

None.

See accompanying notes to financial statements.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## INDEX TO NOTES TO THE FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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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 Commissioner, 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 position and statement of activities display information about the reporting government entity 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures/expenses.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

---

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

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

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.

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/deferred outflows of resources, liabilities/deferred inflows of resources, 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.

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 research and 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, SELF IV, SELF V and SELF Refi) 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.

Special Revenues and Gifts Fund (Federal grants passed through other entities, certain state appropriations, gifts, and licensing)

Federal Grant Fund (Direct federal grants)

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

---

### NOTE I – 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 position 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.

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 unavailable revenues. Amounts received prior to the entitlement period are also recorded as deferred inflows.

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.

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

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

---

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

---

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

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

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Loan Capital Fund is payment of interest on student loans. Operating expenses for the proprietary fund include administrative expenses and provision for loan losses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### ***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, deferred outflows of resources, liabilities, and deferred inflows of resources 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, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION 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. 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 methods and inputs as outlined in Note II.A. 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 II.A for further information.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

---

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

---

#### ***D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

##### ***3. 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.

##### ***4. Capital Assets***

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

Capital assets, which include 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 position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The Agency had no capital assets at year-end.

###### ***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.

##### ***5. Deferred Outflows of Resources***

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

---

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

---

#### ***D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)***

##### ***6. 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, of continuous State of Minnesota service (depending on employment contract terms) 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 275 to 280 hours (depending on employment contract terms), except in the case of death.

Accumulated sick leave and vacation time liabilities at June 30, 2017 are determined on the basis of current salary rates.

##### ***7. 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, accrued compensated absences, and net pension liability.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face values of debts (plus any premiums) are reported as other financing sources, discounts are reported as other financing uses, 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 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 balance at year end for premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for gains/losses is shown as a deferred outflow/inflow in the statement of net position.

The Agency is restricted on the amount of interest that can be earned on loans pledged as collateral to nontaxable bonds compared to interest expense. This limit is 2% and in the current year, the yield did not exceed this limit. An arbitrage liability was not recorded.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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#### ***D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)***

##### ***8. Deferred Inflows of Resources***

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

##### ***9. Equity Classifications***

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

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

- a. Net investment in capital assets – 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 position – Consists of net position 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 position – All other net positions that do not meet the definitions of “restricted” or “net investment in capital assets.”

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 and displayed 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.
- 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 Commissioner. 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 Commissioner that originally created the commitment.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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***D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)***

***9. Equity Classifications (cont.)***

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

- d. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. The Commissioner may take official action to assign amounts for a specific purpose. 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.

Proprietary fund equity is classified the same as in the government-wide statements.

The Agency considers restricted amounts to be spent first when both restricted and unrestricted fund balances are 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.

***10. Pension***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS' fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

### NOTE II – DETAILED NOTES ON ALL FUNDS

#### 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	\$ 246,055,522	\$ 245,991,813	None
Demand deposits	168,957	193,151	Custodial credit risk
Commercial paper	29,963,353	29,963,353	Credit, custodial credit, concentration of credit, and interest rate risks
Pooled cash held by State Treasury	<u>155,811,182</u>	<u>155,811,182</u>	N/A
Total Cash and Investments	<u>\$ 431,999,014</u>	<u>\$ 431,959,499</u>	
Reconciliation to financial statements			
Per statement of net position			
Cash and investments	\$ 187,495,754		
Restricted cash and investments	<u>244,503,260</u>		
Total Cash and Investments	<u>\$ 431,999,014</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit 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.

Deposits in accounts at U.S. Bank are also secured by a \$2,000,000 Federal Home Loan Bank letter of credit.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

##### ***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, 2017, the Agency did not have any financial institution 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, 2017, the Agency did not have any 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, 2017, the Agency's investments in commercial paper were rated as follows:

<u>Commercial Paper</u>	<u>S&amp;P</u>	<u>Moody's</u>
Abbey National	A-1	P-1
Bank of Tokyo – Mitsubishi	A-1	P-1

##### ***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, 2017, the Agency's investment in Bank of Tokyo – Mitsubishi commercial paper was 7.24% of the Agency's total investments.

##### ***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, 2017, the Agency's investment of commercial paper had a fair value of \$29,963,353 and a weighted average maturity of .50 years.

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

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

##### Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The market approach valuation method is used for recurring fair value measurements of the commercial paper.

Investment Type	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 29,963,353	\$ -	\$ 29,963,353

#### 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:

Fund	Gross Receivables	Allowance For Uncollectibles	Net Receivables	Amounts Not Expected to Be Collected Within One Year
General	\$ 528,292	\$ -	\$ 528,292	\$ -
Loan Capital	548,027,179	8,726,771	539,300,408	450,985,952
Nonmajor Funds	779,082	-	779,082	-

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 17.3% of the balance is expected to be collected during fiscal year 2018.

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 2.50% as of June 30, 2017.

SELF III loans are no longer being issued by the Agency. The interest rate on the loans is equal to the three month average of the London InterBank Offered Rate (LIBOR) plus a current margin of 2.4%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.5% as of June 30, 2017.

SELF IV loans are no longer being issued by the Agency. The interest rate on the loans is equal to the three month average of LIBOR, plus a current margin of 2.4%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.5% as of June 30, 2017.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

SELF V variable rate 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 three month average of LIBOR, plus a current margin of 2.4%. The interest rate cannot change more than three percentage points in any four consecutive calendar quarters. The rate was 3.5% as of June 30, 2017.

SELF V fixed rate loans, offered for the first time in October 2010 at a rate originally set at 7.25%, are made to students who meet the eligibility requirements set forth by the Agency. On May 20, 2013; April 1, 2015; and August 1, 2016 the fixed rate for new loans was lowered to 6.9%, 6.5%, and 6.0%, respectively. The interest rate will not change over the life of the loan. The Agency has the option to offer a different fixed rate to future borrowers.

SELF Refi variable rate loans, offered for the first time January 2016 at rates ranging from 3.00% - 4.35% based on repayment term, are made to borrowers who have graduated or obtained a certificate of completion and meet other eligibility requirements set forth by the Agency. The interest rate on the loans is equal to the three month average of the one-month LIBOR, plus a current margin ranging from 2.70% - 4.25%. The rates ranged from 3.50% - 4.85% on June 30, 2017.

SELF Refi fixed rate loans, offered for the first time January 2016 at rates ranging from 4.50% - 6.95% based on repayment term, are made to borrowers who have graduated or obtained a certificate of completion and meet other eligibility requirements set forth by the Agency. On October 1, 2016, the fixed rates for new loans were lowered to a range of 4.25% - 6.75%. The interest rate will not change over the life of the loan. The Agency has the option to offer different fixed rates to future borrowers.

Repayment of interest for SELF loans begins within 90 days after disbursement and is due quarterly thereafter. Principal payments begin no later than 36 months after graduation or when the borrower drops below less than half time enrollment. The balance of all SELF loans at June 30, 2017 was \$545,327,633.

All SELF loans are unsecured. However, the Agency does require a credit worthy cosigner on each SELF II, III, IV, and V loan. For SELF Refi loans, if a borrower meets the minimum credit score and debt to income ratio, a cosigner is not required. For all SELF loans and SELF Refi loans, the Agency is able to intercept state tax refunds for both borrower and cosigner (where applicable) in the event of default in addition to other collection methods.

An allowance for uncollectible SELF II, SELF III, SELF IV, SELF V, and SELF Refi 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. The Loan Capital Fund provides for loan losses sufficient to maintain the total balance in the allowance at a level equal to 1.6% of the total outstanding loan balance and also designates restricted cash equal to the balance of the allowance. Recoveries on defaulted SELF loans are credited to the Loan Capital Fund as revenue in the year received.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

The activity for the allowance for uncollectible loans on all loan types for the year ended June 30, 2017 is as follows:

Beginning balance	\$ 9,086,728
Provision for loan losses	3,917,067
Write-off of loans	<u>(4,277,024)</u>
Ending Balance	<u>\$ 8,726,771</u>

Recovery on defaulted loans of \$6,297,174 for the year ended June 30, 2017 is recognized as a reduction in the provision for loan losses.

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

The following represent the balances of the restricted assets:

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

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.

##### ***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 loans and SELF Refi loans. This fund is replenished quarterly.

Following is a list of restricted assets (long term debt and bad debt reserve accounts) at June 30, 2017:

	<u>Restricted Assets</u>
Revenue account	\$ 10,406,589
Surplus account	213,078,511
Debt service reserve account	12,291,389
Bad debt reserve account	<u>8,726,771</u>
Total Restricted Assets	<u>\$ 244,503,260</u>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

#### D. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Other Liabilities					
Vested compensated absences	\$ 398,558	\$ 326,079	\$ 359,628	\$ 365,009	\$ 32,546
Net pension liability	<u>1,444,589</u>	<u>10,811,152</u>	<u>-</u>	<u>12,255,741</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 1,843,147</u>	<u>\$ 11,137,231</u>	<u>\$ 359,628</u>	<u>\$ 12,620,750</u>	<u>\$ 32,546</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
Revenue bonds	\$ 471,015,000	\$ -	\$ 3,045,000	\$ 467,970,000	\$ 4,255,000
Add/(Subtract) Amounts For: (Discounts)/Premiums	<u>415,191</u>	<u>-</u>	<u>167,296</u>	<u>247,895</u>	<u>-</u>
Subtotal	<u>471,430,191</u>	<u>-</u>	<u>3,212,296</u>	<u>468,217,895</u>	<u>4,255,000</u>
Other Liabilities					
Vested compensated absences	167,813	82,116	97,468	152,461	18,649
Net pension liability	<u>438,411</u>	<u>2,854,848</u>	<u>-</u>	<u>3,293,259</u>	<u>-</u>
Subtotal	<u>606,224</u>	<u>2,936,964</u>	<u>97,468</u>	<u>3,445,720</u>	<u>18,649</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 472,036,415</u>	<u>\$ 2,936,964</u>	<u>\$ 3,309,764</u>	<u>\$ 471,663,615</u>	<u>\$ 4,273,649</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 \$467,970,000.

Series 2008, 2010, 2011, and 2012 Supplemental Student Loan Program Revenue Bonds were issued to provide SELF student loans to borrowers.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

	Date of Issue	Final Maturity	Interest Rate as of 6-30-17	Interest Rates Reset (days)	Original Indebted- ness	Balance 6-30-17
<u>Supplemental Student Loan Program Variable Rate Revenue Bonds</u>						
Series 2008A taxable revenue bonds	Dec 08	Dec 43	1.20%	7	\$ 66,700,000	\$ 66,700,000
Series 2008B revenue bonds	Dec 08	Dec 43	.94	7	33,300,000	33,300,000
Series 2011A revenue bonds	Oct 11	Oct 46	.94	7	35,000,000	35,000,000
Series 2011B revenue bonds	Oct 11	Oct 46	.94	7	50,000,000	50,000,000
Series 2012B revenue bonds	Sept 12	Aug 47	1.44	30	270,800,000	224,000,000
<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	21,570,000
Series 2012B revenue bonds	Sept 12	May 38	2.58	n/a	37,400,000	<u>37,400,000</u>
Total Business-type Activities Revenue Bonds						<u>\$ 467,970,000</u>

Annual debt service requirements to maturity for revenue bonds, including interest at June 30, 2017 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>
2018	\$ 4,255,000	\$ 6,662,710	\$ 10,917,710
2019	4,905,000	6,449,636	11,354,636
2020	4,600,000	6,203,773	10,803,773
2021	4,185,000	5,986,523	10,171,523
2022	3,625,000	5,819,123	9,444,123
2023 - 2027	-	28,370,614	28,370,614
2028 - 2032	-	28,370,614	28,370,614
2033 - 2037	27,100,000	28,370,614	55,470,614
2038 - 2042	134,300,000	24,216,048	158,516,048
2043 - 2047	185,000,000	13,417,140	198,417,140
2048	<u>100,000,000</u>	<u>1,439,060</u>	<u>101,439,060</u>
Totals	<u>\$ 467,970,000</u>	<u>\$ 155,305,855</u>	<u>\$ 623,275,855</u>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

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 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A bonds and Series 2011B bonds cannot exceed 12%. The interest on the Series 2011A bonds and Series 2011B bonds is paid semi-annually. No principal payments are required until final maturity on the Series 2011A bonds and Series 2011B 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 4.89% for the year ended June 30, 2017.

The rates on the tax-exempt Series 2012B bonds are both fixed rate and variable rate. For the fixed rate bonds, the rate is set at 2.58%. For the variable rate bonds, the rate is a percentage of the one-month LIBOR plus a set margin and the rate changes monthly. The bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

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 unsecured irrevocable direct-pay letters of credit as additional collateral for the Series 2008A, 2008B, 2011A, and 2011B bonds. The fees to maintain these letters of credit are calculated as 0.85% for the Series 2008A, 2008B, 2011A, and 2011B 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 letters of credit and remarketing fees of \$1,854,151 for the year ended June 30, 2017. The letters of credit for the Series 2008A, 2008B, 2011A, and 2011B bonds expire October 1, 2017.

There is no additional collateral maintained for the Series 2010 and 2012B bonds.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

The Series 2008A, 2008B, 2011A, and 2011B bonds require the Agency 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 \$3,700,000 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 \$4,905,000 and the Agency met this requirement. The Series 2012B bonds require the Agency to maintain a debt service account equal to 1% of the outstanding revenue bond balance. The amount required to be on deposit at year end is \$2,614,000 and the Agency met this requirement. There are a number of other limitations and restrictions contained in the various bond indentures (see also Note II.C.). The Agency believes it is in compliance with all significant limitations and restrictions.

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 2008A and 2008B bonds, the Agency must give written notice to exercise its option to redeem bonds not less than 15 days but not 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. For the Series 2011A and 2011B tax-exempt bonds, the Agency must give written notice to exercise its option to redeem bonds not less than 15 days, but not greater than 60 days, prior to the redemption date. For the Series 2012B bonds, the Agency must receive the written consent of the credit provider or bank purchaser, as applicable, prior to an optional redemption. The Agency must also pay a fee to the bank purchaser in connection with each optional redemption prior to the second anniversary of the effective date of the Continuing Covenant Agreement.

On July 18, 2017, the Agency issued three supplemental student loan program revenue bonds totaling \$185,000,000: 2017A taxable variable rate bonds in the amount of \$66,700,000; 2017B tax exempt rate bonds in the amount of \$60,000,000; and 2017C tax exempt variable rate bonds in the amount of \$58,300,000. These three bond issues combined will be used to refinance the 2008A, 2008B, 2011A, and 2011B revenue bonds.

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

The \$401,270,000 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 plus 2% must be remitted to the U.S. government not more than five years following the issue date of the bonds. As of June 30, 2017, the Agency accrued no liability resulting from the excess yield on interest rates.



# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

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

Estimated payments of vested compensated absences and net pension liability are not included in the debt service requirement schedules. These liabilities that are attributable to governmental activities will be liquidated by the general, special revenue and gifts, and federal grant funds. See Note III.A for additional disclosures related to the net pension liability.

#### ***E. NET POSITION***

Certain net positions are classified in the statement of net position as restricted because their use is limited. The business-type activities report restricted net position for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of June 30, 2017, the business-type activities restricted net position is restricted for debt service.

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

##### Years Ending June 30,

2017	\$ 575,000,000
2018	600,000,000
2019	625,000,000
2020	650,000,000
2021	675,000,000
2022	700,000,000
2023	725,000,000
2024 and thereafter	750,000,000

As the Agency's net position is less than the required minimum per the bond covenants, the entire net position is shown as restricted for Loan Capital Fund use, as required in the bond financial covenants.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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### NOTE III – OTHER INFORMATION

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#### **A. PENSION**

##### ***Plan Description***

The State Employees Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS), and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan.

MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at [www.msrs.state.mn.us/financial-information](http://www.msrs.state.mn.us/financial-information); by writing to MSRS at 60 Empire Drive, Suite 300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

##### ***Benefits Provided***

MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of the high-five average salary for each of the first 10 years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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#### A. *PENSION* (cont.)

##### ***Contributions***

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.5 percent of their annual covered salary in fiscal year 2016. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2017 was \$215,688. These contributions were equal to the contractually required contributions as set by state statute.

##### ***Actuarial Assumptions***

The Agency's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality tables projected with mortality improvement scale MP-2015 from a base year of 2014. Benefit increases for retirees are assumed to be 2.0 percent every January 1st indefinitely.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies for the period July 1, 2008, through June 30, 2014, with an update of economic assumptions in the fall of 2014.

The long-term expected rate of return on pension plan investments is 7.5 percent. This is a reduction from the assumed rate of 7.9 percent in fiscal year 2015. The earlier rate assumption was selected as the result of a 2014 actuarial review of economic assumptions. The review combined the SBI's asset class target allocations and long-term rate of return expectation with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns. All calculations in the review were made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

#### A. PENSION (cont.)

##### **Actuarial Assumptions** (cont.)

The SBI, which manages the investments of MSRS, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

##### **Discount Rate**

The discount rate used to measure the total pension liability as of June 30, 2016, was 4.17 percent. The projection of cash flows used to determine the single discount rates assumes that plan member and employer contributions will be made at the current statutory contribution rates. Based on that assumption, the pension plan's fiduciary net position at June 30, 2016, was projected to be insufficient to finance the projected future benefit payments of current plan members. Therefore, a single discount rate was applied, which blends the long-term expected rate of return on pension plan investments (7.5 percent) with the tax-exempt municipal bond rate, based on an index of 20-year general obligation bonds with an average AA credit rating (2.85 percent). This single discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return was used to project benefit payments through fiscal year 2042 and the municipal bond rate was used in all of the following years, resulting in the single blended rate of 4.17 percent. This is a change from the previous fiscal year, when the single blended rate was 7.90 percent.

##### **Net Pension Liability**

At June 30, 2017, the Agency reported a liability of \$15,549,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2016, the Agency's proportion was .16806 percent.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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#### A. *PENSION* (cont.)

##### *Net Pension Liability* (cont.)

There were no changes of benefit terms for any participating employer in the Minnesota State Retirement System.

The following changes in actuarial assumptions occurred in 2016:

- > Assumed salary increase rates were changed to rates that average 0.2 percent greater than the previous rates.
- > Assumed rates of retirement were changed, resulting in fewer unreduced retirements and fewer Rule of 90 retirements. Distinct rates for reduced (Early) retirements were adopted for members hired prior to July 1, 1989, and members hired after June 30, 1989.
- > Assumed rates of termination were changed, with new rates generally greater than the previous rates for years 3 through 9 and less than the previous rates after 15 years.
- > Assumed rates of disability for females were reduced to 75 percent of previous rates. Rates for male members were lowered by utilizing the same disability rates as for females.
- > The base mortality table for healthy annuitants and employees was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2014), white collar adjustments, with age adjustments. The mortality improvement scale was changed from Scale AA to Scale MP-2015. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table (no projection for future mortality improvement) to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2015), with age adjustments.
- > The percent married assumption was changed from 85 percent of active male members and 70 percent of female members to 80 percent of active male members and 65 percent of active female members.
- > The assumed number of married male new retirees electing the 75 percent Joint & Survivor option changed from 10 percent to 15 percent. The assumed number of married female new retirees electing the 75 percent and 100 percent Joint & Survivor options changed from 0 percent to 10 percent and from 25 percent to 30 percent, respectively. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- > The assumed post-retirement benefit increase rate was changed from 2.0 percent per year through 2043 and 2.5 percent per year thereafter, to 2.0 percent per year for all future years.
- > The long-term expected rate of return on pension plan investments was changed from 7.9 percent to 7.5 percent.
- > The single discount rate changed from 7.9 percent to 4.17 percent.
- > The inflation assumption was changed from 2.75 percent to 2.50 percent.
- > The payroll growth assumption was changed from 3.50 percent to 3.25 percent.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

#### A. PENSION (cont.)

##### *Pension Liability Sensitivity*

The following presents the Agency's proportionate share of the net pension liability, calculated using the discount rate disclosed in the discount rate paragraph above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (3.17%)	Discount Rate (4.17%)	1% Increase in Discount Rate (5.17%)
Agency's proportionate share of the net pension liability:	\$20,500,000	\$15,549,000	\$11,568,000

##### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website ([www.msrs.state.mn.us/financial-information](http://www.msrs.state.mn.us/financial-information)).

##### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2017, the Agency recognized pension expense of \$2,161,000. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,000	\$ 393,000
Changes of assumptions	9,943,000	741,000
Net difference between projected and actual earnings on investments	684,000	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	42,000	1,000
Contributions paid to MSRS subsequent to the measurement date	198,000	-
Totals	<u>\$ 10,888,000</u>	<u>\$ 1,135,000</u>

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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#### A. PENSION (cont.)

##### ***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)***

Amounts reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 2,186,000
2019	2,188,000
2020	2,561,000
2021	2,620,000

#### 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

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 proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

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.

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. 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.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 30, 2017

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

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

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 81, *Irrevocable Split-Interest Agreements*
- > Statement No. 83, *Certain Asset Retirement Obligations*
- > Statement No. 84, *Fiduciary Activities*
- > Statement No. 85, *Omnibus 2017*
- > Statement No. 86, *Certain Debt Extinguishment Issues*
- > Statement No. 87, *Leases*

When they become effective, application of these standards may restate portions of these financial statements.



## REQUIRED SUPPLEMENTARY INFORMATION

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
General Administration	\$ 2,564,000	\$ 2,698,359	\$ 2,698,359	\$ -
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
Student Loan Debt Counseling	150,000	155,817	155,817	-
Addiction Medicine Fellowship	210,000	105,000	105,000	-
American Indian Scholarship	3,500,000	3,089,503	3,089,503	-
Tribal College Grant	150,000	160,080	160,080	-
State Grant Program	182,281,000	186,614,340	186,614,340	-
Child Care Grants	6,684,000	5,958,343	5,958,343	-
Safety Officer Survivors	100,000	79,738	79,738	-
Summer Academic Enrichment	100,000	100,000	100,000	-
Interstate Reciprocity	11,018,000	13,325,081	13,325,081	-
State Work Study	14,502,000	14,402,554	14,402,554	-
MNSCU Two-Year Public College Program - Grants	3,993,000	3,758,138	3,758,138	-
MNSCU Two-Year Public College Program - Mentoring	782,000	775,000	775,000	-
MNSCU Two-Year Public College Program - Admin.	-	53,993	53,993	-
Teacher Shortage Loan Forgiveness	2,200,000	-	-	-
MN GI Bill Program	1,600,000	1,515,502	1,515,502	-
MN GI Bill Administration	106,658	93,755	93,755	-
Student Parent Information	122,000	108,332	108,332	-
MN Education Equity Partnership	45,000	-	-	-
Get Ready	180,000	1,418,362	1,418,362	-
Intervention College Attendance	671,000	649,071	649,071	-
Statewide Longitudinal Data	882,000	349,133	349,133	-
College Possible	250,000	250,000	250,000	-
Equity in Postsecondary Education	500,000	122,000	122,000	-
Student Employer Information System	500,000	500,000	500,000	-
Midwest Compact	115,000	115,000	115,000	-
United Family Practice	501,000	501,000	501,000	-
HCMC Program	645,000	483,750	483,750	-
Spinal Cord & Traumatic Brain Injury Research Grants	500,000	310,327	310,327	-
Campus Sexual Assault Reporting	25,000	24,500	24,500	-
Dual Training Competency Grants: OHE	2,000,000	-	-	-
Dual Training Competency				
Grants: DOLI (Department of Labor & Industry)	200,000	-	-	-
Concurrent Enrollment Courses - New	225,000	132,765	132,765	-
Concurrent Enrollment Courses - Existing	115,000	42,668	42,668	-
Total Revenues	<u>243,321,658</u>	<u>243,797,111</u>	<u>243,797,111</u>	<u>-</u>

See independent auditors' report and accompanying notes to required supplementary information.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
General Administration	\$ 2,564,000	\$ 2,970,469	\$ 2,698,359	\$ 272,110
MN Link Gateway and Minitex Library	5,905,000	5,905,000	5,905,000	-
Student Loan Debt Counseling	150,000	155,817	155,817	-
Addiction Medicine Fellowship	210,000	210,000	105,000	105,000
American Indian Scholarship	3,500,000	3,119,211	3,089,503	29,708
Tribal College Grant	150,000	160,080	160,080	-
State Grant Program	182,281,000	186,593,922	186,614,340	(20,418)
Child Care Grants	6,684,000	6,085,644	5,958,343	127,301
Safety Officer Survivors	100,000	79,738	79,738	-
Summer Academic Enrichment	100,000	100,000	100,000	-
Interstate Reciprocity	11,018,000	13,325,081	13,325,081	-
State Work Study	14,502,000	14,525,232	14,402,554	122,678
MNSCU Two-Year Public College Program - Grants	3,993,000	3,993,000	3,758,138	234,862
MNSCU Two-Year Public College Program - Mentoring	782,000	775,000	775,000	-
MNSCU Two-Year Public College Program - Admin.	-	125,012	53,993	71,019
Teacher Shortage Loan Forgiveness	2,200,000	-	-	-
MN GI Bill Program	1,600,000	1,540,282	1,515,502	24,780
MN GI Bill Administration	106,658	93,755	93,755	-
Student Parent Information	122,000	108,332	108,332	-
MN Education Equity Partnership	45,000	45,000	-	45,000
Get Ready	180,000	2,224,255	1,418,362	805,893
Intervention College Attendance	671,000	736,902	649,071	87,831
Statewide Longitudinal Data	882,000	349,133	349,133	-
College Possible	250,000	250,000	250,000	-
Equity in Postsecondary Education	500,000	475,000	122,000	353,000
Student Employer Information System	500,000	500,000	500,000	-
Midwest Compact	115,000	115,000	115,000	-
United Family Practice	501,000	501,000	501,000	-
HCMC Program	645,000	645,000	483,750	161,250
Spinal Cord & Traumatic Brain Injury Research Grants	500,000	701,394	310,327	391,067
Campus Sexual Assault Reporting	25,000	24,500	24,500	-
Dual Training Competency Grants: OHE	2,000,000	-	-	-
Dual Training Competency Grants: DOLI (Department of Labor & Industry)	200,000	-	-	-
Concurrent Enrollment Courses - New	225,000	161,699	132,765	28,934
Concurrent Enrollment Courses - Existing	115,000	48,535	42,668	5,867
Total Expenditures	<u>243,321,658</u>	<u>246,642,993</u>	<u>243,797,111</u>	<u>2,845,882</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (2,845,882)</u>	<u>\$ -</u>	<u>\$ 2,845,882</u>

See independent auditors' report and accompanying notes to required supplementary information.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## SCHEDULE OF AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY STATE EMPLOYEES RETIREMENT FUND (SERF) For the Year Ended June 30, 2017

SERF Fiscal Year End Date (Measurement Date)	Agency's Proportion of the Net Pension Liability	Agency's Proportionate Share of the Net Pension Liability	Agency's Covered Payroll	Agency's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/16	0.16806%	\$ 15,549,000	\$ 3,674,811	423.12%	47.51%
6/30/15	0.16390%	1,883,000	3,365,517	55.95%	88.32%
6/30/14	0.16080%	1,930,000	3,847,610	50.16%	87.64%

## SCHEDULE OF CONTRIBUTIONS STATE EMPLOYEES RETIREMENT FUND (SERF) For the Year Ended June 30, 2017

Agency Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/17	\$ 215,688	\$ 215,688	\$ -	\$ 4,064,510	5.31%
6/30/16	198,648	198,648	-	3,674,811	5.41%
6/30/15	182,084	182,084	-	3,365,517	5.41%

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2017

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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.

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, 2016) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2017) 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.

### ***MINNESOTA STATE RETIREMENT SYSTEM***

The amounts determined for each fiscal year were determined as of June 30 of the prior fiscal year.

The Agency is required to present the last 10 fiscal years of data; however accounting standards allow the presentation of as many years as are available until 10 fiscal years are presented.

*Changes in benefit terms.* There were no changes of benefit terms for any participating employer in the Minnesota State Retirement System.

## MINNESOTA OFFICE OF HIGHER EDUCATION

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2017

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#### **MINNESOTA STATE RETIREMENT SYSTEM (cont.)**

*Changes in assumptions.* The following changes in actuarial assumptions occurred in 2016:

- > Assumed salary increase rates were changed to rates that average 0.2 percent greater than the previous rates.
- > Assumed rates of retirement were changed, resulting in fewer unreduced retirements and fewer Rule of 90 retirements. Distinct rates for reduced (Early) retirements were adopted for members hired prior to July 1, 1989, and members hired after June 30, 1989.
- > Assumed rates of termination were changed, with new rates generally greater than the previous rates for years 3 through 9 and less than the previous rates after 15 years.
- > Assumed rates of disability for females were reduced to 75 percent of previous rates. Rates for male members were lowered by utilizing the same disability rates as for females.
- > The base mortality table for healthy annuitants and employees was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2014), white collar adjustments, with age adjustments. The mortality improvement scale was changed from Scale AA to Scale MP-2015. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table (no projection for future mortality improvement) to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2015), with age adjustments.
- > The percent married assumption was changed from 85 percent of active male members and 70 percent of female members to 80 percent of active male members and 65 percent of active female members.
- > The assumed number of married male new retirees electing the 75 percent Joint & Survivor option changed from 10 percent to 15 percent. The assumed number of married female new retirees electing the 75 percent and 100 percent Joint & Survivor options changed from 0 percent to 10 percent and from 25 percent to 30 percent, respectively. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- > The assumed post-retirement benefit increase rate was changed from 2.0 percent per year through 2043 and 2.5 percent per year thereafter, to 2.0 percent per year for all future years.
- > The long-term expected rate of return on pension plan investments was changed from 7.9 percent to 7.5 percent.
- > The single discount rate changed from 7.9 percent to 4.17 percent.
- > The inflation assumption was changed from 2.75 percent to 2.50 percent.
- > The payroll growth assumption was changed from 3.50 percent to 3.25 percent.

## **SUPPLEMENTARY INFORMATION**

# MINNESOTA OFFICE OF HIGHER EDUCATION

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS As of June 30, 2017

	Special Revenues and Gifts Fund	Federal Grant Fund	Totals
<b>ASSETS</b>			
Cash and investments	\$ 6,839,208	\$ 2,914	\$ 6,842,122
Accounts receivable	40,680	35,953	76,633
Due from other governments	67,583	634,866	702,449
<b>TOTAL ASSETS</b>	<b>\$ 6,947,471</b>	<b>\$ 673,733</b>	<b>\$ 7,621,204</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 139,703	\$ 560,269	\$ 699,972
Accrued liabilities	54,804	70,791	125,595
Due to other governments	-	42,673	42,673
Total Liabilities	194,507	673,733	868,240
Fund Balances			
Restricted for administration and financial aid programs	5,721,923	-	5,721,923
Assigned	1,031,041	-	1,031,041
Total Fund Balances	6,752,964	-	6,752,964
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,947,471</b>	<b>\$ 673,733</b>	<b>\$ 7,621,204</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, 2017

	Special Revenues and Gifts Fund	Federal Grant Fund	Totals
<b>REVENUES</b>			
State appropriations	\$ 5,343,140	\$ -	\$ 5,343,140
Federal grants	141,440	3,398,533	3,539,973
Registration and licensing fees	372,505	-	372,505
Other revenue	369,548	-	369,548
Total Revenues	<u>6,226,633</u>	<u>3,398,533</u>	<u>9,625,166</u>
<b>EXPENDITURES</b>			
Administration and financial aid programs	2,472,412	-	2,472,412
Federal grants	<u>141,440</u>	<u>3,398,533</u>	<u>3,539,973</u>
Total Expenditures	<u>2,613,852</u>	<u>3,398,533</u>	<u>6,012,385</u>
<b>Excess of revenues over expenditures</b>	3,612,781	-	3,612,781
FUND BALANCE - Beginning of Year	<u>3,140,183</u>	<u>-</u>	<u>3,140,183</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 6,752,964</u>	<u>\$ -</u>	<u>\$ 6,752,964</u>

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## APPENDIX B

### DEFINITIONS OF TERMS AND SUMMARY OF THE INDENTURE

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

#### CERTAIN DEFINITIONS

“*Academic Year*” means: (a) a period of time, typically eight or nine months, in which a full-time student is expected to complete the equivalent of at least two semesters, two trimesters, or three quarters at an Eligible Institution using credit hours; or (b) at least 900 clock hours of training for a program at an Eligible Institution using clock hours.

“*Account*” means any of the accounts created and established by the Indenture within any Fund.

“*Accountant*” means any independent certified public accountant selected by the Issuer.

“*Accountant’s Certificate*” means the report of an Accountant as to audits or other procedures called for by the General Indenture as the case may be, stating that the financial statements examined present fairly the financial position of the Issuer as of the end of a Fiscal Year, the results of the Issuer’s operations and changes in financial position for the period examined, in conformity with GAAP.

“*Acquisition Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Acquisition Fund*” in this Appendix B.

“*Act*” means Minnesota Statutes, Sections 136A.15 through 136A.1787, as amended.

“*Assignment*” means an agreement by the Issuer pledging Student Loans to the Trustee as collateral for any Bonds.

“*Authenticating Agent*” means the Trustee or any other Indenture Agent authorized in 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 Denomination(s)*” means \$5,000 or any integral multiple thereof unless otherwise specified in a Supplemental Indenture.

“*Authorized Representative*” means the Commissioner, the Chief Financial Officer or the Finance & Accountability Manager of the Issuer, or any other Person designated in writing by the Commissioner to act as the authorized representative of the Issuer.

“*Bailment Agreement*” means an agreement with a Servicer or Subservicer as bailee providing for the bailee to hold Notes and any related documentation on behalf of the Trustee for purposes of perfecting the security interest of the Trustee in the Student Loans pledged as collateral pursuant to an Assignment.

For purposes of the First Supplement, “*Bailment Agreement*” refers to the Bailment Agreement between the Issuer, the Trustee and the Servicer relating to the Student Loans.

“*Beneficial Owner*” means, when a Series is registered in the Book-Entry System, any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, a Securities Depository or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Bona Fide Debt Service Fund*” generally means a fund, which may include proceeds of the Series 2018 Bonds, that is used or expected to be used to pay debt service on the Series 2018 Bonds and that: (a) is used primarily to achieve a proper matching of revenues with principal and interest payments within each Bond Year; and (b) is depleted at least once each Bond Year, except for a carryover amount not to exceed the greater of: (i) the earnings on the fund for the immediately preceding Bond Year; or (ii) 1/12 of the principal and interest payments on the Series 2018 Bonds for the immediately preceding Bond Year.

“*Bond*” means one of the bonds authenticated and delivered under the Indenture, including any additional or refunding Bonds.

“*Bond Counsel*” means the firm of Fryberger, Buchanan, Smith & Frederick, P.A., of Duluth, Minnesota, or any other firm of attorneys designated by the Issuer and 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 a Series.

“*Bond Purchase Agreement*” with respect to a Series, means the agreement entered into between the Issuer and the Underwriter relating to the underwriting and purchase of such Series by the Underwriter.

“*Bond Register*” means the books of the Issuer in which the registration, transfer and exchange of the ownership of the Bonds is recorded and which are maintained by and kept at the Principal Office of the Registrar as further provided in the General Indenture.

“*Bond Year*” means, for each Series, unless otherwise provided in a Supplemental Indenture for such Series, the period ending on April 30 and each 12-month period thereafter, so long as any of the Bonds of that Series are Outstanding.

“*Book-Entry Form*” or “*Book-Entry System*” means a form or system under which (a) the beneficial right to principal and interest may be transferred only through a book entry, (b) 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, (c) the book entry is the record that identifies the owners of beneficial interests in that principal and interest, and (d) is the designated form or system for a Series in a Supplemental Indenture.

“*Borrower*” except as limited in a Supplemental Indenture with respect to a particular Series, means the Person or Persons entering into a Student Loan transaction with the Issuer under its Student Loan Program.

“*Borrower Benefits*” means a reduction in the interest rate on Student Loans in an amount consistent with the assumptions provided to the Rating Agency in conjunction with the issuance of the

Series 2018 Bonds or such greater amount as to which the Issuer has complied with the requirements of an Event Notification.

“*Business Day*” means any day other than a Saturday, Sunday or legal holiday on which banks in the State of New York, the State, or the city in which the Principal Office of the Trustee are authorized to close or are closed or rendered inoperable due to natural disaster, or on which the New York Stock Exchange is closed, as applicable.

“*By Class in Descending Priority*” means any treatment of Bonds or Owners according to the priority of the Class of such Bonds, regardless of Series. Whenever the General Indenture provides for the payment, consent, permission or direction by Owners “By Class in Descending Priority,” it means, as the context requires, that either (i) the Owners of the Highest Priority Bonds then Outstanding will be paid prior to the Owners of the lower priority Classes or (ii) the Owners in the particular percentage of ownership described of the Highest Priority 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 need be approved only by the Owners of the particular percentage of that Class except as otherwise provided in the General Indenture.

“*Capitalized Interest Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Capitalized Interest Fund*” in this Appendix B.

“*Cash Flow Projection*” means a projection as to future Revenues through the final maturity of the Outstanding Bonds based upon existing facts and assumptions accepted by each Rating Agency then rating any Bonds; provided that, to the extent that the Issuer has not received new assumptions with respect to a given Cash Flow Projection, such Cash Flow Projection shall be based, where appropriate, upon the assumptions used in connection with the most recent Cash Flow Projection furnished to the Rating Agencies.

“*Cede*” means Cede & Co., as nominee of The Depository Trust Company, New York, New York (together with any substitute Securities Depositories appointed under the First Supplement).

“*Certificate*” means a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters as required under the Indenture.

“*Class*” means a designation applicable to Bonds of a single Series, which establishes the security and order of payment of principal and interest from the Trust Estate, with Class I being of the highest priority and the order of priority descending as the Roman numeral identifying the Class increases. Only two Classes of Bonds are permitted by the General Indenture.

“*Class I Bonds*” means all Bonds secured under the Indenture on a priority senior to the Class II Bonds.

“*Class I Bonds Parity Ratio*” as of any date of calculation, means the ratio derived by dividing (a) the sum of the Value of (i) all Student Loans, and (ii) all cash and Investment Securities in the Funds and Accounts (excluding the Rebate Fund, the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds as provided under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Defeasance*” in this Appendix B), by (b) the sum of (i) the principal of and accrued interest on all Outstanding Class I Bonds, and (ii) all accrued but unpaid Program Expenses, together with any required late fees or interest thereon.

“*Class II Bonds*” means any Bonds secured under the Indenture on a priority subordinate to the Class I 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 under Section 103 and Sections 141 through 150 of the Code applicable to the Bonds.

“*Commissioner*” means the chief executive officer of the Issuer, appointed by the governor of the State, and any other person authorized in writing to perform any or all duties of the Commissioner.

“*Computation Date*” means, with respect to each Series of Tax-exempt Bonds, a date as of which the Rebate Amount is calculated, which shall be no later than the end of the fifth Bond Year after the Issue Date for a Series and the end day of each fifth Bond Year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

“*Cosigner*” means an individual who has entered into an agreement with the Issuer to guarantee a student loan. For all SELF Loans, the Cosigner must meet the requirements of Minnesota Rules, Part 4850.0011, Subparts 9 and 10, as amended. Under the SELF Refi Program, a Cosigner, if required by the Issuer, must comply with credit qualifications specified by the Issuer.

“*Costs of Issuance*” means all items of expense, directly or indirectly payable by 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, underwriting fees, initial fees and charges of any Indenture Agent, legal fees, including Bond Counsel fees and expenses and Underwriter’s counsel fees and expenses (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, 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.

“*Cumulative Sinking Fund Term Bonds*” means Term Bonds for which any insufficiency with respect to a Sinking Fund Payment accrues and is added to the next scheduled Sinking Fund Payment or the amount payable on the Stated Maturity, as the case may be, in accordance with the applicable Supplemental Indenture.

“*Debt Service*” means, as the context requires, with respect to any particular Fiscal Year or Bond Payment Date and any particular Series, an amount equal to the sum of (a) all interest payable on such Bonds during such Fiscal Year or on such Bond Payment Date, plus (b) any Principal Installments of such Bonds payable during such Fiscal Year or on such Bond Payment Date, plus (c) any additional applicable premium payable on such Bonds during such Fiscal Year or on such Bond Payment Date.

“*Debt Service Reserve Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Debt Service Reserve Fund*” in this Appendix B.

“*Debt Service Reserve Requirement*” is the aggregate of such requirement for all Outstanding Series specified in the Supplemental Indentures for each such Series. For purposes of the First Supplement, “*Debt Service Reserve Requirement*” means with respect to the Series 2018 Bonds, the greater of (a) 2% of the Outstanding principal amount of the Series 2018 Bonds, or (b) 1.0% of the initial principal amount of the Series 2018 Bonds; provided, however, that either of such amounts may be reduced if the Issuer has satisfied the requirements of an Event Notification as to such reduction.

“*Default Claim*” means a notice of default on a Student Loan filed by the Servicer with the Issuer under a Servicing Agreement.

“*Defaulted Interest*” means any interest due on Outstanding Bonds on an Interest Payment Date that is not paid or provided for on such Interest Payment Date.

“*Defaulted Student Loan*” means, as of any date of determination, any Student Loan with respect to which (a) a Default Claim has been filed, or (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) and has remained unpaid for a period of 165 days.

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

“*Electronic Notice*” means notice transmitted through a facsimile machine or the Internet, if operative between any two parties, for which electronic confirmation of error free receipt has been received by the sender.

“*Eligible Account*” means, at any time, a segregated trust account with an Eligible Depository.

“*Eligible Depository*” means a depository institution organized under the laws of the United States of America or any one of the States or the District of Columbia (or any domestic branch of a foreign bank) (a) whose deposits are insured by the FDIC; (b) which has (i) a long-term unsecured debt rating of at least “A” by S&P, so long as S&P maintains a rating on the Bonds and (ii) carries a rating from each other Rating Agency at any time rating the Bonds in one of their generic rating categories which signifies investment grade; and (c) has corporate trust powers. If so qualified, the Trustee or any Paying Agent may be considered an Eligible Depository.

“*Eligible Institution*” has the meaning assigned in Section 136A.15 of the Act and means an institution (a) that meets the eligibility requirements of Sections 136A.103 and 136A.155 of the Act, and (b) which has entered into a Institutional Participation Agreement.

“*Event Notification*” means that the Issuer has given each Rating Agency notice of a proposed action, failure to act, or other event specified in the notice, at least 10 days prior to the occurrence of such event and the Issuer reasonably believes that the proposed action, failure to act, or other event specified in the Event Notification will not adversely affect the Owners of the Bonds.

“*Event of Default*” means any of the events described as such under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Defaults and Remedies—Events of Default*” in this Appendix B.

“*Excess Coverage*” means, as of any date of calculation set forth in a Certificate of an Authorized Representative delivered to the Trustee, the lesser of (a) the amount, expressed in dollars, by which the Class I Bonds Parity Ratio exceeds the Minimum Class I Bonds Parity Ratio and (b) as applicable, the Value of (i) all Student Loans and (ii) all cash and Investment Securities in the Funds and Accounts (excluding the Rebate Fund, the Excess Interest Fund and amounts irrevocably set aside to pay particular Bonds as provided under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Defeasance* in this Appendix B) exceeds the Minimum Value.

“*Excess Interest*” means as of the second-to-last Business Day of each March and September (the second month preceding each Interest Payment Date), 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 Tax-exempt Bonds to a Yield that is not higher than the Yield on the Bonds of such Series plus the Permitted Spread.

“*Excess Interest Calculation Date*” means, with respect to each Series of Tax-exempt Bonds, a date as of which Excess Interest is calculated, which shall be no later than the end of the tenth Bond Year for a Series and the end 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, with that name created in accordance with the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Excess Interest Fund*” in this Appendix B.

“*Excess Revenues*” means as of the second-to-last Business Day of each March and September (the second month preceding each Interest Payment Date), any funds transferred on each Monthly Deposit Date occurring prior to each such date to the Surplus Fund in accordance with the General Indenture and remaining in the Surplus Fund, after taking into account amounts necessary (a) if such Interest Payment Date is also a Principal Payment Date, to pay the principal and interest due and payable on the Bonds on such Interest Payment Date, (b) if such Interest Payment Date is not a Principal Payment Date, to pay the interest due and payable on the Bonds on such Interest Payment Date and one-half of the principal due and payable on the next succeeding Principal Payment Date, and (c) to make all other payments or transfers required to be made from the Revenue Fund on the next Monthly Deposit Date under clauses (a) through (e) of the second paragraph under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture; Establishment of Funds and Accounts—Revenue Fund*” in this Appendix B (determined without respect to any special redemption of Bonds from Excess Revenues permitted under the applicable Supplemental Indenture) and from the Surplus Fund under clauses (a) and (b) under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture; Establishment of Funds and Accounts—Surplus Fund*” in this Appendix B, on or prior to such Interest Payment Date.

“*Favorable Opinion*” means an Opinion of Bond Counsel: (a) that the action proposed to be taken is authorized or permitted by the General Indenture and any applicable Supplemental Indenture; (b) that the action proposed to be taken does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-exempt Bonds which are the subject of such opinion; (c) in the case of a Favorable Opinion delivered in connection with a Supplemental Indenture, which includes the opinion that the applicable Supplemental Indenture (i) has been duly and lawfully executed by the Issuer in accordance with the provisions of the Indenture, (ii) is authorized or permitted by the Indenture and all conditions precedent have been satisfied, and (iii) assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Issuer; and (d) in the case of a Favorable Opinion delivered in connection with the defeasance of Bonds, which includes the opinion that the Issuer has satisfied all conditions precedent to defeasance of the subject Bonds.

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

“*FICO Score*” means a person’s credit score calculated with software from Fair Isaac Corporation (FICO).

“*Finance*,” “*Financed*” and “*Financing*” mean, when used with reference to post-high school education indebtedness as the context requires, (i) Originating a student loan from the proceeds of a



Series, (ii) acquisition of a student loan by the Issuer by exchange or otherwise, and if acquired for money, from the proceeds of a Series, (iii) the participation by the Issuer, either alone or with others, in the Origination of a student loan from the proceeds of a Series, (iv) refinancing post-high school education indebtedness by the Issuer through a student loan, or (v) reimbursing the Issuer from the proceeds of a Series for one or more student loans Originated from moneys on deposit in the Loan Capital Fund.

“*First Supplement*” means the First Supplemental Indenture, dated as of December 1, 2018, between the Issuer and the Trustee, as amended and supplemented from time to time.

“*Fiscal Year*” means a 12-month period commencing on the 1<sup>st</sup> day of July of any calendar year, or such other 12-month period adopted by the Issuer as its fiscal year for accounting purposes.

“*Fitch*” means Fitch Ratings, its successors and assigns, and, if Fitch is dissolved or liquidated or no longer performs 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 delivered to the Trustee.

“*Four-year and Graduate Schools*” means public, private nonprofit and for-profit institutions predominantly offering four-year and/or graduate degrees.

“*Fund(s)*” means any or all, as the context requires, of the funds created and established under the General Indenture, including the Funds and Accounts, the Rebate Fund and the Excess Interest Fund and any funds and accounts created and established in a Supplemental Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts*” in this Appendix B.

“*Funds and Accounts*” means the Revenue Fund, the Acquisition Fund, the Surplus Fund, the Student Loan Fund, the Redemption Fund, the Capitalized Interest Fund and the Debt Service Reserve Fund created pursuant to the General Indenture. “Fund or Account” refers to any one of the Funds and Accounts. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts*” in this Appendix B.

“*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 State law, as in effect and consistently applied.

“*General Indenture*” means the General Indenture, by and between the Issuer and the Trustee, dated as of December 1, 2018, as amended and supplemented from time to time.

“*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.

“*Grade Level*” means the relative status of an eligible student in a degree or certificate granting program as determined by the Eligible Institution based on credits earned and usually corresponds to an

Academic Year. For example, an eligible student in the second Academic Year of a four-year program would be in Grade Level 2.

“*Gross Proceeds*” when used with respect to a Series of the Tax-exempt Bonds, means “gross proceeds” within the meaning of Treasury Regulations Section 1.148-1(b).

“*Half-time Student*” has the meaning assigned in Minnesota Rules, Part 4850.0011, subpart 22, as amended. As of the date of the First Supplement “Half-time Student” is defined as “one who is enrolled in an eligible school and carrying a half-time academic workload as determined by the eligible school that amounts to at least one-half the workload of a full-time certificate or degree seeking student. In eligible schools utilizing clock hours, half-time enrollment includes programs requiring at least 300 clock hours.”

“*Highest Priority Bonds*” means (a) at any time Class I Bonds are Outstanding, the Class I Bonds; and (b) at any time when no Class I Bonds are Outstanding, the Class II Bonds.

“*Indenture*” means the General Indenture, all Supplemental Indentures and all amendments and supplements to the General Indenture and any Supplemental Indentures.

“*Indenture Agent*” means the Trustee, the Registrar, the Authenticating Agent, any Eligible Depository, any Paying Agent and any additional agent authorized in a Supplemental Indenture.

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

“*Interest Payment Date*” means each regularly scheduled interest payment date with respect to the Bonds (which shall be each May 1 and November 1) or, with respect to the payment of interest upon redemption or acceleration of a Bond or the payment of Defaulted Interest, the date on which such interest is payable under the Indenture, and with respect to the Series 2018 Bonds means each May 1 and November 1, commencing May 1, 2019.

“*Investment*” or “*Investments*” has the meaning stated in Treasury Regulations Section 1.148-1(b) and includes: (a) any security within the meaning of Section 165(g)(2)(A) or (B) of the Code; (b) any obligation, including United States Treasury bonds, notes, and bills and bank deposits, whether or not certificated or interest bearing, but, except as otherwise provided in Section 148(b)(3)(B) of the Code, excluding obligations the interest on which is, in the Opinion of Bond Counsel, excludable from the gross income of any owner 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 (d) any other investment-type property described in Treasury Regulations Section 1.148-1(e).

“*Investment Securities*” means to the extent permitted by Minnesota Statutes, Section 11A.24 and Section 136A.16, Subdivision 8 of the Act, the following categories of securities, which may be further restricted by the terms of any Supplemental Indenture or State law and which, if not otherwise specified, shall be valued at par and with a maturity of not more than 365 days from the date of purchase:

(a) U.S. Treasury obligations (all direct or fully guaranteed obligations); U.S. Department of Housing and Urban Development public housing agency bonds (previously known as local authority bonds); Federal Housing Administration debentures; Government National Mortgage Association (GNMA) guaranteed mortgage backed securities (MBS) or participation certificates; Resolution Funding Corporation (RefCorp) debt obligations; or Small Business Association guaranteed participation certificates and guaranteed pool certificates;

(b) interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with Eligible Depositories, including the Trustee and any of its affiliates, which are members of the Federal Deposit Insurance Corporation; provided, such Eligible Depository has commercial paper which is rated “F1+” by Fitch and “A-1+” by S&P and has the required ratings from Moody’s corresponding to the duration of such investment;

(c) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Home Loan Mortgage Corporation; the Federal National Mortgage Association; Federal Home Loan Banks provided such obligation is rated “AAA” by Fitch and S&P and “Aaa” by Moody’s;

(d) commercial paper, including that of the Trustee and any of its affiliates, which is rated in the single highest classification, “F1+” by Fitch and “A-1+” by S&P and has the required ratings from Moody’s corresponding to the duration of such investment set forth below, and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated “AAAmmf” by Fitch, “AAAm” or “AAAm G” by S&P and “Aaa mf” by Moody’s, including funds for which the Trustee or an affiliate thereof acts as an investment advisor or provides other similar services for a fee.

Each Investment Security or the provider of such Investment Security (other than those described in clauses (a), (c), and (e) of this definition) shall have the following Moody’s long term and or short term ratings corresponding to the duration of such investment:

<b><u>Maximum Maturity</u></b>	<b><u>Minimum Ratings</u></b>
One Month	“A2” or “Prime-1”
Three Months	“A1” and “Prime-1”
Six Months	“Aa3” and “Prime-1”
Greater than Six Months	“Aaa” and “Prime-1”

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

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

“*Issuer Certificate*” means a Certificate executed and delivered by the Issuer.

“*Issuer Order*” means a written instrument of the Issuer executed by an Authorized Representative, (a) directing an action on the part of any Indenture Agent, and certifying such action is in accordance with the Indenture or (b) designating a Person to direct, on the Issuer’s behalf, an action on the part of any Indenture Agent, and certifying such action is in accordance with the Indenture. Any Issuer Order may be based solely on an Opinion of Counsel or Opinion of Bond Counsel.

“*Loan Capital Fund*” means the Loan Capital Fund of the Issuer established in accordance with Minnesota Statutes, Section 136A.1785.

“*Loan Origination Period*” means the period beginning on the Issue Date and ending on February 29, 2020; provided that such deadline may be extended if the Issuer has satisfied the requirements of an Event Notification as to such extension.

“*Majority Owners*” means the Owners of at least 51% in aggregate principal amount of the Bonds affected and Outstanding at the time of measurement.

“*Mandatory Redemption*” means specified dates when the Issuer is required to redeem all or a portion of an Outstanding Series prior to its maturity. The Issuer may be required to redeem all or a portion of a Series according to the call or prepayment provisions of a Supplemental Indenture.

“*Maturity*” when used with respect to any Bond or Series, means the date on which the principal thereof becomes due and payable as provided in the General Indenture or in a Supplemental Indenture provided, whether at its Stated Maturity, maturity by earlier redemption or by declaration of acceleration.

“*Minimum Class I Bonds Parity Ratio*” means the ratio or percentage specified as such in a Supplemental Indenture. The initial Minimum Class I Bonds Parity Ratio is 132%, or such lesser percentage as to which the Issuer has satisfied the requirements of an Event Notification as to such lesser percentage.

“*Minimum Value*” means (a) the Outstanding principal amount of the Bonds and accrued interest thereon plus (b) \$15,000,000 plus (c) all accrued but unpaid Program Expenses, together with any required late fees or interest thereon.

“*Minority Owners*” means the Owners of an aggregate of at least 25% of Bonds Outstanding at the time of measurement.

“*Monthly Deposit Date*” means the 15<sup>th</sup> day of each calendar month, or, if such day is not a Business Day, the next succeeding Business Day.

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

“*Moody’s*” means Moody’s Investors Service, its successors and assigns, and, if Moody’s is dissolved or liquidated or no longer performs 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 delivered to the Trustee.

“*Nelnet Servicing*” means Nelnet Servicing, LLC, the initial Servicer.

“*Nelnet Servicing Agreement*” means the Servicing Agreement between the Issuer and Nelnet Servicing.

“*Non-four-year School*” means any school that is not a four-year college or a graduate school.

“*Nonpurpose Investments*” has the meaning stated in Treasury Regulations Section 1.148-1(b) and includes any Investment that is not a Student Loan.

“*Note*” means the evidence of the indebtedness of a Borrower on their Student Loan.

“*Notice Parties*” means the Issuer, each Rating Agency and the Trustee.

“*Opinion of Bond Counsel*” means the 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, admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia and reasonably acceptable to the Person who is to receive the same.

“*Original Principal Balance(s)*” when used with respect to a Student Loan(s) means the principal balance of the Student Loan as of the date or dates (in the case of a Student Loan that was Originated in more than one disbursement) it was Originated under the Indenture.

“*Originate*,” “*Originated*,” “*Originating*” or “*Origination*” means, the disbursement of the proceeds of a Student Loan to or on behalf of a Borrower by the Issuer or on behalf of the Issuer by its authorized agents to finance or refinance post-high school education indebtedness of Borrowers. If a Student Loan is to be made in two or more disbursements, each such disbursement shall constitute an Origination.

“*Outstanding*” when used with reference to Bonds or a Series, or “*Outstanding Bonds*” means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except: (a) any Bond canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date; (b) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the General Indenture; and (c) any Bond paid or deemed to have been paid as provided under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Defeasance*” in this Appendix B.

“*Owner*” or “*owner*” or words of similar import, when used with reference to a Bond, means the Person in whose name such Bond is registered as shown on the Bond Register.

“*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.

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

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

“*Potential Special Optional Excess Revenues Redemption Date*” means each Interest Payment Date (a) which occurs during the Recycling Period, or (b) on which the Class I Bonds Parity Ratio exceeds the Minimum Class I Bonds Parity Ratio, and (ii) the Value of (A) all Student Loans and (B) all cash and Investment Securities in the Funds and Accounts (excluding the Rebate Fund, the Excess Interest Fund, and amounts irrevocably set aside to pay particular Bonds as provided under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Defeasance*” in this Appendix B) exceeds the Minimum Value.

“*Pre-funded Loans*” means Student Loans, the original disbursement of which was made after July 31, 2018 and Financed on or after the Issue Date.

*“Principal Installment(s)”* individually means, as of any date of calculation, (a) 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 (b) any Sinking Fund Payments due on such certain future date, plus (c) the principal component of the Redemption Price of the Bonds then having been called for redemption on such certain future date, and collectively means all of them.

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

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

*“Program Expenses”* means (a) the fees, expenses and indemnities of each Indenture Agent under the General Indenture and any Supplemental Indenture, including any required late fees or interest thereon; (b) the fees of the Servicer under the Servicing Agreement, including any required late fees or interest thereon; (c) the fees and expenses of the Issuer incurred in connection with the preparation of any Opinion of Counsel and Opinion of Bond Counsel and other authorized reports or statements attributable to the Bonds of any Series or Class and the Student Loans; (d) Rebate Analyst Fees, and (e) all other fees and expenses incurred by the Issuer in connection with the maintenance and operation of its Student Loan Program as a direct consequence of the Indenture, the Bonds of any Series or Class, including the reasonable fees and expenses of attorneys, agents, financial advisors, municipal advisors, consultants, accountants and other professionals, attributable to such maintenance and operation. Program Expenses do not include Costs of Issuance, except as provided in this definition.

*“Proprietary School”* means a for-profit institution predominantly offering education and training programs of less than two years.

*“Rating Agency”* means one or more of Moody’s, Fitch, S&P and any other nationally recognized securities rating agency to the extent Moody’s, Fitch, S&P or any such other agency has issued and continues to maintain a rating on the Bonds at the time in question, at the request of the Issuer. All Bonds, all Classes, all Series, or all Bonds within a given Class or Series, need not be rated by the same rating agency or agencies.

*“Reasonably Required Reserve or Replacement Fund”* means a fund securing the Series 2018 Bonds, the deposits in which do not exceed, as of the date of calculation, the lesser of: (a) 10% of the proceeds of the Series 2018 Bonds; (b) 125% of the average annual amount of principal and interest due on the Series 2018 Bonds; or (c) the maximum amount of principal and interest due on the Series 2018 Bonds in any Bond Year, assuming that each Series 2018 Bonds is paid at its Stated Maturity and term bonds are paid on the scheduled Sinking Fund Payment Dates.

*“Rebate Amount”* means as of any Computation Date, the “rebate amount” with respect to a Series of Tax-exempt Bonds, determined in accordance with Treasury Regulations Section 1.148-3.

*“Rebate Analyst”* means a certified public accountant, financial analyst or attorney, or any firm of the foregoing, or a financial institution experienced in making the Excess Interest, arbitrage and rebate calculations required under Section 148 of the Code, independent of the Issuer, and retained by the Issuer to make the computations and give the directions required by the Tax Certificate and the Indenture.

“*Rebate Analyst Fee*” means a fee paid or payable to the Rebate Analyst for calculation of Excess Interest or the Rebate Amount.

“*Rebate Fund*” means the Fund, if any, with that name created in accordance with the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Rebate Fund*” in this Appendix B.

“*Record Date*” except as otherwise provided in a Supplemental Indenture, means the 15<sup>th</sup> day immediately preceding each Interest Payment Date or, if such date is not a Business Day, the next preceding Business Day.

“*Records*” means the Issuer’s records relating to the Student Loans, the related Revenues and the Funds and Accounts.

“*Recycling Period*” means the latest period of time specified in a Supplemental Indenture authorizing issuance of Bonds during which moneys in the Surplus Fund may be used to Finance Student Loans, and with respect to the Series 2018 Bonds means the period beginning on the Issue Date and ending on February 29, 2020; provided that such deadline may be extended if the Issuer has satisfied the requirements of an Event Notification as to such extension.

“*Redemption Date(s)*” means the date or dates upon which Bonds are to be called for redemption under any Supplemental Indenture.

“*Redemption Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Redemption Fund*” in this Appendix B.

“*Redemption Price*” means, with respect to any Series 2018 Bond, the principal amount plus accrued interest, plus, in the case of the redemption of Series 2018 Premium Bonds, the Unamortized Premium with respect to such Series 2018 Premium Bonds as set forth under “THE SERIES 2018 BONDS—Redemption Provisions—*Mandatory Redemption Resulting From Non-Origination*” in the body of this Official Statement, as applicable.

“*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.

“*Responsible Officer*” means the Trustee’s president, or any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer or any other officer or employee of the Trustee authorized to perform functions similar to those performed by any of the designated officers and having responsibility for the administration of the Indenture and shall also mean, with respect to a particular corporate trust matter arising under the Indenture, any other officer to whom such matter is referred because of their knowledge of and familiarity with the particular subject.

“*Revenue Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Revenue Fund*” in this Appendix B.

“*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 (a) scheduled, delinquent and advance payments, any insurance proceeds and guaranty payments, and interest and principal payments; (b) any

tuition refunds; (c) funds transferred to the Trustee from the Servicer's or Servicers' separate bank accounts maintained under a Servicing Agreement; (d) any State Shortfall Payments; (e) proceeds from the sale of Student Loans; and (f) all interest earned or gain realized from the investment of amounts in the Revenue Fund, the Debt Service Reserve Fund and the Surplus Fund.

“*S&P*” means S&P Global Ratings, its successors and assigns, and, if S&P is dissolved or liquidated or no longer performs 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 delivered to the Trustee.

“*Securities Depository*” means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Supplemental Indenture, or (a) if the then Securities Depository resigns from its functions as depository of the Bonds; or (b) if the Issuer discontinues use of the Securities Depository, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Issuer with the consent of the Trustee; provided that any Securities Depository shall be registered or qualified as a “clearing agency” within the meaning of Section 17A of the Securities and Exchange Act of 1934, as amended. The Securities Depository for the Series 2018 Bonds is The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other Security Depository designated in accordance with the provisions of the General Indenture.

“*SELF V*” means phase five of the SELF Program operated by the Issuer.

“*SELF V Borrower*” means the maker of a SELF V Note.

“*SELF Loans*” means loans Originated under the SELF Program.

“*SELF Program*” means the Issuer's Student Educational Loan Fund Program under which SELF Loans are Originated, excluding SELF Refi Loans.

“*SELF Refi Loans*” means loans Originated under the SELF Refi Loan Program.

“*SELF Refi Loan Program*” means the program of the Issuer to refinance post-high school education indebtedness of borrowers and excludes SELF Loans.

“*Serial Bonds*” means the Series 2018 Bonds maturing on the Serial Stated Maturities.

“*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 November 1 in the years 2022 through 2026.

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



“*Series 2018 Financed Student Loan(s)*” means Student Loan(s) Originated with moneys from the Series 2018 Account of the Acquisition Fund or the Surplus Fund.

“*Series 2018 Premium Bonds*” means the Series 2018 Bonds sold with original issue premium on the Issue Date. See the caption “TAX MATTERS—Bond Premium” in the body of this Official Statement.

“*Servicer*” means Nelnet Servicing, LLC, and its successors and assigns, and any successor or additional Servicer appointed by the Issuer as to which the Issuer has satisfied the requirements of an Event Notification as to such successor or additional Servicer.

“*Servicing Agreement*” means, as of the date hereof, the Professional and Technical Services Contract, dated as of August 11, 2017, with an effective date of May 1, 2018, between the Issuer and Great Lakes Educational Loan Services, Inc. (“Great Lakes”), assigned by Great Lakes to Nelnet Servicing, LLC as of June 22, 2018, and amended as of April 26, 2018 and June 27, 2018, and each other Servicing Agreement as amended from time to time, between the Issuer and the Servicer under which such Servicer has agreed to service Student Loans.

“*Short-term Program*” means an educational program which is less than one Academic Year in length.

“*Sinking Fund Payment(s)*” means, as of the date of calculation, the amount required to be paid by the Issuer on a certain future date for the retirement of Outstanding Bonds which mature after said future date, including principal and interest, but does not include any amount payable by the Issuer by reason of the Stated Maturity of a Bond or call for redemption of any Bonds at the election of the Issuer.

“*Sinking Fund Payment Date*” means, with reference to a Sinking Fund Payment, the date on which such Sinking Fund Payment is payable.

“*Special Record Date*” a date established by the Trustee for the 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 to replenish the Debt Service Reserve Fund under the operation of the provisions of Section 136A.1787 of the Act.

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

“*Stated Maturity*,” when used with respect to any Bond or any installment of interest thereon, means the date specified in such Bond as the fixed date on which principal of such Bond or such installment of interest is due and payable and includes a Serial Stated Maturity or a Term Stated Maturity, as applicable.

“*Student Loan(s)*” or “*Loan(s)*” (a) individually means any loan made by the Issuer to a Borrower under its Student Loan Program that is: (i) Financed with moneys in the Acquisition Fund or the Surplus Fund and credited to the Student Loan Fund, (ii) received in exchange for other Student Loans upon the sale thereof or substitution therefor as provided under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—Particular Covenants—Disposal and Consolidation of Student Loans” in this

Appendix B or provisions of a Supplemental Indenture and credited to the Student Loan Fund, or (iii) otherwise credited to the Student Loan Fund as part of the Trust Estate; but (b) excludes Student Loans released from the lien of the General Indenture as permitted by the Indenture; and (c) collectively, means all such Student Loans.

“*Student Loan Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Student Loan Fund*” in this Appendix B.

“*Student Loan Program*” means the program for making Student Loans under the Act and policies of the Issuer which includes, but is not limited to, the SELF Program and the SELF Refi Loan Program, together with any other student loan program or student loan programs established by the Issuer under the Act and providing for the issuance of a Series as part of the Student Loan Program.

“*Subservicer*” means a Person designated in a Supplemental Indenture with which the Servicer has an arrangement to service Student Loans as described under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Particular Covenants—Servicing Student Loans*” in this Appendix B.

“*Supplemental Indenture*” means any indenture supplemental to or amendatory of the General Indenture or a Supplemental Indenture, executed by the Issuer and the Trustee and effective in accordance with the General Indenture. See the captions “SUMMARIES OF DOCUMENTS—The General Indenture—*Supplemental Indentures Not Requiring Consent of Owners*” and “—*Supplemental Indentures Requiring Consent of Owners*” in this Appendix B.

“*Surplus Fund*” means the Fund with that name created under the General Indenture. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture, Establishment of Funds and Accounts—Surplus Fund*” in this Appendix B.

“*Tangible Net Worth*” means, as of any date of determination, the aggregate net worth of the Issuer’s Loan Capital Fund determined in accordance with GAAP, less the book value of all assets of the Loan Capital Fund that are treated as intangibles under GAAP.

“*Tax Certificate*” means, with respect to each Series of Tax-exempt Bonds, a Certificate of the Issuer relating to arbitrage and other tax matters delivered in connection with the issuance of such Series, as the same may be amended or supplemented in accordance with its terms.

“*Tax-exempt Bonds*” means each Series that is issued with the intent that interest thereon is excludable from gross income for purposes of federal income taxation, as evidenced by an Opinion of Bond Counsel to that effect delivered upon issuance of such Series.

“*Temporary Period(s)*” means the time periods during which the proceeds of the Series 2018 Bonds may be invested at yields higher than the Yield without jeopardizing the status of the Series 2018 Bonds as Tax-exempt Bonds.

“*Term Bonds*” means Bonds which are subject to Sinking Fund Payments prior to the Stated Maturity of such Bonds, and, in the case of the Series 2018 Bonds, means the Series 2018 Bonds maturing on the Term Stated Maturity.

“*Term Stated Maturity*” means November 1, 2037, as set forth in the First Supplement.

“*Trust Estate*” means the following: (i) 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; (ii) all general intangibles, payment intangibles, or electronic chattel paper related to the Student Loans; (iii) 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, which Bond proceeds, Revenues and other amounts may take the form of moneys, securities, accounts, chattel paper, instruments, and general intangibles; (iv) all State Debt Service Reserve Fund Payments and State Shortfall Payments; (v) the rights of the Issuer in and to each Servicing Agreement solely as it relates to Student Loans; (vi) any and all other real or personal property of every name and nature, hereafter by delivery or by writing of any kind, conveyed, mortgaged, pledged, assigned or transferred by the Issuer or by anyone on its behalf or with its prior written consent, to the Trustee as and for additional security under the General Indenture; and (vii) all proceeds of the foregoing. See the caption “SUMMARIES OF DOCUMENTS—The General Indenture” in this Appendix B.

“*Trustee*” means U.S. Bank National Association and its successor or successors and any other Person at any time substituted in its place as permitted by the General Indenture.

“*Two-year Schools*” means public, private nonprofit and for-profit institutions predominantly offering two-year degrees.

“*UCC*” means the Uniform Commercial Code as in effect in the State from time to time.

“*Unamortized Premium*” means the unamortized portion of the amount by which the offering price of a Series 2018 Premium Bond (as set forth on the inside cover page of this Official Statement) exceeded 100%. The Issuer shall see to the calculation of the amount of such Unamortized Premium. The methodology applied to calculate the unamortized portion of such amount for a given Series 2018 Premium Bond will use the yield of such Series 2018 Premium Bond as set forth on the inside cover page of this Official Statement to calculate a price based on the Redemption Date, semiannual compounding and a 360-day year consisting of twelve 30-day months. The excess of the calculated price over 100% will be the unamortized portion.

“*Underwriter*” with respect to the Series 2018 Bonds, means RBC Capital Markets LLC.

“*Value*” means on any date when required under the Indenture, the value of the specified asset calculated by the Issuer, in accordance with the following:

- (a) any Student Loan other than a Defaulted Student Loan, shall be valued at the principal balance thereof, plus any accrued interest thereon;
- (b) Defaulted Student Loans shall have an assumed value of \$0;
- (c) Investment Securities shall be valued as specified in the definition of “Investment Securities”;
- (d) cash shall be valued at face value.

“*Yield*” of (a) any Investment or Student Loan 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 (b) 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 United States Treasury described in Treasury Regulations Section 1.148-5(c).

## SUMMARIES OF DOCUMENTS

### The General Indenture

In order to secure, (i) the payment of Debt Service or Redemption Price of the Bonds at any time issued and Outstanding according to their tenor and effect, and (ii) the performance and observance of all of the covenants and conditions contained in said Bonds and in the Indenture, the Issuer has executed and delivered the General Indenture and bargains, assigns, pledges and grants a security interest, subject to the use and application in accordance with the provisions of the General Indenture, in the Trust Estate.

#### *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 specified in the Indenture. The Bonds and the interest thereon do not represent or constitute a debt or pledge of the faith and credit of the State or any agency or political subdivision thereof (except the Issuer, to the extent provided in the Indenture), or grant to the Owners 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 Indenture.

*Authorization of Bonds.* In order to (i) obtain funds to Finance Student Loans; (ii) refund obligations of the Issuer; (iii) in connection with the foregoing, set aside the Debt Service Reserve Requirement; (iv) fund the Capitalized Interest Fund; and (v) 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 in one or more Series or one or more Classes without limitation as to amount except as may be provided by law. Bonds may be issued as Tax-exempt Bonds or Federally Taxable Bonds as provided in the Supplemental Indenture authorizing such Bonds. No Bonds will be secured by the General Indenture unless they are part of an issue described in a Supplemental Indenture and until the conditions contained in the General Indenture 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 and designating the Class of Bonds to be issued, executed by the Issuer and the Trustee, which shall specify the terms of such Series;

(b) an Opinion or Opinions of Bond Counsel to the effect that (i) the General Indenture and such Supplemental Indenture have been authorized, executed and delivered by the Issuer and, assuming proper 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); (ii) such Bonds are valid and binding obligations of the Issuer; (iii) in 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; (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; (v) interest on Tax-exempt Bonds is excludable from gross income for federal income tax purposes; 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) an Issuer Order as to the delivery of such Bonds;

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

(e) in the event that there are then Bonds Outstanding (other than the initial Series issued under the Indenture), evidence that the Issuer has satisfied the requirements of an Event Notification as to the issuance of such Bonds; and

(f) such further documents, certificates, instruments and moneys as are required by any Supplemental Indenture entered into under the authority of the General Indenture. See the captions “SUMMARIES OF DOCUMENTS—The General Indenture—*Supplemental Indentures Not Requiring Consent of Owners*” and “—*Supplemental Indentures Requiring Consent of Owners*” in this Appendix B.

*Class II Bonds Subordinate; Limitation on Classes of Bonds.* The Issuer may, upon complying with the provisions of the General Indenture, issue, cause the authentication of, and deliver from time to time Bonds secured by the Trust Estate on a parity with the Class I Bonds or Class II Bonds, if any, secured under the General Indenture as shall be determined by the Issuer in a Supplemental Indenture. Class II Bonds shall be subordinate in all respects to the Class I Bonds and the Accounts established for Class II Bonds in the Funds shall at all times be available to meet the payment requirements of Class I Bonds. Notwithstanding any provision of a Supplemental Indenture to the contrary, not more than two Classes of Bonds may be issued under the authority of the General Indenture.

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

*Pledge Effected by Indenture; Priority.* The Trust Estate is pledged under the Indenture. To the fullest extent provided by applicable law, the money and property pledged in the General Indenture is immediately subject to the lien of such pledge and such lien is 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 following Funds created and established in the General Indenture, to be held by the Paying Agent on behalf of the Trustee and maintained in accordance with the provisions of the Indenture: (a) Student Loan Fund; (b) Revenue Fund; (c) Redemption Fund; (d) Surplus Fund; (e) Debt Service Reserve Fund; (f) Acquisition Fund; and (g) Capitalized Interest Fund. As Provided in a Supplemental Indenture or upon Issuer Order, as applicable, the Paying Agent on behalf of 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 shall have no right, title, or interest

therein or thereto. The Trustee is authorized by the Indenture for the purpose of facilitating administration of the Trust Estate to create Accounts in any of the various Funds established under the Indenture upon receipt of an Issuer Order or as may be provided in a Supplemental Indenture.

*Creation of Accounts.* The Issuer may elect to create two or more Accounts attributable to a Series in any Fund. The Trustee, or the Paying Agent on behalf of the Trustee, is authorized to create such Accounts. The creation of Accounts is for administrative purposes only and all Bonds of the same Class shall be paid on a parity basis. The authority to create Accounts is subject to applicable provisions of a Supplemental Indenture.

(a) If Accounts are created in the Student Loan Fund to separate Student Loans Financed with Gross Proceeds derived from one or more Series, the Issuer, by Issuer Order delivered to the Trustee, will allocate the Student Loans to be credited to each Account.

(b) If Accounts are created in the Revenue Fund to separate Revenues derived from Student Loans pledged to one or more Series, the Issuer, by Issuer Order delivered to the Trustee, will allocate the Revenues to be credited to each Account. If the Issuer makes such election, the Trustee shall pay Debt Service on the Bonds of that Series or portion thereof from that Series' Account and, to the extent possible, shall pay Program Expenses attributable to that Series from that Series' Account.

(c) If Accounts are created in the Surplus Fund, the Trustee shall pay Debt Service on the Bonds of the related Series or portion thereof from that Series' Account and, to the extent possible, shall pay Program Expenses attributable to that Series from that Series' Account in accordance with the priorities established under the General Indenture and described under the caption "*Revenue Fund*" below.

*Student Loan Fund.* The Trustee shall credit all Student Loans transferred to the Trustee by the Issuer and all Student Loans made by the Issuer with amounts provided under the Indenture to the Student Loan Fund and the Accounts therein, in each case, as specified by Issuer Order. The Student Loan Fund shall hold only Student Loans and no other assets of any kind whatsoever.

*Revenue Fund.* Money in the Revenue Fund shall be kept separate and apart from all other Funds and Accounts. As provided in a Supplemental Indenture or upon receipt of an Issuer Order, as applicable, the Trustee shall deposit in the Revenue Fund: (a) the Revenues, (b) the amounts described in any Supplemental Indenture, (c) any amounts specified in the General Indenture or in a Supplemental Indenture to be transferred thereto from another Fund, and (d) any other amounts required to be deposited therein in the Issuer Order.

On each Monthly Deposit Date (or on such other date as is specified in a particular clause below), money in the Revenue Fund shall be applied by the Trustee in the following order of priority:

(a) to the Rebate Fund and the Excess Interest Fund, as appropriate, amounts specified in an Issuer Order as sufficient, when added to the amounts already in the Rebate Fund and the Excess Interest Fund, equal the Rebate Amount or the Excess Interest, respectively, as of the most recent date of calculation;

(b) subject to the succeeding paragraph and the limitations, if any, contained in a Supplemental Indenture, to payment of Program Expenses then due and payable to the Servicer and each Indenture Agent, as applicable; and if funds are not sufficient, pro rata on the basis of

Program Expenses then owed, unless the Issuer has notified the Trustee that it has paid Program Expenses from a source of funds outside the Trust Estate as provided in the General Indenture;

(c) subject to the limitations contained in a Supplemental Indenture, to the credit of the Accounts established in the Revenue Fund for payment of principal of and interest on each Outstanding Series, the following amounts with respect to each such Series solely for payment of principal of and interest on each such Series, in the following order of priority:

(i) (A) to payment of interest due on each Series of Class I Bonds during the related Monthly Period and; and (B) thereafter, to the extent provided for in clause (b) under the caption “Payment of Interest” below, to increase the balance in the Accounts in the Revenue Fund in respect of interest due and payable on each Series of Class I Bonds on the next applicable Interest Payment Date;

(ii) (A) to payment of principal due at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds which are Class I Bonds) on each Series of Class I Bonds during the related Monthly Period and (B) thereafter, to the extent provided for in clause (b) under the caption “Payment of Principal” below, to increase the balance in the Accounts in the Revenue Fund in respect of principal due and payable on each Series of Class I Bonds at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds which are Class I Bonds) on the next applicable Principal Payment Date;

(iii) (A) to payment of interest due on each Series of Class II Bonds during the related Monthly Period and, if the amount available is not sufficient to pay in full the interest then due, then to the payment thereof ratably, according to the aggregate amount of interest due on such date, and (B) thereafter, to the extent provided for in clause (b) under the caption “Payment of Interest” below, to increase the balance in the Accounts in the Revenue Fund in respect of interest due and payable on each Series of Class II Bonds on the next applicable Interest Payment Date; and

(iv) (A) to payment of principal due at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds which are Class II Bonds) on each Series of Class II Bonds during the related Monthly Period and, if the amount available is not sufficient to pay in full the principal then due, then to the payment thereof ratably, according to the aggregate amount of principal due on such date, and (B) thereafter, to the extent provided for in clause (b) under the caption “Payment of Principal” below, to increase the balance in the Accounts in the Revenue Fund in respect of principal due and payable on each Series of Class II Bonds at Stated Maturity or on a Sinking Fund Payment Date (other than a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds which are Class II Bonds) on the next applicable Principal Payment Date;

(d) to the Debt Service Reserve Fund to the extent necessary to increase the balance therein to the Debt Service Reserve Requirement, to the extent such amount has not been paid from available funds of the Issuer not held under the Indenture;

(e) other than with respect to the initial Series issued hereunder, and as specified in a Supplemental Indenture, (i) to payment of all other principal payable during the related Monthly Period on Outstanding Bonds (other than Cumulative Sinking Fund Term Bonds), such payments

to be applied By Class In Descending Priority, and (ii) at the option of the Issuer, to payment of Sinking Fund Payments payable on Cumulative Sinking Fund Term Bonds, as described under this caption and clause (b) under the caption "Payment of Principal" below, each to increase the balance in the Revenue Fund in respect of all other principal due and payable on Outstanding Bonds By Class In Descending Priority on the next applicable Principal Payment Date; and

(f) provided the full amount of any principal payments due on each Series of Outstanding Bonds on the next succeeding Principal Payment Date for each such Series are on deposit in the applicable Accounts in the Revenue Fund, the remainder to the credit of the Surplus Fund.

In the event amounts are payable to more than one Person under any one of the preceding clauses, and the money available is insufficient to pay all amounts payable, the available money shall be applied pro rata to the payment to each Person based upon the amount payable thereto, except that any amounts due and payable to the Trustee in accordance with clause (b) above shall be paid prior to payment to any other Person and prior to any proration of payments under such clause.

The Issuer shall provide the Trustee with a Certificate on or before the tenth day of each calendar month setting forth (a) the amounts due and owing as Program Expenses 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 from funds not held under the Indenture. The Trustee will be entitled to conclusively 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.

In the event there are insufficient funds in an Account for a particular Series in the Revenue Fund and the Surplus Fund to pay any amount then due (other than amounts allocable to Financing Student Loans and Sinking Fund Payments on Cumulative Sinking Fund Term Bonds) and the Issuer has not paid the deficiency from funds not held under the Indenture, the Trustee shall make such payment from Accounts in the Revenue Fund or Surplus Fund for another Series, to the extent there are sufficient moneys to do so after satisfying all amounts required to be paid (without regard to Accounts) prior to the amount due, in the order established in the General Indenture.

Payment of Interest. For purposes of clause (c) above, interest on Bonds shall be accounted for as follows:

(a) to the extent an Interest Payment Date occurs during the related Monthly Period, an amount equal to the interest due on such Interest Payment Date shall be applied to the payment of such interest when due By Class in Descending Priority; provided that, to the extent provided in the applicable Supplemental Indenture, amounts may be drawn from an Account established for a Class of Bonds in the Capitalized Interest Fund and applied to the payment of such interest on such Class when due; and

(b) to the extent interest will accrue but not be payable during the related Monthly Period, an amount equal to all accrued interest, By Class in Descending Priority, through the end of such Monthly Period shall be retained in the Revenue Fund; provided that, to the extent provided in the applicable Supplemental Indenture, amounts may be drawn from an Account established for a Class of Bonds in the Capitalized Interest Fund and applied to the payment of such interest on such Class when due; and

(c) cash and Investment Securities on deposit in Accounts established for Class II Bonds shall be available to pay the principal requirements of Class I Bonds.



Payment of Principal. For purposes of clauses (c) and (e) above, the principal amount of each Series due at the Stated Maturity thereof or on a Sinking Fund Payment Date therefor shall be accounted for as follows:

(a) to the extent a Principal Payment Date occurs during the related Monthly Period, an amount equal to the principal due on such Principal Payment Date shall be applied to the payment of such principal when due By Class in Descending Priority; and

(b) to the extent principal of a Series is not payable during the related Monthly Period, but will be payable on a Principal Payment Date occurring during a Monthly Period commencing within 12 months of the related Monthly Period, an amount shall be retained in the Revenue Fund, as of each Monthly Deposit Date:

(i) in the case of principal due at Stated Maturity or on a Sinking Fund Payment Date other than Sinking Fund Payment Dates of Cumulative Sinking Fund Term Bonds, equal to 1/12th of such principal for each of the 12 Monthly Deposit Dates occurring prior to the Principal Payment Date on which such principal is payable; and

(ii) in the case of principal due on a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds, equal to 1/11<sup>th</sup> of such principal for each of the 11 Monthly Deposit Dates occurring prior to the Monthly Deposit Date preceding the Payment Date; and

(iii) cash and Investment Securities on deposit in Accounts established for Class II Bonds shall be available to pay the principal requirements of Class I Bonds.

*Redemption Fund.* Subject to the provisions of the General Indenture, amounts on deposit in the Redemption Fund shall be applied to the optional redemption or purchase of Outstanding Bonds By Class in Descending Priority as specified in an Issuer Order under the General Indenture and any applicable Supplemental Indenture. Deposits to the Redemption Fund shall be irrevocable as to Bonds for which notice of redemption or payment has been given.

*Surplus Fund.* The Surplus Fund shall be used only for the purposes specified in the General Indenture, subject to applicable provisions in any Supplemental Indenture. Other than transfers described under the heading “*Revenue Fund*” above, the Trustee shall use the moneys in the Surplus Fund for the following purposes By Class in Descending Priority, upon receipt of an Issuer Order to do so, in the following order:

(a) to make deposits to the Excess Interest Fund and the Rebate Fund to the extent required under the captions “*Excess Interest Fund*,” “*Rebate Fund*” and “*Extraordinary Transfers to Rebate Fund and Excess Interest Fund*” below;

(b) to the extent there is a required transfer from the Revenue Fund and the moneys therein are not sufficient, the moneys in the Surplus Fund shall be utilized to satisfy such deficiency;

(c) to make deposits to the Redemption Fund as specified in an Issuer Order to meet the Mandatory Redemption requirements (other than (A) principal due at Stated Maturity or on a Sinking Fund Payment Date and (B) a Sinking Fund Payment Date with respect to Cumulative Sinking Fund Term Bonds);

(d) to the extent such moneys constitute Excess Coverage:

(i) to payment of amounts due to the Trustee (including any unpaid fees, expenses and indemnities) that are not Program Expenses, to the extent such amount has not been paid from available funds of the Issuer not held under the Indenture

(ii) to payment of any other unpaid Program Expenses; and if funds are not sufficient, pro rata on the basis of Program Expenses then owed, to the extent such amounts have not been paid from available funds of the Issuer not held under the Indenture;

(iii) to pay any amounts payable by the Issuer to the Underwriter pursuant to the indemnification provisions of the related Bond Purchase Agreement;

(e) to Finance Student Loans as permitted by a Supplemental Indenture;

(f) to make deposits to the Redemption Fund for the optional redemption of Bonds as specified in an Issuer Order or as required by and provided in any applicable Supplemental Indenture; and

(g) to transfer money to the Issuer if permitted under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Withdrawal of Excess Coverage*” in this Appendix B.

*Debt Service Reserve Fund.* As provided for in a Supplemental Indenture or upon receipt of an Issuer Order to do so, as applicable, the Trustee shall deposit in the Debt Service Reserve Fund (a) the Debt Service Reserve Requirement specified in each Supplemental Indenture; (b) any transfers thereto from the Revenue Fund or Surplus Fund; and (c) all 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 in the General Indenture (first, with respect to payments in respect of that Series and thereafter, to the extent necessary, to payments in respect of other Series of the same Class) and, to the extent provided in the related Supplemental Indenture, in conjunction with the final payment of the principal of and interest on the last Outstanding Bonds of such Series. To the extent moneys 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 by Issuer Order 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.

Except as may be set forth in any Supplemental Indenture and in the General Indenture with respect to Classes of Bonds, the Trustee shall apply the moneys in the Debt Service Reserve Fund to the extent of any deficiency in the Revenue Fund after applying the moneys in the Revenue Fund, the Surplus Fund, the Capitalized Interest Fund (to the extent provided in a Supplemental Indenture) and the Acquisition Fund, to the same uses as set forth in the following clauses under the caption “*Revenue Fund*” above: clauses (a), (b), (c)(i), (c)(ii), (c)(iii) and (c)(iv).

On or before the fifth Business Day prior to each Interest Payment Date, and on any other date upon receipt of an Issuer Order, the Trustee shall determine the Value of the Investment Securities on deposit in the Debt Service Reserve Fund to determine whether or not the Debt Service Reserve Requirement has been met.

The Debt Service Reserve Fund shall be replenished from amounts on deposit in the Revenue Fund as provided under the caption “*Revenue Fund*” above, from the Surplus Fund as provided under the

caption “*Surplus Fund*” above, or from State Debt Service Reserve Fund Payments received by the Trustee.

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 calendar year, the balance in the Debt Service Reserve Fund is less than or projected to be less than the Debt Service Reserve Requirement, the Issuer shall take the measures described under the caption “*Deficiency Filing*” below.

*Deficiency Filings.* The Issuer shall (i) semi-annually by May 15 and November 15 of each calendar year, commencing May 15, 2019, cause the Trustee to value the Debt Service Reserve Fund, and (ii) by November 15 of each calendar year, commencing November 15, 2019, determine whether, taking into account all moneys (including Revenues to be received) available for payment of Debt Service under the General Indenture, there will be a shortfall or shortfalls in the amounts necessary to pay Debt Service due and payable on the Bonds during the Fiscal Year commencing on the following July 1. The Commissioner shall annually, on or before December 1 of each calendar year, commencing December 1, 2019, 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, (i) required to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement as of such December 1, and (ii) to be needed during the Fiscal Year commencing on the following July 1, along with other funds pledged under the General Indenture, and estimated to be received during that Fiscal Year (and available for such payment), for the payment of Debt Service due and payable in that Fiscal Year on the Bonds. All State Debt Service Reserve Fund Payments received by the Issuer from the State shall be immediately transferred to the Trustee and, upon receipt of an Issuer Order by the Trustee, shall be deposited in the Debt Service Reserve Fund and applied in accordance with the General Indenture. All State Shortfall Payments received by the Issuer from the State shall be immediately transferred to the Trustee and, upon receipt of an Issuer Order by the Trustee, shall be deposited in the Revenue Fund and applied in accordance with the terms of the Indenture.

All moneys to be paid to the Issuer by operation of the provisions of the Act described above 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 in the General Indenture do not constitute a legally enforceable obligation of the State.

*Acquisition Fund.* The Trustee shall deposit in the Acquisition Fund the amounts set forth in any Supplemental Indenture. Moneys in the Acquisition Fund shall be used to Finance Student Loans and, subject to certain provisions of the General Indenture 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. Additionally, except as set forth in any Supplemental Indenture, upon receipt of an Issuer Order to do so, the Trustee shall apply the moneys in the Acquisition Fund By Class in Descending Priority, to the extent of any deficiency after applying the moneys in the Revenue Fund, the Surplus Fund and (to the extent provided in a Supplemental Indenture) the Capitalized Interest Fund, to the same uses as set forth under the caption “*Revenue Fund*” above.

*Capitalized Interest Fund.* The Trustee will deposit the amounts required by any Supplemental Indenture into the Capitalized Interest Fund. Moneys in the Capitalized Interest Fund will be transferred to the Revenue Fund and used to pay interest on the Bonds and Program Expenses in accordance with the applicable Supplemental Indenture.

*Excess Interest Fund.*

(a) No later than 60 days after each Excess Interest Calculation Date, the Issuer shall determine the Excess Interest, or cause the Excess Interest to be determined, as of the preceding Excess

Interest Calculation Date and shall deliver the calculation to the Trustee, along with a statement of a Rebate Analyst, to the effect that:

(i) the Rebate Analyst has made a review of the records of account and schedules in accordance with generally accepted auditing standards, and

(ii) during the course of such review, nothing came to the attention of the Rebate Analyst that would lead it to believe that such records and schedules were not prepared as described under this caption or, if anything did come to the attention of the Rebate Analyst, a summary of the discrepancies.

(b) The first time the calculation shows the existence of Excess Interest, the Issuer shall by Issuer Order (I) direct the Paying Agent on behalf of the Trustee to establish an Excess Interest Fund and (II) direct the Trustee to transfer an amount equal to the Excess Interest from the following funds, By Class in Descending Priority, in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund. Thereafter, within 60 days after each Excess Interest Calculation Date, the Issuer shall take the following actions:

(i) If the amount on deposit in the Excess Interest Fund is less than the Excess Interest as of the preceding Excess Interest Calculation Date, the Issuer by Issuer Order will direct the Trustee to transfer sufficient funds to the Excess Interest Fund so that the amount on deposit is equal to Excess Interest, from the following Funds in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund.

(ii) If the amount on deposit in the Excess Interest Fund is greater than the Excess Interest, the Issuer by Issuer Order shall direct the Trustee to transfer to the Surplus Fund money sufficient to cause the amount on deposit in the Excess Interest Fund to be equal to the Excess Interest as of such Excess Interest Calculation Date.

(c) In order to maintain the status of the Bonds as Tax-exempt Bonds, the Issuer covenants:

(i) by Issuer Order to direct the Trustee to withdraw from the Excess Interest Fund and remit to the United States Treasury, Yield Reduction Payments in such manner and amounts and on such dates as may be required or permitted by Section 148 of the Code and Section 1.148-5(c) of the Treasury Regulations issued thereunder, in each case solely in accordance with the Issuer Order, unless the Issuer obtains a Favorable Opinion that such payments are not required; or

(ii) to direct the Trustee in an Issuer Order to transfer a specified amount from the Excess Interest Fund to the Surplus Fund at any time, upon providing the Trustee with a Favorable Opinion regarding such transfer; or

(iii) to forgive the indebtedness on all or a portion of the Student Loans to the extent necessary to prevent interest on any Tax-exempt Bonds from being includable in the gross income of the owners thereof for federal income tax purposes, or take such other action as may be provided in a Favorable Opinion.

(d) The Issuer shall exercise reasonable diligence to assure that no error in the calculations is made and, if such an error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including the payment to the United States Treasury of any delinquent amounts owed to it, interest thereon, and any assessed penalty.

(e) Records of the determinations under this Section shall be retained by the Issuer until six years after the retirement of all of the Tax-exempt Bonds of the related Series.

*Rebate Fund.*

(a) No later than 60 days after each Computation Date, the Issuer shall determine, or cause to be determined, the Rebate Amount as of the preceding Computation Date and shall deliver such calculation to the Trustee, along with a statement of a Rebate Analyst, to the effect that:

(i) the Rebate Analyst has made a review of the records of account and schedules in accordance with generally accepted auditing standards, and

(ii) during the course of such review, nothing came to the attention of the Rebate Analyst that would lead it to believe that such records and schedules were not prepared in as described under this caption or, if anything did come to the attention of the Rebate Analyst, a summary of such discrepancies.

(b) The first time such calculation shows the existence of a Rebate Amount, the Issuer by Issuer Order shall (I) direct the Paying Agent on behalf of the Trustee to establish a Rebate Fund and (II) direct the Trustee to transfer an amount equal to such Rebate Amount from the following funds, in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund. Thereafter, within 60 days after each Computation Date, the Issuer shall take the following actions:

(i) If the amount on deposit in the Rebate Fund is less than the Rebate Amount as of the preceding Computation Date, the Issuer by Issuer Order will direct the Trustee to transfer sufficient funds to the Rebate Fund so that the amount on deposit is equal to the Rebate Amount from the following Funds in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund.

(ii) If the amount on deposit in the Rebate Fund is greater than the Rebate Amount, the Issuer by Issuer Order shall direct the Trustee to transfer (A) to the Revenue Fund, or (B) if moneys have been provided by the Issuer under the General Indenture, to the Issuer, or (C) both, so that Gross Proceeds are not released from the Trust Estate, money sufficient to cause the amount on deposit in the Rebate Fund to be equal to the Rebate Amount as of such Computation Date.

(iii) If the amount on deposit in the Rebate Fund is less than the Rebate Amount, the Issuer shall deposit funds with the Trustee in an amount equal to the difference to cause the amount on deposit in the Rebate Fund to be equal to the Rebate Amount as of such Computation Date and by Issuer Order will direct the Trustee to make such deposit.

(c) In order to maintain the status of the Bonds as Tax-exempt Bonds, the Issuer covenants:

(i) to direct the Trustee to withdraw from the Rebate Fund and remit to the United States Treasury (in such manner and on such dates as may be required or permitted by Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations issued thereunder) the minimum amounts required by Section 148(f) of the Code to be rebated to the United States Treasury, in each case solely in accordance with the Issuer Order, unless the Issuer obtains a Favorable Opinion that such payments are not required; or

(ii) take such other action as may be provided in a Favorable Opinion.

(d) The Issuer shall exercise reasonable diligence to assure that no error in the calculations required by this Section is made and, if such an error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including the payment to the United States Treasury of any delinquent amounts owed to it, interest thereon, and any assessed penalty.

(e) Records of the determinations under this Section shall be retained by the Issuer until six years after the retirement of all of the Tax-exempt Bonds of the related Series.

*Extraordinary Transfers to Rebate Fund and Excess Interest Fund.* By noon on the Business Day preceding the maturity of the last Bond of a Series of Tax-exempt Bonds, the Issuer shall determine or cause to be determined the Rebate Amount and Excess Interest expected on the date of such maturity and shall deliver its calculations to the Trustee. On the date of receipt of such calculation and an Issuer Order, the Trustee shall:

- (a) first, transfer any required Rebate Amount to the Rebate Fund, and
- (b) second, transfer any Excess Interest to the Excess Interest Fund.

The Trustee shall transfer the required amounts from each of the following Funds By Class in Descending Priority, in the following order of priority: (1) Surplus Fund, (2) Revenue Fund and (3) Acquisition Fund.

*Investments.* Investment earnings on deposits in the Funds and Accounts shall be distributed as follows: (a) investment earnings on amounts held in the Revenue Fund and Accounts therein remain in the Revenue Fund and the Account from which such earnings are derived; (b) investment earnings on amounts held in the Redemption Fund and Accounts therein remain in the Redemption Fund and the Account from which such earnings are derived; (c) investment earnings on amounts held in the Surplus Fund shall be transferred to the Revenue Fund; (d) to the extent moneys held in an Account in the Debt Service Reserve Fund for a Series exceed the Debt Service Reserve Requirement (other than as a result of a State Debt Service Reserve Fund Payment), such excess shall be transferred to the Account for such Series in the Revenue Fund upon receipt by the Trustee of an Issuer Order; (e) investment earnings on amounts held in the Acquisition Fund and Accounts therein shall remain in the Acquisition Fund and the Account from which such earnings are derived; (f) investment earnings on amounts held in the Excess Interest Fund shall remain in the Excess Interest Fund; (g) investment earnings on amounts held in the Rebate Fund shall remain in the Rebate Fund; and (h) investment earnings on amounts held in the Capitalized Interest Fund shall remain in the Capitalized Interest Fund.

*Withdrawal of Excess Coverage.* No later than March 15 or September 15 in each year while Bonds are Outstanding (the Monthly Deposit Date occurring two months prior to an Interest Date), the Issuer may deliver to the Trustee an Issuer Order, demonstrating that there is Excess Coverage in the Surplus Fund, certifying compliance with any applicable Supplemental Indenture, and specifying the amount of Excess Coverage requested to be released. Upon receipt of the Issuer Order, the Trustee shall release to the Issuer from the Surplus Fund, an amount equal to such Excess Coverage; provided that no amounts shall be released to the Issuer under the provisions of this Section except in compliance with any applicable Supplemental Indenture or to the extent any amount is due or payable.

*Order of Use of Amounts in Funds for Payment of Bonds.* Except as 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 Debt Service on the Bonds, the Trustee shall apply moneys from the named Funds in the following order: (1) Revenue Fund, (2) Surplus Fund, (3) Capitalized Interest Fund (to the extent provided in a Supplemental Indenture), (4) Acquisition Fund, (5) Debt Service Reserve Fund and

(6) Redemption Fund (solely with respect to Bonds for which notice of payment or redemption of Bonds has not been given).

***Particular Covenants.*** In the General Indenture, the Issuer covenants, represents, warrants and agrees with the Trustee and the Owners as follows:

*Payment of Bonds.* The Issuer shall punctually pay the Debt Service and the Redemption Price of every Bond or cause the Debt Service and the Redemption Price of every Bond to be paid on the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and in the Indenture.

*Perfection of Security Interest in Student Loans.* The Issuer covenants that the Servicer shall hold all Notes and that such Notes shall be held by the Servicer in accordance with the Bailment Agreement. The Trustee shall have a first perfected security interest in all Student Loans. The Issuer shall (i) warrant and defend its title to the Student Loans, the related Revenues and the Funds and Accounts against the claims and demands of all Persons; (ii) defend the Student Loans against all claims and demands of all Persons other than the Trustee and the Owners at any time claiming the same or any interest therein, (iii) comply with the requirements of all state and federal laws in order to grant to the Trustee (for the benefit of the Owners) valid and perfected first priority security interests in the Student Loans, and (iv) take all actions necessary to effect the purposes of the Indenture including filing notices of liens, UCC financing statements and amendments, renewals and continuations thereof. The Issuer, the Trustee and the Servicer shall execute and deliver custodian agreements as directed by the Issuer and necessary under applicable law to perfect and maintain the security interest in the Student Loans created in the General Indenture.

*Disposal and Consolidation of Student Loans.* Subject to any additional restrictions contained in an applicable Supplemental Indenture providing for the issuance of a Series and other than with respect to withdrawal of Excess Coverage:

(a) Student Loans held under the General Indenture shall be sold, assigned, transferred or otherwise disposed of by the Trustee on behalf of the Issuer free from the lien of the General Indenture at any time under the provisions below or a Supplemental Indenture if the Trustee is provided the following:

(i) a Certificate signed by the Issuer demonstrating compliance with the requirements below;

(ii) a Certificate of an Authorized Representative that, based on a Cash Flow Projection, such sale, assignment, transfer or other disposal does not adversely affect the Issuer's ability to pay (A) Debt Service on the Outstanding Bonds, (B) Program Expenses (to the extent the Issuer fails to pay such Program Expenses from another source), or (C) to make the required deposits to the credit of the Rebate Fund and the Excess Interest Fund;

(iii) the proceeds received from the sale, assignment, transfer or other disposal of the Student Loans, along with a certificate of an Authorized Representative to the effect that, if the Student Loans were disposed of in a cash transaction, the cash received for such Student Loans was not less than the fair market value thereof;

(iv) prior to any sale, assignment, transfer or other disposal, a Favorable Opinion;

(v) all other documentation required by the applicable Supplemental Indenture; and

(vi) in the case of an exchange of a Student Loan, the Student Loan to be exchanged therefor, as applicable.

(b) The Trustee shall apply the disposal proceeds of Student Loans in accordance with the provisions set forth under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—Pledge of Indenture; Establishment of Funds and Accounts—*Revenue Fund*” in this Appendix B.

(c) 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 pay Debt Service on all Outstanding Bonds in accordance with the terms of the applicable Supplemental Indentures.

(d) 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 trust estate.

(e) Notwithstanding the foregoing, no exchange, sale, assignment, transfer or other disposal of Student Loans shall be made if such exchange, sale, assignment, transfer or other disposal would have an adverse effect on the exclusion from gross income for federal income tax purposes of interest on any Tax-exempt Bonds.

*Servicing Student Loans.*

(a) The Issuer shall 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. The Servicer will be the Issuer’s 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 Servicing Agreement and any Bailment Agreement, whether such obligations are performed by the Servicer or by a Subservicer. The Issuer shall cause all Notes to be held in trust as part of the Trust Estate, by bailment or otherwise, subject to the lien of the General Indenture.

(b) The Issuer shall cause each Servicing Agreement and Bailment Agreement to be diligently enforced, and shall take all reasonable steps, actions and proceedings necessary for the enforcement of, all terms, covenants and conditions of all Servicing Agreements and Bailment Agreements, including the prompt payment of all principal and interest payments and all other amounts due the Issuer thereunder. The Issuer shall not permit the release of the obligations of any Servicer under any Servicing Agreement or Bailment Agreement in any manner that materially adversely affects the rights or security of the Owners and shall at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Issuer, the Trustee and the Owners under or with respect to each Servicing Agreement and Bailment Agreement. The Issuer shall not consent or agree to or permit any amendment or modification of any Servicing Agreement or Bailment Agreement which will in any manner materially adversely affect the rights or security of the Owners.

(c) The Issuer will perform an audit of the Servicer at least once each calendar year and include its findings in a written report. Upon the occurrence of a default or an Event of Default under the



Indenture, 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 include its findings in a written report. The report shall describe such compliance (or describe any noncompliance in reasonable detail).

(d) In the event that the Issuer becomes aware outside of the audit process described in the preceding paragraph of any material noncompliance by the Servicer with the Issuer's requirements for servicing Student Loans specified in the Servicing Agreement, the Issuer shall use its best efforts to cause the Servicer to do all things necessary to cure such noncompliance.

(e) If, due to noncooperation of the Servicer, the audit is not completed by the Issuer within 30 days after the time required or if the Servicer fails to cure any noncompliance within 60 days after the Issuer provides notice of such noncompliance to the Servicer, unless in the opinion of the Issuer, the noncompliance is unable to be cured in 60 days and the Servicer is diligently proceeding to cure such noncompliance, the Issuer shall commence the process for substitution of the Servicer (including meeting the requirements of an Event Notification) under a Servicing Agreement granting rights substantially identical to the rights granted under the initial Servicing Agreement with respect to the Student Loans.

*Continuing Existence; Successor to Issuer.*

(a) The Issuer agrees that it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and franchises as an agency of the State, except as otherwise permitted as follows. The Issuer further agrees that it will not (i) sell, transfer or otherwise dispose of all or substantially all, of its assets (except Student Loans if such sale, transfer or disposition will discharge the Indenture in accordance with the provisions described under the caption "SUMMARIES OF DOCUMENTS—The General Indenture—*Defeasance*" in this Appendix B); (ii) consolidate with or merge into another entity; or (iii) permit one or more other entities to consolidate with or merge into it. The preceding restrictions in clauses (i), (ii) and (iii) above shall not apply to a transaction if the transferee or the surviving or resulting entity, if other than the Issuer, by proper written instrument for the benefit of the Trustee, irrevocably and unconditionally assumes the obligation to perform and observe the agreements and obligations of the Issuer under the Indenture.

(b) Any transfer made as provided in the above paragraph shall be subject to the receipt by the Issuer and the Trustee of a Favorable Opinion.

(c) If a transfer is made as provided above, these provisions shall continue in full force and effect and no further transfer shall be made except in compliance with these provisions.

*Covenants Regarding Student Loans.* No amount in the Acquisition Fund, the Revenue Fund, or the Surplus Fund shall be expended or applied for the purpose of Financing a Student Loan, and no Student Loan shall be Financed under the General Indenture, unless the Issuer has determined, as of the date of acquisition of such Student Loan, that it will meet the following criteria:

(a) Each Student Loan is evidenced by a Note, either manually or electronically signed by the Borrower and if there is a Cosigner, the Cosigner, which Note is a valid and binding obligation of the Borrower and, if there is a Cosigner, the 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 Student 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 Trustee as 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 more than 60 days delinquent (delinquent, for this purpose, meaning that a payment has not been made as 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 Student Loan documentation shall be delivered to the Servicer (as custodian for the Trustee) prior to disbursement of amounts to Finance such Student Loan.

(g) Each Student Loan is accruing interest (whether or not such interest is being paid currently by the Borrower, is past due and unpaid, or is being capitalized).

(h) Each Student Loan bears interest at a fixed or variable interest rate, as specified in a Supplemental Indenture.

*Payment of Program Expenses.* At the option of the Issuer, the Issuer may pay Program Expenses from a source of funds outside of the Trust Estate. To the extent the Issuer pays any Program Expenses, the Issuer shall notify the Trustee of the amount of Program Expenses so paid within five calendar days of the payment thereof.

***Supplemental Indentures Not Requiring the 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 for the following purposes: (a) to provide limitations and restrictions in addition to the limitations and restrictions contained in the General Indenture or in any Supplemental 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 or in any Supplemental Indenture other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect; (c) to add to the limitations and restrictions in the General Indenture or in any Supplemental Indenture other limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the 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 or of any Supplemental 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 Indenture; (e) to confirm, as further assurance, any pledge under, and to subject any lien or pledge created or to be created by, the General Indenture, on or of the Revenues or on or of any other revenues or assets; (f) to modify any of the provisions of the General Indenture or of any Supplemental Indenture in any respect whatever, but only if (i) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the execution of such Supplemental Indenture shall cease to be Outstanding; and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds authenticated and delivered after the date of the execution of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; (g) to authorize the issuance of one or more Classes or Series and to prescribe the terms and conditions upon which such Class or Series may be issued; (h) to

create additional special trust accounts for the further securing of all Bonds or a Series secured by the General Indenture if along with such Supplemental Indenture there is filed an Opinion of Bond Counsel to the effect that the creation and operation of such account does not materially adversely affect the existing security of the Owner of any Outstanding Bond; (i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the General Indenture or in any Supplemental Indenture; (j) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; (k) to provide for additional duties of the Trustee in connection with the Student Loans; (l) 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 is necessary or desirable to maintain the tax status of the Tax-exempt Bonds; or (o) to make any change which is not to the material prejudice of the Trustee or the Owners.

Any Supplemental Indenture permitted or authorized by clauses (a) through (o) above may be executed by the Issuer without notice to or the consent of any of the affected Owners; provided that no such modification shall be effective if the consent of all Owners would be required therefor under the provisions under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Supplemental Indentures Requiring Consent of Owners*” in this Appendix B and such consent has not been obtained. The copy of each Supplemental Indenture authorized by clauses (a) through (o) above and filed with the Trustee shall be accompanied by a Favorable Opinion.

***Supplemental Indentures Requiring Consent of Owners.*** Except as provided in the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Supplemental Indentures Not Requiring Consent of Owners*” in this Appendix B, any modification of or amendment to the Indenture and of the rights and obligations of the Issuer or of the Owners of the Bonds of any particular Series may be made by a Supplemental Indenture, with the written consent of: (i) the Majority Owners of Bonds By Class in Descending Priority Outstanding; and (ii) in case less than all of the several Series then Outstanding are affected by the modification or amendment, of the Majority Owners of the Bonds of each Series so affected and Outstanding at the time such consent is given.

Nothing shall permit or be construed as permitting without the consent of the Owner of each Bond which would be affected thereby (i) an extension of the maturity of the principal of or the interest on any Bond, whether at the Stated Maturity thereof, on the date of a Sinking Fund Payment or otherwise, (ii) a change in the terms of any Sinking Fund Payment, (iii) a reduction in the principal amount of any Bond or Redemption Price, or the rate of interest thereon, (iv) the percentages of such Series or Class within that Series for the purpose of the Owners’ consenting to any modification of or amendment to the Indenture or otherwise affect the Classes of Bonds, (v) other than as provided in the General Indenture with respect to Classes of Bonds, a privilege or priority of any Bonds over any other Bonds, (vi) other than as provided in the General Indenture with respect to Classes of Bonds, the creation of any lien ranking prior to or on a parity with the lien of the General Indenture on the Trust Estate or any part thereof, (vii) deprivation of an Owner of the lien created by the General Indenture on the rights, title, interest, privileges, revenues, moneys and securities pledged under the General Indenture, or (viii) the modification of any of the provisions described in this paragraph.

If any such modification or amendment will not take effect so long as any Bonds of any specified Stated 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.

### ***Defaults and Remedies.***

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

- (a) (i) payment of the principal on any Class I Bond shall not be made when and as the same shall become due, other than the principal component of Sinking Fund Payments on Cumulative Sinking Fund Term Bonds, and (ii) if no Class I Bonds are Outstanding, payment of the principal on any Class II Bond shall not be made when and as the same shall become due, other than the principal component of Sinking Fund Payments on Cumulative Sinking Fund Term Bonds; or
- (b) (i) payment of any installment of interest on any Class I Bond shall not be made when and as the same shall become due, and (ii) if no Class I Bonds are Outstanding, payment of the interest on any Class II Bond shall not be made when and as the same shall become due; or
- (c) unless notice of redemption is revoked as permitted by the Indenture, payment of the Redemption Price on any Class I Bond shall not be made when and as the same shall become due, and (ii) if no Class I Bonds are Outstanding, payment of the Redemption Price on any Class II Bond shall not be made when and as the same shall become due; or
- (d) failure to pay Debt Service on Cumulative Sinking Fund Term Bonds at their Stated Maturity; or
- (e) (i) the Issuer shall fail or refuse to comply with the provisions of the Indenture, or shall default in the performance or observance of any other covenant, agreement or condition on its part contained in the Indenture or the Bonds, other than those described in clauses (a) through (d) above, and (ii) such failure, refusal or default shall continue for a period of 45 days after written notice thereof has been delivered to the Issuer by the Trustee or by the Minority Owners.

*Remedies.* Upon the occurrence and continuance of any Event of Default specified in clauses (a) through (d) under the caption “*Events of Default*” above, the Trustee shall promptly notify the Issuer and each Indenture Agent of the existence of the Event of Default or upon the occurrence and continuance of any Event of Default specified in clause (e) under the caption “*Events of Default*” above, of which a Responsible Officer has actual knowledge, the Trustee shall promptly notify the Issuer and each Indenture Agent of the existence of the Event of Default. The Trustee may, or, if instructed by the Owners as described in the General Indenture, shall, proceed in its own name to protect and enforce the rights of the Owners by such of the following remedies, as the Trustee shall deem most effectual to protect and enforce such rights:

- (a) 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, 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;
- (b) by bringing suit upon the Bonds;
- (c) 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;
- (d) 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; or

(e) immediately declare the principal 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 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.

In the enforcement of any rights and remedies under the 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 provision of the 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.

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 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.

Upon the occurrence and during the continuance of an Event of Default under the Indenture, the Issuer shall not 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.

The Trustee shall select and liquidate or sell Trust Estate assets as provided in the following paragraph, and will not be liable to any Owner or the Issuer by reason of such selection, liquidation or sale.

Whenever moneys are to be applied under the provisions of the General Indenture upon an Event of Default irrespective of and whether other remedies authorized under the Indenture shall have been pursued in whole or in part, the Trustee may, and at the direction of the Majority Owners, shall cause any or all of the assets of the Trust Estate to be sold, subject to the following provisions of this paragraph. The Trustee may 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 and as may be required by law and apply the proceeds thereof in accordance with the provisions of the Indenture. Upon such sale, the Trustee 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, 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.

The Trustee will promptly notify Persons claiming in writing to be Beneficial Owners (i) upon an Event of Default occurring under clauses (a) through (d) under the caption "Events of Default" above, or (ii) upon a Responsible Officer having actual knowledge of the occurrence of an Event of Default under clause (e) under the caption "Events of Default" above, or an 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.

(i) Notwithstanding the foregoing, the Trustee is prohibited from selling the Student Loans following an Event of Default, other than a default in the payment of any principal or interest on any Bond, unless:

(i) the Owners of all of the Highest Priority Bonds at the time Outstanding consent to such a sale; or

(ii) the proceeds of such a sale will be sufficient to discharge all the Outstanding Bonds pursuant to the General Indenture at the date of such a sale; or

(iii) the Issuer, or the Commissioner on behalf of the Issuer, determines that the collections on the Student Loans would not be sufficient on an ongoing basis to make all payments on such Bonds as such payments would have become due if such Bonds had not been declared due and payable, and the Trustee obtains the consent of the Owners of at least 66 2/3% of the aggregate principal amount of the Highest Priority Bonds at the time Outstanding, to the extent such Owners have not consented under clause (i) of this paragraph.

(j) In addition to the requirements of paragraph (i) above, such a sale following an Event of Default, other than a default in the payment of any principal or interest on any Bond, shall also require the consent of all the Owners of the Class II Bonds (to the extent such Class II Bonds are not the Highest Priority Bonds Outstanding) unless the proceeds of such a sale would be sufficient to discharge the Class II Bonds pursuant to the General Indenture at the date of such a sale.

*Priority of Payments After Default.* In the event that upon the occurrence and during the continuance of any Event of Default, the funds held by the Trustee and Paying Agents shall be insufficient for the payment of Debt Service or Redemption Price then due on the Outstanding Bonds, such funds (other than funds held for the payment of particular Bonds as described under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Defeasance*” of this Appendix B or which have theretofore become due at Stated Maturity) and any other amounts received or collected by the Trustee acting under the provisions of the General Indenture, after providing for the payment of any expenses necessary to protect the interest of the Owners, in an amount provided by the Owners to the Trustee, 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 its respective duties under the Indenture, shall be applied as follows:

(a) Unless the principal of all of the Outstanding Bonds shall have become or have been declared due and payable:

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

SECOND: To the payment to the Persons entitled to the unpaid principal or the principal component of the Redemption Price of any Class I Bonds which has become due and, if the amount available is not 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 to the Persons entitled to all installments of interest then due on Class II Bonds and, if the amount available is not sufficient to pay in full any interest installment, then to the payment thereof ratably, according to the amount of interest installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

FOURTH: To the payment to the Persons entitled to the unpaid principal or the principal component of the Redemption Price of any Class II Bonds which has become due and, if the amount available is not 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.

(b) If the principal of all Outstanding Bonds shall have become due or shall have been declared due and payable and such declaration has not been annulled and rescinded under the provisions of the Indenture,

(A) first, to payment of the then due and unpaid principal of and interest on the Class I Bonds, without preference of priority of any amount due and owing under the foregoing over any other amount due and owing under the foregoing whether principal, interest or any other amount, ratably, according to the amounts due to the Persons entitled thereto without any discrimination or preference except any difference in the respective rates of interest specified in the Class I Bonds; and

(B) second, to payment of the then due and unpaid principal of and interest on the Class II Bonds, without preference of priority of any amount due and owing under the foregoing over any other amount due and owing under the foregoing whether principal, interest or any other amount, ratably, according to the amounts due to the Persons entitled thereto without any discrimination or preference except any difference in the respective rates of interest specified in the Class II Bonds.

(c) If the principal of all Outstanding Bonds shall have been declared immediately due and payable, and if such declaration shall thereafter been rescinded and annulled under the provisions of the Indenture, then in the event that the principal of all Outstanding Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

Whenever moneys are to be applied by the Trustee, such moneys shall be applied by the Trustee at such times, and from time to time, as directed in writing by the Majority Owners.

*Termination of Proceedings.* In case any proceeding is taken and then 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 under the Indenture, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

*Owners' Direction of Proceedings.* Upon the occurrence of an Event of Default described in clause (e) under the caption "Events of Default" above, the Owners of not less than 100% in principal amount of the Highest Priority Bonds then Outstanding or, upon the occurrence of an Event of Default

described in clauses (a) through (d) under the caption “*Events of Default*” above, the Majority Owners of the Highest Priority Bonds then Outstanding have the right to direct the Trustee to take all or any of the actions described under the caption “*Remedies*” above. In the event that such Owners 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 thereby, either to proceed to exercise the powers granted in the Indenture or to pursue a remedy described in the Indenture, and the Trustee shall have refused or neglected to comply with such request, then the Majority Owners of the Highest Priority Bonds then Outstanding may exercise such rights.

*Limitation on Rights of Owners.* Except as otherwise specifically provided under the caption “*Owners’ Direction of Proceedings*” above or under this caption, 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 shall have any right in any manner whatever by their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right granted with respect to the Bonds or the Indenture, except in the manner described under this caption, and that all proceedings at law or in equity shall be instituted, continued and maintained in the manner provided in the Indenture and for the benefit of Owners of the Outstanding Bonds.

Each Owner of any Bond by acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the 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:

(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 their 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 shall have no liability therefor if such agents were appointed 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 in connection with the trust of the Indenture. The Trustee may act upon an Opinion of Counsel, including Bond Counsel and the advice of other Counsel and experts, 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 or advice of other Counsel and experts. 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 misconduct. The Trustee need not investigate or make any independent determination of the facts, representations or conclusions contained in an Issuer Order. Prior to taking any action under the Indenture, the Trustee shall be entitled to an Issuer Order and/or an Opinion of Counsel that all conditions precedent under the 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 or electronic communication 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 under 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 or the Servicer, 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 instrument or agreement, or under law the Trustee may act in full reliance upon the Issuer or any Servicer with respect to all 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 or any other Person or entity for any action (or inaction) of the Trustee taken in reliance upon 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, the Indenture or any Servicer unless in connection with such action or omission the Trustee has willfully failed or failed with gross negligence to perform its obligations under an agreement with any Servicer or under the Indenture.

(f) The Trustee will not be responsible or liable for a failure or delay in the performance of its obligations under the Indenture from or caused by, directly or indirectly, forces beyond its control, including strikes, work stoppages, acts of war, terrorism, civil or military disturbances, nuclear catastrophes, fires, floods, earthquakes, storms, hurricanes or other natural catastrophes and interruptions, unforeseeable loss or failures of mechanical, electronic or communication systems. The Trustee will use reasonable efforts consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(g) The Trustee shall not be required to take any action it is directed to take under the Indenture if the Trustee determines in good faith that the action so directed would involve the Trustee in personal liability, be unjustly prejudicial to the non-directing Owners, or is inconsistent with the Indenture.

(h) In no event shall the Trustee be liable for failure to perform its duties under the Indenture if such failure is a direct or proximate result of another party's failure to perform its obligations under the Indenture.

(i) The Trustee's receipt of reports and information under the Indenture shall not constitute notice of any information contained therein or determinable therefrom, including but not limited to a party's compliance with covenants under the Indenture.

*Responsibilities of Indenture Agents.* The recitals of fact in the General Indenture and in the Bonds contained shall be taken as the statements of the Issuer and no Indenture Agent assumes any responsibility for the correctness of the same. No Indenture Agent makes any representation as to the validity or sufficiency of the Indenture or of any Bonds issued under the Indenture or in respect of the security afforded by the Indenture, and no Indenture Agent shall incur any responsibility in respect thereof. The Authenticating Agent shall, however, be responsible for its representations contained in its certificate on the Bonds. No Indenture Agent shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Issuer. No Indenture Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any other Indenture Agent. No Indenture Agent shall be under any obligation or duty to perform any act which would involve an expense or liability or to institute or defend any suit in respect of the Indenture, or to advance any of its own moneys, unless indemnified to its satisfaction. No Indenture Agent shall be liable in connection with the performance of its duties under the Indenture except for its own negligence (or, with respect to the Trustee, for its own gross negligence) or willful misconduct. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

*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 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, as provided under the caption "*Appointment of Successor Trustee*" below, in which event such resignation shall take effect immediately on the appointment of such successor. Notwithstanding the foregoing, no resignation of the Trustee under the Indenture shall become effective until a successor Trustee has been appointed and accepted its appointment.

*Removal of Trustee.* The Trustee shall be removed by the Issuer with at least 30 days prior written notice 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 Majority Owners or their attorney-in-fact. Notwithstanding the foregoing, no removal of the Trustee shall become effective until a successor has been appointed and has accepted such appointment.

*Appointment of Successor Trustee.* If at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Issuer covenants and agrees that it will promptly thereupon appoint a successor Trustee. The Issuer shall mail notice of any such appointment made by it within 20 days after such appointment to all Owners of Bonds.

If no appointment of a successor Trustee shall have been made within 45 days after the Trustee shall have given to the Issuer written notice, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Every successor Trustee shall be a commercial bank or trust company in good standing having the powers of a trust company within the State and authorized to exercise trust powers and subject to examination by federal or state authority.

***Defeasance.*** If the Issuer shall satisfy the applicable provisions described under this heading, then the Bonds shall be deemed to have been paid and no longer Outstanding and the pledge of the Trust Estate, including any Revenues and other moneys, securities, funds and property pledged under the General Indenture and all other rights granted by the General Indenture shall be discharged and the obligations of the Issuer under the General Indenture 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.

***Advance Refunding.*** Except as otherwise provided in any Supplemental Indenture, all Bonds to be redeemed on any date more than 60 days prior to their Stated Maturity or Redemption Date shall be deemed to have been paid and no longer Outstanding:

(i) If (A) the Issuer shall have given to the Trustee in form satisfactory to it (I) irrevocable written instructions to mail to the Owners notice of redemption of such Bonds stating the Redemption Date upon which moneys are to be available for the payment of the Redemption Price on said Bonds; (II) irrevocable written instructions to mail, as soon as practicable, a notice to the Owners of such Bonds stating that (x) the deposit required by clause (B) of this paragraph has been made with the Trustee, (y) said Bonds are deemed to have been paid as provided under this heading, and (z) each Stated Maturity or Redemption Date upon which moneys are to be available for the payment of the Debt Service or Redemption Price, if any, on said Bonds; (B) there shall have been deposited with or delivered to the Trustee (I) either moneys in an amount which shall be sufficient, or noncallable and nonprepayable Governmental Obligations (including any Governmental Obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when due, without reinvestment, will provide moneys which together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of and interest to become due on such Bonds on and prior to the Redemption Date or Stated Maturity date thereof, as the case may be, verified as to sufficiency by a report of an Accountant and (II) a Favorable Opinion; and (C) the Issuer has paid or provided for the payment of (I) all Rebate Amounts and Excess Interest required to be paid to the United States Treasury and (II) the fees, costs and expenses of each Indenture Agent.

(ii) The Trustee shall deposit the moneys to be irrevocably set aside for payment of the Debt Service and/or Redemption Price of the Bonds in a separate redemption account or pursuant to a separate escrow agreement, if the Issuer so designates.

(iii) Neither Governmental Obligations or moneys deposited with the Trustee described under this caption 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 Debt Service 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 Debt Service or Redemption Price, if any, to become due on said Bonds on and prior to their Stated Maturity, as the case may be, and interest earned from such reinvestments shall,

subject to receipt by the Trustee and the Issuer of a report of an Accountant verifying continued sufficiency and a Favorable Opinion, be paid over to the Issuer as received by the Trustee, free and clear of any trust, lien or pledge.

*Current Refunding.* Except as otherwise provided in any Supplemental Indenture, if all Bonds are to be redeemed on any date less than 60 days prior to their Stated Maturity, such Bonds shall, prior to the Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) the Issuer has given the Trustee irrevocable written notice of redemption of the Bonds; (ii) there shall have been deposited with the Trustee moneys in an amount which, when added to the other moneys in the Indenture certified to be available by the Issuer, are certified by the Issuer to be sufficient to pay the principal of and interest on the Bonds to and on the Redemption Date; and (iii) the Issuer has paid or provided for the payment of (A) all Rebate Amounts and Excess Interest required to be paid to the United States Treasury and (B) the fees, costs and expenses of each Indenture Agent. 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. The money shall be invested only in non-callable and non-payable Governmental Obligations which mature prior to the Redemption Date.

*Partial Defeasance.* The deposits described under “*Advance Refunding*” and “*Current Refunding*” above may be made with respect to any portion of any Series or Class within any particular Stated Maturity, in which case such Bonds shall no longer be deemed to be Outstanding, 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 General Indenture and the applicable Supplemental Indenture shall remain in full force and effect to protect the interests of the Owners of Bonds remaining Outstanding thereafter. The provisions of the Indenture relating to payment, registration, transfer and redemption of Bonds shall remain in effect until final Stated Maturity or the Redemption Date of the Bonds.

From and after the date of payment or defeasance in full, of all Bonds Outstanding, the Issuer shall have the right to receive payments with respect to all Student Loans.

## **The First Supplemental Indenture**

The following is a summary or extract of certain provisions of the First Supplement. Such summary or extract does not purport to be complete and is subject to change prior to delivery of the Series 2018 Bonds.

### ***Authorization, Terms and Issuance of Series 2018 Bonds.***

*Principal Amount, Designation and Series.* The Series 2018 Bonds are authorized to be issued in the aggregate principal amount of \$54,535,000 under and subject to the terms, conditions and limitations established in the General Indenture and the First Supplement.

*Purposes of Issuance.* The Series 2018 Bonds are being issued to obtain funds to Originate Student Loans and to fund the Debt Service Reserve Requirement.

### ***Deposits into Funds and Accounts; Disposition of Proceeds of the Sale of the Series 2018 Bonds; and Use and Disbursements of Funds.***

*Deposits into Funds and Accounts on the Issue Date.* The sale proceeds of the Series 2018 Bonds will be distributed and applied in accordance with the table under the heading “SOURCES AND USES OF FUNDS” in the body of this Official Statement and the following provisions. Throughout the Loan Origination Period, the Trustee shall transfer the amount deposited in the Series 2018 Account of the

Acquisition Fund to the Issuer (i) to make disbursements on Student Loans (in the case of that portion of any Student Loans to be Originated with amounts from the Series 2018 Account of the Acquisition Fund), or (ii) in exchange for a like aggregate principal amount as of the date of transfer of Student Loans (in the case of Student Loans (including Student Loans which have not been fully disbursed as of the date of transfer) to be Originated with amounts from the Series 2018 Account of the Acquisition Fund). Such transfers, as well as any subsequent acquisitions of Student Loans by the Trustee under the General Indenture, will be evidenced by an Assignment in substantially the form attached to the First Supplement. All Student Loans so transferred will be deposited to the credit of the Series 2018 Account of the Student Loan Fund and constitute a part of the Trust Estate.

*Recycling Limitations.* Student Loans may be Originated under the General Indenture, with amounts credited to the Series 2018 Account of the Surplus Fund, only during the Recycling Period.

*Accounts for Series 2018 Bonds.*

For purposes of tracking amounts and loans attributable to the Series 2018 Bonds, the Paying Agent on behalf of the Trustee shall establish a separate Account entitled “Series 2018 Account” in each of the Acquisition Fund, the Debt Service Reserve Fund, the Student Loan Fund, the Revenue Fund, the Redemption Fund and the Surplus Fund and these Accounts shall be administered in the same manner as the Fund in which such Account is created as provided in the General Indenture; provided, however, as follows:

- (a) amounts transferred to the Acquisition Fund attributable to the Series 2018 Bonds shall be deposited in the Series 2018 Account of the Acquisition Fund as described under the captions “*Deposits into Funds and Accounts on the Issue Date*” above; and
- (b) Student Loans acquired with proceeds of or attributable to the Series 2018 Bonds shall be credited to the Series 2018 Account of the Student Loan Fund; and
- (c) Student Loans acquired with amounts on deposit in the Series 2018 Account of the Surplus Fund will be credited to the Series 2018 Account of the Student Loan Fund; and
- (d) amounts received as repayments of Student Loans attributable to the Series 2018 Bonds and investment earnings thereon shall be deposited into the Series 2018 Account of the Revenue Fund as provided in the General Indenture solely for the purpose of paying principal of and interest on the Series 2018 Bonds.

*Limitation on Sale of Loans.* The Issuer shall not direct the sale of Student Loans credited to the Series 2018 Account of the Student Loan Fund under any provision of the General Indenture if, at the time of such sale, the Class I Bonds Parity Ratio is less than the Minimum Class I Bonds Parity Ratio.

*Limitation on Program Expenses Paid From Revenue Fund.* The amount of Program Expenses payable from the Revenue Fund under clause (b) under the caption “SUMMARIES OF DOCUMENTS—The General Indenture—*Pledge of Indenture; Establishment of Funds and Accounts—Revenue Fund*” of this Appendix B shall not exceed the amounts set forth in the Table of Program Expenses below. Such amounts may be increased if the Issuer has satisfied the requirements of an Event Notification with respect to any such increase. The Program Expenses shown in the table below were assumed in the Cash Flow Projection delivered to the Trustee on the Issue Date. The excess of the annual amounts allocated below in each category over the annual Program Expenses in the related category and actually paid in each year is not carried forward to subsequent years and is non-cumulating. The amount indicated for one category is not available to pay excess costs in other categories.

### **Table of Program Expenses**

<b>Type of Program Expense</b>	<b>Annual Amount</b>
Trustee's Fees	\$15,000
Trustee's Extraordinary Fees and Indemnities	\$25,000
Servicing Fees	\$3.37/Student Loan/month, subject to a 3% escalator beginning in year 5 of the term of the Series 2018 Bonds
Other	\$25,000

To the extent the fees and expenses of the Trustee (excluding indemnities which are subject to the limitations of the General Indenture) exceed the amounts in the Table of Program Expenses and are not paid pursuant to the operation of the Revenue Fund specified in the General Indenture, or pursuant to operation of the Surplus Fund specified in the General Indenture, the Issuer, to the extent permitted by law, will pay such amount from available funds not held under the Indenture.

*Financial Covenants.* The Issuer shall not permit its Tangible Net Worth less any loans to the State of Minnesota to be less than \$600,000,000 on or after June 30, 2018, \$625,000,000 on or after June 30, 2019, and \$650,000,000 on or after June 30, 2020, and thereafter until no Series 2018 Bonds are Outstanding. The failure of the Issuer to comply with this covenant shall not constitute an Event of Default unless the Issuer has withdrawn moneys from the Loan Capital Fund for a purpose other than (i) paying Program Expenses, (ii) paying expenses related to the administration of student loans made by the Issuer, (iii) originating loans under the Student Loan Program or (iv) repurchasing defaulted student loans held under an indenture to which the Issuer is a party.

Amounts credited to the Loan Capital Fund may be used to (i) make loans under the Student Loan Program; (ii) repurchase defaulted student loans from the trust estate of any indenture to which the Issuer is a party and under which bonds of the Issuer are outstanding; (iii) to pay Program Expenses; (iv) to pay expenses related to the administration of its outstanding bonds and of student loans under the Student Loan Program; and (v) any other purpose authorized under Section 136A.1785 of the Act.

*Student Loan Requirements.* The Issuer represents, warrants and covenants that all Student Loans meet or will meet the following criteria whether Financed or Originated from proceeds of the Series 2018 Bonds or recycled proceeds:

(a) At the time of Origination, the SELF V Borrower is either enrolled in an Eligible Institution in the State or a State resident enrolled in an Eligible Institution.

(b) At the time of Origination, the SELV V Borrower (i) is enrolled as no less than a Half-time Student in a program leading to a certificate, associate, baccalaureate, master, doctorate or other professional degree, (ii) is making satisfactory progress in an approved course of study, (iii) is not currently in default under any SELF Loan, (iv) is not delinquent in the payment of principal or interest on any SELF Loan, (v) has agreed to the release of information to a consumer credit reporting agency and (vi) has a Cosigner.

(c) The interest rate on the Student Loan is fixed at not less than 6.00%.

(d) The maximum principal amount of a Student Loan to a student enrolled in a bachelor's degree program, postbaccalaureate or graduate program is \$20,000 per Grade Level.

For all other Student Loans, other than Student Loans financing Short-term Programs, the principal amount of a Student Loan does not exceed \$7,500 per Grade Level. For Student Loans financing Short-term Programs, the principal amount of a Student Loan does not exceed \$3,500 per Academic Year. The total principal amount of a Student Loan does not exceed the cost of attendance as determined by the Eligible Institution, less all other financial aid the student is anticipated to receive, including PLUS loans or other similar parent loans borrowed on a student's behalf.

(e) (i) The aggregate principal amount of all Student Loans to a student as an undergraduate, postbaccalaureate and graduate student does not exceed \$140,000; subject to the following cumulative borrowing maximums for students enrolled in a bachelor's degree, graduate or postbaccalaureate program: (A) Grade Level 1 - \$20,000; (B) Grade Level 2 - \$40,000; (C) Grade Level 3 - \$60,000; (D) Grade Level 4 - \$80,000; (E) Grade Level 5 - \$100,000; and (F) Grade Levels 6 through 9 - \$140,000.

(ii) For all other eligible students, the cumulative borrowing maximums are, subject to reduction by the Issuer: (A) Grade Level 1 - \$7,500; (B) Grade Level 2 - \$15,000; (C) Grade Level 3 - \$22,500; and (D) Short-term Programs - \$7,500.

(f) The Student Loan is Originated under SELF V. The quarterly interest payments begin within three months of disbursement of the Student Loan, monthly interest payments are required for 12 months after the SELF V Borrower ceases to be enrolled as at least a Half-time Student or leaves school, unless the SELF V Borrower has already entered repayment. Student Loans Originated are required to enter repayment no later than nine years after the first disbursement date on the loan. If the aggregate principal loan balances from all SELF Loans are less than \$20,000, the repayment period for Student Loans shall not exceed 10 years from the date the SELF V Borrower ceases to be enrolled as at least a Half-time Student; if the balances are at least \$20,000 but less than \$40,000, the repayment period for Student Loans shall not exceed 15 years from the date the SELF V Borrower ceases to be enrolled as at least a Half-time Student; and if the balances are \$40,000 or greater, the repayment period for Student Loans Originated shall not exceed 20 years from the date the SELF V Borrower ceases to be enrolled as at least a Half-time Student. 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.

(g) The following conditions apply to Pre-funded Loans and Loans Originated from moneys on deposit in the 2018 Account in the Surplus Fund (recycled proceeds):

(i) not more than 2% may consist of Student Loans to SELF V Borrowers attending Proprietary Schools, the Cosigner of which has a FICO Score of less than 670 (including Cosigners with no FICO Score);

(ii) not more than 5% may consist of Student Loans to SELF V Borrowers attending Proprietary Schools;

(iii) not more than 1% may consist of Student Loans to SELF V Borrowers, the Cosigner of which has no FICO Score;

(iv) not more than 17% may consist of Student Loans to SELF V Borrowers attending Non-Proprietary Schools, the Cosigner of which has a FICO Score of less than 670; and

(v) at least 40% must consist of Student Loans to SELF V Borrowers attending Non-Proprietary Schools, the Cosigner of which has a FICO Score of at least 740.

Compliance with the concentration limits listed in clauses (i) through (v) of paragraph (g) above will be tested quarterly during the Loan Origination Period, commencing December 31, 2018 using the following calculation: the sum of the Original Principal Balance of Pre-funded Loans Originated within each applicable category at the end of each quarter, divided by the aggregate Original Principal Balance of Pre-funded Loans outstanding at the end of each quarter.

Payment notices are sent to each SELF V 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 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.

A forbearance may be granted in those instances when the SELF V Borrower and Cosigner experience hardship in making payments of principal and/or interest. A forbearance is granted upon receipt by the Issuer of a request signed by the Borrower and Cosigner, if there is a Cosigner. A forbearance is limited to 120 days, renewable for another 120 days, upon receipt by the Issuer of an additional signed request.

The foregoing criteria may be changed if the Issuer has satisfied the requirements of an Event Notification with respect thereto.

*Prohibited Uses.* The Issuer covenants and agrees that no portion of the Gross Proceeds of the Series 2018 Bonds will be used to provide any airplane, skybox, or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

*Two Percent Limit on Costs of Issuance.* The Issuer covenants and agrees that Costs of Issuance paid with proceeds of the Series 2018 Bonds will not exceed two percent of the proceeds of the Series 2018 Bonds.

*Form 8038.* The Issuer covenants and agrees that not later than the 15<sup>th</sup> day of the second month following the end of the calendar quarter in which the Issue Date for the Series 2018 Bonds occurs, the Issuer shall complete, execute and deliver or cause to be completed, executed and delivered to the Internal Revenue Service Form 8038, or such other form as the Commissioner of Internal Revenue shall prescribe, setting forth such information as such form shall require with respect to the Series 2018 Bonds.

*Yield Restriction.* The Issuer covenants and agrees that except as otherwise provided in the Tax Certificate delivered upon issuance of the Series 2018 Bonds, or as otherwise permitted upon delivery of an Opinion of Bond Counsel to the effect that such investment will not cause interest on the Series 2018 Bonds to be included in the gross income of the Owner for federal income tax purposes, the Issuer shall not, at any time prior to the final Stated Maturity of the Series 2018 Bonds, directly or indirectly invest Gross Proceeds of the Series 2018 Bonds in any Investment (or use Gross Proceeds of the Series 2018 Bonds to replace money so invested), if, as a result of such investment, the Yield, from the Issue Date of such Series 2018 Bonds of all Investments acquired with Gross Proceeds of the Series 2018 Bonds (or with money replaced thereby) whether then held or previously disposed of, exceeds the Yield of the Series 2018 Bonds.



*Federal Guarantee.* The Issuer covenants that it shall neither (a) use any Gross Proceeds of the Series 2018 Bonds (i) to make loans which are guaranteed in whole or in part by the United States of America or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States of America, or (ii) to invest in any deposit or account in a financial institution to the extent such deposit or account is insured under federal law by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or any similar federally-chartered corporation, nor (b) otherwise permit payment of principal of or interest on the Series 2018 Bonds to be directly or indirectly guaranteed in whole or in part by the United States of America or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States of America (e.g., by the investment of amounts held for the credit of any fund created under the Indenture in federally-guaranteed or federally-insured obligations).

For purposes of the preceding paragraph, “guaranteed in whole or in part by the United States of America or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States of America” does not mean or refer to any investment of the proceeds of the Series 2018 Bonds: (a) during the initial six-month Temporary Period applicable to the Acquisition Fund, (b) during the 13-month Temporary Period applicable to Bona Fide Debt Service Fund investments, if any, (c) as part of a reserve which meets the requirements of a Reasonably Required Reserve or Replacement Fund, (d) in obligations issued by the United States Department of the Treasury, or (e) in any other investments permitted by the Code. The foregoing does not apply to any guaranty by the Federal Housing Administration, the Veterans Administration, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association.

*Prohibited Payments.* The Issuer covenants that it shall not, at any time prior to the final maturity of the Series 2018 Bonds, enter into any transaction that reduces the amount required to be paid to the United States Treasury because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm’s length and had the Yield of the Series 2018 Bonds not been relevant to either party. Notwithstanding the foregoing limitation, however, the Issuer may purchase directly from the United States Treasury any obligation of the United States Treasury at any price, including obligations of the State and Local Government Series.

*Expenditure Expectation.* The Issuer covenants that it shall not invest more than 50% of Gross Proceeds of the Series 2018 Bonds in Nonpurpose Investments having a substantially guaranteed Yield for a period of four years or more.

*Preservation of Tax-exempt Status of Series 2018 Bonds.* The Issuer shall maintain the Series 2018 Bonds as Tax-exempt Bonds, including refraining from taking or joining in any act or action which might result in the loss of status of the Series 2018 Bonds as Tax-exempt Bonds.

*Borrower Benefits.* The Issuer may provide a reduced interest rate to any Borrower which is consistent with the definition of “Borrower Benefits.”

*Rating Agency Notifications.* The Issuer shall provide a written notice to the Rating Agency rating the Series 2018 Bonds in the event of each of the following, promptly following the occurrence thereof: (i) substitution or replacement of any Indenture Agent; (ii) any Supplemental Indenture (other than the First Supplement) or other amendment to the General Indenture or any Supplemental Indenture; (iii) acceleration of the Series 2018 Bonds; (iv) redemption or defeasance of all Outstanding Series 2018 Bonds; (v) a change in the Act; (vi) a change in the Servicer; (vii) any amendment to the Servicing Agreement; (viii) an amendment to any of the Issuer Documents, other than the assignment of additional Student Loans under the Assignment; (ix) appointment of a Subservicer; (x) an Event of Default,

including an event of default under the Servicing Agreement and any of the other Issuer Documents; (xi) the issuance of a Series under the General Indenture, other than the Series 2018 Bonds; (xii) a change in Student Loan requirements set forth in Section 4.9; (xiii) a change in the laws of the State of which the Issuer has knowledge which would allow the Issuer to declare bankruptcy under Chapter 9 of the United States Bankruptcy Code; and (xiv) any other event for which the Rating Agency rating the Series 2018 Bonds has reasonably requested notice in order to maintain the rating on the Series 2018 Bonds.

## APPENDIX C

### BOOK-ENTRY-ONLY SYSTEM

*The following information concerning DTC and DTC's book-entry system has been obtained from information made publicly available by DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the Issuer and the Underwriter take no responsibility for the accuracy of such statements.*

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be issued as fully-registered securities 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 Series 2018 Bond certificate will be issued for each maturity (and interest rate, if applicable) of the Series 2018 Bonds in the aggregate principal amount of such maturity, as set forth on the inside cover page hereof, and will 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 an S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2018 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 2018 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 Series 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 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 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2018 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 the Series 2018 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and any other redemption payments on the Series 2018 Bonds will 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 detailed information from the Issuer or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will 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 Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and any other redemption 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2018 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2018 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) with respect to the Series 2018 Bonds. In that event, Series 2018 Bond certificates will be printed and delivered.

**APPENDIX D**

**FORM OF BOND COUNSEL OPINION**

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November 27, 2018

Minnesota Office of Higher Education  
1450 Energy Park Drive, Suite 350  
St. Paul, MN 55108-5227

U.S. Bank National Association  
425 Walnut Street  
Cincinnati, OH 45202

RBC Capital Markets, LLC  
2398 East Camelback Road, Suite 700  
Phoenix, AZ 85016

RE: Minnesota Office of Higher Education  
\$54,535,000 Supplemental Student Loan Program Revenue Bonds, 2018 Senior 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 Closing Date described below (the “Bonds”).

A. Recitals. In rendering this opinion letter, we make the following recitals of fact:

1. Capitalized terms used but not defined have the meanings given in the Indenture.

2. The Bonds are issued pursuant to Minnesota Statutes, Sections 136A.15 through 136A.1785 (the “Act”).

3. We are providing this opinion pursuant to Section 2.5(a)(ii)(a), (b), (e) and (f) of the General Indenture and Section 6(h)(5) of the Bond Purchase Agreement.

4. November 1, 2018 is herein referred to as the “Document Date” and the date of this opinion letter is referred to as the Closing Date.

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FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A.

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DULUTH  
302 W. Superior Street, Ste. 700  
Duluth, MN 55802  
p: (218) 722-0861  
f: (218) 725-6800

SUPERIOR  
1409 Hammond Avenue, Ste. 330  
Superior, WI 54880  
p: (715) 392-7405  
f: (715) 392-7407

ST. PAUL  
380 St. Peter Street, Ste. 710  
St. Paul, MN 55102  
p: (651) 221-1044  
f: (651) 221-1035

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B. Scope of Examination. For the purpose of rendering this opinion letter, we have examined the following:

1. the General Indenture (the “General Indenture”) dated as of the Document Date, by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”);
2. the First Supplemental Indenture dated as of the Document Date, by and between the Issuer and the Trustee (the “First Supplement,” and together with the General Indenture, the “Indenture”);
3. the Bond Purchase Agreement dated November 14, 2018 (“Bond Purchase Agreement”), between the Issuer and RBC Capital Markets, LLC;
4. the form of the Bonds dated the Closing Date;
5. the Assignment of Student Loans dated the Closing Date by the Issuer to the Trustee;
6. the Bailment Agreement (the “Bailment Agreement”) dated as of the Document Date, between Nelnet Servicing, LLC (the “Servicer”), the Issuer and the Trustee;
7. the Bailment Notice dated the Closing Date by the Issuer and the Trustee and acknowledged by the Servicer, the form of which is attached to the Bailment Agreement as Exhibit A;
8. the Continuing Disclosure Agreement dated as of the Document Date, executed and delivered by the Issuer and U.S. Bank National Association, as dissemination agent;
9. the Arbitrage and Tax Certificate, dated the Closing Date, by the Issuer (the “Tax Certificate”);
10. the Professional and Technical Services Contract, dated as of August 11, 2017, with an effective date of May 1, 2018, between the Issuer and Great Lakes Educational Loan Services, Inc. (“Great Lakes”), assigned by Great Lakes to the Servicer as of June 22, 2018, and amended as of April 26, 2018 and June 27, 2018 (as assigned and amended, the “Servicing Agreement”);
11. the opinion of the Attorney General of the State of Minnesota, dated the Closing Date (the “Attorney General’s Opinion as to Student Loan Notes”);
12. the opinion of the Attorney General of the State of Minnesota, dated the Closing Date (the “Attorney General’s Opinion as to Servicing Agreement”)



and, together with the Attorney General's Opinion as to Student Loan Notes, the "Attorney General's Opinions");

13. certified copies of proceedings taken, and affidavits and certificates furnished by the Issuer with respect to the authorization, sale and issuance of the Bonds, including the resolutions of the Issuer approving and authorizing the execution of the Bonds, the Bond Documents and other documents;

14. such questions of fact as we have deemed pertinent;

15. applicable laws, including relevant provisions of the laws of the State and the United States of America; and

16. such other documents, materials, certificates of public officials, records, other certificates, opinions and instruments as we have considered necessary in order to render this opinion. (The documents listed at paragraphs 1 through 3, 5, 6 and 8 above are herein referred to as the "Bond Documents.")

C. Reliance. As to questions of fact material to our opinion, we have relied upon the representations made in the Bond Purchase Agreement and upon certified proceedings, documents and certifications furnished to us by public officials and officers and employees of the Issuer (including, without limitation, those certificates delivered to others on the Closing Date) without undertaking to verify such facts by independent investigation. We have also relied, upon:

1. the Attorney General's Opinion as to Student Loan Notes as to the validity and enforceability of the Student Loan Notes identified therein;

2. the Attorney General's Opinion as to Servicing Agreement as to (a) the validity and enforceability of the Servicing Agreement, (b) the due organization and existence of the Issuer under the laws of the State of Minnesota (the "State"), (c) the due and valid authorization, execution and delivery by the Issuer of the Servicing Agreement and the enforceability of the Servicing Agreement against the Issuer, and (d) the power and authority of the Issuer to execute, deliver, perform and carry out its obligations under the Servicing Agreement; and

3. certified proceedings, documents and certifications furnished to us by public officials (including, without limitation, those certificates delivered to others on the Closing Date) without undertaking to verify such facts by independent investigation;

4. representations and certifications made by the Issuer in the Tax Certificate and the representations and certifications made by the Issuer, agents of the Issuer and others in connection with the issuance of the Bonds as to:

(a) the application to be made of the proceeds of the Bonds, (b) the investment of such proceeds and (c) other matters material to the tax-exempt status of the interest borne by the Bonds, including the anticipated sources of repayment of the Bonds.

D. Assumptions.

1. In rendering the opinions contained in paragraph E below, we have assumed: (a) the legal capacity for all purposes relevant hereto of all natural persons, (b) with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such agreements or instruments have been duly authorized by all requisite action (corporate or otherwise) and that parties thereto had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, (c) that such agreements or instruments are the valid, binding and enforceable obligations of each such party, other than the Issuer, (d) the authenticity of all documents submitted to us as originals and the authenticity of the originals, (e) the conformity to original documents of all documents submitted to us as certified or photostatic copies, (f) the genuineness of the signatures on all documents submitted to us, and (g) the accuracy of the facts and representations stated in all documents submitted to us.

2. In rendering the opinions contained in subparagraph 7 of paragraph E below, we have assumed that the proceeds of the Bonds will be applied in accordance with the provisions of the Indenture and the representations made by the Issuer in the Tax Certificate and that the Issuer will make or cause to be made any necessary calculations and pay to the United States of America any amounts required under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

E. Opinions. (i) Based on our examination described in paragraph B of this opinion letter, and (ii) subject to (a) the reliance described in paragraph C of this opinion letter, (b) the assumptions described in paragraph D of this opinion letter, and (c) the qualifications and the limitations described in paragraph F of this opinion letter, and (iii) based on federal and State laws, regulations, rulings and decisions in effect and as construed on the Closing Date, but excluding any pending legislation which may have a retroactive date prior to the Closing Date, it is our opinion that:

1. The Issuer is an agency and instrumentality 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 laws 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 Closing Date 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 after due investigation, conflict with, violate or constitute a breach of or default under any indenture or other agreement to which the Issuer is a party or by which the Issuer is bound, or any applicable law, administrative regulation, order or court decree.

6. To our knowledge after due investigation, 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 Bonds are "qualified student loan bonds" within the meaning of Section 144(b) of the Code and, 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 alternative minimum tax applicable to individuals and the State alternative minimum tax imposed on individuals, trusts and estates. The Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code.

F. Qualifications and Limitations. The opinions expressed in paragraph E above are subject to the following:

1. The exemption from gross income under the Code may become inapplicable with respect to the Bonds, as of either the date of issuance of the

Bonds or on a later date, upon the occurrence of certain subsequent events, including, without limitation, (a) the proceeds of the Bonds being expended in a manner or for a use inconsistent with certain applicable requirements of Sections 141 and 144 of the Code and (b) 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.

2. The opinion expressed in subparagraph 7 of paragraph E above is further subject to the condition of compliance by the Issuer with all requirements of the Code that must be satisfied subsequent to the issuance of the 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 has covenanted to comply with each such requirement. Noncompliance with such requirements could result in the inclusion of interest on the 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 Bonds. The Indenture contains provisions which, if complied with, will satisfy such requirements.

3. Except as stated in paragraph E of this opinion, we express no opinion regarding other federal or state tax consequences to owners of the Bonds.

4. 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 (a) 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); (b) 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 (c) the exercise of judicial discretion in appropriate cases.

5. Our opinions in subparagraphs 2 and 3 of paragraph E 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.

6. We express no opinion as to the priority of the pledge and assignment by the Issuer to the Trustee of the Trust Estate (as described in the General Indenture) or the effect thereof against third parties.

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7. We express no opinion as to the adequacy of moneys realized, in the event of a default of the Indenture from the sale, release or other disposition of property which further secures payment of the Bonds.

8. Our opinions expressed in paragraph E 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.

9. 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.

10. The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

11. We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of any offering materials to the Bonds, and we express no opinion relating thereto or as to compliance with any federal securities laws or any state securities or Blue Sky laws.

Respectfully submitted,

Fryberger, Buchanan, Smith & Frederick, P.A.

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of November 1, 2018 (this “Disclosure Agreement”), is executed and delivered by the Minnesota Office of Higher Education (the “Issuer”) and U.S. Bank National Association (the “Dissemination Agent”) in connection with the issuance of \$54,535,000 Minnesota Office of Higher Education Supplemental Student Loan Program Revenue Bonds, 2018 Senior Series (the “Series 2018 Bonds”). The Series 2018 Bonds are being issued pursuant to a General Indenture, dated as of November 1, 2018 (the “General Indenture”), between the Issuer and U.S. Bank National Association, trustee (the “Trustee”), as supplemented by the First Supplemental Indenture, dated as of November 1, 2018 (the “First Supplement”), between the Issuer and the Trustee (the General Indenture, as further amended and supplemented by the First Supplement, is herein referred to as the “Indenture”).

**Section 1. Purpose of this Disclosure Agreement.** This Disclosure Agreement constitutes the written undertaking of the Issuer, for the benefit of the Owners (including any Beneficial Owners thereof when the Series 2018 Bonds are held in the book-entry system) to the extent stated herein and required by the Rule (defined below) thereby providing for the public availability of certain information relating to the Series 2018 Bonds and the security therefor and to permit participating underwriters in the primary offering of the Series 2018 Bonds to comply with the Rule, which will enhance the marketability of the Series 2018 Bonds.

**Section 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” comprises the following (subject to modification as provided in Section 3 hereof):

(a) a complete audit report and opinion of an Accountant and the financial statements of the Issuer for each Fiscal Year, containing balance sheets and a statement of operations, changes in fund balance and cash flows as of the end of such Fiscal Year and showing in comparative form such figures for the preceding Fiscal Year of the Issuer, prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Issuer, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by an Authorized Representative of the Issuer, to the best of his or her knowledge; and

(b) to the extent not included in the financial statements referred to in clause (a) hereof, the information for such Fiscal Year or the period most recently available of the type identified below, which information may be unaudited, but shall be certified as to accuracy and completeness by an Authorized Representative of the Issuer to the best of his or her knowledge, which certification may be based on the reliability of information obtained from governmental or other third-party sources, in the following general categories:

(i) information regarding the principal amount of outstanding bonds of the Issuer as of the end of the most recent Fiscal Year, the operating budget of the Issuer for the current Fiscal Year and the Loan Capital Fund for the most recent Fiscal Year, of the type contained under the caption “MINNESOTA OFFICE OF HIGHER EDUCATION—Financial Information” in the Official Statement;

(ii) information for the most recent Fiscal Year regarding loan loss, recovery experience and borrower delinquencies with respect to SELF V Loans of the type contained under the captions “STUDENT LOAN PROGRAM—Delinquency Experience for SELF II through SELF IV and SELF V Loans”; and

(iii) information regarding the Student Loans of the type contained under the caption “THE STUDENT LOANS” in the Official Statement.

“*Beneficial Owners*” means any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Series 2018 Bonds (including persons or entities holding Series 2018 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2018 Bonds for federal income tax purposes.

“*Disclosure Representative*” means the Chief Financial Officer of the Issuer, or such other person as the Commissioner of the Issuer shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” means the Dissemination Agent, if any, designated in writing by the Issuer pursuant to the terms hereof. Initially, U.S. Bank National Association shall act as the Dissemination Agent.

“*Listed Event*” means any of the following events with respect to the Series 2018 Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service 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 status of the security, or other material events affecting the tax status of the Series 2018 Bonds;
- (g) modifications to rights of Owners, if material;
- (h) bond calls, if material;
- (i) tender offers;
- (j) defeasances;
- (k) release, substitution, or sale of property securing repayment of the Series 2018 Bonds, if material;



- (l) rating changes;
- (m) bankruptcy, insolvency, receivership, or similar event of the obligated person;
- (n) the consummation of a merger, consolidation, or acquisition involving an obligated person, other than in the ordinary course of business, or the sale of all or substantially all of the assets of the obligated person, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (o) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in clause (m) above, 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 of 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.

*“Listed Event Notice”* means written or electronic notice of a Listed Event prepared in accordance with applicable federal securities laws.

*“MSRB”* means the Municipal Securities Rulemaking Board or any successors to its functions. The current address of the MSRB is Suite 600, 1900 Duke Street, Alexandria, Virginia 22314.

*“National Repository”* means the Electronic Municipal Market Access System (“EMMA”) operated by the MSRB as a National Repository for continuing disclosure under the Rule, or any other repository authorized by the Rule.

*“Official Statement”* means the Official Statement dated November 14, 2018, delivered in connection with the original issue and sale of the Series 2018 Bonds.

*“Owner”* means the registered owner or owners of a Series 2018 Bond appearing in the registration books maintained by the Registrar or any Beneficial Owner thereof, if the Beneficial Owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee.

*“Report Date”* means the day occurring not later than 155 days after the end of the Issuer’s then-current Fiscal Year, commencing with the Fiscal Year ending June 30, 2019.

*“Rule”* means 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.

*“Submission Date”* means the day occurring five days prior to the Report Date.

*“Underwriter”* shall mean RBC Capital Markets, LLC, and any other underwriter of the Series 2018 Bonds required to comply with the Rule in connection with the primary offering of the Series 2018 Bonds for sale.

### **Section 3. Undertaking To Provide Ongoing Disclosure.**

(a) It is the express intention of the Issuer that the Owners (including any Beneficial Owners hereof when the Series 2018 Bonds are in the book-entry system) be a beneficiary of this Disclosure Agreement with the right to enforce this Disclosure Agreement directly against the Issuer to the extent set forth in Section 9 hereof.

(b) The Issuer, as an “obligated person” within the meaning of the Rule, undertakes to provide the following information:

- (i) Annual Financial Information; and
- (ii) Listed Event Notices.

(c) The Issuer shall provide, or shall cause the Dissemination Agent to provide, while any Series 2018 Bonds are Outstanding, Annual Financial Information to each National Repository not later than the Report Date. In addition, by the Submission Date, the Disclosure Representative shall submit the Annual Financial Information to the Dissemination Agent. If a Dissemination Agent has been designated, the Disclosure Representative shall include with each submission of Annual Financial Information to the Dissemination Agent a written representation addressed to the Dissemination Agent to the effect that the Annual Financial Information is the Annual Financial Information required by this Section and that it complies with the applicable requirements of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such written representation of the Disclosure Representative. The Dissemination Agent’s obligation to deliver the information at the times and with the contents described above shall be limited to the extent the Disclosure Representative has provided such information to the Dissemination Agent as required hereby. The Dissemination Agent shall have no duty or obligation to review such Annual Financial Information. If the Issuer changes its Fiscal Year (thereby changing the Report Date and the Submission Date), the Disclosure Representative shall provide written notice of the change of Fiscal Year and the new Report Date and Submission Date to the Dissemination Agent, if any, and each then existing National Repository; provided, that the period between the final Report Date relating to the former Fiscal Year and the initial Report Date relating to the new Fiscal Year shall not exceed one year in duration.

Notwithstanding the foregoing, if the audited financial statements comprising part of the Annual Financial Information are not available by the date specified, the Issuer shall provide, on or before the Report Date and the Submission Date, unaudited financial statements in the format required as part of the Annual Financial Information and, within 10 days after the receipt of the audited financial statements, the Issuer shall provide the audited financial statements.

Any or all of the Annual Financial Information may be incorporated, if it is updated as required hereby, by reference from other documents, including official statements, which have been submitted to each National Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify in the Annual Financial Information each document so incorporated by reference.

If any part of the Annual Financial Information can no longer be generated because the operations of the Issuer have materially changed or been discontinued, such Annual Financial Information need no longer be provided if the Issuer includes in the Annual Financial Information a statement to such effect; provided, however, if such operations have been replaced by other Issuer operations in respect of which data is not included in the Annual Financial Information and the

Issuer determines that certain specified data regarding such replacement operations would be material for purposes of the purchase, holding or sale of a Series 2018 Bond within the meaning of applicable federal securities laws, as interpreted at the time, then, from and after such determination, the Annual Financial Information shall include such additional specified data regarding the replacement operations.

If the Annual Financial Information is changed or this Disclosure Agreement is amended as permitted by this subsection (c) or Section 7 hereof, then the Issuer shall include in the next Annual Financial Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(d) If a Listed Event occurs while any Series 2018 Bonds are Outstanding, the Disclosure Representative shall provide, or shall provide to the Dissemination Agent, if any, for dissemination a Listed Event Notice in a timely manner not in excess of 10 business days following the occurrence of the Listed Event, to each then existing National Repository (or the MSRB). Each Listed Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Series 2018 Bonds. The Dissemination Agent shall have no duty to prepare any Listed Event Notice, nor shall the Dissemination Agent be responsible for filing any Listed 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 Listed Event Notice prepared by the Issuer or the Disclosure Representative pursuant to this Disclosure Agreement.

(e) The Dissemination Agent shall promptly (but in any event within five Business Days) advise the Disclosure Representative whenever, in the course of performing its duties as Trustee under the Indenture, a Responsible Officer of the Trustee obtains actual knowledge of an occurrence which would require the Issuer to provide a Listed Event Notice pursuant to subsection (d) above; provided that the failure of the Trustee so to advise the Disclosure Representative of such occurrence shall not constitute a breach by the Trustee of any of its duties and responsibilities under the Indenture and shall not excuse or suspend any obligation of the Issuer under subsection (d) above. If in response to a notice under this subsection (e), the Disclosure Representative determines, with respect to an event described in the definition of "Listed Event" which would not be required to be reported if it is determined that such event is not material, that such event is not material, then the Disclosure Representative shall so notify the Trustee and shall not be required to report the occurrence pursuant to subsection (d) above. The Trustee and the Dissemination Agent shall have no responsibility for determining the materiality of any occurrence which may constitute a Listed Event.

(f) The Disclosure Representative shall provide notice in a timely manner to each then existing National Repository (or the MSRB) of any failure while any Series 2018 Bonds are Outstanding to provide Annual Financial Information on or before the Report Date (for any reason) as provided herein.

(g) The Disclosure Representative may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' written notice to the Issuer and the Disclosure Representative. If no Dissemination Agent has been appointed or engaged or if a Dissemination Agent resigns or is otherwise removed and no successor

Dissemination Agent is appointed or engaged, the Disclosure Representative shall perform all of the duties and assume all of the obligations of the Dissemination Agent hereunder.

(h) If a Dissemination Agent has been designated, the Dissemination Agent shall:

(i) if the Disclosure Representative provides to the Dissemination Agent information, which information is not designated as a Listed Event Notice, and directs the Dissemination Agent to provide such information to information repositories, provide such information in a timely manner to each then existing National Repository (or the MSRB);

(ii) if by the Submission Date, the Dissemination Agent has not received a copy of the Annual Financial Information, contact the Disclosure Representative to determine if the Issuer is in compliance with subsection (c) above;

(iii) if the Dissemination Agent has not itself provided or received the representation from the Disclosure Representative that it has provided the Annual Financial Information to each then existing National Repository by the Report Date send a notice to each then existing National Repository in substantially the form attached as Exhibit A hereto; and

(iv) if the Annual Financial Information has been disseminated by the Dissemination Agent, file a report with the Disclosure Representative certifying that the Annual Financial Information has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all parties to which it was provided.

(i) The Disclosure Representative shall determine prior to each date for providing the Annual Financial Information or Listed Event Notices, the name and address of each National Repository.

(j) Unless otherwise required by the Rule, the Disclosure Representative and the Dissemination Agent, if any, shall employ such methods of information transmission as shall be required or recommended by the designated recipients of the Annual Financial Information and Listed Event Notices.

(k) Notwithstanding the foregoing:

(i) notice of the occurrence of an event described in clause (a), (h) or (j) of the definition of “Listed Event” shall be given by the Dissemination Agent, if any, to the Disclosure Representative if the Disclosure Representative is not an officer or employee of the Issuer; and such Disclosure Representative shall be responsible for reporting the occurrence of such event pursuant to paragraph (d) above unless the Disclosure Representative gives the Dissemination Agent written notice that it will not disclose such occurrence; and

(ii) notice of events described in clauses (h) and (j) of the definition of “Listed Event” need not be given under this subsection to the Disclosure Representative pursuant to paragraph (i) above any earlier than the notice, if any, of the underlying event is given to the Owners of affected Series 2018 Bonds pursuant to the Indenture.

#### **Section 4. Obligated Persons.**

(a) In the event that any other person subsequently becomes an obligated person on the Series 2018 Bonds (as defined in the Rule), the Issuer agrees to use its best efforts to cause such person to enter into a written undertaking to comply with the provisions set forth in this Disclosure Agreement.

(b) Any such obligated person (other than the Issuer) reserves the right to terminate its obligation to provide Annual Financial Information, and notices of Listed Events, as set forth above, if and when such person is no longer an obligated person with respect to the Series 2018 Bonds within the meaning of the Rule. The Disclosure Representative will provide notice of any such termination to the Trustee and each then existing National Repository.

(c) If the Issuer's obligations under the Indenture are assumed in full by some other person or entity, such person or entity shall assume, in a written agreement satisfactory in form and substance to the Trustee (acting at the written direction of the Majority Owners), and be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Issuer and the Issuer shall have no further responsibility hereunder.

**Section 5. Termination of Reporting Obligation.** The continuing obligation hereunder of the Issuer to provide Annual Financial Information and Listed Event Notices shall terminate immediately once the Series 2018 Bonds are no longer Outstanding.

**Section 6. Disclosure Representative.** The Commissioner of the Issuer shall, from time to time, appoint or engage a Disclosure Representative to assist the Issuer in carrying out its obligations under this Disclosure Agreement, and may discharge any such Disclosure Representative, upon appointment of a successor Disclosure Representative. If at any time there is not any other designated Disclosure Representative, the Issuer shall perform all the obligations and duties of the Disclosure Representative hereunder.

**Section 7. Amendments.** This Disclosure Agreement (and the form and requirements of the Annual Financial Information) may not be amended or supplemented except in a writing executed by the parties hereto and with the consent of the Trustee, acting at the written direction of the Majority Owners (which consent shall not be unreasonably withheld or delayed) accompanied by an opinion of counsel expert in federal securities law, who may rely on certificates of the Issuer and others and the opinion may be subject to customary qualifications, to the effect that: (a) such amendment or supplement (i) 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 (ii) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (b) this Disclosure Agreement as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Series 2018 Bonds, giving effect to any change in circumstances applicable under clause (a)(i) above, assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (c) such amendment or supplement does not materially impair the interests of the Owners under the Rule. This Disclosure Agreement may be amended or supplemented from time to time without notice to or the consent of the Owners (except as otherwise provided in Section 11 hereof).

If the Annual Financial Information is amended pursuant to this Section, the Issuer agrees to provide to each existing National Repository (or 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 Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement.

**Section 9. Default.** In the event of a failure of the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with any provision of this Disclosure Agreement, the Dissemination Agent may and, at the written request of the Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2018 Bonds, shall, solely to the extent indemnified to its satisfaction, including attorneys' fees and expenses, or any of the Owners, as third-party beneficiaries hereof, may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Series 2018 Bonds or the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Disclosure Representative, on behalf of the Issuer, to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover any monetary damages hereunder in any circumstance.

**Section 10. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liability 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, fees of experts and agents and extraordinary out-of-pocket expenses) of defending against any claim of liability (including the costs of defending any claim to enforce the indemnification obligations of the Issuer hereunder), 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 Series 2018 Bonds. In the absence of bad faith on its part, the Dissemination Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Dissemination Agent and conforming to the requirements of this Disclosure Agreement. In the case of any Annual Financial Information disclosure, or any Listed Event disclosure, or any opinion which, by any provision hereof, is 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 it conforms on its face to the requirements of this Disclosure Agreement as to form only, and shall be under no duty to verify independently or investigate the accuracy or completeness of any information contained therein or the correctness of any opinion furnished hereunder. If the Dissemination Agent is other than the Issuer, no provision of this Continuing Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers hereunder; 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.

The Dissemination Agent shall be entitled to the same rights, protections and indemnities under this Disclosure Agreement to which the Trustee is entitled under the Indenture.

**Section 11. Binding Effect; Owners as Third-Party Beneficiaries.** This Disclosure Agreement shall inure to the benefit of and shall be binding upon the Issuer and the Dissemination Agent and their respective successors and permitted assigns. In addition, this Disclosure Agreement shall constitute a third-party beneficiary contract for the benefit of the Owners from time to time. Said third-party

beneficiaries shall be entitled to enforce performance and observance by the parties of the respective agreements and covenants herein contained as fully and completely as if said third-party beneficiaries were parties hereto; provided that this Disclosure Agreement (other than this Section) may be amended or supplemented from time to time without notice to or the consent of such third-party beneficiaries. Nothing in this Disclosure Agreement, express or implied, shall give to any Person, other than the parties hereto and their respective successors and permitted assigns as provided herein, and the Owners, any benefit or other legal or equitable right, remedy or claim under this Disclosure Agreement.

**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 (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

**Section 13. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**Section 14. Governing Law; Construction.** This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. This Disclosure Agreement is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

**Section 15. Notices.** Notices to be given to the Issuer or, if it is the Dissemination Agent hereunder, the Trustee shall be given to them at the addresses and in the manner specified in the Indenture.

**Section 16. Representations.** Each of the parties hereto represents and warrants to each other party that (a) 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; (b) it has duly authorized the execution and delivery of this Disclosure Agreement; (c) the execution and delivery of this Disclosure Agreement and performance of the terms hereof by such party do not and will not violate, in any material respect, any applicable law, regulation, ruling, decision, order, indenture, decree, agreement or instrument to which it is a party or by which it is bound; and (d) 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.

The Issuer represents and warrants that it is the only “obligated person” in respect of the Series 2018 Bonds within the meaning of the Rule and that it has complied in all material respects with all undertakings previously entered into by it under the Rule, other than as may be disclosed in the Official Statement.

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By \_\_\_\_\_  
Authorized Officer

MINNESOTA OFFICE OF HIGHER EDUCATION

By \_\_\_\_\_  
Commissioner



**EXHIBIT A**

**MINNESOTA OFFICE OF HIGHER EDUCATION  
SUPPLEMENTAL STUDENT LOAN PROGRAM REVENUE BONDS**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Minnesota Office of Higher Education

Name of Bond Issue: \$54,535,000 Minnesota Office of Higher Education Supplemental Student Loan  
Program Revenue Bonds, 2018 Senior Series

Date of Issuance: November 27, 2018

NOTICE IS HEREBY GIVEN that the Issuer has not provided the Annual Financial Information with respect to the above-named Series 2018 Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of November 1, 2018, between the Minnesota Office of Higher Education, as Issuer, and U.S. Bank National Association, as Dissemination Agent. [The Issuer has informed the undersigned that it anticipates that the Annual Financial Information will be filed by \_\_\_\_\_.]

Dated:

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent, on behalf of the Issuer

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

cc: Disclosure Representative  
[if notice is sent by Dissemination  
Agent.]

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