NEW ISSUE—BOOK ENTRY ONLY

Interest on the Notes is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). In the opinion of Note Counsel, under existing laws of the Commonwealth of Pennsylvania, the interest on the Notes is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Notes or the interest thereon. See "TAX MATTERS" herein.

$750,000,000
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES, SERIES 2006-2
SENIOR CLASS A-1, A-2 AND A-3 AND SUBORDINATE CLASS B

Class	Original Principal Amount	Interest Rate	Maturity	Price to Public	Underwriting Discount	Net Proceeds
A-1 Notes	$269,125,000	3-month LIBOR plus 0.01%	10/25/2016	100.0%	0.29033%	$268,343,640
A-2 Notes	$158,390,000	3-month LIBOR plus 0.09%	10/25/2020	100.0%	0.29033%	$157,930,141
A-3 Notes	$299,985,000	3-month LIBOR plus 0.13%	10/25/2036	100.0%	0.29033%	$299,114,044
B Notes	$ 22,500,000	28 Day Auction Rate	10/25/2042	100.0%	0.29033%	$ 22,434,675
	$750,000,000					$747,822,500

The above-captioned Class A Notes and Class B Notes (together, the "Notes") are being issued by the Pennsylvania Higher Education Assistance Agency (the "Agency"), pursuant to a Trust Indenture dated as of November 1, 2006 (the "Indenture") between the Agency and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania (the "Trustee"), for the purpose of providing the Agency with funds to acquire a portfolio of student loans and to pay costs of issuance.

Payments will be made on the Class A Notes quarterly, beginning January 25, 2007, and on the Subordinate Notes each 28 days beginning December 15, 2006, primarily from collections on a pool of consolidation student loans. In general, principal allocable to the Class A Notes will be paid sequentially to the Class A-1 through Class A-3 Notes, in numeric order, until paid in full. Principal to the Class B Notes is not payable until the Stepdown Date, which is scheduled to occur on the earlier of (i) the Distribution Date in January, 2013 or (ii) the first date on which no Class A Notes are outstanding. The Class B Notes then will be allocated payment of principal prorata with the outstanding Class A Notes, as long as a Trigger Event (defined in Appendix A hereof) is not in effect for the related Distribution Date. Interest on the Class B Notes will be subordinate to interest on the Class A Notes and principal on the Class B Notes will be subordinate to both principal and interest on the Class A Notes.

The Class A Notes will be rated "Aaa" by Moody's Investors Service, Inc., "AAA" by Fitch Ratings, and "AAA" by Standard & Poor's Ratings Services. The Class B Notes will be rated at least "A2" by Moody's Investors Service, Inc., "A" by Fitch Ratings, and "AA" by Standard & Poor's Ratings Services.

Potential investors should carefully review the risk factors listed under "CERTAIN RISK FACTORS" herein.

The Notes are issuable in fully registered form and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as securities depository for the Notes. Individual purchasers of the Notes will not receive physical delivery of Note certificates. Purchases and sales by the beneficial owners of the Class A Notes shall be made in book entry form in the principal amount of $100,000 and any integral multiple of $1,000 in excess thereof. Purchases and sales by the beneficial owners of the Class B Notes shall be made in book entry form in the principal amount of $50,000 and integral multiples thereof. See "BOOK ENTRY SYSTEM" herein. Payments of principal, redemption price, if any, and interest with respect to the Notes are to be made directly to DTC by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Notes. Disbursements of such payments to DTC Participants (as defined herein) are the responsibility of DTC and the disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of DTC Participants as more fully described herein.

THE NOTES ARE LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED FOR THE BENEFIT OF THE NOTES. THE AGENCY HAS NO TAXING POWER. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL, REDEMPTION PRICE, IF ANY, OR INTEREST ON THE NOTES AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT.

The Notes are offered when, as and if received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by note counsel, Cozen O'Connor, Philadelphia, Pennsylvania. Certain legal matters in connection with the Notes will be passed upon for the Underwriters by their counsel, Wolf, Block, Schorr & Solis-Cohen, LLP, Harrisburg, Pennsylvania, and for the Agency by its counsel, Stevens & Lee, A Professional Corporation, Reading and Harrisburg, Pennsylvania. The Notes are expected to be available for delivery in New York, New York through the facilities of DTC on or about November 17, 2006.

Citigroup **RBC Capital Markets**

Dated: November 14, 2006

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This Official Statement is submitted in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made in connection therewith shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE NOTES, BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

No dealer, broker, salesman or other person has been authorized by the Pennsylvania Higher Education Assistance Agency (the "Agency") or the Underwriters to give any information or to make any representations with respect to the Notes, 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 any of the foregoing. Certain information set forth herein has been obtained from the Agency and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters.

This Official Statement contains summaries of certain documents, but reference is made hereby to the actual documents, copies of which are available at the Harrisburg office of the Trustee upon request, and all such summaries are qualified in their entirety by such actual documents.

The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the Federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

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OFFICIAL STATEMENT

$750,000,000
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES, SERIES 2006-2
SENIOR CLASS A-1, A-2 AND A-3 AND SUBORDINATE CLASS B

INTRODUCTION

This Official Statement sets forth certain information concerning the Pennsylvania Higher Education Assistance Agency (the "Agency"), a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Pennsylvania Act of Assembly of August 7, 1963, P.L. 549, as amended (the "Act"), and the issuance of its $750,000,000 aggregate principal amount of Student Loan Revenue Notes, Series 2006-2 Senior Class A Notes consisting of $269,125,000 Class A-1 Notes, $158,390,000 Class A-2 Notes and $299,985,000 Class A-3 Notes (collectively, the "Class A Notes") and its $22,500,000 aggregate principal amount of Student Loan Revenue Notes, Series 2006-2 Subordinate Class B Notes (the "Class B Notes," and together with the Class A Notes, the "Notes").

The Notes are being issued pursuant to provisions of the Act and a resolution adopted on March 23, 2006 by the Agency and are secured by a Trust Indenture dated as of November 1, 2006 (the "Indenture") between the Agency and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as trustee (the "Trustee"). The Class B Notes are subordinated in certain respects to the Class A Notes. The Class B Notes will not receive principal until the Stepdown Date, which is scheduled to occur on the earlier of (i) the Distribution Date in January, 2013, or (ii) the first date on which no Class A Notes are outstanding. The Class B Notes then will receive principal prorata with any outstanding Class A Notes, as long as a Trigger Event (defined in Appendix A hereof) is not in effect for the related Distribution Date. Interest on the Class B Notes will be subordinate to interest on the Class A Notes and principal on the Class B Notes will be subordinate to both principal and interest on the Class A Notes.

The Indenture does not provide for the issuance of additional notes or other obligations.

The Agency was created pursuant to the Act for the purpose, *inter alia*, of improving the higher education opportunities of eligible students who are attending approved institutions of higher education by assisting them in meeting their expenses of higher education by enabling the Agency, lenders and postsecondary institutions to make loans available to students and parents for postsecondary education purposes. The Agency has heretofore issued student loan revenue bonds, of which approximately $8.9 billion will be outstanding under various separately secured trust indentures following the issuance of the Notes. The Notes are not cross-defaulted or cross-collateralized with any other obligations of the Agency.

The Notes are being issued to provide funds for the Agency to finance the acquisition of a pool of student loans (the "Student Loans") under the Federal Family Education Loan Program (the "FFEL Program"). Proceeds derived from the sale of the Notes will be used (i) to fund initial deposits to a reserve account (the "Reserve Account") and to a capitalized interest account (the "Capitalized Interest Account"), both established under the Indenture, (ii) to acquire the Student Loans and (iii) to pay costs associated with the issuance of the Notes. See "USE OF PROCEEDS" herein.

Descriptions of the Agency, its student loan origination, purchase, sale, guarantee and servicing activities and operations, the Notes, the Indenture and related documents are included in this Official Statement. The descriptions of such documents included in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, which documents upon issuance of the Notes will be filed with the Trustee at its Harrisburg, Pennsylvania office.

CAPITALIZED TERMS NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANINGS GIVEN THEM IN APPENDIX A - "THE INDENTURE" HERETO.

SUMMARY

The information set forth in this Summary is furnished to provide an introduction to the information contained in this Official Statement and is not comprehensive. It is subject in all respects to the more complete information set forth elsewhere in this Official Statement, which should be read in its entirety. The offering of the Notes to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary from this Official Statement or otherwise to use it without this entire Official Statement.

Principal Parties

Issuer:	Pennsylvania Higher Education Assistance Agency (the "Agency")
Servicer:	Pennsylvania Higher Education Assistance Agency (as servicer, the "Servicer")
Trustee:	Manufacturers and Traders Trust Company
Auction Agent:	U. S. Bank, National Association
Broker-Dealer:	Citigroup Global Markets Inc.
Market Agent:	Citigroup Global Markets Inc.

General Terms

Notes

Principal Amount:	The Agency is issuing $750,000,000 Student Loan Revenue Notes, Series 2006-2 consisting of $269,125,000 Senior Class A-1 Notes, $158,390,000 Senior Class A-2 Notes, $299,985,000 Senior Class A-3 Notes and $22,500,000 Subordinate Class B Notes.
Indenture:	The Notes are issued under and secured by an Indenture, dated as of November 1, 2006. The Indenture does not provide for issuance of additional notes. Pursuant to the Indenture, the Notes are limited obligations of the Agency payable solely from the Trust Estate. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES" in this Official Statement.
Denominations:	Class A Notes will be issued in minimum denominations of $100,000 or any integral multiple of $1,000 in excess thereof. Class B Notes will be issued in minimum denominations of $50,000 and integral multiples thereof.
Book Entry Only:	The Notes are fully registrable and available only in book entry form through CEDE & Co., as nominee for The Depository Trust Company and registered owner of the Notes. See "BOOK ENTRY ONLY SYSTEM" in this Official Statement.
Maturity:	Subject to earlier principal payment or redemption, the Class A-1 Notes will mature on October 25, 2016, the Class A-2 Notes will mature on October 25, 2020, the Class A-3 Notes will mature on October 25, 2036 and the Class B Notes will mature on October 25, 2042.

LIBOR Notes: The Series 2006-2 LIBOR Notes consist of the Series 2006-2 Senior Class A-1, A-2 and A-3 Notes.

Auction Rate Notes: The Series 2006-2 Auction Rate Notes consist of the Series 2006-2 Subordinate Class B Notes.

Use of Proceeds: The proceeds from the sale of the Notes, after payment of issuance costs, will be used to make initial deposits into the Reserve Account and the Capitalized Interest Account established under the Indenture and to fund the acquisition of a pool of Student Loans.

Rank: The Class A Notes are senior and the Class B Notes are subordinate in priority as to payment as described in this Official Statement.

Closing Date/Cutoff Date: The Closing Date and the Cutoff Date for the offering are on or about November 17, 2006.

Information About the Agency

The Pennsylvania Higher Education Assistance Agency is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Pennsylvania Act of Assembly of August 7, 1963, P.L. 549, as amended (the "Act"). The Agency was created pursuant to the Act for the purpose, *inter alia*, of improving the higher education opportunities of eligible students who are attending approved institutions of higher education by assisting them in meeting their expenses of higher education by enabling the Agency, lenders and postsecondary institutions to make loans available to students and parents for postsecondary education purposes.

As Issuer: The Agency is empowered under the Act to issue bonds, notes and other evidences of indebtedness for the purpose of purchasing, making or guaranteeing loans to students or parents, or to lending institutions or postsecondary institutions making student loans, and related costs and expenses including costs of issuance of debt and establishment of reserve funds.

As Servicer: Under a Servicing Agreement, the Agency, as Servicer, will be responsible for servicing, maintaining custody of and making collections on the Student Loans. It will bill and collect payments from guarantee agencies and the Department of Education. The Agency has been designated as an "Exceptional Performer" by the Department of Education in recognition of its exceptional level of performance in servicing FFEL Program loans. As a result, the Agency receives 99% reimbursement on all eligible FFEL Program default claims filed for reimbursement after July 1, 2006 on loans that the Agency services, including the Student Loans. However, this 99% reimbursement rate could be reduced as a result of a variety of factors, including changes in the FFEL Program or in the Agency's servicing performance.

As Guarantor: The Agency is the guarantor of the Student Loans acquired with proceeds of the Notes. The Agency also guarantees FFEL Program student loans originated by other lenders. During the Agency's fiscal year ending June 30, 2006, the Agency guaranteed 1.3 million FFEL Program loans originated by other lenders with an aggregate principal balance of $16.6 billion. At June 30, 2006, the Agency had outstanding guarantees of FFEL Program student loans with an aggregate original principal balance of approximately $40.8 billion.

Student Loans

The Student Loans are education loans to students and parents of students made under the FFEL Program.

Student Loans, plus accrued interest in an aggregate amount of approximately $730,712,067 will be purchased, on or about the Closing Date. The remaining $250,000 of the net proceeds will be retained in the Acquisition Account to purchase additional consolidation loans relating to those borrowers whose consolidation loans were originally acquired with the proceeds of the Notes. See "USE OF PROCEEDS – Acquisition of the Student Loan Portfolio" herein.

The Agency acts as guarantor with respect to the Student Loans in the pool. This guarantee is reinsured by the United States Department of Education.

Interest subsidy payments and special allowance payments may be due from the federal government on certain of the Student Loans from time to time. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Principal and Interest Payments on Federal Family Education Loan Program Loans" and "– Special Allowance Payments on FFEL Program Loans" herein.

This Official Statement presents information relating to the portfolio of Student Loans that are to be acquired on or about the Closing Date. Information relating to the portfolio of Student Loans is presented as of a statistical cut-off date, which is the close of business on September 30, 2006 (the "Statistical Cutoff Date"). The information set forth in the Official Statement with respect to those Student Loans as of the Statistical Cutoff Date is representative of the characteristics of those Student Loans as they will exist on or about the Closing Date, although certain characteristics of the Student Loans may vary by as much as plus or minus 5%.

COMPOSITION OF THE STUDENT LOANS
AS OF THE STATISTICAL CUTOFF DATE

Aggregate Outstanding Principal Balance	$725,523,114
Number of Accounts	36,532
Average Outstanding Principal Balance per Account	$19,860
Number of Loans	60,221
Average Outstanding Principal Balance per Loan	$12,048
Weighted Average Annual Interest Rate	4.30%
Weighted Average Remaining Term (Months)	229

The "Initial Pool Balance" referred to herein is equal to the aggregate outstanding principal balance of the portfolio of Student Loans plus accrued interest that is expected to be capitalized as of the Statistical Cutoff Date.

Security for the Notes

Under the Indenture the Agency grants to the Trustee all of its right, title and interest in and to the Trust Estate, and the Notes are payable solely from moneys derived from the Trust Estate. The "Trust Estate" consists of: (a) the Student Loans, and all obligations of the obligors thereunder, including all moneys accrued and paid thereunder on or after the date of issuance and delivery of the Notes and all guaranties and other rights relating to the Student Loans; (b) the Servicing Agreement, including the right of the Agency to cause the Servicer to purchase Student Loans from the Agency under circumstances described in the Servicing Agreement; (c) guarantee payments of the Agency as guarantor with respect to the Student Loans; (d) the Trust Accounts established under the Indenture and all funds on deposit from time to time in the Trust Accounts, and all investments and proceeds thereof (including all income thereon); and (e) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, general intangibles, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind

and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing.

Agency as Guarantor

Guarantee Volume. The following table describes the approximate aggregate principal amount of federally reinsured student loans, excluding federal consolidation loans, that first became guaranteed by the Agency in each of the five federal fiscal years shown:

Loans Guaranteed by Federal Fiscal Year (Non-Consolidated)
(dollars in thousands)

2001	2002	2003	2004	2005
$2,252,381	$2,529,963	$2,813,006	$3,131,246	$3,403,031

Reserve Ratio. A guarantor's reserve ratio is determined by dividing cumulative cash reserves by the original principal amount of the outstanding loans it has agreed to guarantee.

The following table shows the Agency's reserve ratios for the five federal fiscal years shown for which information is available:

Reserve Ratio as of Close of Federal Fiscal Year

2001	2002*	2003*	2004*	2005*
1.11%	0.48%	0.44%	0.31%	.16%

* Guaranty Agencies were required to relinquish certain reserve funds to the federal government pursuant to the Federal Balanced Budget Act of 1997 and the Higher Education Amendments of 1998. If these reserve funds were not recalled, the 2002, 2003, 2004 and 2005 reserve ratios would have been 1.08%, 1.08% and 0.85% and 0.55%, respectively.

Recovery Rates. A guarantor's recovery rate, which provides a measure of the effectiveness of the collection efforts against defaulting borrowers after the guarantee claim has been satisfied, is determined for each year by dividing the current year collections by the total outstanding claim portfolio as of the end of the prior Fiscal Year.

The following table shows the cumulative recovery rates for the Agency for the five federal fiscal years shown for which information is available:

Recovery Rate for Federal Fiscal Year

2001	2002	2003	2004	2005
23.2%	26.07%	23.12%	25.48%	26.3%

Claims Rate. The following table shows the claims rates of the Agency for each of the five federal fiscal years shown:

Claims Rate for Federal Fiscal Year

2001	2002	2003	2004	2005
1.7%	1.7%	1.5%	1.1%	1.3%

See "INFORMATION RELATING TO THE AGENCY AS GUARANTOR" in this Official Statement.

Administration of the Trust Estate

Trust Accounts

The Indenture provides that the Trustee shall establish the following trust accounts:

(i) a "Collection Account";
(ii) a "Reserve Account";
(iii) an "Acquisition Account"; and
(iv) a "Capitalized Interest Account."

Collection Account. The Trustee will deposit into the Collection Account, upon receipt, collections on the Student Loans, including all interest subsidy payments and special allowance payments received from the federal government. Additionally, any amounts received from the Servicer in connection with the repurchase of Student Loans will be deposited into the Collection Account.

Reserve Account. On the Closing Date, the Agency shall deposit or cause to be deposited into the Reserve Account an amount equal to 0.25% of the Initial Pool Balance ($1,813,808) of the proceeds derived from the sale of the Notes. In the event that there are insufficient funds in the Collection Account to pay the Primary Servicing Fee or interest on the Notes and, on their respective final maturity dates, the principal of the related class of Notes, the Trustee is directed by the Indenture to withdraw from the Reserve Account such amounts as may be necessary to make such payments, to the extent of funds available in the Reserve Account, in the priority set forth in the Indenture. See Section 8.12 of the Indenture attached as Appendix A to this Official Statement.

Acquisition Account. On the Closing Date, the Agency shall deposit or cause to be deposited into the Acquisition Account approximately $731,758,692 of the proceeds derived from the sale of the Notes, which is the amount estimated to be necessary to pay expenses incurred in connection with the issuance of the Notes (other than the related underwriting discount), and to fund the acquisition of the pool of the Student Loans. Approximately $250,000 of the sum deposited into the Acquisition Account will remain in the Acquisition Account after the Closing Date and may be used to purchase additional Student Loans for those borrowers whose consolidation loans were originally acquired with the proceeds of the Notes. Any remaining amounts set aside for this purpose in the Acquisition Account will be transferred to the Collection Account on or about May 17, 2007.

Capitalized Interest Account. On the Closing Date, the Agency shall deposit or cause to be deposited into the Capitalized Interest Account an initial deposit in the amount of $14,250,000. Any balance remaining in the Capitalized Interest Account on October 25, 2007 shall be transferred to the Collection Account, and the Capitalized Interest Account will be terminated.

Dates

Distribution Dates. The "Quarterly Distribution Dates" for the Series 2006-2 Class A Notes are the 25th of each January, April, July and October; however, if any January 25, April 25, July 25 or October 25 is not a Business Day, the Quarterly Distribution Date will be the next business day. The first Quarterly Distribution Date for the Notes is January 25, 2007. The "Auction Rate Distribution Dates" for the Series 2006-2 Class B Notes are generally every 28 days beginning on December 15, 2006, or if not a Business Day, the Auction Rate Distribution Date will be the next Business Day.

Stepdown Date. The "Stepdown Date" is the earlier to occur of the Distribution Date in January, 2013 or the first date on which no Class A Notes are outstanding. It is the date on and after which principal payments may be made on the Class B Notes.

Monthly Servicing and Expense Payment Dates. The Servicer will be paid the Primary Servicing Fee on each Monthly Servicing Payment Date and the Auction Agent will be paid the Auction Agent fee and the Broker-Dealer Fee on the Monthly Expense Payment Date, commencing December 26, 2006. If any such date is not a Business Day, payment is on the next following Business Day. See "DESCRIPTION OF THE NOTES – Servicing Compensation" in this Official Statement.

Record Dates. Interest and principal will be payable to holders of record as of the close of business on the record date, which is:

- for Distributions, the close of business on the day preceding the related Distribution Date; and
- for the redemption of the Notes, the close of business on the day preceding the date fixed for redemption.

Information About the Notes

The Notes are limited obligations of the Agency payable solely from the Trust Estate without recourse to any other assets or property of the Agency. Neither the Commonwealth of Pennsylvania, nor any political subdivision thereof, is or shall be obligated to pay the principal, redemption price, or interest on the Notes and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment. The Agency has no taxing power.

Series A Notes

Interest Payments. Interest will accrue on the principal balances of the Class A Notes during three-month accrual periods, except for the initial accrual period as explained below, and will be paid on Distribution Dates. An accrual period for the Class A Notes begins on a Distribution Date and ends on the day before the next Distribution Date.

The first accrual period for the Class A Notes, however, will begin on the Closing Date and end on January 24, 2007. The Class A Notes will bear interest during the first accrual period at a per annum rate equal to the rate determined by the calculation agent by reference to straight line interpolation between two-month and three-month LIBOR based on a 360 day year and the actual number of days in the interest accrual period, plus the following applicable spread:

Class of Notes	Spread
Class A-1	0.01%
Class A-2	0.09%
Class A-3	0.13%

For each subsequent interest period, each class of Class A Notes will bear interest per annum equal to the interest rate set forth on the cover to this Official Statement. Also, see "DESCRIPTION OF THE NOTES –The Class A Notes" and - Determination of LIBOR" in this Official Statement.

Interest Payments and Auction of Series B

Auction Rate Notes. After the initial period, the Class B Notes will bear interest at rates determined by Auction. The initial interest rates on the Class B Notes will be determined prior to the closing date. The initial Auction Date and the Initial Rate Adjustment Date for each series of Class B Notes is set forth in the table below.

Series	Initial Auction Date	Initial Rate Adjustment Date
Series 2006-2 Class B Notes	December 14, 2006	December 15, 2006

Interest on the Class B Notes will be calculated on the basis of a 360-day year and the actual number of days elapsed during the related accrual period.

Following the initial period, the Auction Period for the Class B Notes will generally consist of 28 days. The length of the Auction Period may be changed as described in this offering memorandum under "*DESCRIPTION OF THE NOTES—Auction Rate Notes—Changes in Auction Period*".

For each Auction Period, the interest rate for the Class B Notes will equal the least of:

- the "Auction Rate"—a rate determined by application of the Auction Procedures set forth in Appendix B to the Indenture which is attached to this offering memorandum as Appendix A;
- the "Maximum Rate"—a rate defined in the Indenture as the lesser of:
  - the LIBOR rate for a comparable period plus a margin ranging from 1.50% to 3.50% depending upon the then-current ratings of the notes, or
  - the maximum rate permitted by law; and
- the "Net Loan Rate"—a rate defined in the Indenture to mean the weighted average interest rate on the Student Loans in the pool (net of the rebate fee payable to the Secretary of Education with respect to our Federal Consolidation Loans) less program expense percentage and net losses realized on the Student Loans (expressed as a percentage of the outstanding principal balance of all Student Loans). The program expense percentage, which is currently approximately 0.55%, is determined by the Agency and equals estimated annual expenses divided by the outstanding principal balance of all Student Loans.

If, on the first day of any Auction Period a payment default on the notes has occurred and is continuing, the rate for the Auction Period will be the Non-Payment Rate, which is one-month LIBOR plus 1.50%.

If in any Auction all the Class B Notes subject to the Auction are subject to hold orders, the interest rate for the Auction Period will equal the All-Hold Rate, which is the Applicable LIBOR Rate for a period comparable to the Auction Period less 0.20%.

Determination of Auction Rate Note Interest Rate. The procedures that will be used in determining the interest rates on the Class B Notes are set forth in Appendix B to the Indenture, which is attached to this offering memorandum as Appendix A. A summary of those procedures is set forth in the following paragraphs.

The interest rate on each series of Class B Notes will be determined periodically on each Auction Date by means of a "Dutch Auction". In this Dutch Auction, investors and potential investors submit orders through an eligible Broker-Dealer as to the principal amount of Class B Notes they wish to buy, hold or sell at various interest rates. The Broker-Dealer submits its clients' orders to the Auction Agent. The Auction Agent processes all orders submitted by the eligible Broker-Dealer and determines the interest rate for the upcoming Auction Period. The Broker-Dealer is notified by the Auction Agent of the interest rate for the upcoming Auction Period and is provided with settlement instructions relating to purchases and sales of auction rate notes. The Class B Notes will be purchased and sold between investors and potential investors at a price equal to their then-outstanding principal balance plus any accrued interest.

In the Auction, the following types of orders may be submitted:

- "Bid/Hold Orders"—specify the minimum interest rate that a current investor is willing to accept to continue to hold Class B Notes for the upcoming Auction Period;
- "Sell Orders"—an order by a current investor to sell a specified principal amount of Class B Notes regardless of the upcoming interest rate; and
- "Potential Bid Orders"—specify the minimum interest rate that a potential investor, or a current investor wishing to purchase additional Class B Notes, is willing to accept to buy a specified principal amount of Class B Notes.

If an existing investor does not submit orders with respect to all its Class B Notes, the investor will be deemed to have submitted a hold order at the new interest rate for that portion of its Class B Notes for which no order was received.

Example

The following example helps illustrate how the auction procedures are used in determining the interest rate on the Class B Notes.

(a) *Assumptions:*

1. Denominations (units) = $50,000
2. Auction period = 28 Days
3. Principal amount outstanding = $25 million (500 units)

(b) *Summary of All Orders Received For The Auction:*

BID/HOLD ORDERS*	SELL ORDERS*	POTENTIAL BID ORDERS
10 units at 4.90%	50 units Sell	20 units at 4.95%
30 units at 5.02%	50 units Sell	30 units at 5.00%
60 units at 5.05%	100 units Sell	50 units at 5.05%
100 units at 5.10%	200 units	50 units at 5.10%
100 units at 5.12%		50 units at 5.11%
300 units		50 units at 5.14%
		100 units at 5.15%
		350 units

*Total units under existing bid/hold orders and sell orders must always equal issue size (in this case 500 units).

(c) *Auction Agent Organizes Orders In Ascending Order:*

Order Number	Number of Units	Cumulative Total (Units)	%	Order Number	Number of Units	Cumulative Total (Units)	%
1	10(W)	10	4.90%	7	100(W)	300	5.10%
2	20(W)	30	4.95%	8	50(W)	350	5.10%
3	30(W)	60	5.00%	9	50(W)	400	5.11%
4	30(W)	90	5.02%	10	100(W)	500	5.12%
5	50(W)	140	5.05%	11	50(L)		5.14%
6	60(W)	200	5.05%	12	100(L)		5.15%

(W) Winning Order
(L) Losing Order

Order #10 is the order that clears the market of all available units. All winning orders are awarded the winning rate (in this case, 5.12%) as the interest rate for the next interest accrual period, at the end of which another Auction will be held. Multiple orders at the winning rate are allocated units on a pro rata basis. In any case, the interest rate on the Class B Notes will never exceed the Maximum Rate or the Net Loan Rate.

The above example assumes that a successful Auction has occurred (i.e., all sell orders and all bid/hold orders below the new interest rate were fulfilled). However, in some circumstances, there may be insufficient potential bid orders to purchase all the Class B Notes offered for sale. In those circumstances, the interest rate for

the upcoming interest accrual period will equal the Maximum Rate. Also, if all the Class B Notes are subject to hold orders (i.e., each holder of Class B Notes wishes to continue holding its Class B Notes, regardless of the interest rate) the interest rate on the Class B Notes for the upcoming interest accrual period will be the "All Hold Rate".

If a payment default has occurred, the interest rate on the Class B Notes will be the "Non-Payment Rate".

Maximum Rate and Interest Carry-overs. If the Auction Rate for the Class B Notes is greater than the Maximum Rate, then the interest rate applicable to those Class B Notes will be the "Maximum Rate". In such event, if the interest rate for the Class B Notes is set at the Net Loan Rate, the excess of the lower of the Auction Rate and the Maximum Rate that would have been applied if the Net Loan Rate were not a component of the Maximum Rate, over the Net Loan Rate will be carried over for that series of Class B Notes. If there are insufficient bid orders to purchase all Class B Notes offered for sale in an auction and the interest rate is set at the Net Loan Rate, the excess of the Maximum Rate that would have been applied if the Net Loan Rate was not a component of the Maximum Rate over the Net Loan Rate will be carried over for the Class B Notes. The Carry-over Amount will bear interest at a rate equal to One-Month LIBOR. The ratings of the Class B Notes do not address the payment of Carry-over Amounts or interest on Carry-over Amounts.

The Carry-over Amount, and interest accrued thereon, for the Class B Notes will be paid on a Distribution Date if there is sufficient money in the Distribution Account to pay all fees and expenses due on that Distribution Date, all principal and interest due on the notes on that Distribution Date, related Reserve Account, if any, required to be made on that Distribution Date. Any Carry-over Amount, and any interest accrued on the Carry-over Amount, due on any Class B note that is to be redeemed will be paid to the holder thereof on the redemption date to the extent that money is available. To the extent funds are available in the Distribution Account to pay Carry-over Amounts and interest on Carry-over Amounts on any Distribution Date, such funds will be allocated first to pay Carry-over Amounts and interest on Carry-over Amounts on Class B Notes subject to mandatory redemption on such Distribution Date. Any Carry-over Amount and interest on the Carry-over Amount not paid on the date a Class B note is redeemed pursuant to mandatory redemption will be cancelled and not paid on that Class B note on any subsequent date.

Changes in Auction Period. The Agency may, from time to time, change the length of the Auction Period for a series of Class B Notes to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by that series of Class B Notes. The length of the Auction Period may not be changed to an Auction Period of longer than 120 days unless the Agency receives confirmation from each Rating Agency then rating the Class B Notes that its rating(s) of the outstanding Class B Notes will not be reduced or withdrawn as a result of such change. The Agency will initiate the Auction Period adjustment by giving written notice to the Trustee, Auction Agent, Market Agent and Broker-Dealer, each Rating Agency rating the Class B Notes and the holders of the Class B Notes at least 10 days prior to the Auction Date for the Class B Notes. The Auction Period adjustment will take effect only if approved by the Market Agent and if the Auction Agent receives orders sufficient to complete the Auction for the new Auction Period at a rate of interest below the Maximum Rate.

Changes in the Auction Date. The Market Agent, with the written consent of the Agency, may specify a different Auction Date (but in no event more than five business days earlier than the Auction Date that would otherwise be determined in accordance with the Indenture) to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date. If the Agency, consents to the change, the Market Agent will provide notice of its determination to specify an earlier Auction Date in writing at least 10 days prior to the proposed changed Auction Date to the Trustee, Auction Agent, each Rating Agency rating the Class B Notes and the holders thereof.

Securities and Exchange Commission Settlement. On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of 15 firms, including Citigroup Global Markets Inc., Banc of America Securities and RBC Capital Markets (the "Broker-Dealers"), that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement,

Citigroup Global Markets Inc. and RBC Capital Markets each agreed to pay civil money penalties of $1,500,000, respectively, and Banc of America Securities agreed to pay civil money penalties of $750,000. In addition, each Broker-Dealer, without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide customers with written descriptions of material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by that Broker-Dealer to conduct the auction process in accordance with disclosed procedures. The Broker-Dealers can offer no assurances as to how the settlement may affect the market for auction rate securities or the Series 2006-2 Class B Notes.

Role of Broker-Dealer. Citigroup Global Markets Inc. (the "Broker-Dealer") has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers for its services. Broker-Dealer receives broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Broker-Dealer in auctions.

Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Class B Notes. The Broker-Dealer will receive Broker-Dealer Fees from the Issuer with respect to the Class B Notes sold or successfully placed through it in Auctions. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction.

Bidding by Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because Broker-Dealer would have knowledge of the other Orders placed through it in that Auction and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction and (ii) the Auction will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Issuer to serve as a Broker-Dealer in the Auction, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction may differ from those of Existing Owners and Potential Owners who participate in Auctions. *See* "Role of Broker-Dealer." The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

Where Broker-Dealer is the only Broker-Dealer appointed by the Issuer to serve as Broker-Dealer in the Auction, it would be the only Broker-Dealer that submits Orders to the Auction Agent in that Auction. As a result, in such circumstances, the Broker-Dealer could discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in Auctions for its own account to acquire securities for its inventory, to prevent "a failed Auction" (which occurs if there is a lack of sufficient clearing bids and results in the Auction Rate being set at the Maximum Rate) or to prevent an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place one or more Bids in an Auction for its own account to acquire the Class B Notes for its inventory, to prevent a failed auction or to prevent Auctions from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Class B Notes. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. *See* "Price Talk."

The Broker-Dealer routinely encourages bidding by others in Auctions for which it serves as Broker-Dealer. The Broker-Dealer also may encourage Bidding by others in Auctions, including to prevent a failed Auction or to prevent an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Class B Notes. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the Class B Notes being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer Class B Notes than they would have received if the Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the Class B Notes involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction to prevent a failed Auction or an Auction from clearing at a rate the Broker-Dealer believes does not reflect the market for the Class B Notes. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that failed Auctions will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

In any particular Auction, if all outstanding Class B Notes are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealer holds any Class B Notes for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction with respect to such Class B Notes, which would prevent that Auction from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction, as set forth above.

Broker-Dealer Fees. For many auction rate securities, the Broker-Dealer has been appointed by the issuer of the securities to serve as a Broker-Dealer in the Auction and is paid by the Agency for its services. With respect to the Class B Notes in this offering, each Broker-Dealer has been appointed to serve as a dealer in the Auctions pursuant to a Broker-Dealer agreement between the issuer and such Broker-Dealer. Each broker-dealer agreement provides that the Broker-Dealer will receive from the Agency broker-dealer fees based on the principal amount of the Class B Notes placed through such Broker-Dealer. As a result, a Broker-Dealer's interests in conducting Auctions may differ from those of investors who participate in Auctions.

The Broker-Dealers may share a portion of the broker-dealer fees it receives from the issuer with other broker-dealers that submit orders through it, for those orders that such Broker-Dealer successfully places in Auctions. Similarly, with respect to auctions for other auction rate securities for which a Broker-Dealer does not serve as a dealer, the other broker-dealers who serve as dealers in those auctions may share broker-dealer fees with the Broker-Dealer for orders that the Broker-Dealer submits through those broker-dealers that those broker-dealers successfully place in those auctions.

"Price Talk." Before the start of an Auction, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. The Broker-Dealer occasionally may update and change the Price Talk based on changes in the Agency's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids. The Broker-Dealer will not accept "All-or-Nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Class B Notes where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Class B Notes purchased or retained in the Auction may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Class B Notes from or sell Class B Notes to a customer after the Auction.

Deadlines. Each particular Auction has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline — called the "Internal Submission Deadline" — by which Bidders must submit Bids to the Broker-Dealer. The Internal Submission Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Internal Submission Deadline. The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline.

Existing Owner's Ability to Resell Class B Notes May Be Limited. An Existing Owner may sell, transfer or dispose of Class B Notes (i) in an Auction, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Class B Notes that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Class B Notes in the Auction. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the Class B Notes subject to such Submitted Sell Orders. As discussed above (*see* "Bidding by Broker-Dealer"), the Broker-Dealer may submit a Bid in an Auction to avoid a failed Auction, but it is not obligated to do so. There may not always be enough Bidders to prevent a failed Auction in the absence of the Broker-Dealer Bidding in the Auction for its own account or encouraging others to Bid. Therefore, a failed Auction is possible, especially if the Agency's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer was unable or unwilling to Bid.

Between Auctions, there can be no assurance that a secondary market for the Class B Notes will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Class B Notes on the terms or at the times desired by an Existing Owner. Broker-Dealer, in its own discretion, may decide to buy or sell the Class B Notes in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Class B Notes. However, the Broker-Dealer is not obligated to make a market in the Class B Notes and may discontinue trading in the Class B Notes without notice for any reason at any time. Existing Owners who resell between Auctions may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased Class B Notes through a dealer which is not the Broker-Dealer for the securities, such Existing Owner's ability to sell its security may be affected by the continued ability of its dealer to transact trades for the Class B Notes through the Broker-Dealer.

The ability to resell the Class B Notes will depend on various factors affecting the market for the Class B Notes, including news relating to the Agency, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Class B Notes (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Class B Notes (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described previously under "Securities and Exchange Commission Settlement") or press reports, financial reporting cycles and market conditions generally. Demand for the Class B Notes may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent Under the Auction Agent Agreement or a Broker-Dealer Under a Broker-Dealer Agreement Could Impact the Ability to Hold Auctions.

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving notice to the Trustee, the Agency and the Broker-Dealer. The Auction Agent may terminate the Auction Agent Agreement if, after notifying the Trustee, the Agency and each Broker-Dealer that it has not received payment of any auction agent fee due it in accordance with the terms of the Auction Agent Agreement, the Auction

Agent does not receive such payment within 25 days. Any resignation or termination of the Auction Agent, other than as described in the immediately preceding sentence, shall not become effective until a successor auction agent has been appointed and such successor auction agent has accepted such position; provided, however, that in the event that successor auction agent has not been appointed within 60 days after the date specified in its notice of resignation, then the Auction Agent may petition a court of competent jurisdiction for a replacement. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Class B Notes will be determined as described in Section 2.01 of Appendix B to the Indenture, which is attached hereto as Appendix A.

Principal Payments on Notes and Redemption of Class B Notes

Principal Payments. Distributions of principal, each referred to herein as a "Principal Distribution Amount", will be made generally based upon the decline in the aggregate principal balance of the pool of Student Loans, including accrued interest that is expected to be capitalized during the related Collection Period. The "Pool Balance", for any date, is the aggregate principal balance of the Student Loans, including accrued interest expected to be capitalized, plus the amount on deposit in the Collection Account which reflects reductions to principal; *i.e.* reductions reflected by (a) payments received by the Trustee from borrowers, the Agency as guarantor and the U.S. Department of Education, (b) amounts received by the Trustee from repurchases of the Student Loans by the Servicer, (c) moneys collected from the liquidation of any defaulted Student Loan (the "Liquidation Proceeds") and losses from liquidation of any defaulted Student Loan determined by the excess of the principal balance, including any interest that had been or had been expected to be capitalized, of any liquidated Student Loan over the Liquidation Proceeds received in connection with the default which are allocable to principal, including any interest that had been or had been expected to be capitalized, (d) the amount of adjustments to the outstanding principal balances of the Student Loans made by the Servicer under the Servicing Agreement and (e) the amount by which reimbursements of principal on defaulted Student Loans by the Agency as guarantor are reduced from 99% pursuant to the Higher Education Act.

The Pool Balance is adjusted (the "Adjusted Pool Balance") on any Distribution Date depending upon whether the sum of the Pool Balance and certain other funds is greater than 40% of the Initial Pool Balance. If the Pool Balance as of the last day of the related Collection Period is greater than 40% of the Initial Pool Balance, the Adjusted Pool Balance is equal to the sum of the Pool Balance, the Capitalized Interest Account Balance and the Specified Reserve Account Balance for the Distribution Date to which the calculation is related. If the Pool Balance as of the last day of the related Collection Period is equal to or less than 40% of the Initial Pool Balance, the Adjusted Pool Balance is equal to the sum of the Pool Balance and the Capitalized Interest Account Balance.

The Principal Distribution Amount for the initial Distribution Date is the amount by which the aggregate principal amount of the outstanding Notes exceeds the Adjusted Pool Balance as of the last day of the initial Collection Period.

The Principal Distribution Amount for each subsequent Distribution Date will be the amount by which the Adjusted Pool Balance for the preceding Distribution Date exceeds the Adjusted Pool Balance for the Distribution Date to which the calculation is related.

Principal payments made on any Distribution Date prior to the Stepdown Date will be applied entirely to the Class A Notes. On and after the Stepdown Date the Class B Notes will be allocated payment of principal prorata with any outstanding Class A Notes so long as a Trigger Event (defined below) has not occurred.

<u>Class A Notes</u>. Principal payments will be made to holders of the Class A Notes, sequentially to holders of the Class A-1 Notes through Class A-3 Notes, in numeric order and, if applicable, prorata within each numbered class, on each Distribution Date in an amount generally equal to the Class A Noteholders' Principal Distribution Amount, until the principal balance of the Class A Notes is reduced to zero. See "DESCRIPTION OF THE NOTES—Distributions," "— Credit Enhancement" and "—The Class B Notes—*Subordination of the Class B Notes*" in this Official Statement. If there are insufficient funds to pay the Class A Noteholders' Principal Distribution Amount on a Distribution Date, the shortfall will be added to the principal payable on subsequent Distribution Dates. Amounts

on deposit in the Reserve Account, other than amounts in excess of the Specified Reserve Account Balance, will not be available to make principal payments on the Class A Notes except on the related final maturity date of such class of Notes or earlier redemption or prepayment of such class of Notes.

Class B Notes. Principal payments will be made to the holders of the Class B Notes on each Distribution Date on and after the Stepdown Date through mandatory redemption, as discussed below, provided that a Trigger Event has not occurred and is continuing, in an amount generally equal to the Class B Noteholders' Principal Distribution Amount for the applicable Distribution Date. Principal payable on any Distribution Date will generally be funded from the portion of available funds and the other sources of funds for payment described in the Indenture (subject to all prior required distributions). Amounts on deposit in the Reserve Account (other than amounts in excess of the specified Reserve Account balance) will not be available to make principal payments on the Class B Notes except at their maturity or earlier redemption or prepayment of the Class B Notes. See "DESCRIPTION OF THE NOTES—Distributions" and "—Credit Enhancement—*Reserve Account*" in this Official Statement.

A "Trigger Event" is defined by the Indenture to mean any Distribution Date on which, (i) while any of the Class A Notes are outstanding, the aggregate outstanding amount of all the Notes, after giving effect to distributions under clauses 8.11(a) through (c) of the Indenture to be made on such Distribution Date, exceeds the Pool Balance plus the Reserve Account balance and the balance in the Capitalized Interest Account as of the end of the related Collection Period or (ii) there has not been an optional purchase or sale of the Student Loans after the Pool Balance falls below 10% of the Initial Pool Balance pursuant to Section 4.5(a) of the Indenture.

If principal is to be paid to Class B Noteholders on a Distribution Date pursuant to Section 8.11(f) of the Indenture, it shall be paid through mandatory redemption. Notice of such event shall be given by the Trustee to the Noteholders which shall include notice of the redemption of such Class B Notes by application of such amounts on the Auction Rate Distribution Date specified in Section 8.11(f) of the Indenture or the next succeeding Auction Rate Distribution Date, if such Auction Rate Distribution Date occurs sooner than 15 days after the date of such notice (the "Section 8.11(f) Redemption Date", together with the Section 4.5 Redemption Date, the "Redemption Date"), whereupon all such amounts shall be payable on the Section 8.11(f) Redemption Date.

The outstanding principal balance of the Class B Notes will be due and payable in full at maturity. The actual date on which the final distribution on the Class B Notes will be made may be earlier than maturity, however, based on a variety of factors. See "CERTAIN RISK FACTORS" in this Official Statement as to factors that may affect the actual date on which the aggregate outstanding principal and accrued interest of Class B Notes is paid.

Subordination of the Class B Notes

Payments of interest on the Class B Notes on a Distribution Date will be subordinate to the payment of interest on the Class A Notes on that Distribution Date. Generally, payments of principal on the Class B Notes will be subordinate to the payment of both interest and principal on the Class A Notes, and to payment of interest on the Class B Notes. See "DESCRIPTION OF THE NOTES—The Notes – The Class B Notes - *Subordination of the Class B Notes*" in this Official Statement.

Principal payments will be applied on each Distribution Date in the priorities set forth under "DESCRIPTION OF THE NOTES—Distributions" in this Official Statement.

Servicer's Clean-Up Call and Redemption of Notes

The Servicer may, at its option, purchase all of the Student Loans on the Distribution Date following any date on which the total principal balance of Student Loans in the portfolio then outstanding is less than 10% of the Initial Pool Balance. The proceeds derived from the purchase of the Student Loans will be used to redeem any outstanding Notes.

Characteristics of Student Loan Portfolio

The portfolio of Student Loans expected to be acquired with the proceeds of the Notes is described below under "THE STUDENT LOAN POOL" in this Official Statement. The Servicer will pay over to the Trustee with respect to each acquired Student Loan all payments received on and after the date on which such Student Loan is transferred to the Trust Estate.

Ratings

It is a condition to the issuance of the Class A Notes that they be rated "AAA" by Fitch Ratings, "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Ratings Services. It is a condition to the issuance of the Class B Notes that they be rated at least "A" by Fitch Ratings, "A2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's Ratings Services.

ERISA

The Notes may be purchased by an employee benefit plan (whether or not such plan is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) or by an individual retirement account described in Section 408(a) of the Internal Revenue Code of 1986, as amended (the "Code") (both referred to hereinafter as "Plans") subject to certain limitations. Before acquiring any Notes, a fiduciary of a Plan must determine that the acquisition of such Notes is consistent with its fiduciary duties under ERISA and the terms of the applicable Plan documents and does not result in a nonexempt prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code. See "ERISA CONSIDERATIONS" in this Official Statement.

Tax Matters

Interest on the Notes is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Under existing laws of the Commonwealth of Pennsylvania, the interest on the Notes is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Notes or the interest thereon. See "TAX MATTERS" in this Official Statement.

Identification Numbers

The Notes will have the CUSIP Numbers and ISIN Numbers listed below.

	CUSIP Number	ISIN Number
Class A-1 Notes:	709163GF0	US709163GF06
Class A-2 Notes:	709163GG8	US709163GG88
Class A-3 Notes:	709163GH6	US709163GH61
Class B Notes:	709163GJ2	US709163GJ28

CERTAIN RISK FACTORS

Many factors could affect the sufficiency of the Trust Estate to meet debt service payments on the Notes, some of which are discussed below. Potential investors should carefully consider the following factors in order to understand the structure and characteristics of the Notes and the potential merits and risks of an investment in the Notes. Potential investors must review and be familiar with the following risk factors in deciding whether to purchase any Note.

The characteristics of the Student Loans may change

The statistical information in this Official Statement reflects only the characteristics of the Student Loans as of the Statistical Cutoff Date. The Student Loans actually transferred to the Trust Estate on the Closing Date may have characteristics that differ somewhat from the characteristics of the Student Loans described herein as of the Statistical Cutoff Date due to payments received and other changes in these loans that occur during the period from the Statistical Cutoff Date to the Closing Date or the addition or substitution of certain Student Loans. Characteristics of the Student Loans actually transferred to the Trust Estate on the Closing Date are not expected to differ materially from the characteristics of the Student Loans as of the Statistical Cutoff Date, but may vary by as much as plus or minus 5%. However, investors should assume that the Student Loans will vary somewhat from the Student Loans presented in this Official Statement.

Sequential payment of Interest may alter risk between Class A Notes and Class B Notes

Interest on the Class B Notes (Subordinate Class) generally will be paid at intervals more frequent than interest to be paid on the Class A Notes (Senior Class), which may result in interest charges on the Class A Notes (Senior Class) accruing but remaining unpaid at a time when interest is paid when due on the Class B Notes (Subordinate Class) if certain conditions are not met.

Investors in the Class B Notes bear greater risk of loss because the priority of payment of interest and the timing of principal payments on the Class B Notes may change due to the variability of cash flows

Principal on the Class B Notes will not be entitled to be paid until the Stepdown Date. However, if a Trigger Event is in effect on any Distribution Date, the Class B Notes will not receive any payments of principal on any Distribution Date occurring on or after the Stepdown Date unless the Class A Notes have been paid in full.

In addition, the failure to pay interest on the Class B Notes will not constitute an Event of Default under the Indenture as long as any Class A Notes remain outstanding.

Thus, investors in the Class B Notes will bear a greater risk of loss than the holders of Class A Notes. Investors in the Class B Notes also will bear the risk of any adverse changes in the anticipated yield and weighted average life of their Notes resulting from any variability in payments of principal and/or interest on the Class B Notes.

On any Distribution Date, distributions of interest on the Class B Notes will be subordinated to the payment of interest on the Class A Notes, and principal payments on the Class B Notes will be subordinated to the payment of both interest and principal on the Class A Notes. Consequently, on any Distribution Date, Available Funds, amounts on deposit in the Reserve Account and the Capitalized Interest Account remaining after payment of the Primary Servicing Fee and, through the October 2007 Distribution Date, amounts on deposit in the Capitalized Interest Account, will be applied to the payment of interest on the Class A Notes prior to any payment of interest on the Class B Notes, and no payments of the principal balance on the Class B Notes will be made on such Distribution Date until the Stepdown Date.

In addition, if (i) an Event of Default affecting the Class A Notes has occurred and is continuing, or if (ii) on any Distribution Date following distributions of the amounts described in clauses (1) through (3) under "DESCRIPTION OF THE NOTES— Distributions— *Distributions from the Collection Account*" below, if any, to be made

on that Distribution Date, the Outstanding Amount of the Class A Notes would be in excess of–

(A) the sum of (1) the outstanding principal balance of the Student Loans as of the last day of the related Collection Period, (2) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period and (3) the balance of the Reserve Account and the Capitalized Interest Account on such Distribution Date following those distributions required to be made under clauses (1) through (3) set forth under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" below, minus

(B) the Specified Reserve Account Balance for that Distribution Date,

then, until the conditions described in (i) or (ii) no longer exist, amounts on deposit in the Collection Account and the Reserve Account shall be applied on such Distribution Date to the payment of the Class A Noteholders' Distribution Amount if then due and no amounts shall be applied to the payment of the Class B Noteholders' Distribution Amount.

Sequential payment of the Notes may result in a greater risk of loss

Holders of later maturing Class A Notes bear a greater risk of loss than do holders of earlier maturing Class A Notes because, prior to an Event of Default, no principal will be paid to any Class A Noteholders until each class of the Class A Notes having an earlier maturity has been paid in full.

Because the initial principal balance of the Notes exceeds the Pool Balance, Noteholders may be adversely affected by a high rate of prepayments

The expected Pool Balance as of the Closing Date plus the sum of accrued interest and the Specified Reserve Account Balance is approximately 99.6% of the aggregate principal balance of the Notes. Noteholders must rely primarily on interest payments on the Student Loans and other components of the Trust Estate, in excess of servicing, trustee and administration fees and interest payable on the Notes, to reduce the aggregate principal balance of the Notes to the Pool Balance. The Noteholders, especially Class B Noteholders, could be adversely affected by a high rate of prepayments, which would reduce the amount of interest available for this purpose. Prepayments may increase when borrowers further consolidate or reconsolidate their Student Loans (which tends to occur more frequently when interest rates are lower than when such Student Loans were originated or initially consolidated), from borrower defaults and from voluntary full or partial prepayments, among other things. In addition, the principal balance of the Student Loans on which interest will be collected will be less than the principal balance of the Notes for some period.

Losses or delays in payments may be incurred if Borrowers default on the Student Loans

The Agency, which was designated as an Exceptional Performer by the Department of Education in recognition of its exceptional level of performance in servicing FFEL Program loans, receives 99% reimbursement on all eligible FFEL Program default claims filed for reimbursement on loans that the Agency services, instead of the standard rate, which is 98% for loans made between October 1, 1993 and July 1, 2006 and 97% for loans disbursed after July 1, 2006. However, this 99% reimbursement rate could be reduced as a result of a variety of factors, including changes in FFEL Program or in the Agency's servicing performance. If a borrower defaults on a Student Loan that is guaranteed, a loss will be experienced in an amount equal to the difference between the Student Loan defaulted amounts and the actual percentage rate of reimbursement (presently, such percentage rate of reimbursement will not be below 97%) of the outstanding principal and accrued interest on that Student Loan. If defaults occur on the Student Loans and the credit enhancement described in this Official Statement is insufficient, Noteholders may suffer a delay in payment or losses on the Notes.

Notes may have a degree of basis risk, which could compromise the ability to pay principal and interest on the Notes

There is a degree of basis risk associated with the Notes. Basis risk is the risk that shortfalls might occur because, among other things, the interest rates of the Student Loans adjust on the basis of specified indices and those of the Notes adjust on the basis of a different index. If a shortfall were to occur, the ability to pay principal of and/or interest on the Notes could be compromised.

Because the Notes may not provide regular or predictable payments, Noteholders may not receive the expected return on investment

The Notes may not provide a regular or predictable schedule of payments or payment on any specific date. Accordingly, Noteholders may not receive the expected return on investment.

If a secondary market does not develop, the value of the Notes may diminish

The Notes will be a new issue without an established trading market. We do not intend to list the Notes on any national exchange. As a result, we cannot assure Noteholders that a secondary market for the Notes will develop. If a secondary market does not develop, the spread between the bid price and the asked price for the Notes may widen, thereby reducing the net proceeds to Noteholders from the sale of the Notes.

The Trust Estate will have limited assets from which to make payments on the Notes, which may result in losses

The Trust Estate will not include significant assets or sources of funds other than the Student Loans, the student loan guarantee obligation of the Agency, any accounts established under the Indenture and any derivative contracts and other credit or cash flow enhancements.

Consequently, Noteholders must rely upon payments on the Student Loans from the borrowers and the Agency as guarantor, and, if available, amounts on deposit in the accounts, amounts received from any derivative counterparties and any other credit or cash flow enhancements to repay the Notes. If these sources of funds are insufficient to repay the Notes, Noteholders may experience a loss on their investment.

If the Agency as guarantor of the Student Loans experiences financial deterioration or failure, delays in payment or losses on the Notes may result

All of the Student Loans will be unsecured. As a result, the primary security for payment of a Student Loan is the guarantee provided by the Agency. A deterioration in the financial status of the Agency and its ability to honor guarantee claims could result in a failure to make its guarantee payments or a delay in its guarantor payments. In that event, Noteholders may suffer delays in payment or losses on the Notes. The Agency's financial condition could be adversely affected by a number of factors including:

- the continued voluntary waiver by the Agency of the guarantee fee payable by a borrower upon disbursement of a Student Loan;
- the amount of claims made against the Agency as a result of borrower defaults;
- the amount of claims reimbursed to the Agency from the Department of Education, which range from 75% to 99% of the guaranteed portion of the loan, depending on the date the loan was made and the performance of the guarantor; and
- changes in legislation that may reduce expenditures from the Department of Education that support federal guarantors or that may require guarantors to pay more of their reserves to the Department of Education.

The Department of Education's failure to make reinsurance payments may negatively affect the timely payment of principal and interest on the Notes

If the Agency as guarantor is unable to meet its guarantee obligations, the Agency may submit claims directly to the Department of Education for payment. The Department of Education's obligation to pay guarantee claims directly is dependent upon it determining that the guarantor is unable to meet its obligations. If the Department of Education delays in making this determination, Noteholders may suffer a delay in the payment of principal and interest on the Notes. In addition, if the Department of Education determines that the guarantor is able to meet its obligations, the Department of Education will not make guarantee payments to the Agency. The Department of Education may or may not make the necessary determination or, if it does, it may or may not make this determination or make the ultimate payment of the guarantee claims in a timely manner. This could result in delays or losses to Noteholders.

Noteholders will bear prepayment and extension risk due to actions taken by individual Borrowers and other variables beyond the control of the Servicer

A borrower may prepay a Student Loan in whole or in part at any time. The rate of prepayments on the Student Loans may be influenced by a variety of economic, social, competitive and other factors, including changes in interest rates, the availability of alternative financings and the general economy. In addition, unscheduled payments may be received due to defaults and to purchases by the Servicer. Because the pool will include more than 60,000 Student Loans, it is impossible to predict the amount and timing of payments that will be received and paid to Noteholders in any period. Consequently, the length of time that the Notes are outstanding and accruing interest may be shorter than Noteholders expect.

On the other hand, the Student Loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods. This may lengthen the remaining term of the Student Loans and delay principal payments to Noteholders. In addition, the amount available for distribution to Noteholders will be reduced if borrowers fail to timely pay the principal and interest due on the Student Loans. Consequently, the length of time that the Notes are outstanding and accruing interest may be longer than Noteholders expect.

Any optional purchase right, any provision for the auction of the Student Loans, and, if applicable, the possibility that any pre-funded amount may not be fully used to purchase additional consolidation Student Loans create additional uncertainty regarding the timing of payments to Noteholders.

The effect of these factors is impossible to predict. To the extent they create reinvestment risk, Noteholders will bear that risk.

Noteholders may be unable to reinvest principal payments at the yield earned on the Notes

Asset-backed securities usually produce increased principal payments to investors when market interest rates fall below the interest rates on the collateral—Student Loans in this case—and decreased principal payments when market interest rates rise above the interest rates on the collateral. As a result, Noteholders may receive more money to reinvest at a time when other investments generally are producing lower yields than the yield on the Notes. Similarly, Noteholders may receive less money to reinvest when other investments generally are producing higher yields than the yield on the Notes.

A failure to comply with student loan origination and servicing procedures could jeopardize guarantor, interest subsidy and special allowance payments on the Student Loans, which may result in delays in payment or losses on the Notes

The Higher Education Act requires lenders making and servicing student loans and the guarantors guaranteeing those loans to follow specified procedures, including due diligence procedures, to ensure that student loans are properly made, disbursed and serviced.

Failure to follow these procedures may result in:

- the Department of Education's refusal to make reinsurance payments to the Agency as guarantor or to make interest subsidy payments and special allowance payments on the Student Loans; or
- the inability or refusal of the Agency as guarantor to make guarantee payments on the Student Loans.

Loss of any program payments could adversely affect the amount of Available Funds and the ability to pay principal of and interest on the Notes.

Rights to waive defaults may adversely affect Noteholders

Generally, the Noteholders of at least a majority of the outstanding amount of the Notes have the ability, with specified exceptions, to waive certain defaults under the Indenture, including defaults that could materially and adversely affect the Noteholders who did not vote to waive such default.

In addition, the Trustee may waive any default in the Servicer's performance of its obligations under the Servicing Agreement and any related consequences, except a default in making any required deposits to or payments from any of the Trust Accounts without Noteholder consent. Upon any such waiver of a past default, such default shall cease to exist and shall be deemed to have been remedied for every purpose under the Servicing Agreement and the Indenture. However, any such waiver shall not extend to any subsequent or other default or impair any right available due to such subsequent or other default.

The Notes may be repaid early due to an auction sale or the exercise of the purchase option. If this happens, yield may be affected and Noteholders will bear reinvestment risk

The Notes may be repaid before Noteholders expect them to be if:

- the Trustee successfully conducts an auction sale or
- the Servicer exercises its option to purchase all the Student Loans.

Either event would result in the early retirement of the Notes outstanding on that date. If this happens, the yield on the Notes may be affected. Noteholders will bear the risk that any moneys received cannot be reinvested in comparable securities at as high a yield.

The principal of the Student Loans may amortize faster because of incentive programs

Various incentive programs may be available to borrowers from the Agency. One incentive program allows for a 0.25% interest rate reduction to borrowers who elect to have their installments deducted automatically from their bank accounts. Another incentive program provides a 1.00% interest rate reduction to borrowers who, starting with their first installment, pay thirty-six consecutive installments on time and in succession. If these benefits are made available to borrowers with Student Loans, the principal of the affected Student Loans may amortize faster than anticipated.

If, after the outstanding principal balance of the Notes equals the Adjusted Pool Balance, any such incentive programs not required by the Higher Education Act are in effect for the Student Loans on the third business day preceding any Distribution Date when the outstanding principal balance of the Notes exceeds the Adjusted Pool Balance, the Agency either will contribute funds to the Collection Account in an amount equal to the interest that otherwise would have been paid on such Student Loans in the related Collection Period in the absence of the incentive programs (only up to the amount by which the outstanding principal balance of the Notes exceeds the Adjusted Pool Balance) or terminate the incentive programs. The effect of these incentive programs is to reduce the amount of interest on the Student Loans.

Geographical concentration

The concentration of the Student Loans in specific geographic areas may increase the risk of loss.

Economic conditions in the states where borrowers reside may affect the delinquency, loan loss and recovery experience with respect to the Student Loan portfolio. As of the Statistical Cutoff Date, approximately 73% of the Student Loans by outstanding principal balance were recorded, by billing address, as being made to borrowers located in the Commonwealth of Pennsylvania.

Economic conditions in any state or region may decline over time and from time to time. Because of the concentration of the borrowers in Pennsylvania, any adverse economic conditions adversely and disproportionately affecting Pennsylvania may have a greater effect on the performance of the Notes than if this concentration did not exist.

A Servicer default may result in additional costs, increased Servicing Fees by a substitute servicer or a diminution in servicing performance, any of which may have an adverse effect on the Notes

If a Servicer Default occurs, the Trustee or the Agency may remove the Servicer without the consent of the Noteholders. In the event of the removal of the Servicer and the appointment of a successor Servicer, the following cannot be predicted:

- the cost of the transfer of servicing to the successor,
- ability of the successor to perform the obligations and duties of the Servicer under the servicing agreement, or
- the servicing fees charged by the successor.

In addition, the Trustee has the ability, with some exceptions, to waive defaults by the Servicer, including defaults that could materially and adversely affect the Noteholders.

Financial distress of the Agency could delay or reduce payments on the Notes

If the Agency were to become financially distressed, delays in payments on the Notes could occur. In addition, reductions in the amounts of these payments could result.

The Trustee may have difficulty liquidating Student Loans after an Event of Default

Generally, if an Event of Default occurs under the Indenture, the Trustee may sell the Student Loans without the consent of the Noteholders. However, the Trustee may not be able to find a purchaser for the Student Loans in a timely manner or the market value of those Student Loans may not be high enough to make Noteholders whole, especially Class B Noteholders.

The federal direct student loan program could result in reduced revenues for the Servicer and guarantor

The federal direct student loan program, established under the Higher Education Act, may result in reductions in the volume of loans made under FFEL Program. If so, the Servicer may experience increased costs due to reduced economies of scale. These cost increases could reduce the ability of the Servicer to satisfy its obligations to service the Student Loans. This increased competition from the federal direct student loan program could also reduce revenues of guarantors that would otherwise be available to pay claims on defaulted student loans. The level of demand currently existing in the secondary market for loans made under FFEL Program could be reduced, resulting in fewer potential buyers of the student loans and lower prices available in the secondary market for those loans. The Department of Education also has implemented a direct consolidation loan program, which may reduce the volume of loans outstanding under FFEL Program and result in prepayments of Student Loans.

Proposed changes to the Higher Education Act may result in increased prepayments on, or other adverse changes to, the Student Loans

The Higher Education Act in the past has been the subject of many changes and amendments that have affected its programs. The Higher Education Act is currently subject to reauthorization. During that process, which is ongoing, proposed amendments to the Higher Education Act are more commonplace and a number of proposals have been introduced in Congress. Bills have been introduced in the House of Representatives proposing various changes to the Higher Education Act, including changing loan limits, changing interest rate provisions and decreasing origination and loan fees, and permitting borrowers under most consolidation loans to refinance their student loans at lower interest rates.

Any legislation that permits borrowers to refinance existing consolidation loans at lower interest rates could increase the rate of prepayments on the financed Student Loans. A faster rate of prepayments would decrease the amount of excess interest available to redeem Notes. In addition, if the legislation described above or any similar legislation is enacted into law, the length of time that the Notes are outstanding and their weighted average lives may be shortened significantly.

It is not possible to predict whether or when any of such proposals may be adopted, in what form they may be adopted, or the final content of any such proposals and their effect upon the Student Loans.

The use of promissory notes may compromise the Trustee's security interest in certain Student Loans

Substantially all of the Student Loans will be evidenced by consolidation loan "promissory notes" under the FFEL Program. Under the Higher Education Act and applicable state law, an assignment of an ownership interest in such loans becomes effective against subsequent purchasers when the assignment is effective between the assignor and the assignee without any requirement for giving public notice of such assignment. Therefore, if the Agency has previously assigned an ownership interest in a Student Loan to another person, that person will have an ownership interest that will be superior to the security interest of the Trustee. These promissory notes do not qualify for the special protections that state law provides for negotiable instruments, and therefore possession of these promissory notes by the Trustee or its agent will not protect the Trustee from the claims of a third person with a prior ownership interest. The Agency will represent that they have not assigned an ownership interest in any Student Loans to any person other than the Trust Estate.

The Notes will be issued only in Book-Entry Form

The Notes initially will be represented by one or more certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in the beneficial owners name or the name of the beneficial owners nominee. Unless and until Definitive Notes are issued, holders of the Notes will not be recognized by the Trustee as registered owners as that term is used in the Indenture. Unless and until Definitive Notes are issued, holders of the Notes will only be able to exercise the rights of registered owners indirectly through The Depository Trust Company and its participating organizations. See "BOOK-ENTRY ONLY SYSTEM" in this Official Statement.

Certain actions can be taken without Noteholder approval

The transaction documents provide that certain actions may be taken based upon receipt by the Trustee of confirmation from each of the Rating Agencies then rating the Notes that the then current ratings assigned by such Rating Agencies will not be impaired by those actions. To the extent those actions are taken after issuance of the Notes, investors in the Notes will be depending on the evaluation by the Rating Agencies of those actions and the impact of those actions on credit quality.

The United States military build-up may result in delayed payments from Borrowers called to active military service

The recent build-up of the United States military has increased the number of citizens who are in active military service. The Servicemembers Civil Relief Act, as amended, or the Relief Act, was signed into law by the President on December 19, 2003 and updates and replaces the Solders' and Sailors' Civil Relief Act of 1940. The Relief Act limits the ability of a lender under FFEL Program 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. In addition, the United States Department of Education has issued guidelines that would extend the in-school status, in school deferment status, grace period status or forbearance status of certain borrowers ordered to active duty.

The Higher Education Relief Opportunities for Students Act of 2003 (the "HEROES Act of 2003") authorizes the Secretary of Education, during the period ending September 30, 2007, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: are serving on active military duty during a war or other military operation or national emergency, are serving on National Guard duty during a war or other military operation or national emergency, reside or are employed in an area that is declared by any federal, state, or local official to be a disaster area in connection with a national emergency, or have suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, to ensure that such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance, to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable. The Secretary was given this same authority under Public Law 107-122, signed by the President on January 15, 2001 but the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty.

The number and aggregate principal balance of Student Loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, payments received on financed Student Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers of the Student Loans become eligible for the relief provided under the HEROES Act of 2003, there could be an adverse effect on the total collections on the Student Loans and the ability to pay principal of and interest on the Notes if there are insufficient funds in the Reserve Account.

Financial status of the Agency as guarantor

A deterioration in the financial status of the Agency as guarantor could result in the inability to make guarantee claim payments. Among the possible causes of a deterioration in the Agency's financial status are: (i) the amount and percentage of defaulting FFEL Program loans guaranteed by the Agency; (ii) an increase in the costs incurred by the Agency in connection with FFEL Program loans guaranteed; and (iii) a reduction in revenues received in connection with FFEL Program loans guaranteed. The Higher Education Act grants the Secretary of Education broad powers over guaranty agencies and their reserves. These provisions create a risk that the resources available to the Agency to meet its guarantee obligations may be reduced and no assurance can be given that exercise of such powers by the Secretary of Education will not affect the overall financial condition of the Agency. Under Section 432(o) of the Higher Education Act, if the Secretary of Education makes a

determination that a guaranty agency is unable to meet its guarantee obligations, the loan holder may submit claims directly to the Secretary of Education and the Secretary of Education is required to pay the full guarantee claim amount due with respect thereto in accordance with guarantee claim processing standards no more stringent than those of the guaranty agency. However, the Secretary of Education's obligation to pay guarantee claims directly in this fashion is contingent upon the Secretary of Education making the determination referred to above. There can be no assurance that the Secretary of Education would ever make such a determination with respect to any specific guaranty agency, including the Agency, or, if such a determination was made, whether such determination or the ultimate payment of such guarantee claims would be made in a timely manner. See "INFORMATION RELATING TO THE AGENCY AS GUARANTOR" herein.

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act may adversely affect payment of principal of and interest on the Notes when due. The Higher Education Act and the applicable regulations thereunder require the lenders making Student Loans, guarantors guaranteeing Student Loans and servicers servicing Student Loans to follow certain due diligence procedures in an effort to ensure that the Student Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a Student Loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Student Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to completely describe those procedures. Failure to follow such procedures by any such party may result in the refusal by the Secretary of Education to make reinsurance payments to a guaranty agency on such loans or may result in a guaranty agency's refusal to honor its guarantee on such loans. Such action by the Secretary of Education with respect to the Agency could adversely affect the Agency's ability to honor its guarantee obligations and could adversely affect payment of principal of and interest on the Notes.

Uncertainty as to available remedies

The remedies available to owners of the Notes upon an Event of Default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the Notes will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Changes in state law may affect the Agency and its operations

Two bills have been introduced in the Pennsylvania General Assembly that propose restricting certain powers of the Agency and, if enacted, could create increased competition in the Commonwealth with respect to student loans. The likelihood that the proposed legislation will become law and whether other similar legislation will be introduced is uncertain. Similarly, the impact of any such legislation on the financial status of the Agency cannot be predicted. The Notes, however, are limited obligations of the Agency secured by and payable solely from the Trust Estate, which includes a discrete pool of student loans. The Notes are not a general obligation of the Agency.

DESCRIPTION OF THE NOTES

General

Each class of Notes is expected to be delivered and has a maturity date as set forth on the cover page hereof. Each Note will be dated the date of its authentication. The Class A Notes will be issuable as registered notes in minimum denominations of $100,000 and any integral multiple of $1,000 in excess thereof. The Class B Notes will be issuable as registered notes in minimum denominations of $50,000. Upon issuance, the Notes will only be registered in the name of Cede & Co. as nominee of DTC. See "BOOK ENTRY ONLY SYSTEM" herein. Interest on the Notes is payable to the beneficial owners thereof according to the procedures described under "BOOK ENTRY ONLY SYSTEM." Principal of the Notes is payable upon presentation and surrender of such Notes at the designated corporate trust office of the Trustee.

The Notes

THE CLASS A NOTES.

Distributions of Interest. Interest will accrue on the outstanding principal balances of the Class A Notes at their respective interest rates. Interest will accrue during each applicable Accrual Period and will be payable on each Quarterly Distribution Date to the Class A Noteholders of record as of the close of business on the Record Date, which is the day next preceding the related Quarterly Distribution Date. Interest accrued as of any Quarterly Distribution Date but not paid on that Quarterly Distribution Date (the "Note Interest Shortfall") will be due on the next Quarterly Distribution Date together with an amount equal to interest thereon at the respective interest rate applicable to the affected series of Class A Notes. Interest payments on the Class A Notes for any Quarterly Distribution Date will generally be funded from Available Funds and the other sources of funds for payment described in this Official Statement (subject to all prior required distributions). See "DESCRIPTION OF THE NOTES—Distributions" and "—Credit Enhancement" below. If these sources are insufficient to pay the Class A Noteholders' Interest Distribution Amount for that Quarterly Distribution Date, the shortfall will be allocated prorata to the Class A Noteholders, based upon the total amount of interest then due on each class of Class A Notes.

Except for the first Accrual Period, the interest rate for each class of Class A Notes for each Accrual Period will be equal to three-month LIBOR, plus the following applicable spread:

Class of Notes	Spread
Class A-1	0.01%
Class A-2	0.09%
Class A-3	0.13%

LIBOR for the first Accrual Period will be determined by the following formula: $x + 8/31 \times (y - x)$ where:

x = two-month LIBOR, and

y = three-month LIBOR.

The Trustee will determine LIBOR for the specified maturity for each Accrual Period on the second business day before the beginning of that Accrual Period, as described under "DESCRIPTION OF THE NOTES—Determination of LIBOR" below.

Distributions of Principal. Principal payments will be made to the Class A Noteholders on each Quarterly Distribution Date in an amount generally equal to the Principal Distribution Amount multiplied by the Class A Percentage for that Quarterly Distribution Date, until the principal balance of each class of the Class A Notes is reduced to zero. Principal payments on the Class A Notes will generally be funded from Available Funds and the other sources of funds for payment described herein (subject to all prior required distributions). See "DESCRIPTION OF THE NOTES—Distributions," "— Credit Enhancement" and "—The Class B Notes—*Subordination of the Class B Notes*" below. If these sources are insufficient to pay the Class A Noteholders' Principal Distribution Amount for a Quarterly Distribution Date, the shortfall will be added to the principal payable to the Class A Noteholders with respect to principal on subsequent Quarterly Distribution Dates. Amounts on deposit in the Reserve Account, other than amounts in excess of the Specified Reserve Account Balance, will not be available to make principal payments on the Class A Notes except at maturity of the applicable class of Notes or earlier redemption or prepayment of the Notes.

Principal payments will be applied on each Distribution Date in the priorities set forth under "DESCRIPTION OF THE NOTES—Distributions" below.

However, notwithstanding any other provision to the contrary, following the occurrence of an Event of Default and the exercise by the Trustee of remedies under the Indenture, principal payments on the Class A Notes will be made prorata, without preference or priority.

The aggregate outstanding principal balance of each class of Class A Notes will be due and payable in full on its stated maturity date. The Class A Notes are subject to earlier redemption from proceeds of the sale of the Student Loans. See "DESCRIPTION OF THE NOTES—Redemption and Prepayment" below. See also "CERTAIN RISK FACTORS" in this Official Statement as to factors that may affect the actual date on which the aggregate outstanding principal and accrued interest of a class of Class A Notes is paid.

THE CLASS B NOTES.

Distributions of Interest. Interest will accrue on the principal balance of the Class B Notes at the Class B Interest Rate. Interest will accrue during each applicable Accrual Period and will be payable on the first Business Day after each Auction Date which occurs each 28 days to the Class B Noteholders of record as of the close of business on the Record Date, which is the day next preceding the related Auction Rate Distribution Date. Interest accrued as of any Auction Rate Distribution Date but not paid on that Auction Rate Distribution Date will be due on the next Auction Rate Distribution Date, together with an amount equal to interest on the unpaid amount, the Note Interest Shortfall, at the Class B Interest Rate. Interest payments on the Class B Notes for any Auction Rate Distribution Date generally will be funded from Available Funds and the other sources of funds for payment described herein (subject to all prior required distributions). See "DESCRIPTION OF THE NOTES—Distributions," "—Credit Enhancement— *Reserve Account"* and "—The Class B Notes— *Subordination of the Class B Notes*" below.

The interest rate for the Class B Notes with respect to each Accrual Period will bear interest at rates determined by Auction.

Distributions of Principal. Principal payments will be made through mandatory redemption to the Class B Noteholders on Auction Rate Distribution Dates on and after the Stepdown Date, provided that a Trigger Event has not occurred and is continuing, in an amount generally equal to the Class B Noteholders' Principal Distribution Amount for that Auction Rate Distribution Date. Principal payable on any Auction Rate Distribution Date will generally be funded from the portion of Available Funds and the other sources of funds for payment described herein (subject to all prior required distributions). Amounts on deposit in the Reserve Account (other than amounts in excess of the Specified Reserve Account Balance) will not be available to make principal payments on the Class B Notes except at their maturity or earlier redemption or prepayment of the Class B Notes. See "DESCRIPTION OF THE NOTES—Distributions" and "—Credit Enhancement*"* below.

A Trigger Event is defined by the Indenture to mean any Distribution Date on which, (i) while any of the Class A Notes are Outstanding, the aggregate Outstanding Amount of all the Notes, after giving effect to distributions to be made on such Distribution Date, exceeds the Pool Balance plus the Reserve Account Balance and the balance in the Capitalized Interest Account as of the end of the related Collection Period or (ii) there has not been an optional purchase or sale of the Student Loans through an auction after the Pool Balance falls below 10% of the initial Pool Balance pursuant to Section 4.5(a) of the Indenture.

The outstanding principal balance of the Class B Notes will be due and payable in full on the Class B Maturity Date. The actual date on which the final distribution on the Class B Notes will be made may be earlier than the Class B Maturity Date, however, based on a variety of factors. See *"*CERTAIN RISK FACTORS*"* in this Official Statement as to factors that may affect the actual date on which the aggregate outstanding principal and accrued interest of Class B Notes is paid.

Subordination of the Class B Notes. On any Distribution Date, distributions of interest on the Class B Notes will be subordinated to the payment of interest on the Class A Notes, and principal payments on the Class B Notes will be subordinated to the payment of both interest and principal on the Class A Notes. Consequently, on any Distribution Date, Available Funds, amounts on deposit in the Reserve Account and the Capitalized Interest Account remaining after payment of the Primary Servicing Fee and, through the October 25, 2007 Distribution Date, amounts on deposit in the Capitalized Interest Account, will be applied to the payment of interest on the Class A Notes prior to any payment of interest on the Class B Notes, and no payments of the principal balance on the Class B Notes will be made on such Distribution Date until the Stepdown Date.

Notwithstanding the foregoing, if (i) an Event of Default affecting the Class A Notes has occurred and is continuing or if (ii) on any Distribution Date following distributions of the amounts described in clauses (1) through (3) under "DESCRIPTION OF THE NOTES—Distributions— *Distributions from the Collection Account*" below, if any, to be made on that Distribution Date, the Outstanding Amount of the Class A Notes would be in excess of–

(A) the sum of (1) the outstanding principal balance of the Student Loans as of the last day of the related Collection Period, (2) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period and (3) the balance of the Reserve Account and the Capitalized Interest Account on such Distribution Date following those distributions required to be made under clauses (1) through (3) set forth under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" below, minus

(B) the Specified Reserve Account Balance for that Distribution Date, then, until the conditions described in (i) or (ii) no longer exist, amounts on deposit in the Collection Account and the Reserve Account shall be applied on such Distribution Date to the payment of the Class A Noteholders' Distribution Amount if then due and no amounts shall be applied to the payment of the Class B Noteholders' Distribution Amount.

Payment of the principal of the Class B Notes also may be affected as discussed under "DESCRIPTION OF THE NOTES—Distributions—*Accelerated Prepayments from the Collection Account*" below.

In addition, the failure to pay interest on the Class B Notes will not constitute an Event of Default under the Indenture so long as any Class A Notes remain outstanding.

Determination of LIBOR

LIBOR, for any accrual period, will be the London interbank offered rate for deposits in U.S. Dollars having the specified maturity commencing on the first day of the accrual period, which appears on Telerate Page 3750 as of 11:00 a.m. London time, on the related LIBOR Determination Date. If an applicable rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. Dollars, having the specified maturity and in a principal amount of not less than U.S. $1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR Determination Date, to prime banks in the London interbank market by the Reference Banks. The Trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference Banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Trustee, at approximately 11:00 a.m. New York time, on that LIBOR Determination Date, for loans in U.S. Dollars to leading European banks having the specified maturity and in a principal amount of not less than U.S. $1,000,000. If the banks selected as described above are not providing quotations, LIBOR in effect for the applicable accrual period will be LIBOR for the specified maturity in effect for the previous accrual period.

For this purpose:

- "LIBOR Determination Date" means, for each accrual period, the second business day before the beginning of that accrual period.
- "Telerate Page 3750" means the display page so designated on the Moneyline Telerate Service or any other page that may replace that page on that service for the purpose of displaying comparable rates or prices.
- "Reference Banks" means four major banks in the London interbank market selected by the Trustee.

For purposes of calculating LIBOR, a business day is any day on which banks in New York City and the City of London are open for the transaction of international business. Interest due for any accrual period will always be determined based on the actual number of days elapsed in the accrual period over a 360-day year.

Notice of Interest Rates

Information concerning the past and current LIBOR and the interest rates applicable to the Notes will be available on the Agency's website at http://www.pheaa.org or by telephoning the Trustee at 1-800-255-2828 between the hours of 9 a.m. and 4 p.m. Eastern time on any business day and will also be available through Moneyline Telerate Service or Bloomberg L.P.

Accounts

The Trustee will establish and maintain the Collection Account for the benefit of the Noteholders into which all payments on the Student Loans will be deposited. The Trustee also will establish the Reserve Account, a Capitalized Interest Account and an Acquisition Account for the benefit of the Noteholders.

The Trustee will invest funds in the Trust Accounts in Eligible Investments as provided in the Indenture. Eligible Investments are limited to the investments set forth in the Indenture under the definition of "Eligible Investments". Subject to some conditions, Eligible Investments may include debt instruments or other obligations (including asset-backed securities) issued by the Agency or its affiliates, and repurchase obligations of such persons with respect to federally

guaranteed student loans that are serviced by the Servicer or an affiliate thereof. Eligible Investments are limited to obligations or debt instruments that are expected to mature not later than the Business Day immediately preceding the next Distribution Date, or, with respect to the Collection Account only, the next monthly Servicing Fee Payment Date, to the extent of the Primary Servicing Fee.

Servicing Compensation

The Servicer will be entitled to receive the Servicing Fee in an amount equal to the Primary Servicing Fee and the Carryover Servicing Fee as compensation for performing the functions as Servicer. The Primary Servicing Fee will be payable on each Monthly Servicing Payment Date and will be paid solely out of Available Funds and amounts on deposit in the Reserve Account on that date. The Carryover Servicing Fee will be payable to the Servicer on each Distribution Date out of Available Funds after payment on that Distribution Date of items described in clauses (1) through (7) under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account"* below. The Carryover Servicing Fee will be subject to increase agreed to by the Trustee and the Servicer to the extent that a demonstrable and significant increase occurs in the costs incurred by the Servicer in providing the services to be provided under the Servicing Agreement, whether due to changes in applicable governmental regulations, guarantor program requirements or regulations, or postal rates.

Distributions

Deposits into the Collection Account. The following amounts are to be deposited to the Collection Account:

Amounts Deposited into Collection Account	Due Date
❑ all payments by or on behalf of Obligors with respect to the Student Loans and all Liquidation Proceeds collected or received during the Collection Period	Within two Business Days of receipt
❑ any Interest Subsidy Payments and Special Allowance Payments received by the Servicer with respect to the Student Loans during the Collection Period	Within two Business Days of receipt
❑ all proceeds received from the sale of Purchased Student Loans and all other amounts to be paid by the Servicer	On or before the third Business Day immediately prior to each Distribution Date

Distributions from the Collection Account.

On each Monthly Servicing Payment Date that is not a Distribution Date, the Trustee will pay to the Servicer the Primary Servicing Fee due for the period from and including the preceding Monthly Servicing Payment Date from amounts on deposit in the Collection Account.

On each Monthly Expense Payment Date that is not a Distribution Date, the Trustee is required to pay to the Auction Agent the Auction Agent Fee and the Broker-Dealer Fee due on such Monthly Expense Payment Date for application as provided in the Auction Agent Agreement and the Broker-Dealer Agreement.

The Trustee is also required to pay to the Department of Education any required payments in connection with the Student Loans as and when due occurring on a date that is not a Distribution Date.

On or before each Distribution Date, the Trustee will make the following distributions and deposits in the amounts and in the order of priority shown below, except as otherwise provided under "DESCRIPTION OF THE NOTES—The Notes—The Class B Notes—*Subordination of the Class B Notes*" and "—The Notes—The Class A Notes—*Distributions of Principal*", to the extent of the Available Funds for that Distribution Date, the amounts transferred from the Capitalized Interest Account (solely for distributions described in clauses (2) and (3) below) for that Distribution Date and the amounts transferred from the Reserve Account with respect to that Distribution Date:

(1) to the Trustee for its compensation and reimbursement of reasonable expenses incurred and to the Department of Education any required payments in connection with the Student Loans; to the Auction Agent, the Auction Agent Fee and the Broker-Dealer fee; to the Servicer, the Primary Servicing Fee due and unpaid on that Distribution Date;

(2) to the Class A Noteholders, the Class A Noteholders' Interest Distribution Amount, pro rata, based on the amounts payable as Class A Noteholders' Interest Distribution Amount due on that Quarterly Distribution Date;

(3) to the Class B Noteholders, the Class B Noteholders' Interest Distribution Amount (excluding any Carry-over Amounts as defined below) due on that Auction Rate Distribution Date;

(4) sequentially, to the Class A-1 through Class A-3 Noteholders, in that order, until each such class is paid in full, the Class A Noteholders' Principal Distribution Amount due on that Quarterly Distribution Date;

(5) on and after the Stepdown Date, and provided that no Trigger Event is in effect on such Distribution Date, to Class B Noteholders, until paid in full, the Class B Noteholders' Principal Distribution Amount due on such Quarterly Distribution Date (to be paid on an Auction Rate Distribution Date through mandatory redemption in accordance with the Indenture, which is attached to this offering memorandum as Appendix A, see "Summary-Principal Payments and Redemption of Class B Notes");

(6) amounts due to the Trustee for extraordinary services on that Quarterly Distribution Date;

(7) to the Reserve Account, the amount, if any, necessary to reinstate the balance of the Reserve Account to the Specified Reserve Account Balance on that Quarterly Distribution Date;

(8) to the Servicer, the aggregate unpaid amount of the Carryover Servicing Fee, if any, due on that Quarterly Distribution Date;

(9) to the Class B Noteholders, the Carry-over Amount as defined in Appendix B to the Indenture, which is attached to this offering memorandum as Appendix A; and

(10) to the Agency, any remaining amounts, on that Quarterly Distribution Date, after application of the preceding clauses.

Accelerated Prepayments from Collection Account. Notwithstanding the foregoing, if at the end of any Collection Period the Outstanding Amount of the Notes would be in excess of the sum of (1) the outstanding principal balance of the Student Loans as of the last day of the Collection Period, (2) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period and (3) the balance of the Collection Account, the Reserve Account and the Capitalized Interest Account at the end of such Collection Period, then, until this condition no longer exist, amounts on deposit in the Collection Account on each Distribution Date shall be applied following the distributions specified in clauses (1) through (4) above and (6), (7) and (8) above, on the Distribution Date following such Collection Period (i) first, to the Class A Noteholders in the same order and priority as is set forth in clause (4) above until the Outstanding Amount of the Class A Notes is reduced to zero; and (ii) second, to the payment of the principal required to reduce the Outstanding Amount of the Class B Notes to zero.

If an Event of Default as described in Section 5.4(b) of the Indenture has occurred and is continuing, then amounts on deposit in the Collection Account shall be applied as provided in Section 5.4(b) of the Indenture (as described in "DESCRIPTION OF THE NOTES—Redemption and Prepayment--*Prepayment"* below).

In the event that the Notes have not been redeemed pursuant to the provisions of the Indenture or the Student Loans are not sold on the Trust Auction Date (See "DESCRIPTION OF THE NOTES—Redemption and Prepayment" below), the amount that would otherwise be distributed to the Agency under clause (10) above shall be applied on such Distribution Date to make accelerated payments of principal on the Notes, first to the Class A Noteholders in the same order and priority as is set forth in clause (4) above until the Outstanding Amount of the Class A Notes is reduced to zero, and then to the Class B Noteholders in accordance with the provisions of clause (5) above; provided that the amount of such distribution shall not exceed the Outstanding Amount of the Class A Notes or the Class B Notes, as applicable, after giving effect to all other payments in respect of principal of Class A Notes and Class B Notes to be made on such Distribution Date.

Subordination of the Class B Notes. On any Distribution Date, distributions of interest on the Class B Notes shall be made without the necessity of the reservation of funds for payment of distributions of interest accrued but not payable on Class A Notes on future Class A Notes Distribution Dates and distributions of principal on the Class B Notes will be subordinated to the payment of both interest and principal on all of the Class A Notes. See "DESCRIPTION OF THE NOTES—The Notes—The Class B Notes—*Subordination of the Class B Notes*" in this Official Statement.

Credit Enhancement

Reserve Account. The Reserve Account will be created with an initial deposit by the trust on the Closing Date of cash or Eligible Investments in an amount equal to 0.25% of the Initial Pool Balance ($1,813,808). The Reserve Account may be replenished on each Distribution Date, the amount, if any, necessary to reinstate the balance of the Reserve Account to the Specified Reserve Account Balance from the amount of Available Funds remaining after payment for that Distribution Date under clauses (1) through (6) under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" in this Official Statement.

If the market value of securities and cash in the Reserve Account and the Capitalized Interest Account on any Distribution Date is sufficient to pay the remaining principal balance of and interest accrued on the Notes and any Carryover Servicing Fee, these assets will be so applied on that Distribution Date.

If the amount on deposit in the Reserve Account on any Distribution Date after giving effect to all deposits or withdrawals from the Reserve Account on that Distribution Date is greater than the Specified Reserve Account Balance for that Distribution Date, the Trustee will deposit the amount of the excess into the Collection Account.

Amounts held from time to time in the Reserve Account will continue to be held for the benefit of the Noteholders. Funds will be withdrawn from cash in the Reserve Account on any Distribution Date or, in the case of the payment of any Primary Servicing Fee, on any Monthly Servicing Payment Date, to the extent that the amount of Available Funds and the amount on deposit in the Capitalized Interest Account (available solely for items in clauses (2) and (3)) on that Distribution Date or Monthly Servicing Payment Date is insufficient to pay any of the items specified in clauses (1) through (3) (or clauses (1) and (2) if a Class B Interest Subordination Condition is in effect) under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above. These funds also will be withdrawn at maturity of a class of Notes or upon the satisfaction and discharge of the lien of the Indenture to the extent that the amount of Available Funds at that time is insufficient to pay any of the items specified in clauses (4) and (5) and, in the case of the satisfaction and discharge of the lien of the Indenture, clause (8) under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above. These funds will be paid from the Reserve Account to the persons and in the order of priority specified above for distributions out of the Collection Account.

The Reserve Account is intended to enhance the likelihood of timely distributions of interest to the Noteholders and to decrease the likelihood that the Noteholders will experience losses. In some circumstances, however, the Reserve Account could be reduced to zero. Except on the final distribution upon termination of the trust and other than amounts in excess of the Specified Reserve Account Balance, amounts on deposit in the Reserve Account will not be available to cover any Carryover Servicing Fees. Amounts on deposit in the Reserve Account will be available to pay principal on the Notes and accrued interest at the maturity of the Notes, and to pay the Carryover Servicing Fee and Carry-over Amounts on the final distribution upon termination of the trust.

Capitalized Interest Account. The Capitalized Interest Account will be created and funded with an initial deposit on the Closing Date of cash or Eligible Investments in an amount equal to $14,250,000 and will be used through the Distribution Date in October 2007 to make payments of interest on the Notes as provided in the Indenture. Any balance remaining in the Capitalized Interest Account on October 25, 2007 shall be transferred to the Collection Account, and the Capitalized Interest Account will be terminated. After the initial deposit, the Capitalized Interest Account will not be replenished.

Amounts held from time to time in the Capitalized Interest Account will be held for the benefit of the Class A Noteholders and the Class B Noteholders, as applicable. If on any Distribution Date through the October 25, 2007 Distribution Date, the amount of Available Funds is insufficient to pay or allocate any of the items specified in clauses (2) and (3) under "DESCRIPTION OF THE NOTES— Distributions—*Distributions from the Collection Account*" above, amounts on deposit in the Capitalized Interest Account on that Distribution Date will be withdrawn by the Trustee to cover such shortfalls, to the extent of funds on deposit therein, and will be allocated in the same order of priority shown under "DESCRIPTION OF THE NOTES— Distributions—*Distributions from the Collection Account*" above.

All remaining funds on deposit in the Capitalized Interest Account on the October 25, 2007 Distribution Date will be transferred on that date to the Collection Account and included in Available Funds on that Distribution Date.

The Capitalized Interest Account is intended to enhance the likelihood of timely distributions of interest to the Noteholders through the October 25, 2007 Distribution Date.

Redemption and Prepayment

Redemption. The Notes are subject to redemption prior to maturity at a Redemption Price of 100% of the principal amount thereof plus interest accrued to the Redemption Date from proceeds deposited into the Collection Account from the sale of all Student Loans to the Servicer pursuant to the exercise of a purchase option granted to the Servicer. The Servicer, or any other "eligible lender" (within the meaning of the Higher Education Act) designated by the Servicer in writing to the Agency and the Trustee, shall have the option to purchase the Trust Estate (other than the Trust Accounts) as of the last day of any Collection Period immediately preceding a Distribution Date whenever the then outstanding Pool Balance is 10% or less of the Initial Pool Balance. The Purchase Amount for the Trust Estate (other then the Trust Accounts) must equal or exceed the Minimum Purchase Amount plus any Carryover Servicing Fees. In the event that the Servicer effects the purchase of the Trust Estate (other than the Trust Accounts), the Trustee shall notify the Noteholders of such event and the Notes shall be subject to redemption on the next Distribution Date, which Distribution Date shall be at least 15 days after the date of such notice. If amounts are to be paid to Class B Noteholders pursuant to clause (5) under Distribution from the Collection Account above, the Notice of such event from the Trustee to the Class B Noteholders shall include notice of the

redemption of the Class B Notes by application of such amounts on an Auction Rate Distribution Date which shall be at least 15 days after the dates of such notice. Notice of redemption shall be mailed or transmitted to Noteholders of record as of the Record Date preceding the Redemption Date at the address appearing in the Note Register. The payment of the redemption price of the Notes shall be made to the Noteholders in accordance with the sequence and priority for distributions set forth in Sections 8.10 and 8.11 of the Indenture. See "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above.

Prepayment. The Notes are subject to prepayment in whole or in part from proceeds of the sale of the Notes on a Trust Auction Date. If the Notes have not been redeemed as a result of the exercise by the Servicer of its option to purchase the Trust Estate on the first Distribution Date after the date when the Pool Balance is equal to 10% or less of the Initial Pool Balance, the Trustee is required to engage a Third-Party Financial Advisor to try to auction any Student Loans on the date that is three Business Days prior to the next Distribution Date (the "Trust Auction Date"). The Third-Party Financial Advisor shall conduct an Auction in accordance with the requirements of the Indenture so as to sell Student Loans at the highest price at least equal to the Minimum Purchase Amount. If a sale of Student Loans is not consummated on the first Distribution Date after the date on which the Pool Balance is equal to 10% or less of the Initial Pool Balance, the Third-Party Financial Advisor will continue to solicit and re-solicit bids for sale of the Student Loans with respect to future Distribution Dates until at least one bid that is equal to or in excess of the Minimum Purchase Amount is received. Proceeds from such sale of Student Loans are required to be deposited to the Collection Account on or before the third Business Day prior to the applicable Distribution Date and, in lieu of the sequence and priority of distributions otherwise applicable to distributions under the Indenture, are to be distributed in the sequence and order of priority as follows:

(1) to the Trustee for its compensation and reimbursement of reasonable expenses incurred, including, but not limited to, any amounts paid by the Trustee to an Independent investment banking firm in connection with the sale or liquidation of Student Loans;

(2) to the Servicer, the Primary Servicing Fee due and unpaid on that Distribution Date;

(3) to the Class A Noteholders, amounts due and unpaid on the Class A Notes for interest, ratably, without preference or priority of any kind among the classes of Class A Notes, according to the amounts due and payable on the Class A Notes for such interest;

(4) to the Class A Noteholders, amounts due and unpaid on the Class A Notes for principal, ratably, without preference or priority of any kind among the classes of Class A Notes, according to the amounts due and payable on the Class A Notes for principal;

(5) to the Class B Noteholders, amounts due and unpaid on the Class B Notes for interest;

(6) to the Class B Noteholders, amounts due and unpaid on the Class B Notes for Principal;

(7) to the Servicer, any unpaid Carryover Servicing Fees.

In the event that the Notes have not been redeemed pursuant to the provisions of the Indenture summarized above or the Student Loans are not sold on the Trust Auction Date, the amount that would otherwise be distributed to the Agency on a Distribution Date, pursuant to clause (10), as described in "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above, shall be applied on such Distribution Date to make accelerated payments of principal on the Notes, first to the Class A Noteholders in the same order and priority as is set forth in clause (5) as described in "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above until the Outstanding Amount of the Class A Notes is reduced to zero, and then to the Class B Noteholders in accordance with the provisions of clause (6) under "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above; provided that the amount of such distribution shall not exceed the Outstanding Amount of the Class A Notes or the Class B Notes, as applicable, after giving effect to all other payments in respect of principal of Class A Notes and Class B Notes to be made on such Distribution Date.

In addition, as noted above under the heading "DESCRIPTION OF THE NOTES—Distributions—*Accelerated Prepayments from Collection Account*," if at the end of any Collection Period the Outstanding Amount of the Notes would be in excess of the sum of (1) the outstanding principal balance of the Student Loans, (2) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period and (3) the balance of the Collection Account, the Reserve Account and the Capitalized Interest Account at the end of such Collection Period then, until this condition no longer exists, amounts on deposit in the Collection Account on each Distribution Date shall be applied following the distributions specified in clauses (1) through (4) and (6), (7) and (8) as described in "DESCRIPTION OF THE NOTES—Distributions—*Distributions from the Collection Account*" above on the Distribution Date following such Collection Period (i) first, to the payment of principal required to reduce the Outstanding Amount of the Class A Notes to zero; and (ii) second, to the payment of the principal required to reduce the Outstanding Amount of the Class B Notes to zero.

If an Event of Default described in Section 5.4(b) of the Indenture has occurred and is continuing, then amounts on deposit in the Collection Account shall be applied as provided in Section 5.4(b) of the Indenture (as described in "DESCRIPTION OF THE NOTES—Redemption and Prepayment--*Prepayment*" above*).*

USE OF PROCEEDS

General

The Notes are being issued to provide funds for the Agency to purchase and originate Student Loans and to pay the costs of issuance of the Notes.

Estimated Sources and Uses

SOURCES	
Proceeds of the Class A Notes	$ 727,500,000
Proceeds of the Class B Notes	22,500,000
TOTAL SOURCES	$ 750,000,000
USES	
Deposit to Acquisition Account (Net of Costs of Issuance)	$730,962,067
Deposit to Capitalized Interest Account	14,250,000
Deposit to Reserve Account	1,813,808
Costs of Issuance*	2,974,125
TOTAL USES	$ 750,000,000

*Costs of Issuance include the underwriting discount, rating agency fees, printing costs, fees and expenses of the Trustee, legal fees and other miscellaneous costs of issuance. The amount listed for this line item, net of the Underwriting Discount, will be deposited to the Acquisition Account to pay costs of issuance other than the Underwriting Discount.

Acquisition of the Student Loan Portfolio

On the Closing Date, proceeds in the amount set forth above as "Deposit to Acquisition Account" will be deposited into the Acquisition Account established under the Indenture and will be applied on or about the Closing Date to the acquisition of a pool of student loans originated under the FFEL Program. $250,000 of the net proceeds of the sale of the Notes deposited into the Acquisition Account will remain on deposit in the Acquisition Account and may be used to purchase additional Student Loans relating to those borrowers whose consolidation loans were originally acquired with the proceeds of the Notes. Because borrowers who have consolidated their debt must request that additional student loan balances be added to their consolidated loans within 180 days of such consolidation, any remaining amounts set aside for this purpose in the Acquisition Account will be transferred to the Collection Account on or about May 17, 2007. The Notes are secured by a common pool of Student Loans, which pool of Student Loans may be increased by the addition of these consolidated Student Loans made to existing borrowers in the pool.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

Limited Liability

The Notes are limited obligations of the Agency, secured solely and exclusively by the Trust Estate, without recourse to any other assets or property of the Agency. Neither the Commonwealth of Pennsylvania (the "Commonwealth"), nor any political subdivision thereof, is or shall be obligated to pay the principal, redemption price, or interest on the Notes and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment. The Agency has no taxing power.

The Pledge of the Indenture

The Indenture establishes a pledge of the Trust Estate for the benefit of Owners of all Notes on a parity basis with respect to the Class A Notes, and on a subordinated basis with respect to the Class B Notes, and, subject to the provisions of the Indenture, permitting the application thereof for the purposes of and on the terms and conditions set forth in the Indenture. The Trust Estate is comprised of: (a) the Student Loans, and all obligations of the Obligors thereunder including all moneys accrued and paid thereunder on or after the Cutoff Date and all guaranties and other rights relating to the Student Loans; (b)

the Servicing Agreement, including the right of the Agency to cause the Servicer to purchase Student Loans from the Agency under circumstances described therein; (c) guarantee payments of the Agency as guarantor with respect to the Student Loans; (d) the Trust Accounts established under the Indenture and all funds on deposit from time to time in the Trust Accounts, including the Reserve Account Initial Deposit and the Capitalized Interest Account Initial Deposit, and all investments and proceeds thereof (including all income thereon); (e) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, general intangibles, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing. For a more complete description of the Trust Estate, see Appendix A - "THE INDENTURE," herein. See also "THE STUDENT LOAN POOL" herein.

Principal and Interest Payments on Federal Family Education Loan Program Loans

On Consolidation Loans, the Agency collects interest payments from the borrower from the date of loan disbursement. Repayment of Consolidation Loans commences within 60 days of the discharge of the lenders of the Consolidated Loans. For additional information on the FFEL Program loans, see Appendix C – "FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments."

Special Allowance Payments on FFEL Program Loans

The Agency also is entitled to receive Special Allowance Payments with respect to FFEL Program loans which the Secretary of Education is required by the Higher Education Act to pay on a quarterly basis. The rate of the Special Allowance Payments has varied from time to time during the life of the FFEL Program. Pursuant to the 1999 Amendments, the rate of the Special Allowance Payments for new FFEL Program loans originated on or after January 1, 2000 is based upon the 3-month commercial paper (financial) rate (the "3 Month CP Rate").

The amount of Special Allowance Payments depends, among other things, upon the interest rate on the FFEL Program loan to which it relates and the date on which such FFEL Program loan was originated. For further information on Special Allowance Payments, see Appendix C – "FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments."

Reserve Account

The Indenture creates a Reserve Account which is pledged to the security of all Notes issued under the Indenture. The Reserve Account shall be funded initially in the amount of the Reserve Account Initial Deposit which is equal to 0.25% of the Initial Pool Balance ($1,813,808). Thereafter, the Reserve Account is required to be maintained on each Distribution Date at a level equal to the Specified Reserve Account Balance for such Distribution Date. The Specified Reserve Account Balance for any Distribution Date is equal to the greater of: (a) 0.25% of the Pool Balance as of the close of business on the last date of the related Collection Period; and (b) $1,088,285; provided that in no event will that balance exceed the Outstanding Amount of the Notes. There is no assurance that the amount held in the Reserve Account will be maintained at the Specified Reserve Account Balance on any particular Distribution Date. See "DESCRIPTION OF THE NOTES – Credit Enhancement – *Reserve Account*" and Appendix A – "THE INDENTURE."

Capitalized Interest Account

The Indenture creates a Capitalized Interest Account which is pledged as security of all the Notes. The Capitalized Interest Account shall be funded initially in the amount of $14,250,000. The amounts on deposit in the Capitalized Interest Account are available to make payments of interest as provided in the Indenture through the Distribution Date in October 2007. Any balance remaining in the Capitalized Interest Account on the October 2007 Distribution Date shall be transferred on that date to the Collection Account, and the Capitalized Interest Account will be terminated. See "DESCRIPTION OF THE NOTES – Credit Enhancement – *Capitalized Interest Account*" and Appendix A "THE INDENTURE."

BOOK ENTRY ONLY SYSTEM

Beneficial ownership interests in the Notes shall be available in book entry form only. Purchases and sales by the beneficial owners of the Class A Notes shall be made in denominations of $100,000 and any integral multiple of $1,000 in excess thereof. Purchases and sales by the beneficial owners of the Class B Notes shall be made in denominations of $50,000 and integral multiples thereof. Purchasers of beneficial ownership interests in the Notes will not receive certificates representing their interests in the Notes purchased and will not be Holders under the Indenture, except as described below.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Notes. The Notes 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 Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners; in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent by the Trustee to DTC. If less than all of the Notes within a particular 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 any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Notes 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 detail information from the Agency or the Trustee, on payable 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 Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency 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.

Discontinuation of Book Entry Only System

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency believes to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Agency, the Underwriters or the Trustee.

NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BOOK-ENTRY NOTES; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF BOOK-ENTRY NOTES; OR (5) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY NOTES.

Global Clearance Procedures

The information that follows is based solely on information obtained from Clearstream or Euroclear, as appropriate. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

General. The Notes initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the Notes. Purchases of the Notes will be in book-entry form only, as more fully described below. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC. Citibank, N.A. acts as the U.S. depository for Clearstream and JPMorgan Chase Bank acts as the U.S. depository for Euroclear.

The Agency cannot and does not give any assurances that DTC, DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will distribute to the Beneficial Owners of the Notes: (i) payments of principal and interest payments (including redemption payments) with respect to the Notes; (ii) confirmation of ownership interest in the Notes; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will do so on a timely basis, or that DTC, the DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will serve and act in the manner described in this Official Statement.

The Agency will have no responsibility or obligations to DTC, the DTC participants, Euroclear, Euroclear Participants, Clearstream, Clearstream customers or the Beneficial Owners with respect to: (i) the accuracy of any records maintained by DTC or any DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants; (ii) the payment by DTC or any DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any amount due to any Beneficial Owner in respect of principal and interest payments (including redemption payments) on the Notes; (iii) the delivery by DTC or any DTC participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Notes; or (iv) any consent given or other action taken by DTC as registered holder of the Notes.

The information concerning Clearstream and Euroclear has been derived from information obtained from Clearstream and Euroclear and other sources. Neither the Agency nor the Underwriters make any representation or warranty regarding the accuracy or completeness thereof.

Clearstream. Clearstream Banking, société anonyme, 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("Clearstream, Luxembourg"), was incorporated in 1970 as "Cedel S.A.", a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank's parent company, Cedel International, société anonyme ("CI") merged its clearing, settlement and custody business with that of Deutsche Börse AG ("DBAG"). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Börse Clearing (DBC), to a new Luxembourg company, which with effect 14 January 2000 was renamed Clearstream International, société anonyme, and was then 50% owned by CI and 50% owned by DBAG.

Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On 18 January 2000, Cedelbank was renamed "Clearstream Banking, société anonyme", and Cedel Global Services was renamed "Clearstream Services, société anonyme". On 17 January 2000, Deutsche Börse Clearing AG was renamed "Clearstream Banking AG".

Today Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates.

Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, "CSSF", and the Banque Centrale du Luxembourg ("BCL") which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the "Euroclear Operator") in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear Bank. Euroclear Bank S.A./N.V. ("Euroclear Bank") holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants.

Non-Participants in the Euroclear System may hold and transfer book-entry interests in the Notes through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in the Notes through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

Clearance and Settlement. Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire Notes through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Notes to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer Notes through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Please be aware that Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the Notes.

Custody. Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the Notes by book-entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the Notes by book-entry to accounts with a securities intermediary who holds a book-entry interest in the Notes through accounts with Euroclear Bank.

Custody Risk. Investors that acquire, hold and transfer interests in the Notes by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co-property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions Upon Behalf of Owners. All of the Notes will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories").

Holders of the Notes may hold their Notes through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Euro Notes in registered form. Securities will be credited to the securities custody

accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Notes on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading. Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional Euro Notes in same-day funds.

When Securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the Securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the Securities. After settlement has been completed, the Securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream customers' accounts. Credit for the Securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Securities are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing Securities would incur overdraft charges for one day, assuming they cleared the overdraft when the Securities were credited to their accounts. However, interest on the Securities would accrue from the value date. Therefore, in many cases, the investment income on Securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Participant's/customer's particular cost of funds.

Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending Securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Participant, a crossmarket transaction will settle no differently from a trade between two Participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which Securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the Securities to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change. Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of Securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to

perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

THE AGENCY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE NOTES (1) PAYMENTS OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE NOTES (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE NOTES OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE NOTES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON NOTES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE NOTES.

THE AGENCY

The Agency is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Act. Under the Act, the Agency is authorized to issue bonds or notes with the approval of the Governor of the Commonwealth for the purpose of purchasing, making or guaranteeing loans to students or parents, or to lending institutions or post secondary institutions for the purpose of making student loans.

The Agency is governed by a Board of Directors and administered by a President and Chief Executive Officer and staff. The Agency's statutory purpose of improving higher education opportunities by assisting students in meeting their expenses involves a variety of activities, including a lending function. This lending function involves, among other activities, origination of loans by the Agency, servicing of loans made by the Agency and others, and the guaranty of certain loans.

The Agency has approximately 2,700 employees and the Agency's principal offices are located in Harrisburg, Pennsylvania, with six regional offices located throughout Pennsylvania and additional offices located in California, West Virginia and Delaware.

The Agency's activities are subject to audit by the Commonwealth's Department of Auditor General, and the Agency is required to make an annual report to the Governor of the Commonwealth and the legislature showing its condition at the end of the Commonwealth's fiscal year.

Other Debt Programs of the Agency

The Agency has issued, and intends to continue to issue from time to time, a number of series of bonds and notes pursuant to debt instruments other than the Indenture ("Other Secured Debt"). Such Other Secured Debt is generally secured by student loans and investments other than those comprising the Trust Estate.

Members of the Agency Board of Directors

The Board of Directors of the Agency consists of a maximum of 20 members: three members are appointed by the Governor of the Commonwealth; eight members of the Pennsylvania State Senate (four from the majority party and four from the minority party) are appointed by the President Pro Tempore of the Pennsylvania State Senate; eight members of the Pennsylvania House of Representatives (four from the majority party and four from the minority party) are appointed by the Speaker of the House of Representatives of Pennsylvania; and the Secretary of Education for the Commonwealth serves ex officio.

The present members of the Board of Directors of the Agency are:

	Term Expires
Representative Elinor Z. Taylor – Chairman	6/30/11
Senator Vincent J. Fumo - Vice Chairman	6/30/11
Honorable Gerald L. Zahorchak - Pennsylvania Secretary of Education	Ex-officio
Representative William F. Adolph, Jr.	6/30/11
Representative Ronald I. Buxton	6/30/11
Honorable. J. Doyle Corman	6/30/11
Senator Jake Corman	6/30/11
Senator Vincent J. Hughes	6/30/07
Senator Charles D. Lemmond, Chairman Executive Committee	6/30/09
Senator Sean Logan	6/30/07
Representative Sandra J. Major	6/30/09
Representative Joseph F. Markosek	6/30/07
Senator Michael A. O'Pake	6/30/07
Dr. Michael L. Penn	6/30/09
Honorable Roy Reinard, III	6/30/07
Senator James J. Rhoades	6/30/09
Representative James R. Roebuck, Jr.	6/30/07
Representative Jess M. Stairs	6/30/11
Representative Stephen Stetler	6/30/07
Senator Robert M. Tomlinson, Jr.	6/30/11

Senior Management

The following is a brief description of certain members of the senior management of the Agency.

Richard E. Willey is the Agency's President and Chief Executive Officer. Mr. Willey joined the Agency in February 2002. Prior to assuming the office of President and CEO he was the Chief Operating Officer responsible for managing the operations of the Agency consistent with the goals, objectives, and policies as set by the President and Chief Executive Officer and the Board of Directors. Prior to joining the Agency, Mr. Willey served in various roles in the Pennsylvania House of Representatives and Senate. He most recently worked as a consultant to the law firm Stevens and Lee in the government affairs arena.

James L. Preston is Executive Vice President, Marketing and Client Affairs. Mr. Preston joined the Agency in April 2003. He is directly responsible for the Agency's Student Loan Servicing Center and directs the contract marketing responsible for the generation of the Agency's loan servicing income. Mr. Preston held various investment banking positions with the firms of L.F. Rothschild, Unterberg, Towbin, and Bear Stearns & Co. and UBS Paine Webber, and prior to joining the Agency had served as a representative of the underwriter for a number of the Agency's bond issues.

Lori F. Fehr is Executive Vice President of Administration. Ms. Fehr joined the Agency in January 1995. Her current responsibilities include the evaluation of Agency business processes to assess effectiveness and to implement system improvements. Ms. Fehr also is responsible for all budgeting, purchasing and personnel aspects of the Agency. Prior to joining the Agency, Ms. Fehr served as the Governor's Deputy Secretary of the Budget with responsibility for oversight of the Commonwealth's $30 billion budget, assisting with the Governor's policy agenda, managing cash flow and analyzing the fiscal impact of legislation. Ms. Fehr graduated with a Master of Public Administration and a Bachelor of Science from the Pennsylvania State University.

Sheila Dow Ford is Executive Vice President for Legal Affairs and Chief Counsel. Mrs. Dow Ford joined the Agency in 1994. Her current responsibilities include reviewing and approving all Agency agreements and managing the Agency's legal department. Prior to joining the Agency, Mrs. Dow Ford served as Chief Counsel to the New Jersey School Boards Association. Mrs. Dow Ford is a graduate of LaSalle College and the University of Pennsylvania School of Law.

Timothy A. Guenther is the Agency's Chief Financial Officer and is directly responsible for all aspects of financial reporting, accounting, budgeting and internal auditing. Prior to his employment with the Agency in 1994, Mr. Guenther was a senior manager with KPMG Peat Marwick. In addition to managing traditional accounting and auditing services while at KPMG Peat Marwick, he also provided activity based costing and business process reengineering consulting services.

Vincent Racculia is the Agency's Executive Vice President for State and Federal Program Operations. Mr. Racculia has served the financial aid community for over 28 years in various capacities. In addition to his nearly 26 years of service to the Agency, he has worked in the financial aid offices of Carnegie Mellon University and Edinboro University of

Pennsylvania. Mr. Racculia was responsible for developing and implementing many of the programs and services that the Agency's Educational Services Group offers to college financial aid offices. Mr. Racculia joined the Agency in 1972 as an administrator in the Scholarship Division. After leaving the Agency to work in the financial aid office of Carnegie Mellon University he returned in 1977 to lead the then new School Services area of the Agency. Mr. Racculia was promoted to Executive Vice President in June 1999.

Brian Lecher is Executive Vice President for Management Information Services. His responsibilities include planning and oversight of all facets of the Agency's information technology infrastructure and initiatives. Mr. Lecher joined the Agency in 1997. Prior to assuming his current position Mr. Lecher was Executive Vice President for Electronic Commerce and served as the Agency's Vice President of Student Loan Guaranty Services. He holds masters degrees in Information Systems and Public Administration.

Mark R. Schmidt is Vice President, Public Finance. Mr. Schmidt joined the Agency in 1982 as an Accountant and has served in Public Finance since 1984. He is responsible for the management of taxable and tax-exempt student loan financing, including covenant compliance and reporting, loan acquisition and portfolio maintenance. Mr. Schmidt also is responsible for developing the Agency's lending and secondary market strategies.

Loan Originations

During its fiscal year ended June 30, 2006, the Agency originated FFEL Program student loans with an aggregate principal balance of $2.4 billion. Of these loans, $536 million were Stafford and unsubsidized Stafford Loans, $32 million were PLUS Loans, and $1.8 billion were consolidation loans.

During its fiscal year ended June 30, 2005, the Agency originated FFEL Program student loans with an aggregate principal balance of $1.5 billion. Of these loans, $562 million were Stafford and unsubsidized Stafford Loans, $31.6 million were PLUS Loans, and $922 million were consolidation loans.

During its fiscal year ended June 30, 2004, the Agency originated FFEL Program student loans with an aggregate principal balance of $1.16 billion. Of these loans, $543.8 million were Stafford and unsubsidized Stafford Loans, $27.4 million were PLUS Loans, and $542.8 million were consolidation loans.

During its fiscal year ended June 30, 2003, the Agency originated FFEL Program student loans with an aggregate principal balance of $894 million. Of these loans, $498.7 million were Stafford and unsubsidized Stafford Loans, $22.9 million were PLUS Loans, and $372.9 million were consolidation loans.

Results of Operations and Financial Condition

At June 30, 2006 the Agency had total student loans of $9.1 billion, compared to $5.6 billion at June 30, 2005. At June 30, 2006, the agency had total assets of $10.1 billion and net assets of $498.2 million, compared to $6.4 billion of total assets and $485.8 million of net assets at June 30, 2005. Approximately $357.6 million of its net assets at June 30, 2006, and approximately $335.4 million of its net assets at June 30, 2005, were restricted for pledges under prior financings and unavailable to satisfy obligations to creditors. Additionally, approximately $58.0 million and $80.0 million of its remaining net assets at June 30, 2006 and 2005, respectively, were restricted for other purposes.

At June 30, 2005 the Agency had total student loans of $5.6 billion, compared to $4.8 billion at June 30, 2004. At June 30, 2005, the agency had total assets of $6.4 billion and net assets of $485.8 million, compared to $5.7 billion of total assets and $367.8 million of net assets at June 30, 2004. Approximately $335.4 million of its net assets at June 30, 2005, and approximately $293.6 million of its net assets at June 30, 2004, were restricted for pledges under prior financings and unavailable to satisfy obligations to creditors. Additionally, approximately $80.0 million and $67.9 million of its remaining net assets at June 30, 2005 and 2004, respectively, were restricted for other purposes.

For the fiscal year ended June 30, 2006, the Agency had total revenue of $718 million, student loan interest revenue of $431.8 million, servicing revenue of $108 million, and net income of $12.4 million. For the fiscal year ended June 30, 2005, the Agency had total revenue of $529.3 million, student loan interest revenue of $296.3 million, servicing revenue of $87.4 million, and net income of $118.0 million.

The financial performance of the Agency could be adversely affected by any changes in the FFEL Program resulting from federal legislation reauthorizing the Higher Education Act. The Higher Education Act was scheduled for reauthorization in 2004; however, Congress has passed numerous acts to temporarily extend the current provisions of the Higher Education Act; the latest was the Second Higher Education Extension Act of 2006 extending the authority for Higher Education Act programs to operate until June 30, 2007.

Servicing Operations

The Agency services student loans that it owns and provides third party servicing for student loans owned by others. The Agency also offers "remote" servicing, which is limited to data processing functions. At June 30, 2006, the Agency serviced approximately 5.4 million student loans with an aggregate principal balance of approximately $43.5 billion and provided "remote" servicing for approximately 3.8 million additional loans. At June 30, 2005, the Agency serviced approximately 4.8 million student loans with an aggregate principal balance of approximately $32.3 billion and provided "remote" servicing for approximately 3.3 million additional loans.

The Agency has been designated by the Department of Education as a servicer with an exceptional level of performance. Lenders which have their student loans serviced by servicers who are designated as having an exceptional level of performance will receive 99% reimbursement on all claims submitted for insurance provided that the lender's servicer meets and maintains all requirements for achieving its exceptional performance designation. Thus, for as long as the Department of Education maintains its designation of the Agency as a servicer with an exceptional level of performance, the student loans serviced by Pennsylvania Higher Education Assistance Agency will be reinsured by the Department of Education up to a maximum of 99%. See "RISK FACTORS—Losses or Delays in Payments May Be Incurred if Borrowers Default on the Student Loans" in this Official Statement.

INFORMATION RELATING TO THE AGENCY AS GUARANTOR

General

The Agency guarantees FFEL Program student loans originated by other lenders. During the Agency's fiscal year ending June 30, 2006, the Agency guaranteed 1.3 million FFEL Program loans originated by other lenders with an aggregate principal balance of $16.6 billion. At June 30, 2006, the Agency had outstanding guarantees of FFEL Program student loans with an aggregate original principal balance of approximately $40.8 billion.

The Agency is the guarantor for the portfolio of Student Loans acquired with the proceeds of the Notes. Each of the Student Loans is reinsured by the United States Department of Education under the Higher Education Act and eligible for special allowance payments and, in the case of some Student Loans, interest subsidy payments by the United States Department of Education.

Under the Higher Education Amendments of 1992, if the United States Department of Education has determined that a guarantee agency is unable to meet its insurance obligation, a loan holder may submit claims directly to the United States Department of Education and the United States Department of Education is required to pay the full guarantee payment in accordance with guarantee claim processing standards no more stringent than those of the guarantee agency. There is no assurance that the United States Department of Education would ever make such a determination with respect to the Agency or, if such a determination was made, whether that determination or the ultimate payment of guarantee claims would be made in a timely manner. See "**DESCRIPTION OF THE FEDERAL STUDENT LOAN PROGRAMS**" attached hereto as Appendix C.

The following table provides information with respect to the Student Loan portfolio acquired with proceeds of the Notes:

NAME OF GUARANTEE AGENCY	Number of Loans Guaranteed	Aggregate Outstanding Principal Balance of Loans Guaranteed	Percent of Pool by Outstanding Principal Balance Guaranteed
Pennsylvania Higher Education Assistance Agency.....	60,221	$725,523,114	100%

Some of the historical information about the Agency as a guarantee agency is provided below. The information shown relates to all student loans guaranteed by the Agency, and not just those Student Loans acquired with proceeds of the Notes.

The information in these tables was obtained from various sources, including the United States Department of Education publications and data from the Agency. None of the Agency, the Trustee, the Servicer or the Underwriters have audited or independently verified this information for accuracy or completeness.

Guarantee Volume

The following table describes the approximate aggregate principal amount of federally reinsured student loans, excluding federal consolidation loans, that first become guaranteed by the Agency in each of the five federal fiscal years shown:

NAME OF GUARANTEE AGENCY	Loans Guaranteed by Federal Fiscal Year (Non-Consolidated) (dollars in thousands)				
	2001	2002	2003	2004	2005
Pennsylvania Higher Education Assistance Agency	$2,252,381	$2,529,963	$2,813,006	$3,131,246	$3,403,031

Reserve Ratio

A guarantor's reserve ratio is determined by dividing cumulative cash reserves by the original principal amount of the outstanding loans it has agreed to guarantee. For this purpose:

- Cumulative cash reserves are cash reserves plus (a) sources of funds, including insurance premiums, state appropriations, federal advances, federal reinsurance payments, administrative cost allowances, collections on claims paid and investment earnings, minus (b) uses of funds, including claims paid to lenders, operating expenses, lender fees, the United States Department of Education's share of collections on claims paid, returned advances and reinsurance fees.

- The original principal amount of outstanding loans consists of the original principal amount of loans guaranteed by the guarantor minus the original principal amount of loans cancelled, claims paid, loans paid in full and loan guarantees transferred to the guarantor from other guarantors.

The following table shows the Agency's reserve ratios for the five federal fiscal years shown for which information is available:

NAME OF GUARANTEE AGENCY	Reserve Ratio as of Close of Federal Fiscal Year				
	2001	2002*	2003*	2004*	2005*
Pennsylvania Higher Education Assistance Agency	1.11%	0.48%	0.44%	0.31%	.16%

* Guaranty Agencies were required to relinquish certain reserve funds to the federal government pursuant to the Federal Balanced Budget Act of 1997 and the Higher Education Amendment of 1998. If these reserve funds were not recalled, the 2002, 2003, 2004 and 2005 reserve ratios would have been 1.08%, 1.08% and 0.85% and 0.55%.

Recovery Rates

A guarantor's recovery rate, which provides a measure of the effectiveness of the collection efforts against defaulting borrowers after the guarantee claim has been satisfied, is determined for each year by dividing the current year collections by the total outstanding claim portfolio as of the end of the prior Fiscal Year. The following table shows the cumulative recovery rates for the Agency for the five federal fiscal years shown for which information is available:

NAME OF GUARANTEE AGENCY	Recovery Rate for Federal Fiscal Year				
	2001	2002	2003	2004	2005
Pennsylvania Higher Education Assistance Agency	23.2%	26.07%	23.12%	25.48%	26.3%

Claims Rate

The following table shows the claims rates of the Agency for each of the five federal fiscal years shown:

NAME OF GUARANTEE AGENCY	Claims Rate for Federal Fiscal Year 2001	2002	2003	2004	2005
Pennsylvania Higher Education Assistance Agency	1.7%	1.7%	1.5%	1.1%	1.3%

The United States Department of Education is required to make reinsurance payments to guarantors with respect to Federal Family Education Loan Program loans in default. Those reinsurance payments are subject to specified reductions when the guarantor's claims rate for a fiscal year equals or exceed certain trigger percentages of the aggregate original principal amount of Federal Family Education Loan Program loans guaranteed by that guarantor that are in repayment on the last day of the prior fiscal year.

Each guarantee agency's guarantee obligations with respect to any student loan are conditioned upon the satisfaction of all the conditions in the applicable guarantee agreement. These conditions include, but are not limited to, the following:

- the origination and servicing of the student loan being performed in accordance with the Federal Family Education Loan Program, the Higher Education Act, the guarantee agency's rules and other applicable requirements;
- the timely payment to the guarantee agency of the guarantee fee payable on the student loan; and
- the timely submission to the guarantee agency of all required pre-claim delinquency status notifications and of the claim on the student loan.

Failure to comply with any of the applicable conditions, including those listed above, may result in the refusal of the guarantee agency to honor its guarantee agreement on the student loan, in the denial of guarantee coverage for certain accrued interest amounts or in the loss of certain interest subsidy payments and special allowance payments.

Prospective investors may consult the United States Department of Education Data Books for further information concerning the guarantors.

THE SERVICER

Servicing of the Assets

Under a Servicing Agreement, the Agency, in its capacity as Servicer, will be responsible for servicing, maintaining custody of and making collections on the Student Loans. It also will bill and collect payments from the Agency as Guarantor and the Department of Education. See "APPENDIX D-THE SERVICING AGREEMENT – *Servicing and Administration—Servicing Procedures"* and "APPENDIX D-THE SERVICING AGREEMENT – *Servicing and Administration—Administration Agreement"* hereto. Under some circumstances, the Servicer may transfer its obligations as Servicer. See "APPENDIX D – THE SERVICING AGREEMENT – *Servicing and Administration—Certain Matters Regarding the Servicer"* hereto.

If the Servicer breaches a covenant under the Servicing Agreement regarding a Student Loan, generally it will have to cure the breach, purchase that Student Loan or reimburse the Trustee for losses resulting from the breach. See "APPENDIX D – THE SERVICING AGREEMENT" in this Official Statement.

The Agency was designated as an "Exceptional Performer" by the Department of Education in recognition of its exceptional level of performance in servicing FFEL Program loans. As a result, the Agency receives 99% reimbursement on all eligible FFEL Program default claims filed for reimbursement after July 1, 2006 on loans that the Agency services including the Student Loans. However, this 99% reimbursement rate could be reduced as a result of a variety of factors, including changes in the FFEL Program or in the Agency's servicing performance.

Compensation of the Servicer

The Servicer will receive two separate fees; the Primary Servicing Fee and the Carryover Servicing Fee.

The Primary Servicing Fee for any month is equal to 1/12 of 0.5% of the outstanding principal amount of the Student Loans calculated based upon the outstanding principal amount of the Student Loans as of the first day of the preceding calendar month.

The Primary Servicing Fee will be payable in arrears out of Available Funds and amounts on deposit in the Reserve Account on the 25th of each month, or if the 25th is not a Business Day, then on the next Business Day, beginning on December 25, 2006. Fees will include amounts from any prior Monthly Servicing Payment Dates that remain unpaid.

The Carryover Servicing Fee will be payable to the Servicer on each Distribution Date out of Available Funds in the order and priority described above.

The Carryover Servicing Fee is the sum of:

(i) the amount of specified increases in the costs incurred by the Servicer;

(ii) the amount of specified conversion, transfer and removal fees;

(iii) any amounts described in clauses (i) and (ii) above that remain unpaid from prior Distribution Dates; and

(iv) interest on any unpaid amounts.

See "DESCRIPTION OF THE NOTES—Servicing Compensation" herein.

THE STUDENT LOAN POOL

The Agency under the Indenture will pledge and grant a security interest to the Trustee in the pool of Student Loans acquired with the proceeds of the Notes as security for the repayment of the Notes. Noteholders will be paid from collections on and other monies received with respect to the pool of the Student Loans so acquired. Unless otherwise specified, all information with respect to the Student Loans is presented herein as of September 30, 2006 (the "Statistical Cutoff Date").

The Student Loans were selected from the Agency's portfolio of consolidation student loans by employing several criteria, including requirements that each Student Loan as of the Cutoff Date:

- is guaranteed as to principal and interest by a guarantee agency under a guarantee agreement and the guarantee agency is, in turn, reinsured by the Department of Education in accordance with the FFEL Program;
- contains terms in accordance with those required by the FFEL Program, the guarantee agreements and other applicable requirements; and
- is not more than 210 days past due.

No Student Loan as of the Statistical Cutoff Date was subject to any prior obligation to sell that loan to a third party.

The following tables provide a description of specified characteristics of the Student Loans as of the Statistical Cutoff Date. Characteristics of the Student Loans actually transferred to the Trust Estate on the Closing Date are not expected to differ materially from the characteristics of the Student Loans as of the Statistical Cutoff Date, but may vary by as much as plus or minus 5%. The aggregate outstanding principal balance of the loans in each of the following tables includes the principal balance due from borrowers as of the Statistical Cutoff Date.

The distribution by weighted average interest rate applicable to the Student Loans on any date following the Statistical Cutoff Date may vary significantly from that in the following tables as a result of variations in the effective rates of interest applicable to the Student Loans. Moreover, the information below about the weighted average remaining term to maturity of the Student Loans as of the Statistical Cutoff Date may vary significantly from the actual term to maturity of any of the Student Loans as a result of prepayments or the granting of deferral and forbearance periods on any of the Student Loans. In addition, as discussed above under the heading "USE OF PROCEEDS - Acquisition of the Student Loan Portfolio", $250,000 of the net proceeds of the sale of the Notes deposited into the Acquisition Account will remain on deposit in the Acquisition Account and may be used during the six months following the Closing Date to purchase additional Student Loans relating to those borrowers whose consolidation loans were originally acquired with the proceeds of the Notes.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of Student Loans. For ease of administration, the Servicer separates a consolidation loan on its

system into two separate loan segments representing subsidized and unsubsidized segments of the same loan. The following tables reflect those loan segments within the number of loans. Percentages and dollar amounts in any table may not total 100% or the Student Loan balance, as applicable, due to rounding.

COMPOSITION OF THE STUDENT LOANS
AS OF THE STATISTICAL CUTOFF DATE

Aggregate Outstanding Principal Balance	$725,523,114
Number of Accounts	36,532
Average Outstanding Principal Balance per Account	$19,860
Number of Loans	60,221
Average Outstanding Principal Balance per Loan	$12,048
Weighted Average Annual Interest Rate	4.30%
Weighted Average Remaining Term (Months)	229

The weighted average remaining term to maturity shown in the table has been determined from the period beginning as of the Statistical Cutoff Date and ending as of the stated maturity date of the applicable Student Loan, without giving effect to any deferral or forbearance periods that may be granted in the future.

Any special allowance payments on the Student Loans are based on the three-month financial commercial paper rate. For this purpose, the three-month financial commercial paper rate is the average of the bond equivalent rates of the three-month commercial paper (financial) rates in effect for each of the days in a calendar quarter as reported by the Federal Reserve in Publication H.15 (or its successor) for that calendar quarter.

Distribution of Student Loans by Loan Type as of the Statistical Cutoff Date

Breakdown by Loan Type	Balance	Balance as a Percent	Number of Loans
Consolidation - Unsubsidized	$376,179,686	51.85%	30,629
Consolidation - Subsidized	$349,343,428	48.15%	29,592
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Interest Rate as of the Statistical Cutoff Date

Breakdown by Interest Rate	Balance	Balance as a Percent	Number of Loans
Less than 3.00%	$144,449,578	19.91%	11,223
3.00% to 3.49%	$110,658,121	15.25%	9,882
3.50% to 3.99%	$55,836,954	7.70%	4,192
4.00% to 4.49%	$62,605,926	8.63%	3,799
4.50% to 4.99%	$153,194,383	21.12%	14,443
5.00% to 5.49%	$93,421,134	12.88%	9,401
Greater than 5.49%	$105,357,018	14.52%	7,281
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Special Allowance Payment Interest Rate Index as of the Statistical Cutoff Date

SAP Interest Rate Index	Balance	Balance as a Percent	Number of Loans
91 Day T-Bill Index	$1,709,171	0.24%	113
90 Day CP Index	$723,813,943	99.76%	60,108
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Borrower Payment Status as of the Statistical Cutoff Date

Breakdown by Status	Balance	Balance as a Percent	Number of Loans
Deferment	$143,630,102	19.80%	13,349
Forbearance	$69,928,379	9.64%	4,402
Repayment			
First year in repayment	$283,551,314	39.08%	24,134
Second year in repayment	$199,341,076	27.48%	16,375
Third year in repayment	$9,661,069	1.33%	671
Fourth year in repayment	$19,411,174	2.68%	1,290
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by the Number of Days Delinquent as of the Statistical Cutoff Date

Days Delinquent	Balance	Balance as a Percent	Number of Loans
0-30	$706,134,253	97.33%	58,637
31-60	$13,697,814	1.89%	1,133
61-90	$2,202,545	0.30%	164
91-120	$1,444,385	0.20%	107
121-150	$588,151	0.08%	47
151-180	$325,394	0.04%	24
181 and above	$1,130,573	0.16%	109
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Disbursement Date as of the Statistical Cutoff Date

Year of Disbursement Pre/Post July 1, 2006	Balance	Balance as a Percent	Number of Loans
Pre July 1, 2006	$531,555,194	73.27%	42,003
Post July 1, 2006	$193,967,920	26.73%	18,218
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Geographical Distribution as of the Statistical Cutoff Date

Breakdown by State	Balance	Balance as a Percent	Number of Loans
Alabama	$497,382	0.07%	40
Alaska	$116,805	0.02%	15
Arizona	$2,130,639	0.29%	166
Arkansas	$287,940	0.04%	15
California	$8,241,762	1.14%	575
Colorado	$2,364,662	0.33%	168
Connecticut	$6,500,030	0.90%	439
Delaware	$4,609,564	0.64%	346

District of Columbia	$2,389,369	0.33%	145
Florida	$11,295,970	1.56%	713
Georgia	$3,773,403	0.52%	281
Hawaii	$296,269	0.04%	27
Idaho	$214,901	0.03%	12
Illinois	$2,707,751	0.37%	168
Indiana	$688,553	0.09%	56
Iowa	$259,176	0.04%	13
Kansas	$200,761	0.03%	21
Kentucky	$726,437	0.10%	44
Louisiana	$439,494	0.06%	31
Maine	$1,422,378	0.20%	113
Maryland	$18,285,173	2.52%	1,291
Massachusetts	$13,730,653	1.89%	949
Michigan	$1,793,838	0.25%	101
Minnesota	$724,518	0.10%	43
Mississippi	$107,754	0.01%	12
Missouri	$416,195	0.06%	29
Montana	$245,883	0.03%	17
Nebraska	$145,516	0.02%	9
Nevada	$1,051,308	0.14%	90
New Hampshire	$2,729,648	0.38%	187
New Jersey	$21,720,661	2.99%	1,479
New Mexico	$291,165	0.04%	30
New York	$33,711,755	4.65%	2,243
North Carolina	$6,713,963	0.93%	526
North Dakota	$31,674	0.00%	4
Ohio	$4,983,064	0.69%	374
Oklahoma	$211,385	0.03%	18
Oregon	$779,046	0.11%	53
Pennsylvania	$532,261,976	73.36%	46,698
Rhode Island	$1,740,949	0.24%	129
South Carolina	$2,488,938	0.34%	172
South Dakota	$59,680	0.01%	4
Tennessee	$1,799,529	0.25%	118
Texas	$3,456,993	0.48%	245
Utah	$197,450	0.03%	19
Vermont	$528,346	0.07%	40
Virginia	$21,589,681	2.98%	1,644
Washington	$2,011,511	0.28%	118
West Virginia	$1,183,075	0.16%	108
Wisconsin	$653,253	0.09%	40
Wyoming	$15,162	0.00%	2
Other	$700,128	0.10%	41
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Guarantee Agency as of the Statistical Cutoff Date

Breakdown by Guarantor	Balance	Balance as a Percent	Number of Loans
AES	$725,523,114	100.00%	60,221
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Borrower Principal Balance as of the Statistical Cutoff Date

Breakdown by Principal Balance	Balance	Balance as a Percent	Number of Accounts
$5,000 to $5,999	$9,001,541	1.24%	1,639
$6,000 to $7,999	$26,336,077	3.63%	3,839
$8,000 to $9,999	$30,842,807	4.25%	3,429
$10,000 to $14,999	$106,809,808	14.72%	8,568
$15,000 to $19,999	$133,840,572	18.45%	7,790
$20,000 to $24,999	$81,009,287	11.17%	3,655
$25,000 to $29,999	$55,516,154	7.65%	2,026
$30,000 to $34,999	$43,788,128	6.04%	1,354
$35,000 to $39,999	$40,537,597	5.59%	1,088
$40,000 to $49,999	$58,964,551	8.13%	1,323
$50,000 to $59,999	$40,127,621	5.53%	738
$60,000 to $69,999	$22,052,983	3.04%	340
$70,000 to $79,999	$17,183,346	2.37%	230
$80,000 to $89,999	$12,488,742	1.72%	148
$90,000 to $99,999	$8,484,989	1.17%	90
$100,000 to $109,999	$6,195,624	0.85%	59
$110,000 to $119,999	$5,263,361	0.73%	46
$120,000 to $129,999	$3,753,721	0.52%	30
$130,000 to $139,999	$3,232,165	0.45%	24
$140,000 to $149,999	$2,613,748	0.36%	18
$150,000 or greater	$17,480,291	2.41%	98
Total	$725,523,114	100.00%	36,532

Distribution of Student Loans by Remaining Term to Scheduled Maturity as of the Statistical Cutoff Date

Breakdown by Remaining Term (Months)	Balance	Balance as a Percent	Number of Loans
0 to 24	$13,235	0.00%	3
25 to 36	$125,788	0.02%	23
37 to 48	$456,825	0.06%	78
49 to 60	$908,577	0.13%	116
61 to 72	$929,201	0.13%	113
73 to 84	$1,212,525	0.17%	151
85 to 96	$1,505,771	0.21%	179
97 to 108	$7,115,422	0.98%	1,140
109 to 120	$23,072,047	3.18%	4,765
121 to 132	$10,424,897	1.44%	1,960
133 to 144	$25,933,876	3.57%	4,468
145 to 156	$6,752,941	0.93%	891
157 to 168	$66,764,336	9.20%	7,618
169 to 180	$141,483,289	19.50%	15,768
181 to 192	$3,599,857	0.50%	387
193 to 220	$20,710,472	2.85%	1,501
221 to 260	$211,023,597	29.09%	14,675
261 to 300	$99,425,905	13.70%	4,081
Over 300	$104,064,553	14.34%	2,304
Total	$725,523,114	100.00%	60,221

Distribution of Student Loans by Scheduled Weighted Average Months Remaining in Status as of the Statistical Cutoff Date

Breakdown by Time remaining in Status	Deferral	Forbearance	Repayment
Deferment	17.1		230.42
Forbearance		5.1	267.56
Repayment			222.79

Each of the Student Loans provides or will provide for the amortization of its outstanding principal balance over a series of regular payments. Except as described below, each regular payment consists of an installment of interest which is calculated on the basis of the outstanding principal balance of the Student Loan. The amount received is applied first to interest accrued to the date of payment and the balance of the payment, if any, is applied to reduce the unpaid principal balance. Accordingly, if a borrower pays a regular installment before its scheduled due date, the portion of the payment allocable to interest for the period since the preceding payment was made will be less than it would have been had the payment been made as scheduled, and the portion of the payment applied to reduce the unpaid principal balance will be correspondingly greater. Conversely, if a borrower pays a monthly installment after its scheduled due date, the portion of the payment allocable to interest for the period since the preceding payment was made will be greater than it would have been had the payment been made as scheduled, and the portion of the payment applied to reduce the unpaid principal balance will be correspondingly less. In addition, if a borrower pays a monthly installment after its scheduled due date, the borrower may owe a fee on that late payment. If a late fee is applied, such payment will be applied first to the applicable late fee, second to interest and third to principal. As a result, the portion of the payment applied to reduce the unpaid principal balance may be less than it would have been had the payment been made as scheduled.

In either case, subject to any applicable deferral periods or forbearance periods, and except as provided below, the borrower pays a regular installment until the final scheduled payment date, at which time the amount of the final installment is increased or decreased as necessary to repay the then outstanding principal balance of that Student Loan.

The Agency currently offers two incentive programs to borrowers of student loans it holds. One incentive program allows for a 0.25% interest rate reduction to borrowers who elect to have their installments deducted automatically from their bank accounts. Another incentive program provides a 1.00% interest rate reduction to borrowers who pay thirty-six consecutive installments on time, starting with their first installment. If, after the outstanding principal balance of the Notes equals the Adjusted Pool Balance, any such incentive programs not required by the Higher Education Act are in effect for the Student Loans on the third business day preceding any Distribution Date when the outstanding principal balance of the Notes exceeds the Adjusted Pool Balance, the Agency either will contribute funds to the Collection Account in an amount equal to the interest that otherwise would have been paid on such Student Loans in the related Collection Period in the absence of the incentive programs (only up to the amount by which the outstanding principal balance of the Notes exceeds the Adjusted Pool Balance) or terminate the incentive programs.

Through the Servicer, the Agency makes payment terms available to borrowers of student loans it holds that may result in the lengthening of the remaining term of the student loans. For example, not all of the loans owned by the Agency provide for level payments throughout the repayment term of the loans. Some student loans provide for interest only payments to be made for a designated portion of the term of the loans, with amortization of the principal of the loans occurring only when payments increase in the latter stage of the term of the loans. Other loans provide for a graduated phase-in of the amortization of principal with a greater portion of principal amortization being required in the latter stages than would be the case if amortization were on a level payment basis. The Agency also offers, through the Servicer, an income-sensitive repayment plan, under which repayments are based on the borrower's income, and an extended repayment plan, under which certain borrowers may extend their repayment term up to 25 years.

CONTINUING DISCLOSURE

General

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Agency will enter into a continuing disclosure undertaking (a "Continuing Disclosure Agreement") with the Trustee for the Notes which shall constitute a written undertaking for the benefit of the owners of the Notes, solely to assist the Underwriters in complying with subsection (b) (5) of the Rule.

The Agency will agree in the Continuing Disclosure Agreement to provide to the Trustee, which shall provide to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of subsection (b) (5) of the Rule (each, a "Repository"), annual financial information and operating data (the "Annual Financial Information") relating to it covering the matters described under "Annual Financial Information" below. The Agency will also agree to provide to each Repository, in a timely manner, notice of any of the events ("Event Notice") if determined by the Agency to be material, as described under "Event Notices" below.

The on-going disclosure obligations of the Agency with respect to the Notes shall terminate upon the full payment, prior redemption or legal defeasance of the Notes.

The Agency may appoint or engage a dissemination agent to assist in carrying out its obligations under the Continuing Disclosure Agreement.

The Agency may amend the Continuing Disclosure Agreement, and any provision thereof may be waived by the Trustee to the extent permitted by the rule, without the consent of the owners of the Notes if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in the identity, nature or status of the Agency or the type of business conducted thereby; (2) the Continuing Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of the Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (3) the amendment or waiver does not materially impair the interests of the registered owners of the Notes. Evidence of compliance with the foregoing shall be satisfied by the delivery to the Trustee of an opinion of nationally recognized bond counsel or counsel having recognized experience and skill in the issuance of municipal securities and in federal securities laws, acceptable to both the Agency and the Trustee, to the effect that the foregoing conditions were satisfied.

In the Event of Default by the Agency of its obligations under the Continuing Disclosure Agreement to provide continuing disclosure, the Trustee may (and at the request of the owner of at least 25% of the aggregate principal amount of outstanding Notes, shall), or any registered owner may, take action to compel compliance, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Agency's obligations under the Continuing Disclosure Agreement. No such default under the Continuing Disclosure Agreement shall constitute an Event of Default under the Indenture.

Annual Financial Information

The Agency will provide Annual Financial Information for the Agency within 210 days after the end of the Agency's fiscal year (the "Reporting Date"), beginning with the fiscal year ending June 30, 2006. Such Annual Financial Information shall consist of the following information:

(I) Annual audited financial statements for the Agency and for any Additional Obligated Person prepared in accordance with generally accepted accounting principles.

(II) Operating data and operating information of the general type set forth in "THE AGENCY- "Loan Originations, - Results of Operations and Financial Condition, and - Servicing Operations."

If the audited financial statements for the Agency are not available by the Reporting Date, unaudited financial statements of the Agency are to be provided as part of the applicable Annual Financial Information and audited financial statements for the Agency or an Additional Obligated Person, as the case may be, when and if available, will be provided to the Trustee and each Repository.

Event Notice

In addition to the Annual Financial Information described above, the Agency will also agree to provide an Event Notice upon the happening of and with respect to any of the following events, if material, with respect to the Notes:

(1) Principal and interest payment delinquencies;
(2) Nonpayment related defaults;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions or events adversely affecting the tax exempt status of the Notes;
(7) Modifications to rights of owners of the Notes;
(8) Calls of the Notes;
(9) Defeasances;
(10) Release, substitution or sale of assets securing repayment of the Notes; and
(11) Rating changes.

The foregoing events are derived from the Rule.

Repositories

As of this date, following are the Repositories for the purposes of the continuing disclosure required under the Continuing Disclosure Agreement:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
Fax: (212) 771-7391 (Primary Market Information)
Email: NRMSIR@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

Notwithstanding anything herein to the contrary, any filing in connection with the Agency's continuing disclosure undertaking (including material events filings to each NRMSIR and to each State Information Depository, if any) may be made solely by transmitting such filing to the "Central Post Office" which is the internet-based electronic filing system operated by the Municipal Advisory Council of Texas (the "MAC") under the name "DisclosureUSA" at the following internet address: http://www.disclosureusa.org,unless the Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004. Information provided to the Central Post Office will be automatically transmitted to the current NRMSIRs and each State Information Depository, if any.

TAX MATTERS

In the opinion of Cozen O'Connor, Note Counsel, under existing laws, interest on the Notes is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code").

In the opinion of Note Counsel, under existing laws of the Commonwealth of Pennsylvania, the interest on the Notes is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritances taxes or any other taxes not levied or assessed directly on the Notes or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the Notes are subject to state and local taxation in the Commonwealth.

Except as expressly stated above, Note Counsel will express no opinion as to any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Notes. Owners of the Notes should consult their tax advisors as to the applicability of any collateral tax consequences of ownership of the Notes, which may include purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

The form of the opinion of Note Counsel is set forth in Appendix B hereto.

ERISA CONSIDERATIONS

The Notes may be purchased by an employee benefit plan (whether or not such plan is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) or by an individual retirement account described in Section 408(a) of the Internal Revenue Code of 1986, as amended (the "Code") (both referred to hereinafter as "Plans") subject to the following limitations. Before acquiring any Notes, a fiduciary of a Plan must determine that the acquisition of such Notes is consistent with its fiduciary duties under ERISA and the terms of the applicable Plan documents and does not result in a nonexempt prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code ("Prohibited Transaction"). Employee benefit plans which are governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to the fiduciary responsibility or prohibited transaction provisions of ERISA or the Code, but may be subject to state laws regulating fiduciary conduct and to Section 503 of the Code. Accordingly, before acquiring any Notes, a fiduciary or other person authorizing the purchase by such a government or church plan must determine that the acquisition of Notes is consistent with all applicable law, including any fiduciary duties under applicable state law.

By virtue of activities unrelated to the issuance and initial purchase of the Notes, under certain circumstances, the Agency, the Underwriters and their affiliates may be considered to be, with respect to a Plan, "parties in interest," within the meaning of Section 3(14) of ERISA, or "disqualified persons," within the meaning of Section 4975(e)(2) of the Code (collectively, "Parties in Interest"). Thus, an acquisition of Notes by such a Plan may constitute a Prohibited Transaction unless the acquisition is made pursuant to an applicable statutory, regulatory or administrative exemption. Under regulations of the Department of Labor (the "DOL"), set forth in 29 C.F.R. 2510.3-101 (the "Plan Asset Regulations"), if a Series of Notes is treated as having substantial equity features under the Plan Asset Regulations, the purchaser of a Note of such Series could be treated as having acquired a direct interest in the Trust Estate securing the Notes. In that event, the purchase, holding, or resale of such Notes could result in a Prohibited Transaction. Pursuant to the Plan Asset Regulations, it appears that all Notes will be treated as debt obligations without substantial equity features for purposes of the Plan Asset Regulations. Accordingly, a Plan that acquires a Note should not be treated as having acquired a direct interest in the assets of the Trust Estate. However, there can be no complete assurance that all Series of Notes will be treated as debt obligations without substantial equity features for purposes of the Plan Asset Regulations. Therefore, a Plan fiduciary should consult its counsel prior to making such purchase.

Regardless of whether the Notes are treated as debt or equity for purposes of the Plan Asset Regulations, the acquisition or holding of Notes by or on behalf of a Plan could still be considered to give rise to a Prohibited Transaction if the Agency or its affiliates is or becomes a Party in Interest with respect to such Plan, or in the event that a subsequent transfer of a Note is between a Plan and a Party in Interest with respect to such Plan. However, the DOL has issued a number of administrative exemptions that may exempt a Plan's purchase and holding of the Notes or an interest in the Notes where it might otherwise be a Prohibited Transaction. If a purchase of the Notes would constitute a Prohibited Transaction, a Plan may not purchase Notes unless one of the following Prohibited Transaction class exemptions, as each may be amended (each a "PTCE") applies and the conditions thereof are satisfied: PTCE 96-23 (relating to transactions effectuated at the sole discretion of an "in house asset manager" (an "INHAM")); PTCE 95-60 (relating to transactions effectuated on behalf of an insurance company general account); PTCE 91-38 (relating to transactions involving bank collective investment funds); PTCE 90-1 (relating to transactions involving insurance company pooled separate accounts); or PTCE 84-14 (relating to transactions effectuated at the sole discretion of a "qualified professional asset manager" (a "QPAM")). The availability of each of these PTCEs is subject to a number of important conditions which the Plan's fiduciary must consider in determining whether such exemptions apply. These administrative exemptions will not apply if the QPAM, INHAM, insurance company or bank directing the investment is the Agency, the Underwriters or any of their affiliates. Therefore, a Plan fiduciary considering an investment in the Notes should consult with its counsel prior to making such purchase.

EACH INVESTOR IN THE NOTES OR IN AN INTEREST IN THE NOTES WILL BE DEEMED TO HAVE REPRESENTED THAT IT EITHER (I) IS NOT A PLAN OR IS NOT USING THE ASSETS OF A PLAN, (II) IS A PLAN OR IS INVESTING THE ASSETS OF A PLAN WITH RESPECT TO WHICH NEITHER THE AGENCY, THE UNDERWRITERS NOR ANY OF THEIR AFFILIATES IS A PARTY IN INTEREST, (III) IS A PLAN OR IS INVESTING THE ASSETS OF, OR ACTING ON BEHALF OF, A PLAN, AND ITS INVESTMENT IN THE NOTES OR AN INTEREST IN THE NOTES IS ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER PTCE 96-23, 95-60, 91-38, 90-1, OR 84-14, AS EACH PTCE MAY BE AMENDED OR (IV) IS A GOVERNMENTAL PLAN OR CHURCH PLAN.

LEGALITY FOR INVESTMENT

Subject to any applicable federal requirements or limitations, the Notes are securities in which all public officers and public bodies of the Commonwealth, political subdivisions thereof, insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital, in their control or belonging to them.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature pending or threatened to restrain or enjoin issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of the Notes, or any proceedings of the Agency taken with respect to the issuance or sale thereof; and as of the date hereof, there is no litigation pending or threatened, which would materially adversely affect the pledge or application of any monies or security provided for the payment of the Notes or the powers of the Agency.

APPROVAL OF LEGALITY

Certain legal matters in connection with the Notes are to be passed upon by Note Counsel, Cozen O'Connor, Philadelphia, Pennsylvania. Certain legal matters are to be passed upon for the Underwriters by their counsel, Eckert Seamans Cherin & Mellott, LLC, Harrisburg and Pittsburgh, Pennsylvania and for the Agency by its counsel, Stevens & Lee, A Professional Corporation, Reading and Harrisburg, Pennsylvania.

FINANCIAL ADVISOR

The Agency has retained Hopkins & Company, Philadelphia, Pennsylvania, and Investment Management Advisory Group, Inc., Pottstown, Pennsylvania, as Financial Advisors with respect to the authorization and issuance of the Notes. The Financial Advisors are not obligated to undertake or to assume responsibility for, nor have they undertaken or assumed responsibility for, an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. Hopkins & Company and Investment Management Advisory Group, Inc. are independent advisory firms and are not engaged in the business of underwriting, holding or distributing municipal or other public securities.

UNDERWRITING

Citigroup Global Markets Inc. and RBC Dain Rauscher Inc. doing business under the name RBC Capital Markets ("RBC Capital Markets") (collectively, the "Underwriters") pursuant to a note purchase agreement, have agreed to purchase all the Notes at a price of $747,822,500.00, which represents the face amount of the Notes less an underwriting discount of $2,177,500.00. The initial public offering prices set forth on the cover page of this Official Statement may be changed by the Underwriters from time to time without any requirement of prior notice. The Notes may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such Notes into investment trusts) at prices lower than the public offering prices.

RATINGS

Moody's Investors Service is expected to assign its rating of "Aaa" to the Class A Notes and its rating of "A2" to the Class B Notes. Fitch Ratings is expected to assign its rating of "AAA" to the Class A Notes and its rating of "A" to the Class B Notes. Standard & Poor's Ratings Services is expected to assign its rating of "AAA" to the Class A Notes and its rating of "AA" to the Class B Notes. These ratings reflect only the view of such rating agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

MISCELLANEOUS

The information set forth in this Official Statement relating to the Agency was obtained from the records of the Agency and from other sources considered reliable.

All quotations from, and summaries and explanations of, the Higher Education Act, the Act and the Indenture contained herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are part of this Official Statement. Copies of the Act and the Indenture may be obtained upon written request directed to the Agency, 1200 North Seventh Street, 6th Floor, Harrisburg, Pennsylvania.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any Notes.

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

By: /s/ Richard E. Willey
President and Chief Executive Officer

APPENDIX A

THE INDENTURE

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INDENTURE

between

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY,

as the Issuer

and

MANUFACTURERS AND TRADERS TRUST COMPANY,

as Trustee

Dated as of November 1, 2006

Securing $750,000,000 aggregate principal amount of Student Loan Revenue Notes, Series 2006-2
Senior Class A-1, A-2 and A-3
and Subordinate Class B

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INDENTURE, dated as of November 1, 2006, among the PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY (the "Issuer"), and MANUFACTURERS AND TRADERS TRUST COMPANY, a New York banking corporation, having power and authority to execute trusts, and having a corporate trust office in Harrisburg, Pennsylvania (the "Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the holders of the Issuer's Student Loan Revenue Notes (the "Notes"):

GRANTING CLAUSE

The Issuer hereby Grants to the Trustee, as trustee for the benefit of the Noteholders, effective as of the Closing Date all of its right, title and interest in and to the following:

(a) the Student Loans, and all obligations of the Obligors thereunder including all moneys accrued and paid thereunder on or after the Cutoff Date and all guaranties and other rights relating to the Student Loans;

(b) the Servicing Agreement, including the right of the Issuer to cause the Servicer to purchase Student Loans from the Issuer under circumstances described therein;

(c) each Guarantee Agreement, including the Guarantee Payments made pursuant thereto by the Guarantor in respect of the Student Loans;

(d) the Trust Accounts and all funds on deposit from time to time in the Trust Accounts, including the Reserve Account Initial Deposit and the Capitalized Interest Account Initial Deposit, if any, and all investments and proceeds thereof (including all income thereon); and

(e) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, general intangibles, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing (collectively, the "Trust Estate").

The foregoing Grant is made in trust to secure the payment of principal of and interest on, and any other amounts owing in respect of, the Class A and Class B Notes, equally and ratably without prejudice, priority or distinction (within each separate class of Notes), to secure compliance with the provisions of this Indenture, all as provided in this Indenture.

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns, shall well and truly cause to be paid, or provide for the payment of, the principal of all of the Notes and the

interest due or to become due thereon at the times and in the manner provided in the Notes, according to the true intent and meaning thereof, and upon payment of all other obligations of the Issuer under this Indenture, then upon such final payment, or provision therefore, this Indenture and the rights hereby granted shall cease, determine and be void; otherwise this Indenture shall be and remain in full force and effect:

The Trustee, as Trustee hereunder on behalf of the Noteholders, acknowledges such Grant, accepts the trusts under this Indenture in accordance with the provisions of this Indenture and agrees to perform its duties required in this Indenture to the best of its ability to the end that the interests of the Noteholders may be adequately and effectively protected.

ARTICLE I

DEFINITIONS AND USAGE

Section 1.1 Definitions and Usage. Except as otherwise specified herein or as the context may otherwise require, capitalized terms used but not otherwise defined herein are defined in Appendix A to this Indenture, which also contains rules as to usage that shall be applicable herein.

ARTICLE II

THE NOTES

Section 2.1 Form. The Class A Notes, together with the Trustee's certificate of authentication, shall be in substantially the form set forth in Exhibit A-1 hereto and the Class B Notes, together with the Trustee's certificate of authentication, shall be in substantially the form set forth in Exhibit A-2 hereto with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the Issuer, as evidenced by its execution of the Notes. Any portion of the text of any Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Note.

The Definitive Notes shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the officers executing such Notes, as evidenced by their execution of such Notes.

The terms of the Class A Notes set forth in Exhibit A-1 and the terms of the Class B Note set forth in Exhibit A-2 are part of the terms of this Indenture.

Each class of Notes will be represented by interests in a separate book-entry note certificate deposited on the Closing Date with the Trustee, as custodian for DTC (the "DTC Custodian"), and registered in the name of Cede & Co. as initial nominee for DTC.

Section 2.2 Execution, Authentication and Delivery. The Notes shall be executed on behalf of the Issuer by any of its Authorized Officers. The signature of any such Authorized Officer on the Notes may be manual or facsimile.

Notes bearing the manual or facsimile signature of individuals who were at any time Authorized Officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

The Trustee shall upon receipt of an Issuer Order authenticate and deliver Notes for original issue in an aggregate principal amount of $750,000,000. The aggregate principal amount of Notes Outstanding at any time may not exceed such amount except as provided in Section 2.5 hereof.

Each Note shall be dated the date of its authentication. The Class A Notes shall be issuable as registered notes in minimum denominations of $100,000 and additional increments of $1,000. The Class B Notes shall be issuable as registered notes in minimum denominations of $50,000 and integral multiples thereof.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Note a certificate of authentication substantially in the form provided for herein executed by the Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder.

The Notes shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the other sources pledged hereunder in the granting clauses hereof.

Section 2.3 Temporary Notes. Pending the preparation of Definitive Notes, the Issuer may execute, and upon receipt of an Issuer Order the Trustee shall authenticate and deliver, temporary Notes which are printed, lithographed, typewritten, mimeographed or otherwise produced, of the tenor of the Definitive Notes in lieu of which they are issued and with such variations not inconsistent with the terms of this Indenture determined to be appropriate by the Responsible Officer of the Issuer executing the temporary Notes, as evidenced by his or her execution of such temporary Notes.

If temporary Notes are issued, the Issuer will cause Definitive Notes to be prepared without unreasonable delay. After the preparation of Definitive Notes, the temporary Notes shall be exchangeable for Definitive Notes upon surrender of the temporary Notes at the Corporate Trust Office of the Trustee, without charge to the Noteholder. Upon surrender for cancellation of any one or more temporary Notes, the Issuer shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of Definitive Notes of authorized denominations. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits under this Indenture as Definitive Notes.

Section 2.4 Registration; Registration of Transfer and Exchange. The Issuer shall cause to be kept a register (the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and the registration of transfers of Notes. The Trustee shall be "Note Registrar" for the purpose of registering Notes and transfers of Notes as herein provided. Upon any resignation of any Note Registrar, the Issuer shall promptly appoint a successor or, if it elects not to make such an appointment, assume the duties of Note Registrar.

If a Person other than the Trustee is appointed by the Issuer as Note Registrar, the Issuer shall give the Trustee prompt written notice of the appointment of such Note Registrar and of the location, and any change in the location, of the Note Register, and the Trustee shall have the right to inspect the Note Register at all reasonable times and to obtain copies thereof, and the Trustee shall have the right to rely upon a certificate executed on behalf of the Note Registrar by an Executive Officer thereof as to the names and addresses of the Noteholders and the principal amounts and number of such Notes.

Upon surrender for registration of transfer of any Note at the Corporate Trust Office of the Trustee, the Issuer shall execute, and the Trustee shall authenticate and the Noteholder shall obtain from the Trustee, in the name of the designated transferee or transferees, one or more new Notes in any authorized denominations and a like aggregate principal amount.

At the option of the Noteholder, Notes may be exchanged for other Notes in any authorized denominations and a like aggregate principal amount, upon surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Issuer shall execute, and the Trustee shall authenticate and the Noteholder shall obtain from the Trustee, the Notes which the Noteholder making the exchange is entitled to receive.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Notes surrendered upon such registration of transfer or exchange.

Every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by a written instrument of transfer in form satisfactory to the Trustee duly executed by the Noteholder thereof or such Noteholder's attorney duly authorized in writing, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in Securities Transfer Agent's Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP, all in accordance with the Exchange Act.

No service charge shall be made to a Noteholder for any registration of transfer or exchange of Notes, but the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes, other than exchanges pursuant to Section 2.3 or 9.6 not involving any transfer.

The preceding provisions of this Section notwithstanding, the Issuer shall not be required to make and the Note Registrar need not register transfers or exchanges of Notes selected for redemption or of any Note for a period of 15 days preceding the due date for any payment with respect to the Note.

Any transfer or assignment of any Note or any interest in any Note that is not effected pursuant to the provisions of this Indenture, such as a transfer or assignment not reflected on the Note Register, shall be null and void and shall not be taken into account by, or be binding upon, the Trustee or any other party.

Section 2.5 Mutilated, Destroyed, Lost or Stolen Notes. If (i) any mutilated Note is surrendered to the Trustee, or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Issuer and the Trustee such security or indemnity as may be required by each of them to hold the Issuer and the Trustee harmless, then, in the absence of notice to the Issuer, the Note Registrar or the Trustee that such Note has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a replacement Note; provided, however, that if any such destroyed, lost or stolen Note, but not a mutilated Note, shall have become or within 15 days shall be due and payable, or shall have been called for redemption, instead of issuing a replacement Note, the Issuer may pay such destroyed, lost or stolen Note when so due or payable or upon the Redemption Date without surrender thereof. If, after the delivery of such replacement Note or payment of a destroyed, lost or stolen Note pursuant to the proviso to the preceding sentence, a bona fide purchaser of the original Note in lieu of which such replacement Note was issued presents for payment such original Note, the Issuer and the Trustee shall be entitled to recover such replacement Note (or such payment) from the Person to whom it was delivered or any Person taking such replacement Note from such Person to whom such replacement Note was delivered or any assignee of such Person, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Trustee in connection therewith.

Upon the issuance of any replacement Note under this Section, the Issuer may require the payment by the Noteholder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Trustee) connected therewith.

Every replacement Note issued pursuant to this Section in replacement of any mutilated, destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Issuer, whether or not the mutilated, destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 2.6 Persons Deemed Owner. Prior to due presentment for registration of transfer of any Note, the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the Person in whose name any Note is registered (as of the day of determination) as the owner of such Note for the purpose of receiving payments of principal of, interest, if any, on such Note and for all other purposes whatsoever, whether or not such Note be overdue, and neither the Issuer, the Trustee nor any agent of the Issuer or the Trustee shall be affected by notice to the contrary.

Section 2.7 Payment of Principal and Interest; Note Interest Shortfall.

(a) The Notes shall accrue interest as provided in the form of Notes in Exhibits A-1 and A-2 as applicable and such interest shall be payable on each Distribution Date as specified therein, subject to Section 3.1. Any installment of interest or principal, if any, payable on any Note which is punctually paid or duly provided for by the Issuer on the applicable Distribution Date shall be paid to the Person in whose name such Note (or one or more Predecessor Notes) is registered on the applicable Record Date by check mailed first-class, postage prepaid to such Person's address as it appears on the Note Register on such Record Date (or by wire transfer in immediately available funds to the account provided by such Person), except that, unless Definitive Notes have been issued pursuant to Section 2.12, with respect to Notes registered on the Record Date in the name of the nominee of the applicable Clearing Agency, for the Notes (initially, such nominee to be Cede & Co.), payment shall be made by wire transfer in immediately available funds to the account designated by such nominee and except for the final installment of principal payable with respect to such Note on a Distribution Date or on the Note Final Maturity Date for such Note which shall be payable as provided below. The funds represented by any such checks returned undelivered shall be held in accordance with Section 3.3.

(b) The principal amount of each class of Notes shall be payable on each Distribution Date as provided herein and in the form of Notes set forth in Exhibits A-1 and A-2 hereto. Notwithstanding the foregoing, the entire unpaid principal amount of each class of the Notes shall be due and payable, if not previously paid, on the Note Final Maturity Date for such class of Notes and on the date on which an Event of Default shall have occurred and be continuing if the Trustee or the Noteholders representing at least a majority of the Outstanding Amount of the Notes have declared the Notes to be immediately due and payable in the manner provided in Section 5.2. All principal payments on the Class A Notes shall be made pro rata to the specific class of Noteholders entitled thereto. All principal payments on the Class B Notes (other than at maturity) shall be made pursuant to mandatory redemption as provided in Section 10.1(b). The Trustee shall notify the Person in whose name a Note is registered at the close of business on the Record Date preceding the Distribution Date on which the Issuer expects that the final installment of principal of and interest on such Note will be paid. Such notice shall be mailed or transmitted by facsimile prior to such final Distribution Date and shall specify that such final installment will be payable only upon presentation and surrender of such Note and shall specify the place where such Note may be presented and surrendered for payment of such installment. Notices in connection with redemptions of Notes shall be mailed to Noteholders as provided in Section 10.2.

(c) If the Issuer defaults in a payment of interest at the applicable Note Rate on the Notes, the Issuer shall pay the resulting Note Interest Shortfall on the following Distribution Date as provided in Article VIII of this Indenture.

Section 2.8 Cancellation. All Notes surrendered for payment, registration of transfer, exchange or redemption shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by the Trustee. The Issuer may at any time deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Issuer may have acquired in any manner whatsoever and all Notes so delivered shall be promptly cancelled by the Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Indenture. All canceled Notes may be held or disposed of by the Trustee in accordance with its standard retention or disposal policy as in effect at the time, unless the Issuer shall direct by an Issuer Order that they be returned to it and so long as such Issuer Order is timely and the Notes have not been previously disposed of by the Trustee.

Section 2.9 [Reserved].

Section 2.10 Book-Entry Notes. The Notes, upon original issuance, will be issued in the form of typewritten Notes representing the Book-Entry Notes, to be delivered to The Depository Trust Company, as initial Clearing Agency, by the Issuer, or on behalf of the Issuer. Such Notes shall initially be registered on the Note Register in the name of Cede & Co., the nominee of the initial Clearing Agency, and no Note Owner shall receive a definitive, fully registered note (a "Definitive Note") representing such Note Owner's interest in such Note, except as provided in Section 2.12. Unless and until Definitive Notes have been issued to Note Owners pursuant to Section 2.12:

(i) the provisions of this Section shall be in full force and effect;

(ii) the Note Registrar, Trustee and their respective directors, officers, employees and agents, may deal with the applicable Clearing Agency for all purposes (including the payment of principal of and interest and other amounts on the Notes) as the authorized representative of the Note Owners;

(iii) to the extent that the provisions of this Section conflict with any other provisions of this Indenture, the provisions of this Section shall control;

(iv) the rights of Note Owners shall be exercised only through the applicable Clearing Agency and shall be limited to those established by law and agreements between such Note Owners and the applicable Clearing Agency and/or the applicable Clearing Agency Participants pursuant to the Note Depository Agreement; and unless and until Definitive Notes are issued pursuant to Section 2.12, the initial Clearing Agency will make book-entry transfers among the applicable Clearing Agency Participants and receive and transmit payments of principal of and interest and other amounts on the Notes to such applicable Clearing Agency Participants;

(v) whenever this Indenture requires or permits actions to be taken based upon instructions or directions of Noteholders of Notes evidencing a specified percentage of the Outstanding Amount of the Notes, the applicable Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from Note Owners and/or applicable Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Notes and has delivered such instructions to the Trustee; and

(vi) upon acquisition or transfer of a beneficial interest in any Book-Entry Note by, for or with the assets of a Benefit Plan, such Note Owner shall be deemed to have represented that such acquisition or purchase will not constitute or otherwise result in: (i) in the case of a Benefit Plan subject to Section 406 of ERISA or Section 4975 of the Code, a prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code which is not covered by a class or other applicable exemption and (ii) in the case of a Benefit Plan subject to a substantially similar federal, state, local or foreign law, a non-exempt violation of such substantially similar law. Any transfer found to have been made in violation of such deemed representation shall be null and void.

Section 2.11 Notices to Clearing Agency. Whenever a notice or other communication is required under this Indenture to be given to Noteholders, unless and until Definitive Notes shall have been issued to Note Owners pursuant to Section 2.12, the Trustee shall give all such notices and communications specified herein to the applicable Clearing Agency.

Section 2.12 Definitive Notes. If (i) the Issuer advises the Trustee that a Clearing Agency (a) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise), (b) announces an intention to cease business permanently (or does so and no alternative clearing system acceptable to the Trustee is then available), or (c) at any time, is unwilling or unable to continue as, or ceases to be, a clearing agency registered under all applicable laws, and a successor clearing agency which is registered as a clearing agency under all applicable laws is not appointed by the Issuer within 90 days of such event, (ii) the Issuer at its option advises the Trustee in writing that it elects to terminate the book-entry system through that Clearing Agency or (iii) after the occurrence of an Event of Default or a Servicer Default, Note Owners representing beneficial interests aggregating at least a majority of the Outstanding Amount of the applicable Notes advise the applicable Clearing Agency (which shall then notify the Trustee) in writing that the continuation of a book-entry system through such Clearing Agency is no longer in the best interests of such Note Owners, then the Trustee shall cause such Clearing Agency to notify all Note Owners cleared, through such Clearing Agency, of the occurrence of any such event and of the availability of Definitive Notes to Note Owners requesting the same. Upon surrender to the Trustee of the typewritten Notes representing the Book-Entry Notes by a Clearing Agency, accompanied by registration instructions, the Issuer shall execute and the Trustee shall authenticate the Definitive Notes in accordance with the instructions of such Clearing Agency, which shall include, without limitation, the identity and payment instructions for all Noteholders of the applicable Notes. None of the Issuer, the Note Registrar, or the Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such

instructions. Upon the issuance of Definitive Notes, the Trustee and the Note Registrar shall recognize the holders of the Definitive Notes as Noteholders.

Upon acquisition or transfer of a Definitive Note by, for or with the assets of, a Benefit Plan, such Note Owner shall be deemed to have represented that such acquisition or purchase will not constitute or otherwise result in: (i) in the case of a Benefit Plan subject to Section 406 of ERISA or Section 4975 of the Code, a prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code which is not covered by a class or other applicable exemption and (ii) in the case of a Benefit Plan subject to a substantially similar law, a non-exempt violation of such substantially similar law. Any transfer found to have been made in violation of such deemed representation shall be null and void and of no effect.

Section 2.13 Certain Tax Forms and Treatment.

(a) Each Noteholder and any beneficial owner of a Note, if required by law, shall timely furnish the Trustee any U.S. federal income tax form or certification (such as IRS Form W-8BEN (Certification of Foreign Status as Beneficial Owner), Form W-8IMY (Certification of Foreign Intermediary Status) with all appropriate attachments, IRS Form W-9 (Request for Taxpayer Identification Number and Certification), or IRS Form W-8ECI (Certification of Foreign Person's Claim for Exemption from Withholding on Income Effectively Connected with Conduct of a U.S. Trade or Business) or any successors to such IRS forms) that the Trustee may reasonably request and shall update or replace such form or certification in accordance with its terms or its subsequent amendments. The Noteholder understands that the Issuer may require certification acceptable to it (i) to permit the Issuer to make payments to it without, or at a reduced rate of, withholding or (ii) to enable the Issuer to qualify for a reduced rate of withholding or back-up withholding in any jurisdiction from or through which the Issuer receives payments on its assets. The Noteholder agrees to provide any such certification that is requested by the Issuer.

(b) The Issuer and each Noteholder agree to treat such Notes as indebtedness for U.S. federal, state and local income and franchise tax purposes and further agree not to take any action inconsistent with such treatment, unless required by law.

(c) The Issuer shall prepare, execute and timely file (or cause to be prepared, appropriately executed and timely filed) all federal, state and local tax and information returns, reports, information, statements and schedules required to be filed by or in respect of the Issuer, in accordance with this Indenture and as may be required under applicable tax laws.

ARTICLE III

COVENANTS; REPRESENTATIONS

Section 3.1 Payments to Noteholders. The Issuer shall duly and punctually pay the principal and interest, if any, with respect to the Notes in accordance with the terms of the Notes and this Indenture. Without limiting the foregoing, the Issuer shall cause to be distributed to Noteholders that portion of the amounts on deposit in the Trust Accounts on a Distribution Date which the Noteholders are entitled to receive under the terms of this Indenture and the

Notes. Amounts properly withheld under the Code by any Person from a payment to any Noteholder of interest and/or principal shall be considered as having been paid by the Issuer to such Noteholder for all purposes of this Indenture.

Section 3.2 [Reserved].

Section 3.3 Money for Payments to Be Held in Trust. As provided in Section 8.2(a) and (b), all payments of amounts due and payable with respect to any Notes that are to be made from amounts distributed from the Collection Account or the Reserve Account pursuant to Sections 8.10 and 8.11 of this Indenture shall be made on behalf of the Issuer by the Trustee or by another Paying Agent, and no amounts so distributed from the Collection Account for payments to Noteholders shall be paid over to the Issuer except as provided in this Section.

On or before the Business Day next preceding each Distribution Date and Redemption Date, the Issuer shall distribute or cause to be distributed to the Trustee (or any other Paying Agent) an aggregate sum sufficient to pay the amounts then becoming due under the Notes, such sum to be held in trust for the benefit of the Persons entitled thereto and shall promptly notify the Trustee and (unless the Paying Agent is the Trustee), of its action or failure so to act.

The Issuer shall cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee (and if the Trustee acts as Paying Agent, it hereby so agrees), subject to the provisions of this Section, that such Paying Agent will:

(i) hold all sums held by it for the payment of amounts due with respect to the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(ii) give the Trustee notice of any default by the Issuer of which a Responsible Officer of the Paying Agent has actual knowledge (or any other obligor upon the Notes) in the making of any payment required to be made with respect to the Notes;

(iii) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent;

(iv) immediately resign as a Paying Agent and forthwith pay to the Trustee all sums held by it in trust for the payments due under the Notes if at any time it ceases to meet the standards required to be met by a Paying Agent at the time of its appointment; and

(v) comply with all requirements of the Code with respect to the withholding from any payments made by it on any Notes of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

The Trustee, as the initial Paying Agent, hereby agrees to the provisions of clauses (i) through (v) above.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Order direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which the sums were held by such Paying Agent; and upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable laws with respect to escheat of funds, any money held by the Trustee or any Paying Agent in trust for the payment of any amount due with respect to any Note and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer on Issuer Request; and the Noteholder thereof shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, shall at the expense and direction of the Issuer cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. The Trustee shall also adopt and employ, at the expense of the Issuer, any other reasonable means of notification of such repayment (including mailing notice of such repayment to Noteholders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in moneys due and payable but not claimed is determinable from the records of the Trustee, or any Paying Agent, at the last address of record for each such Noteholder).

Section 3.4 [Reserved].

Section 3.5 Protection of Trust Estate. The Issuer will from time to time execute and deliver all such supplements and amendments hereto, all such financing statements and continuation statements and will take such other action necessary or advisable to:

(i) maintain or preserve the lien and security interest (and the priority thereof) of this Indenture or carry out more effectively the purposes hereof;

(ii) perfect, publish notice of or protect the validity of any grant made or to be made by this Indenture;

(iii) enforce any of the property comprising the Trust Estate; or

(iv) preserve and defend title to the Trust Estate and the rights of the Trustee and the Noteholders in such Trust Estate against the claims of all persons and parties.

The Issuer hereby designates the Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required to be executed pursuant to this Section.

Section 3.6 [Reserved]

Section 3.7 Performance of Obligations; Servicing of Student Loans.

(a) The Issuer will not take any action and will use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's material covenants or obligations under any instrument or agreement included in the Trust Estate or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except as expressly provided in this Indenture, any other Basic Document or such other instrument or agreement.

(b) The Issuer may contract with other Persons to assist it in performing its duties under this Indenture, and any performance of such duties by a Person identified to the Trustee in an Officers' Certificate of the Issuer shall be deemed to be action taken by the Issuer; provided, however, the Issuer shall not be liable for any acts of Persons with whom the Issuer has contracted with reasonable care. Initially, the Issuer will be serving as Servicer under this Indenture. The Issuer shall give written notice to the Trustee, and each Rating Agency of any such contract with any other Person.

(c) The Issuer shall punctually perform and observe all of its obligations and agreements contained in this Indenture, the other Basic Documents and the instruments and agreements included in the Trust Estate, including filing or causing to be filed all UCC financing statements and continuation statements prepared by the Issuer and required to be filed by the terms of this Indenture in accordance with and within the time periods provided for herein and therein. The Issuer may waive, amend, modify, supplement or terminate any Basic Document or any provision thereof to the same extent and subject to the same conditions that it may so amend, modify, supplement, waive or terminate this Indenture under Section 9.1 hereof. The Issuer shall give written notice to each Rating Agency of any waiver, amendment, modification, supplement or termination that requires the consent of the Trustee or the Noteholders of at least a majority of the Outstanding Amount of the Notes.

(d) If a Responsible Officer of the Issuer shall have knowledge of the occurrence of a Servicer Default under the Servicing Agreement the Issuer shall promptly notify the Trustee and the Rating Agencies thereof, and shall specify in such notice the action, if any, the Issuer is taking with respect to such default. If a Servicer Default shall arise from the failure of the Servicer to perform any of its duties or obligations under the Servicing Agreement with respect to the Student Loans, the Issuer and the Trustee shall take all reasonable steps available to it to enforce its rights under the Servicing Agreement and this Indenture in respect of such failure.

(e) As promptly as possible after the giving of notice of termination to the Servicer of the Servicer's rights and powers, pursuant to Section 5.1 of the Servicing Agreement, the Issuer shall appoint a successor servicer (the "Successor Servicer") and such Successor

Servicer shall accept its appointment by a written assumption in a form acceptable to the Trustee. In the event that a Successor Servicer has not been appointed and accepted its appointment at the time when the Servicer ceases to act as Servicer, the Trustee without further action shall automatically be appointed the Successor Servicer, unless the Trustee shall have previously appointed a Successor Servicer and such Successor Servicer shall have accepted such appointment and succeeded to the duties of the Servicer under the Servicing Agreement and this Indenture. The Trustee may resign as the Successor Servicer by giving written notice of resignation to the Issuer and in such event will be released from such duties and obligations, such release not to be effective until the date a new servicer enters into an agreement with the Issuer as provided below; provided, however, that nothing herein shall require or permit the Trustee to act as Servicer, or otherwise service the Student Loans, in violation of the Higher Education Act. Upon delivery of any such notice to the Issuer, the Issuer shall obtain a new servicer as the Successor Servicer under the Servicing Agreement. Any Successor Servicer, other than the Trustee, shall (i) be an established institution (A) that satisfies any requirements of the Higher Education Act applicable to servicers and (B) whose regular business includes the servicing or administration of student loans and (ii) enter into a servicing agreement with the Successor Servicer having substantially the same provisions as the provisions of the Servicing Agreement. If within 30 days after the delivery of the notice referred to above, the Issuer shall not have obtained such a new servicer, the Trustee may appoint, or may petition a court of competent jurisdiction to appoint, a Successor Servicer; provided, however, that such right to appoint or to petition for the appointment of any such successor shall in no event relieve the Trustee from any obligations otherwise imposed on it under the Basic Documents until such successor has in fact assumed such appointment. In connection with any such appointment, the Trustee may make such arrangements for the compensation of such successor as it and such successor shall agree, subject to the limitations set forth below and in the Servicing Agreement and in accordance with Section 5.2 of the Servicing Agreement, the Issuer shall enter into an agreement with such successor for the servicing of the Student Loans (such agreement to be in form and substance satisfactory to the Trustee). If the Trustee shall succeed as provided herein to the Servicer's duties as Servicer with respect to the Student Loans, it shall do so in its individual capacity and not in its capacity as Trustee and, accordingly, the provisions of Article VI hereof shall be inapplicable to the Trustee in its duties as the successor to the Servicer, and the servicing of the Student Loans. In case the Trustee shall become successor to the Servicer, the Trustee shall be entitled to appoint as Servicer, any one of its Affiliates, provided that such appointment shall not affect or alter in any way the liability of the Trustee as Successor Servicer in accordance with the terms hereof.

(f) Upon any termination of the Servicer's rights and powers pursuant to the Servicing Agreement, the Issuer shall promptly notify the Trustee and each Rating Agency. As soon as a Successor Servicer is appointed, the Issuer shall notify the Trustee and each Rating Agency of such appointment, specifying in such notice the name and address of such Successor Servicer.

(g) Without derogating from the absolute nature of the assignment granted to the Trustee under this Indenture or the rights of the Trustee hereunder, the Issuer agrees that it will not, without the prior written consent of the Trustee or the Noteholders of at least a majority in Outstanding Amount of the Notes, amend, modify, waive, supplement, terminate or surrender,

or agree to any amendment, modification, supplement, termination, waiver or surrender of, the terms of any property comprising the Trust Estate or the Basic Documents, except to the extent otherwise provided in the Basic Documents, or waive timely performance or observance by the Servicer, the Issuer, or the Trustee under the Basic Documents; provided, however, that no such amendment shall (i) increase or reduce in any manner the amount of, or accelerate or delay the timing of, distributions that are required to be made for the benefit of the Noteholders, or (ii) reduce the aforesaid percentage of the Notes which are required to consent to any such amendment, without the consent of the Noteholders of all the Outstanding Notes. If any such amendment, modification, supplement or waiver shall be so consented to by the Trustee or such Noteholders, the Issuer shall give written notice thereof to each Rating Agency and agrees, promptly following a request by the Trustee to do so, to execute and deliver, in its own name and at its own expense, such agreements, instruments, consents and other documents as the Trustee may deem necessary or appropriate in the circumstances. The Issuer shall be entitled to receive and rely upon an opinion of its counsel that any such amendment or modification will not materially adversely affect the rights or security of the Noteholders.

Section 3.8 Negative Covenants. So long as any Notes are Outstanding, the Issuer shall not:

(i) except as expressly permitted by this Indenture in accordance with Section 3.5 of the Servicing Agreement, sell, transfer, exchange or otherwise dispose of any of the properties or assets comprising the Trust Estate;

(ii) claim any credit on, or make any deduction from the principal or interest payable in respect of, the Notes (other than amounts properly withheld from such payments under the Code or applicable state law) or assert any claim against any present or former Noteholder by reason of the payment of the taxes levied or assessed upon any part of the Trust Estate; or

(iii) (A) permit the validity or effectiveness of this Indenture to be impaired, or permit the lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to the Notes under this Indenture except as may be expressly permitted hereby, (B) permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the lien of this Indenture) to be created on or extend to or otherwise arise upon or encumber the Trust Estate or any part thereof or any interest therein or the proceeds thereof (other than tax liens and other liens that arise by operation of law, and other than as expressly permitted by the Basic Documents) or (C) permit the lien of this Indenture not to constitute a valid first priority (other than with respect to any such tax or other lien) security interest in the Trust Estate.

Section 3.9 Annual Statement as to Compliance. The Issuer will deliver to the Trustee and each Rating Agency, within 90 days after the end of each fiscal year of the Issuer (commencing with the fiscal year ending June 30, 2007), an Officers' Certificate of the Issuer stating that:

(i) a review of the performance under this Indenture has been made under the supervision of an Authorized Officer of the Issuer; and

(ii) to the best of such Authorized Officer's knowledge, based on such review, the Issuer has complied with all conditions and covenants under this Indenture throughout such year, or, if there has been a default in the compliance of any such condition or covenant, specifying each such default known to such Authorized Officer and the nature and status thereof.

Section 3.10 Notice of Events of Default. The Issuer shall give the Trustee and the Rating Agencies prompt written notice of each Event of Default hereunder. The Issuer shall give the Trustee and the Rating Agencies prompt written notice of each default on the part of the Servicer of its obligations under the Servicing Agreement. In addition, the Issuer shall deliver to the Trustee and each Rating Agency, within five days after the occurrence thereof, written notice in the form of an Officers' Certificate of the Issuer of any event which with the giving of notice and the lapse of time would become an Event of Default under Section 5.1(iii), its status and what action the Issuer is taking or proposes to take with respect thereto.

Section 3.11 Further Instruments and Acts. Upon request of the Trustee, the Issuer will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

Section 3.12 Representations of the Issuer Regarding the Trustee's Security Interest. The Issuer hereby represents and warrants for the benefit of the Trustee and the Noteholders as follows:

(a) This Indenture creates a valid and continuing security interest (as defined in the applicable UCC in effect in the Commonwealth of Pennsylvania) in the Student Loans in favor of the Trustee, which security interest is prior to all other liens, charges, security interests, mortgages or other encumbrances, and is enforceable as such as against creditors of and purchasers from Issuer.

(b) In accordance with the Higher Education Act, the Student Loans constitute "accounts" within the meaning of the applicable UCC.

(c) The Issuer owns and has good and marketable title to the Student Loans free and clear of any lien, charge, security interest, mortgage or other encumbrance, claim or encumbrance of any Person.

(d) The Issuer has caused or will have caused, within 10 days, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Student Loans granted to the Trustee hereunder.

(e) All executed copies of each promissory note that constitute or evidence the Student Loans are recorded by the Issuer on its origination and servicing system currently referred to by the service mark "Compass" (or any other successor system, together with

attendant upgrades and updates), such records and system clearly identifying each Student Loan as a property of the Issuer, pledged to the Trustee as security for the Notes, and further identifying with respect to the Student Loans, among other things, the principal amount outstanding, the type of loan, the name of the student, and if applicable, that the Student Loan has been executed by a student using an electronic signature and authentication process.

(f) [Reserved]

(g) Other than the security interest granted to the Trustee pursuant to this Indenture, the Issuer has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Student Loans. The Issuer has not authorized the filing of and is not aware of any financing statements against Issuer that include a description of collateral covering the Student Loans other than any financing statement relating to the security interest granted to the Trustee hereunder or that has been terminated. The Issuer is not aware of any judgment or tax lien filings against the Issuer.

Section 3.13 Covenants of the Issuer Regarding the Trustee's Security Interest. The Issuer hereby covenants for the benefit of the Trustee and the Noteholders as follows:

(a) The representations and warranties set forth in Section 3.12 shall survive the termination of this Indenture.

(b) [Reserved]

The Issuer shall take all steps necessary, and shall cause the Servicer and the Trustee to take all steps necessary and appropriate, to maintain the perfection and priority of the Trustee's security interest in the Student Loans.

Section 3.14 Protection of Interests in Trust Estate.

(a) The Issuer shall execute and file such financing statements and cause to be executed and filed such continuation statements, all in such manner and in such places as may be required by law fully to preserve, maintain, and protect the interest of the Trustee and the Noteholders in the Student Loans and in the proceeds thereof. The Issuer shall deliver (or cause to be delivered) to the Trustee, file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing.

(b) Neither the Issuer nor the Servicer shall change its name, identity or corporate structure in any manner that would, could or might make any financing statement or continuation statement filed in accordance with paragraph (a) above seriously misleading within the meaning of Section 9-402(7) of the UCC, unless it shall have given the Trustee, at least five days' prior written notice thereof and shall have promptly filed appropriate amendments to all previously filed financing statements or continuation statements.

(c) Each of the Issuer and the Servicer shall have an obligation to give the Trustee, at least 60 days' prior written notice of any relocation of its principal executive office if, as a result of such relocation, the applicable provisions of the UCC would require the filing of

any amendment of any previously filed financing or continuation statement or of any new financing statement and shall promptly file any such amendment. The Servicer shall at all times maintain each office from which it shall service Student Loans, and its principal executive office, within the United States of America.

(d) The Servicer shall maintain accounts and records as to each Student Loan accurately and in sufficient detail to permit (i) the reader thereof to know at any time the status of such Student Loan, including payments and recoveries made and payments owing (and the nature of each) and (ii) reconciliation between payments or recoveries on (or with respect to) each Student Loan and the amounts from time to time deposited by the Servicer in the Collection Account in respect of such Student Loan.

(e) The Servicer shall maintain its computer systems so that the Servicer's master computer records (including any backup archives) that refer to a Student Loan shall indicate clearly the interest of the Issuer and the Trustee in such Student Loan and that such Student Loan is owned by the Issuer and has been pledged to the Trustee under the Indenture. Indication of the Issuer's, and the Trustee's interest in a Student Loan shall be deleted from or modified on the Servicer's computer systems when, and only when, the related Student Loan shall have been paid in full or repurchased.

(f) If at any time the Issuer shall propose to sell, grant a security interest in, or otherwise transfer any interest in student loans to any prospective purchaser, lender or other transferee, the Servicer shall give to such prospective purchaser, lender or other transferee computer tapes, records or printouts (including any restored from backup archives) that, if they refer in any manner whatsoever to any Student Loan, indicate clearly that such Student Loan has been sold and is owned by the Issuer and has been pledged to the Trustee under the Indenture.

(g) Upon reasonable notice, the Servicer shall permit the Trustee and its agents at any time during normal business hours to inspect, audit and make copies of and abstracts from the Servicer's records regarding any Student Loan comprising part of the Trust Estate.

(h) Upon request, at any time the Trustee has reasonable grounds to believe that such request would be necessary in connection with its performance of its duties under the Basic Documents, the Servicer shall furnish to the Trustee (in each case with a copy to the Issuer), within five Business Days, a list of all Student Loans (by borrower social security number, type of loan and date of issuance) then held as part of the Trust Estate, and the Trustee shall furnish to the Issuer, within 20 Business Days thereafter, a comparison of such list to the list of Student Loans set forth in Schedule A to the Indenture as of the Closing Date, and, for each Student Loan that has been removed from the pool of loans held by the Trustee on behalf of the Issuer, information as to the date as of which and circumstances under which each such Student Loan was so removed.

(i) The Issuer shall deliver to the Trustee, upon request within 120 days after the beginning of each calendar year beginning with the first calendar year beginning more than three months after the Cutoff Date, an Opinion of Counsel, dated as of a date during such 120-day period, either (1) to the effect that, in the opinion of such counsel, all financing

statements and continuation statements have been executed and filed that are necessary fully to preserve and protect the interest of the Trustee in the Student Loans, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (2) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interest.

(j) Each Opinion of Counsel referred to in subclause (i) above shall specify (as of the date of such opinion and given all applicable laws as in effect on such date) any action necessary to be taken in the following year to preserve and protect such interest.

ARTICLE IV

SATISFACTION AND DISCHARGE

Section 4.1 Satisfaction and Discharge of Indenture. This Indenture shall cease to be of further effect with respect to the Notes except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, destroyed, lost or stolen Notes, (iii) rights of Noteholders to receive payments of principal thereof and interest thereon, (iv) Sections 3.3, 3.5 and 3.8, (v) the rights, obligations and immunities of the Trustee hereunder (including, without limitation, the rights of the Trustee under Section 6.7 and the obligations of the Trustee under Section 4.2) and (vi) the rights of Noteholders as beneficiaries hereof with respect to the property pledged to or so deposited with the Trustee payable to all or any of them, and the Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture with respect to the Notes, when:

(a) either

(i) all Notes theretofore authenticated and delivered (other than (A) Notes that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.5 and (B) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in Section 3.3) have been delivered to the Trustee for cancellation; or

(ii) all Notes not theretofore delivered to the Trustee for cancellation

- have become due and payable,

- will become due and payable at their respective Note Final Maturity Date, within one year, or

- are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer, and the Issuer has irrevocably deposited or caused to be irrevocably deposited with the Trustee on behalf of the Trustee cash or direct obligations of or obligations guaranteed by the United States of America (which will mature prior to the date such amounts are payable), in trust for such purpose,

in an amount sufficient to pay and discharge the entire indebtedness on such Notes not theretofore delivered to the Trustee for cancellation when due to the Note Final Maturity Date;

(b) the Issuer has paid or caused to be paid all other sums payable hereunder by the Issuer; and

(c) the Issuer has delivered to the Trustee an Officers' Certificate of the Issuer and an Opinion of Counsel, each meeting the applicable requirements of Section 11.1(a) and, subject to Section 11.2, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Section 4.2 Application of Trust Money. All moneys deposited with the Trustee pursuant to Section 4.1 hereof shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent, as the Trustee may determine, to the Noteholders of the particular Notes for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal and interest; but such moneys need not be segregated from other funds except to the extent required herein or required by law.

Section 4.3 Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture with respect to the Notes, all moneys then held by any Paying Agent other than the Trustee under the provisions of this Indenture with respect to such Notes shall, upon demand of the Issuer, be paid to the Trustee to be held and applied according to Section 3.3 and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

Section 4.4 Auction of Student Loans. If the Servicer has not exercised its option to purchase or arrange for the purchase of the Trust Estate, other than the Trust Accounts, as described in Section 4.5(a) below on the first Quarterly Distribution Date after the date on which the Pool Balance is equal to 10% or less of the Initial Pool Balance, the Trustee will engage a third-party financial advisor, which may be an Affiliate of the Servicer or an underwriter of the Notes (the "Third-Party Financial Advisor") to try to auction any Student Loans on the date (the "Trust Auction Date") that is three Business Days prior to the next Quarterly Distribution Date. The Servicer will be deemed to have waived such option if it fails to notify the Trustee of its exercise thereof in writing prior to the Third-Party Financial Advisor accepting a bid to purchase such Student Loans. The Trustee shall provide the Servicer with written notice of any offer to auction the Student Loans at least five Business Days prior to the Trust Auction Date and the Student Loans shall not be auctioned unless such notice has been given. If in connection with any auction of the Student Loans at which at least two bids are received, the Third-Party Financial Advisor, on behalf of the Trustee, shall solicit and resolicit new bids from all participating bidders until only one bid remains or the remaining bidders decline to resubmit bids. The Third-Party Financial Advisor, on behalf of the Trustee, shall accept the highest of such remaining bids if it is equal to or in excess of the Minimum Purchase Amount. If at least two bids are not received, or the highest bid after the resolicitation process is completed is not equal to or in excess of the Minimum Purchase Amount, the Third-Party Financial Advisor shall not consummate such sale. The proceeds of any such sale will be deposited in the Collection

Account and applied in the order of priority set forth in Section 5.4(b) of this Indenture. If the sale is not consummated in accordance with the foregoing, the Third-Party Financial Advisor, on behalf of the Trustee, shall continue to solicit and re-solicit bids for sale of the Student Loans with respect to future Quarterly Distribution Dates upon terms similar to those described above, including the Servicer's waiver of its option to purchase the Trust Estate, other than the Trust Accounts, in accordance with Section 4.5(a) below with respect to each such future Quarterly Distribution Date, until the Third-Party Financial Advisor has received at least one bid that is equal to or in excess of the Minimum Purchase Amount.

Section 4.5 Optional Purchase of All Student Loans by Servicer.

(a) The Trustee shall notify the Servicer and the Issuer in writing, within 15 days after the last day of any Collection Period as of which the then outstanding Pool Balance is 12% or less of the Initial Pool Balance, and of the percentage that the then outstanding Pool Balance bears to the Initial Pool Balance. As of the last day of any Collection Period immediately preceding a Quarterly Distribution Date as of which the then outstanding Pool Balance is 10% or less of the Initial Pool Balance, the Trustee on behalf and at the direction of the Servicer, or any other "eligible lender" (within the meaning of the Higher Education Act) designated by the Servicer in writing to the Issuer and the Trustee, shall have the option to purchase the Trust Estate, other than the Trust Accounts. To exercise such option, the Servicer shall deposit, in the Collection Account, an amount equal to the aggregate Purchase Amount for the Student Loans and the related rights with respect thereto, in addition, there shall be deposited into the Collection Account, the appraised value of any such other property held by the Trustee under the Indenture other than the Trust Accounts, such value to be determined by an appraiser mutually agreed upon by the Servicer, the Issuer and the Trustee, and shall succeed to all interests in and to such property; provided, however, that the Servicer may not effect such purchase if such aggregate Purchase Amounts do not equal or exceed the Minimum Purchase Amount plus any Carryover Servicing Fees. Amounts on deposit in the Collection Account shall be distributed to Noteholders as provided in Section 10.1 hereof. In the event the Servicer fails to notify the Issuer and the Trustee in writing prior to the acceptance by the Trustee of a bid to purchase the Student Loans pursuant to Section 4.4 of the Indenture that the Servicer intends to exercise its option to purchase the Student Loans, the Servicer shall be deemed to have waived its option to purchase the Student Loans as long as the Servicer has received 5 business days' notice from the Trustee as provided in Section 4.4 above. All expenses of the purchase of Student Loans in accordance with Section 4.4 above and this Section 4.5 shall be paid out of the Collection Account in the order of priority set forth in Section 5.4(b) of this Indenture.

(b) [Reserved]

(c) [Reserved]

ARTICLE V

REMEDIES

Section 5.1 Events of Default. "Event of Default," wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it

shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(i) default in the payment of any interest on any Note when the same becomes due and payable, and such default shall continue for a period of five days; provided, however, that a default in the payment of any interest solely on Class B Notes when the same becomes due and payable shall not constitute an Event of Default under this Section 5.1(i) as long as any Class A Notes are outstanding under this Indenture; or

(ii) default in the payment of the principal of any Note when the same becomes due and payable on the related Note Final Maturity Date; or

(iii) default in the observance or performance of any covenant or agreement of the Issuer made in this Indenture (other than a covenant or agreement, a default in the observance or performance of which is elsewhere in this Section specifically dealt with), or any representation or warranty of the Issuer made in this Indenture or in any certificate or other writing having been incorrect in any material respect as of the time when made, such default or breach having a material adverse effect on the holders of the Notes, and such default or breach shall continue or not be cured, or the circumstance or condition in respect of which such misrepresentation or warranty was incorrect shall not have been eliminated or otherwise cured, for a period of 30 days after there shall have been given, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Noteholders of at least 25% of the Outstanding Amount of the Notes, a written notice specifying such default or incorrect representation or warranty and requiring it to be remedied and stating that such notice is a notice of Default hereunder; or

(iv) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of the Issuer or any substantial part of the Trust Estate in an involuntary case under any applicable Federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Trust Estate, or ordering the winding-up or liquidation of the Issuer's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(v) the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for any substantial part of the Trust Estate, or the taking of action by the Issuer in furtherance of the foregoing.

Section 5.2 Acceleration of Maturity; Rescission and Annulment. If an Event of Default should occur and be continuing, then and in every such case the Trustee or the Noteholders representing at least a majority of the Outstanding Amount of the Notes may declare all the Notes to be immediately due and payable, by a notice in writing to the Issuer (and to the Trustee if given by Noteholders), and upon any such declaration the unpaid principal amount of

such Notes, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable, subject, however, to Section 5.4 of this Indenture.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article V provided, the Noteholders of Notes representing at least a majority of the Outstanding Amount of the Notes, by written notice to the Issuer and the Trustee, may rescind and annul such declaration and its consequences if:

(i) the Issuer has paid or deposited with the Trustee a sum sufficient to pay:

- all payments of principal of and interest on all Notes and all other amounts that would then be due hereunder or upon such Notes if the Event of Default giving rise to such acceleration had not occurred; and

- all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel; and

(ii) all Events of Default, other than the nonpayment of the principal of the Notes that has become due solely by such acceleration, have been cured or waived as provided in Section 5.12.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

Section 5.3 Collection of Indebtedness and Suits for Enforcement by Trustee. The Issuer covenants that if (i) default is made in the payment of any interest on any Note when the same becomes due and payable, and such default continues for a period of five days, or (ii) default is made in the payment of the principal of any Note when the same becomes due and payable at the related Note Final Maturity Date, the Issuer shall, upon demand of the Trustee, pay to it, for the benefit of the Noteholders, the whole amount then due and payable on such Notes for principal and interest, with interest upon the overdue principal, and, to the extent payment at such rate of interest shall be legally enforceable, upon overdue installments of interest, at the applicable Note Rates and in addition thereto such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel.

(a) In case the Issuer shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a Proceeding for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and may enforce the same against the Issuer or other obligor upon such Notes and collect in the manner provided by law out of the property of the Issuer or other obligor upon such Notes, wherever situated, the moneys adjudged or decreed to be payable.

(b) If an Event of Default occurs and is continuing, the Trustee may, as more particularly provided in Section 5.4, in its discretion, proceed to protect and enforce its rights and the rights of the Noteholders by such appropriate Proceedings as the Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Trustee by this Indenture or by law.

(c) In case there shall be pending, relative to the Issuer or any other obligor upon the Notes or any Person having or claiming an ownership interest in the Trust Estate, Proceedings under Title 11 of the United States Code or any other applicable Federal or state bankruptcy, insolvency or other similar law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Issuer or its property or such other obligor or Person, or in case of any other, comparable judicial Proceedings relative to the Issuer or other obligor upon the Notes, or to the creditors or property of the Issuer or such other obligor, the Trustee, irrespective of whether the principal of any Notes shall then be due and payable, as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section, shall be entitled and empowered, by intervention in such proceedings or otherwise:

(i) to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee, except as a result of gross negligence or bad faith) and of the Noteholders allowed in such Proceedings;

(ii) unless prohibited by applicable law and regulations, to vote on behalf of the Noteholders in any election of a trustee, a standby trustee or Person performing similar functions in any such Proceedings;

(iii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Noteholders and the Trustee on their behalf; and

(iv) to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee or the Noteholders allowed in any judicial proceedings relative to the Issuer, its creditors and its property;

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each of such Noteholders to make payments to the Trustee, and, in the event that the Trustee shall consent to the making of payments directly to such Noteholders to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and

counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of gross negligence or bad faith.

(d) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Noteholder thereof or to authorize the Trustee to vote in respect of the claim of any Noteholder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(e) All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes or the production thereof in any trial or other Proceedings relative thereto, and any such action or Proceedings instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Trustee, each predecessor Trustee and their respective agents and attorneys, shall be for the ratable benefit of the Noteholders.

(f) In any Proceedings brought by the Trustee (and also any Proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party), the Trustee shall be held to represent all the Noteholders, and it shall not be necessary to make any Noteholder a party to any such Proceedings.

Section 5.4 Remedies; Priorities. If an Event of Default shall have occurred and be continuing, the Trustee may do one or more of the following (subject to Section 5.5):

(a) (i) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Notes or under this Indenture with respect thereto, whether by declaration or otherwise, enforce any judgment obtained, and collect from the Issuer and any other obligor upon such Notes moneys adjudged due;

(ii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture, with respect to the Trust Estate;

(iii) exercise any remedies of a secured party under the UCC with respect to the Trust Estate and take any other appropriate action to protect and enforce the rights and remedies of the Trustee and the Noteholders;

(iv) sell the Trust Estate or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law; and/or

(v) elect to continue to apply collections with respect to the Student Loans as if there had been no declaration of acceleration;

provided, however, that the Trustee may not sell or otherwise liquidate the Trust Estate following an Event of Default, other than an Event of Default described in Section 5.1(i) (and such default

shall continue for a period of five days) or Section 5.1(ii), unless (A) except as provided in the circumstance described in clause (C) below, the Noteholders of 100% of the Outstanding Amount of the Notes consent thereto, (B) the proceeds of such sale or liquidation distributable to the Noteholders are sufficient to discharge in full all amounts then due and unpaid upon such Notes for principal and interest or (C) the Trustee determines that the Trust Estate will not continue to provide sufficient funds for the payment of principal of and interest on the Notes as would have become due if the Notes had not been declared due and payable, and the Trustee obtains the consent of Noteholders of 66-2/3% of the Outstanding Amount of the Notes.

(b) Notwithstanding the provisions of Section 8.2, following the occurrence and during the continuation of an Event of Default specified in Section 5.1(i), 5.1(ii), 5.1(iv) or 5.1(v) which has resulted in an acceleration of the Notes, if the Trustee collects any money or property, it shall pay out the money or property (and other amounts including amounts, if any, held on deposit in each of the Trust Accounts) held as Trust Estate for the benefit of the Noteholders, net of liquidation costs associated with the sale of the assets of the Trust, in the following order:

FIRST: to the Trustee for amounts due under Section 6.7 including, but not limited to, any amounts paid by the Trustee to an Independent investment banking firm in respect of such Independent investment banking firm's expenses, in connection with the sale or liquidation of Student Loans;

SECOND: to the Servicer for due and unpaid Primary Servicing Fees;

THIRD: to the Class A Noteholders for amounts due and unpaid on the Class A Notes for interest, ratably, without preference or priority of any kind among the classes of Class A Notes, according to the amounts due and payable on the Class A Notes for such interest;

FOURTH: to the Class A Noteholders for amounts due and unpaid on the Class A Notes for principal, ratably, without preference or priority of any kind among the classes of Class A Notes, according to the amounts due and payable on the Class A Notes for principal;

FIFTH: to the Class B Noteholders for amounts due and unpaid on the Class B Notes for interest;

SIXTH: to the Class B Noteholders for amounts due and unpaid on the Class B Notes for principal; and

SEVENTH: to the Servicer, for any unpaid Carryover Servicing Fees.

The Trustee may fix a record date and payment date for any payment to Noteholders pursuant to this Section. At least 15 days before such record date, the Trustee shall mail to each Noteholder and the Issuer a notice that states the record date, the payment date and the amount to be paid.

Section 5.5 Optional Preservation of the Student Loans. If the Notes have been declared to be due and payable under Section 5.2 following an Event of Default and such

declaration and its consequences have not been rescinded and annulled, the Trustee may, but need not, elect to maintain possession of the Trust Estate. It is the desire of the parties hereto and the Noteholders that there be at all times sufficient funds for the payment of principal of and interest on the Notes, and the Trustee shall take such desire into account when determining whether or not to maintain possession of the Trust Estate. In determining whether to maintain possession of the Trust Estate, the Trustee may, but need not, obtain and rely upon an opinion of an Independent investment banking, financial advisory or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose.

Section 5.6 Limitation of Suits. No Noteholder shall have any right to institute any Proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(i) such Noteholder has previously given written notice to the Trustee of a continuing Event of Default;

(ii) the Noteholders of not less than 25% of the Outstanding Amount of the Notes have made written request to the Trustee to institute such Proceeding in respect of such Event of Default in its own name as Trustee hereunder;

(iii) such Noteholder or Noteholders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in complying with such request;

(iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceeding; and

(v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Noteholders of at least a majority of the Outstanding Amount of the Notes;

it being understood and intended that no one or more Noteholders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Noteholders or to obtain or to seek to obtain priority or preference over any other Noteholders or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Noteholders, each representing less than a majority of the Outstanding Amount of the Notes, the Trustee shall act at the direction of the group representing a greater percentage of the Outstanding Amount of the Notes, or if both groups are equal, the Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture.

Section 5.7 Unconditional Rights of Noteholders to Receive Principal and Interest. Notwithstanding any other provisions in this Indenture, each Noteholder shall have the

right, which is absolute and unconditional, to receive payment of the principal of and interest on its Note on or after the respective due dates thereof expressed in such Note or in this Indenture (or, in the case of redemption, on or after the Redemption Date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Noteholder.

Section 5.8 Restoration of Rights and Remedies. If the Trustee or any Noteholder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Trustee or to such Noteholder, then and in every such case the Issuer, the Trustee and the Noteholders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Noteholders shall continue as though no such Proceeding had been instituted.

Section 5.9 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee or to the Noteholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.10 Delay or Omission Not a Waiver. No delay or omission of the Trustee or any Noteholder to exercise any right or remedy accruing upon any Default shall impair any such right or remedy or constitute a waiver of any such Default or an acquiescence therein. Every right and remedy given by this Article V or by law to the Trustee or to the Noteholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Noteholders, as the case may be.

Section 5.11 Control by Noteholders. The Noteholders of at least a majority of the Outstanding Amount of the Notes shall have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Trustee with respect to the Notes or exercising any trust or power conferred on the Trustee; provided that

(i) such direction shall not be in conflict with any rule of law or with this Indenture;

(ii) subject to the express terms of Section 5.4, any direction to the Trustee to sell or liquidate the Trust Estate shall be by the Noteholders of not less than 100% of the Outstanding Amount of the Notes; and

(iii) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction;

provided, however, that, subject to Section 6.1, the Trustee need not take any action that it determines might involve it in liability or might materially adversely affect the rights of any Noteholders not consenting to such action.

Section 5.12 Waiver of Past Defaults. Prior to the time a judgment or decree for payment of money due has been obtained as described in Section 5.2, the Noteholders of at least a majority of the Outstanding Amount of the Notes may waive any past Default and its consequences except a Default (a) in payment when due of principal of or interest on any of the Notes or (b) in respect of a covenant or provision hereof which cannot be modified or amended without the consent of each Noteholder. In the case of any such waiver, the Issuer, the Trustee and the Noteholders shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereto.

Upon any such waiver, such Default shall cease to exist and be deemed to have been cured and not to have occurred for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereto.

Section 5.13 Undertaking for Costs. All parties to this Indenture agree, and each Noteholder by such Noteholder's acceptance of any Note shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to (a) any suit instituted by the Trustee, (b) any suit instituted by any Noteholder, or group of Noteholders, in each case holding in the aggregate more than 10% of the Outstanding Amount of the Notes or (c) any suit Instituted by any Noteholder for the enforcement of the payment of principal of or interest on any Note on or after the respective due dates expressed in such Note and in this Indenture (or, in the case of redemption, on or after the Redemption Date).

Section 5.14 Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead or in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.15 Action on Notes. The Trustee's right to seek and recover judgment on the Notes or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the lien of this Indenture nor any rights or remedies of the Trustee or the Noteholders shall be impaired by the recovery of any judgment by the Trustee against the Issuer or by the levy of any execution under such judgment

upon any portion of the Trust Estate or upon any of the assets of the Issuer. Any money or property collected by the Trustee shall be applied in accordance with Section 5.4(b) hereof.

Section 5.16 Performance and Enforcement of Certain Obligations.

(a) Promptly following a request from the Trustee to do so and at the Issuer's expense, the Issuer shall take all such lawful action as the Trustee may request to compel or secure the performance and observance by the Servicer, of its obligations to the Issuer, whether directly or by assignment, under or in connection with the Servicing Agreement, in accordance with the terms thereof, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with the Servicing Agreement, to the extent and in the manner directed by the Trustee, including the transmission of notices of default on the part of the Servicer thereunder and the institution of legal or administrative actions or proceedings to compel or secure performance by the Servicer of its obligations under the Servicing Agreement.

(b) If an Event of Default has occurred and is continuing, the Trustee may, and at the written direction of the Noteholders of 66-2/3% of the Outstanding Amount of the Notes shall, exercise all rights, remedies, powers, privileges and claims of the Issuer against the Servicer under or in connection with the Servicing Agreement, including the right or power to take any action to compel or secure performance or observance by the Servicer of its obligations to the Issuer thereunder, whether directly or by assignment, and to give any consent, request, notice, direction, approval, extension or waiver under the Servicing Agreement, and any right of the Issuer to take such action shall be suspended.

ARTICLE VI

THE TRUSTEE

Section 6.1 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(c) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to it and conforming to the requirements of this Indenture; provided, however, that the Trustee shall review the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(d) The Trustee may not be relieved from liability for its own gross negligence or willful misconduct, except that:

(i) this Paragraph does not limit the effect of Paragraph (a) or (b) of this Section;

(ii) the Trustee shall not be liable in its individual capacity for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was grossly negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable in its individual capacity with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 5.11.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Issuer.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law or the terms of this Indenture or the other Basic Documents.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayments of such funds or adequate indemnity reasonably satisfactory to it against any loss, liability or expense is not reasonably assured to it.

(h) Except as expressly provided in Section 3.7 hereof, the Trustee shall not have any obligation to administer, service or collect the Student Loans or to maintain, monitor or otherwise supervise the administration, servicing or collection of the Student Loans.

(i) The rights and protections afforded to the Trustee pursuant to this Indenture shall also be afforded to any entity serving as Paying Agent or Note Registrar.

(j) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 6.2 Rights of Trustee.

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in such document.

(b) Before the Trustee acts or refrains from acting, it may require and shall be entitled to receive an Officers' Certificate of the Issuer and/or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel.

(c) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent, attorney, custodian or nominee appointed with due care by it hereunder.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute willful misconduct, gross negligence or bad faith.

(e) The Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall not be under any obligation to exercise any of the trusts or powers vested in it by this Indenture or to institute, conduct or defend any litigation hereunder or in relation hereto at the request, order or direction of any of the Noteholders, pursuant to the provisions of this Indenture, unless such Noteholders shall have offered security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which may be incurred therein or thereby.

(g) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond or other paper or document, unless requested in writing to do so by the Noteholders; provided, however, that if the payment within a reasonable time to the Trustee, of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not assured to it by the security afforded to it by the terms of this Indenture, the Trustee may require indemnity satisfactory to the Trustee, against such cost, expense or liability as a condition to taking any such action.

(h) The right of the Trustee to perform any discretionary act enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful misconduct in the performance of such act.

(i) The Trustee shall not be required to give any bond or surety in respect of the execution of the Trust Accounts created hereby or the powers granted hereunder or thereunder.

Section 6.3 Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not the Trustee. Any Paying Agent, Note Registrar, co-registrar or co-paying agent may do the same with like rights.

Section 6.4 Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be

accountable for the Issuer's use of the proceeds from the Notes, and it shall not be responsible for any statement of the Issuer in the Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Trustee's certificate of authentication.

Section 6.5 Notice of Defaults. If a Default occurs and is continuing and if it is either actually known or written notice of the existence thereof has been delivered to a Responsible Officer of the Trustee, the Trustee shall mail notice of the Default to each Noteholder within 90 days and to each Rating Agency as soon as practicable within 30 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Note (including payments pursuant to the mandatory redemption provisions of such Note), the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of Noteholders. Except as provided in the first sentence of this Section 6.5, in no event shall the Trustee be deemed to have knowledge of a Default or an Event of Default.

Section 6.6 [Reserved]

Section 6.7 Compensation. The Trustee shall be entitled to payment and/or reimbursement from the Trust Estate for reasonable fees for its services rendered hereunder and all advances, Counsel fees and other expenses reasonably made or incurred by the Trustee in connection with such services and, if the Trustee performs extraordinary services, it shall be entitled to reasonable extra compensation from the Trust Estate therefor and to reimbursement from the Trust Estate for reasonable extraordinary expenses in connection therewith; provided that if such extraordinary services or extraordinary expenses are occasioned by its gross negligence or willful misconduct, it shall not be entitled to payment and reimbursement for the extraordinary fees and expenses as hereinabove provided. The Trustee shall have a first lien on the Trust Estate with right of payment prior to payment of the principal of and interest on any Notes for the foregoing advances, fees, costs and expenses incurred.

Section 6.8 Replacement of Trustee. No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the acceptance of appointment by the successor Trustee pursuant to this Section 6.8. The Trustee may resign at any time by so notifying the Issuer and each Rating Agency. The Noteholders of at least a majority in Outstanding Amount of the Notes may remove the Trustee by so notifying the Trustee and each Rating Agency and may appoint a successor Trustee. The Issuer shall remove the Trustee (and provide notice to each Rating Agency) if:

(i) the Trustee fails to comply with Section 6.12;

(ii) an Insolvency Event occurs with respect to the Trustee;

(iii) a receiver or other public officer takes charge of the Trustee or its property; or

(iv) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Issuer shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Issuer and each Rating Agency. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Noteholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Issuer or the Noteholders of at least a majority in Outstanding Amount of the Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee. The successor Trustee shall give notice of its appointment as successor Trustee to each Rating Agency.

If the Trustee fails to comply with Section 6.12, any Noteholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section, the Issuer's obligations under Section 6.7 shall continue for the benefit of the retiring Trustee.

Section 6.9 [Reserved]

Section 6.10 Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, provided that such corporation or banking association shall be otherwise qualified and eligible under Section 6.12. The Trustee shall provide the Rating Agencies prior written notice of any such transaction.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have.

Section 6.11 Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Trust

Estate may at the time be located, the Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity and for the benefit of the Noteholders, such title to the Trust Estate, or any part hereof, and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No such appointment shall relieve the Trustee of its obligations hereunder. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.12 and no notice to Noteholders of the appointment of any co-trustee or separate trustee shall be required under Section 6.8 hereof.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust Estate or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Trustee may at any time accept the resignation of or remove any separate co-trustee.

(c) Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Every such instrument shall be filed with the Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

Section 6.12 Eligibility; Disqualification. The Trustee shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition. The Trustee, and any successor Trustee by the acceptance of the trusts hereunder, hereby represents and warrants that it is an Eligible Lender and agrees to remain an Eligible Lender for so long as it is the Trustee under this Indenture.

ARTICLE VII

NOTEHOLDERS' LISTS AND REPORTS

Section 7.1 Issuer to Furnish Trustee Names and Addresses of Noteholders. The Issuer will furnish or cause to be furnished to the Trustee (a) not more than five days after the earlier of (i) each Record Date and (ii) three months after the last Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Noteholders as of such Record Date, and (b) at such other times as the Trustee may request in writing, within 30 days after receipt by the Issuer of any such request, a list of similar form and content as of a date not more than 10 days prior to the time such list is furnished; provided, however, that no such list shall be required to be furnished if the Trustee is the Note Registrar.

Section 7.2 Preservation of Information; Communications to Noteholders. The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of the Noteholders contained in the most recent list furnished to the Trustee as provided in Section 7.1 and the names and addresses of Noteholders received by the Trustee in its capacity as Note Registrar. The Trustee may destroy any list furnished to it as provided in such Section 7.1 upon receipt of a new list so furnished.

(a) Noteholders may communicate with other Noteholders with respect to their rights under this Indenture or under the Notes. Upon receipt by the Trustee of a written request to receive a copy of the current list of Noteholders of the Notes by three or more Noteholders or by one or more holders of Notes evidencing not less than 25% of the Outstanding Amount, the Trustee shall promptly provide a copy of the list of Noteholders to the parties making such request.

(b) [Reserved.]

(c) On each Quarterly Distribution Date the Issuer shall provide to each Noteholder of record as of the related Record Date the information provided by the Issuer on the related Determination Date pursuant to Section 8.16 of this Indenture.

(d) The Trustee shall furnish to the Noteholders promptly upon receipt of a written request therefor, duplicates or copies of all reports, notices, requests, demands, certificates, financial statements and any other instruments furnished to the Trustee under the Basic Documents.

ARTICLE VIII

ACCOUNTS, DISBURSEMENTS AND RELEASES

Section 8.1 Collection of Money. Except as otherwise expressly provided herein, the Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Trustee pursuant to this Indenture. The Trustee shall apply all such money received by it on behalf of Noteholders pursuant to the provisions of this Indenture. Except as otherwise expressly provided in this Indenture, if any default occurs in the making of any payment or performance under any agreement or instrument that is part of the Trust Estate, the Trustee may take such action as may be appropriate to enforce such payment or performance, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim a Default under this Indenture and any right to proceed thereafter as provided in Article V hereof.

Section 8.2 Trust Accounts.

(a) On or prior to the Closing Date, the Issuer shall cause the Trustee to establish and maintain for the benefit of the Noteholders, the Trust Accounts as provided in Section 8.6 of this Indenture.

(b) All Available Funds and amounts set forth in Paragraph (a)(2) of the definition of Available Funds with respect to the preceding Collection Period will be deposited in the Collection Account as provided in Section 8.7 of this Indenture. On or before each Distribution Date and Monthly Servicing Payment Date or Monthly Expense Payment Date that is not a Distribution Date, the Trustee (or any other Paying Agent) shall make the required deposits and distributions as provided in Sections 8.9 and 8.10 of this Indenture.

Section 8.3 General Provisions Regarding Accounts.

(a) So long as no Default shall have occurred and be continuing, all or a portion of the funds in the Trust Accounts shall be invested in Eligible Investments and reinvested by the Trustee pursuant to written instructions of the Issuer in accordance with and subject to the provisions of Section 8.6(b) of this Indenture. All income or other gain from investments of moneys deposited in the Trust Accounts shall be deposited by the Trustee in the Collection Account, and any loss resulting from such investments shall be charged to such Trust Account. The Issuer will not direct the Trustee to make any investment of any funds or to sell any investment held in any of the Trust Accounts unless the security interest granted and perfected in such account will continue to be perfected in such investment or the proceeds of such sale, in either case without any further action by any Person, and, in connection with any direction to the Trustee to make any such investment or sale, if requested by the Trustee, the Issuer shall deliver to the Trustee an Opinion of Counsel, acceptable to the Trustee, to such effect.

(b) Subject to Section 6.1(e), the Trustee shall not in any way be held liable for the selection of Eligible Investments or by reason of any insufficiency in any of the Trust

Accounts resulting from any loss on any Eligible Investment included therein except for losses attributable to the Trustee's failure to make payments on such Eligible Investments issued by the Trustee, as the case may be, in its commercial capacity as principal obligor and not as Trustee, in accordance with their terms.

(c) If (i) the Issuer shall have failed to give investment directions for any funds on deposit in the Trust Accounts to the Trustee by 11:00 a.m. Eastern Time (or such other time as may be agreed by the Issuer and Trustee) on any Business Day; or (ii) a Default shall have occurred and be continuing with respect to the Notes but the Notes shall not have been declared due and payable pursuant to Section 5.2, or, if such Notes shall have been declared due and payable following an Event of Default, amounts collected or receivable from the Trust Estate are being applied in accordance with Section 5.5 as if there had not been such a declaration; then the Trustee shall invest and reinvest funds in the Trust Accounts in the Eligible Investments described in clause (d) of the definition thereof.

Section 8.4 Release of Trust Estate.

(a) Subject to the payment of its fees and expenses pursuant to Section 6.7, the Trustee may, and when required by the provisions of this Indenture in furtherance of the provisions of Section 3.5 of the Servicing Agreement, shall, if necessary or required, execute instruments to release property from the lien of this Indenture, or convey the Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Trustee as provided in this Article VIII shall be bound to ascertain the Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

(b) The Trustee shall, at such time as there are no Notes Outstanding and all sums due the Trustee pursuant to Section 6.7 have been paid, release any remaining portion of the Trust Estate that secured the Notes from the lien of this Indenture and release to the Issuer or any other Person entitled thereto any funds then on deposit in the Trust Accounts. The Trustee shall release property from the lien of this Indenture pursuant to this Section 8.4(b) only upon receipt of an Issuer Request.

(c) Each Noteholder, by the acceptance of a Note, acknowledges that from time to time the Trustee shall release the lien of this Indenture on any Student Loan to be sold to the Servicer in accordance with Section 3.5 of the Servicing Agreement, and each Noteholder, by the acceptance of a Note, consents to any such release.

Section 8.5 Opinion of Counsel. The Trustee shall receive at least seven days' notice when requested by the Issuer to take any action pursuant to Section 8.4(a), accompanied by copies of any instruments involved, and the Trustee shall also require, except in connection with any action contemplated by Section 8.4(c), as a condition to such action, an Opinion of Counsel, outlining the steps required to complete the same, and concluding that all conditions precedent to the taking of such action have been complied with and such action will not materially contravene the provisions of this Indenture; provided, however, that such Opinion of Counsel shall not be required to express an opinion as to the fair value of the Trust Estate. Counsel rendering any such opinion may rely, without independent investigation, on the

accuracy and validity of any third party certificate or other instrument delivered to the Trustee in connection with any such action.

Section 8.6 Establishment of Trust Accounts.

(a) The Issuer hereby establishes and creates with the Trustee the following special trust funds and accounts:

(i) a "Collection Account";

(ii) a "Reserve Account";

(iii) an "Acquisition Account"; and

(iv) a "Capitalized Interest Account."

(b) Funds on deposit in each account specified in Section 8.6(a) above (collectively, the "Trust Accounts") shall be invested by the Trustee (or any custodian or designated agent with respect to any amounts on deposit in such accounts) in Eligible Investments pursuant to written instructions from the Issuer. All Trust Accounts shall be held and maintained by the Trustee, and shall be identified by the Trustee according to the designations herein provided in such manner as to distinguish such Trust Accounts from the funds and accounts established by the Issuer for any of its other obligations. The Trustee may from time to time, upon notice to the Issuer, create such accounts and subaccounts as it deems necessary and appropriate for the proper administration of its duties under this Indenture, or close any Trust Account which the Trustee deems no longer necessary or appropriate for the proper administration of such duties. All moneys or securities held by the Trustee pursuant to this Indenture shall be held in trust and applied only in accordance with the provisions of this Indenture. On the second Business Day preceding each Distribution Date, all interest and other investment income (net of losses and investment expenses) on funds on deposit therein shall be deposited into the Collection Account and shall be deemed to constitute a portion of the Available Funds for such Distribution Date. Other than as described in the following proviso or if the Rating Agency Condition has been satisfied, funds on deposit in the Trust Accounts shall only be invested in Eligible Investments that will mature so that such funds will be available at the close of business on the Business Day preceding the following Monthly Servicing Payment Date (to the extent necessary to pay the Primary Servicing Fee payable on such date) or the following Distribution Date, as applicable. Funds deposited in a Trust Account on a Business Day which immediately precedes a Monthly Servicing Payment Date or Distribution Date upon the maturity of any Eligible Investments are not required to be invested overnight.

(c) With respect to the Trust Account Property, the Trustee agrees, by its acceptance hereof, that:

(i) any Trust Account Property that is held in deposit accounts shall be held solely in the Trust Accounts, subject to the exclusive custody and control of the Trustee, and the Trustee shall have sole signature authority with respect thereto;

(ii) any Trust Account Property that constitutes Physical Property shall be Delivered to the Trustee in accordance with paragraph (a) of the definition of "Delivery" and shall be held, pending maturity or disposition, solely by the Trustee or a financial intermediary (as such term is defined in Section 8-313(4) of the UCC) acting solely for the Trustee;

(iii) any Trust Account Property that is a book-entry security held through the Federal Reserve System pursuant to Federal book-entry regulations shall be Delivered in accordance with paragraph (b) of the definition of "Delivery" and shall be maintained by the Trustee, pending maturity or disposition, through continuous book-entry registration of such Trust Account Property as described in such paragraph; and

(iv) any Trust Account Property that is an "uncertificated security" under Division 8 of the UCC and that is not governed by clause (iii) above shall be Delivered to the Trustee in accordance with paragraph (c) of the definition of "Delivery" and shall be maintained by the Trustee, pending maturity or disposition, through continued registration of the Trustee's ownership of such security.

Notwithstanding anything to the contrary set forth in this Section 8.6(c), the Trustee shall have no liability or obligation in respect of any failed Delivery, as contemplated herein, other than with respect to a Delivery which fails as a result of any action or inaction on behalf of the Trustee.

(d) The Trustee shall have the power to make withdrawals and payments from the Trust Accounts for the purpose of permitting the Issuer and Servicer to carry out its duties hereunder or permitting the Trustee to carry out its duties under the Indenture.

(e) The Collection Account will initially be established as a segregated trust account in the name of the Trustee for the benefit of the Noteholders in accordance with the terms of the Indenture. On the Closing Date, the Issuer shall deposit or cause to be deposited the Collection Account Initial Deposit into the Collection Account.

(f) The Reserve Account will initially be established as a segregated trust account in the name of the Trustee for the benefit of the Noteholders in accordance with the terms of the Indenture. On the Closing Date, the Issuer shall deposit or cause to be deposited the Reserve Account Initial Deposit into the Reserve Account.

(g) The Acquisition Account will initially be established as a segregated trust account in the name of the Trustee for the benefit of the Noteholders in accordance with the terms of the Indenture. On the Closing Date, the Issuer shall deposit or cause to be deposited into the Acquisition Account the Acquisition Account Initial Deposit, which includes that amount estimated to be necessary to pay expenses incurred in connection with the issuance of the Notes (other than the related underwriting discount), and the Student Loans which comprise a portion of the Trust Estate. Two hundred fifty thousand dollars ($250,000) of the net proceeds of the sale of the Notes deposited into the Acquisition Account will remain on deposit in the Acquisition Account and may be used to purchase additional Student Loans relating to those borrowers whose Consolidation Loans were originally acquired with the proceeds of the Notes.

Any remaining amounts set aside for this purpose in the Acquisition Account will be transferred to the Collection Account on or about May 17, 2007.

(h) The Capitalized Interest Account will initially be established as a segregated trust account in the name of the Trustee for the benefit of the Noteholders in accordance with the terms of the Indenture. On the Closing Date, the Issuer shall deposit or cause to be deposited the Capitalized Interest Account Initial Deposit into the Capitalized Interest Account. Amounts on deposit in the Capitalized Interest Account shall be used to make payments of interest on the Notes as provided herein.

Section 8.7 Collections. The Servicer shall be required to remit within two Business Days of receipt thereof to the Trustee for deposit in the Collection Account all payments by or on behalf of the Obligors with respect to the Student Loans (other than Purchased Student Loans), and all Liquidation Proceeds, both as collected during the Collection Period, and the Servicer shall remit or cause to be remitted within two Business Days of receipt thereof to the Collection Account any Interest Subsidy Payments and Special Allowance Payments received by it with respect to the Student Loans during the Collection Period.

Section 8.8 Application of Collections.

(a) With respect to each Student Loan, all collections (including all Guarantee Payments) with respect thereto for each Collection Period shall be allocated to interest and principal on such Student Loan by the Servicer in accordance with its customary practice.

(b) All Liquidation Proceeds shall be allocated to the related Student Loan.

Section 8.9 Additional Deposits.

(a) The Servicer shall deposit or cause to be deposited in the Collection Account the aggregate purchase price with respect to Purchased Student Loans as determined pursuant to Section 3.5 of the Servicing Agreement and all other amounts to be paid by the Servicer under Section 3.5 of the Servicing Agreement on or before the third Business Day before the related Quarterly Distribution Date.

(b) If any borrower incentive programs not required by the Higher Education Act are in effect for the Student Loans on the third Business Day preceding any Quarterly Distribution Date when the Outstanding Amount of the Notes exceeds the Adjusted Pool Balance, the Issuer shall either (a) contribute funds to the Collection Account on such third Business Day preceding the related Quarterly Distribution Date in an amount equal to the lesser of (i) the interest that otherwise would have been paid on such Student Loans in the related Collection Period in the absence of the incentive programs or (ii) the amount by which the Outstanding Amount of the Notes exceeds the Adjusted Pool Balance, or (b) terminate such borrower incentive programs.

Section 8.10 Distributions.

(a) On or before the second Business Day immediately preceding each Distribution Date, the Issuer shall calculate:

(i) all amounts required to be deposited into the Collection Account from the Reserve Account and the Capitalized Interest Account, if any;

(ii) the amount of all Investment Earnings to be transferred from the Trust Accounts to the Collection Account;

(iii) the amount to be distributed from the Collection Account as Available Funds on the related Distribution Date, and, if and to the extent applicable, the Class A Noteholders' Distribution Amount and the Class B Noteholders' Distribution Amount;

(iv) the amount, if any, held in the Collection Account to be repaid to the Department or borrowers with respect to the item described in paragraph (a)(2) of the definition of Available Funds; and

(v) the Specified Reserve Account Balance.

On the Fifth Business Day preceding each Monthly Servicing Payment Date or Monthly Expense Payment Date that is not a Quarterly Distribution Date, the Issuer shall calculate all amounts required to be deposited into the Collection Account from the Reserve Account, if any, and the amounts to be disbursed from the Collection Account on the Monthly Servicing Payment Date or the Monthly Expense Payment Date, as applicable.

(b) The Trustee shall disburse to (i) the Servicer, by 1:00 p.m. (New York time) on each Monthly Servicing Payment Date, from and to the extent of the Available Funds on deposit in the Collection Account, the Primary Servicing Fee due with respect to the preceding calendar month; (ii) the Auction Agent by 12 noon (New York time) on each Monthly Expense Payment Date from and to the extent of the Available Funds on deposit in the Collection Account, the Auction Agent Fee and the Broker Dealer Fee due on such Monthly Expense Payment Date for application as provided in the Auction Agent Agreement and the Broker Dealer Agreement; and (iii) the Department, as and when due, the amounts required to be paid as described in paragraph (a)(2) of the definition of Available Funds.

(c) The Trustee shall make the deposits and distributions set forth in Section 8.11 to the Persons or to the account specified below by 2:30 p.m. (New York time) on such Distribution Date (provided that funds are not required to be disbursed pursuant to Section 5.4(b) of the Indenture). These deposits and distributions will be made to the extent of the amount of Available Funds for that Distribution Date in the Collection Account plus amounts transferred from the Capitalized Interest Account and the Reserve Account pursuant to Section 8.12 hereof. The amount of Available Funds in the Collection Account for each Distribution Date will be distributed pursuant to the priority of distributions set forth under Section 8.11 below. The Trustee shall make the payments taking into account paragraph (a)(2) of the definition of Available Funds.

(d) On each Distribution Date, the Trustee shall make the distributions pursuant to Sections 8.10 and 8.11, as required, for the applicable Collection Period.

(e) On each Determination Date for the Class A Notes, the Trustee shall determine the Class A-1 Rate, the Class A-2 Rate and the Class A-3 Rate that will be applicable to the Quarterly Distribution Date following such Determination Date. In connection therewith, the Trustee shall calculate the Initial Accrual Rate for the first Accrual Period and for each subsequent Accrual Period for the Class A Notes shall calculate, on each LIBOR Determination Date during such Accrual Period, 3-Month LIBOR.

Section 8.11 Priority of Distributions. The Trustee shall make the distributions required to be made as provided in Section 8.10 above. On each Quarterly Distribution Date the Issuer shall provide the Trustee with an Issuer Order and pursuant thereto, the Trustee shall first pay or reimburse itself for all amounts due under Section 6.7 of the Indenture (other than amounts due to the Trustee for extraordinary services). In addition on each Quarterly Distribution Date, the Trustee shall make any required payments to (i) the Department of Education in connection with the Student Loans and (ii) the Auction Agent of the Auction Agent Fee and the Broker-Dealer Fee, as provided in the Indenture. Thereafter on each Distribution Date, as specified, the Trustee shall make the following deposits and distributions in the amounts and in the order of priority set forth below:

(a) to the Servicer, the Primary Servicing Fee due on that Quarterly Distribution Date;

(b) [Reserved];

(c) to the Class A Noteholders, the Class A Noteholders' Interest Distribution Amount, pro rata, based on the amounts payable as Class A Noteholders' Interest Distribution Amount due on that Quarterly Distribution Date;

(d) to the Class B Noteholders, the Class B Noteholders' Interest Distribution Amount (excluding any Carry-over Amounts as defined in Appendix B) due on that Auction Rate Distribution Date;

(e) sequentially to the Class A-1 Noteholders, the Class A-2 Noteholders, the Class A-3 Noteholders, in that order, until each such class is paid in full, the Class A Noteholders' Principal Distribution Amount due on that Quarterly Distribution Date;

(f) on and after the Stepdown Date, and provided that no Trigger Event is in effect on the Quarterly Distribution Date to Class B Noteholders, until paid in full, the Class B Noteholders' Principal Distribution Amount due on such Quarterly Distribution Date (to be paid on an Auction Rate Distribution Date through mandatory redemption in accordance with the provisions of Section 10.1(b));

(g) amounts due to the Trustee under Section 6.7 for extraordinary services on that Quarterly Distribution Date;

(h) to the Reserve Account, the amount, if any, necessary to reinstate the balance of the Reserve Account to the Specified Reserve Account Balance on that Quarterly Distribution Date;

(i) to the Servicer, the aggregate unpaid amount of the Carryover Servicing Fee, if any; due on that Quarterly Distribution Date;

(j) to the Class B Noteholders, the Carry-over Amount as defined in Appendix B ; and

(k) to the Issuer, any remaining amounts, on that Quarterly Distribution Date, after application of the preceding clauses.

Notwithstanding the foregoing:

(x)(i) If, at the end of any Collection Period, the Outstanding Amount of the Notes would be in excess of the sum of (1) the outstanding principal balance of the Student Loans, (2) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period, and (3) the balance of the Collection Account, the Reserve Account and the Capitalized Interest Account at the end of such Collection Period, then until the condition described in this section (x)(i) no longer exists, amounts on deposit in the Collection Account on each applicable Determination Date shall be applied (following the distributions under clauses (a) through (e) and (g), (h) and (i) above) on the Quarterly Distribution Date following such Collection Period to pay as an accelerated payment of principal on the Notes (i) first, to the Class A Noteholders in the same order of priority as is set fort in clause 8.11(e) until the Outstanding Amount of Class A Notes is paid in full and reduced to zero; and (ii) second, to the Class B Noteholders as set forth in clause 8.11(f) above until the Outstanding Amount of the Class B Notes is paid in full and reduced to zero; provided that the amount of such distribution shall not exceed the Outstanding Amount of the Class A Notes or the Class B Notes, as applicable, after giving effect to all other payments in respect of principal of Class A Notes and Class B Notes to be made on such Quarterly Distribution Date; and

(x)(ii) If an Event of Default as described in Section 5.4 (b) of the Indenture has occurred and is continuing, then amounts on deposit in the Collection Account shall be applied as provided in Section 5.4(b) of the Indenture; and

(y) In the event the Student Loans are not sold pursuant to Section 4.5(a) or Section 4.4 of the Indenture, the amount that would otherwise be paid to the Issuer under clause 8.11(j) above shall be applied on such Quarterly Distribution Date to pay as an accelerated payment of principal on the Notes, first to the Class A Noteholders in the same order and priority as is set forth in clause 8.11(e) until the Outstanding Amount of the Class A Notes is paid in full and reduced to zero, and then to the Class B Noteholders as set forth in clause 8.11(f) above; provided that the amount of such distribution shall not exceed the Outstanding Amount of the Class A Notes or the Class B Notes, as applicable, after giving effect to all other payments in respect of principal of Class A Notes and Class B Notes to be made on such Quarterly Distribution Date.

(z) If (i) an Event of Default affecting the Class A Notes has occurred and is continuing or if (ii) on any Distribution Date following distributions of the amounts specified in clauses (a) through (c) above, if any, to be made on that Distribution Date, the Outstanding Amount of the Class A Notes would be in excess of (A) the sum of (1) the outstanding principal balance of the Student Loans as of the last day of the related Collection Period, (2) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period and (3) the balance of the Reserve Account and the Capitalized Interest Account on such Quarterly Distribution Date following those distributions required to be made under clauses (a) through (c) above, minus (B) the Specified Reserve Account Balance for that Distribution Date, then, until the conditions described in (i) or (ii) no longer exist, amounts on deposit in the Collection Account and the Reserve Account shall be applied on such Distribution Date to the payment of the Class A Noteholders' Distribution Amount, if then due, and no amounts shall be applied to the payment of the Class B Noteholders' Distribution Amount.

Section 8.12 Reserve Account. On the Closing Date, the Issuer shall deposit or cause to be deposited the Reserve Account Initial Deposit into the Reserve Account.

(a) In the event that the Primary Servicing Fee for any Monthly Servicing Payment Date or Quarterly Distribution Date exceeds the amount distributed to the Servicer pursuant to Sections 8.10(b) and 8.11(a) above on such Monthly Servicing Payment Date or Quarterly Distribution Date, the Trustee shall withdraw from the Reserve Account on such Monthly Servicing Payment Date or Quarterly Distribution Date an amount equal to such excess, to the extent of funds available therein, and distribute such amount to the Servicer; provided, however, that, except as provided in Section 8.12(f) below, amounts on deposit in the Reserve Account will not be available to cover any unpaid Carryover Servicing Fees to the Servicer.

(b) In the event that the Available Funds are insufficient to make the payments described under Sections 8.11(a) through 8.11(d) above on any Distribution Date, the Trustee shall withdraw from the Capitalized Interest Account (solely for payments described in Sections 8.11(c) and (d) above) and then, to the extent needed from the Reserve Account on each Distribution Date, an amount equal to such deficiency, to the extent of funds available therein after giving effect to clause (a) above, and distribute such amounts in the same order and priority as is set forth in Sections 8.11(a) through 8.11(d) above.

(c) In the event that the Class A Noteholders' Principal Distribution Amount on the Note Final Maturity Date with respect to any class of Class A Notes exceeds the amount to be distributed to such Class A Noteholders pursuant to Section 8.11(e) above on such date, the Trustee shall withdraw from the Reserve Account on such Note Final Maturity Date an amount equal to such deficiency, to the extent of funds available therein after giving effect to Clauses (a) and (b) above, and distribute such amount to the Class A Noteholders entitled thereto, in the same order and priority as is set forth in Section 8.11(e) above.

(d) In the event that the Class B Noteholders' Principal Distribution Amount on the Class B Maturity Date exceeds the amount to be distributed to the Class B Noteholders pursuant to Section 8.11(f) on such date, the Trustee shall withdraw from the Reserve Account on the Class B Maturity Date an amount equal to such excess, to the extent of funds available

therein after giving effect to Clauses (a) through (c) above, and distribute such amount to the Class B Noteholders entitled thereto.

(e) After giving effect to Clauses (a) through (d) above, if the amount on deposit in the Reserve Account on any Distribution Date (after giving effect to all deposits or withdrawals therefrom on such Distribution Date other than pursuant to this Section 8.12(e) is greater than the Specified Reserve Account Balance for such Distribution Date, the Trustee shall withdraw the amount on deposit in excess of the Specified Reserve Account Balance and deposit such amount into the Collection Account.

(f) On the final Distribution Date following the payment in full of the Outstanding Amount of the Notes and of all other amounts (other than Carryover Servicing Fees) owing or to be distributed hereunder to Noteholders or the Servicer, as applicable, to the extent that Available Funds on such date are insufficient to pay Carryover Servicing Fees, amounts remaining in the Reserve Account shall be used to pay any Carryover Servicing Fees. Anything in this Indenture or the Basic Documents to the contrary notwithstanding, any amount remaining on deposit in the Reserve Account after such payments have been made shall be distributed to the Issuer as provided in Section 8.4(b) hereof. The Issuer shall in no event be required to refund any amounts properly distributed pursuant to this Section 8.12(f).

Anything in this Section 8.12 to the contrary notwithstanding, if the market value of securities and cash in the Reserve Account and the Capitalized Interest Account is on any Quarterly Distribution Date sufficient to pay the remaining principal amount of and interest accrued on the Notes, and to pay any unpaid Carryover Servicing Fee, such amount will be so applied on such Quarterly Distribution Date and the Trustee shall make such payments.

Section 8.13 Acquisition Account. On the Closing Date, the Issuer shall deposit or cause to be deposited the Acquisition Account Initial Deposit into the Acquisition Account. Upon receipt of an Issuer Order, the Trustee shall use the Acquisition Account Initial Deposit to fund the purchase of Student Loans which are the subject of the Grant from the Issuer to the Trustee under the GRANTING CLAUSE of this Indenture and to pay the expenses related to the issuance of the Notes.

Section 8.14 Capitalized Interest Account. On the Closing Date, the Issuer shall deposit or cause to be deposited the Capitalized Interest Account Initial Deposit into the Capitalized Interest Account. The Trustee shall transfer amounts from the Capitalized Interest Account as required by the provisions of this Indenture. Any balance remaining in the Capitalized Interest Account through the October, 2007 Distribution Date shall be transferred on the following day to the Collection Account and included in Available Funds and the Capitalized Interest Account shall thereafter be terminated.

Section 8.15 Investment Earnings; Other Trust Accounts. The Trustee shall withdraw all Investment Earnings, if any, on deposit in each existing Trust Account on each Distribution Date; deposit such amounts into the Collection Account and include such amounts as Available Funds for that Distribution Date.

Section 8.16 Statements to the Noteholders. On each Determination Date preceding a Quarterly Distribution Date, the Issuer shall forward on such succeeding Quarterly Distribution Date to each Noteholder of record a statement (with a copy to the Rating Agencies), setting forth at least the following information as to the Notes to the extent applicable:

(a) the amount of such distribution allocable to principal of each class of the Notes;

(b) the amount of the distribution allocable to interest on each class of the Notes;

(c) the amount of the distribution allocable to the Issuer, if any;

(d) the Pool Balance as of the close of business on the last day of the preceding Collection Period;

(e) the aggregate outstanding principal balance of the Notes and the Note Pool Factor as of such Quarterly Distribution Date, after giving effect to payments allocated to principal reported under Clauses (a) and (c) above;

(f) the Note Rate for the next period for each of the Class A-1, A-2 and A-3 Notes;

(g) the amount of the Servicing Fee and any Carryover Servicing Fee paid to the Servicer on such Quarterly Distribution Date and on the two preceding Monthly Servicing Payment Dates, and the amount, if any, of the Carryover Servicing Fee remaining unpaid after giving effect to any such payments;

(h) the amount of the fees paid to the Trustee on such Quarterly Distribution Date;

(i) the amount of the aggregate Realized Losses, if any, for the related Collection Period;

(j) the balance of Student Loans that are delinquent in each delinquency period as of the end of such Collection Period;

(k) the amount of any Note Interest Shortfall, if any, in each case as applicable to each class of Notes, and the change in such amounts from the preceding statement;

(l) the aggregate Purchase Amounts for Student Loans, if any, that were purchased by the Servicer from the Issuer during such Collection Period; and

(m) the balance of the Reserve Account on such Quarterly Distribution Date, after giving effect to changes therein on such Quarterly Distribution Date.

(n) Each amount set forth pursuant to Clauses (a), (b), (c), (g), (h) and (k) above shall be expressed as a dollar amount per $1,000 of original principal balance of the

applicable Note. A copy of the statements referred to above may be obtained by any Note Owner by a written request to the Trustee addressed to the Corporate Trust Office.

Section 8.17 Non-Ministerial Matters. With respect to matters that in the reasonable judgment of the Trustee are non-ministerial, the Trustee shall not take any action unless within a reasonable time before the taking of such action, the Trustee shall have notified the Issuer of the proposed action. For the purpose of the preceding sentence, "non-ministerial matters" shall include:

(a) the amendment of or any supplement to the Indenture;

(b) the initiation of any claim or lawsuit by the Issuer and the compromise of any action, claim or lawsuit brought by or against the Issuer (other than in connection with the collection of the Student Loans);

(c) the amendment, change or modification of the Basic Documents;

(d) the appointment of successor Note Registrars, successor Paying Agents, successor Trustees pursuant to the Indenture or the appointment of Successor Servicers, or the consent to the assignment by the Note Registrar, Paying Agent or Trustee of its obligations under the Indenture; and

(e) the removal of the Trustee.

Section 8.18 Servicer Expenses. The Servicer shall be required to pay all expenses incurred by it in connection with its activities hereunder, including fees and disbursements of independent accountants, taxes imposed on the Servicer, and expenses incurred in connection with distributions and reports to the Trustee, the Issuer and the Noteholders, as the case may be.

Section 8.19 Servicer's Report.

(a) On or before the tenth day of each month (or, if any such day is not a Business Day, on the next succeeding Business Day), the Servicer shall be required to deliver to the Trustee a Servicer's Report with respect to the preceding month containing all information necessary for the Trustee to make the payment referred to in Section 8.19(b) below.

(b) On each Monthly Servicing Payment Date that is not a Quarterly Distribution Date, the Trustee shall pay the Servicer the Primary Servicing Fee due on such Monthly Servicing Payment Date pursuant to Section 8.10(b) above.

(c) [Reserved]

(d) The Trustee shall furnish to the Issuer from time to time such information regarding the Trust Estate as the Issuer shall reasonably request.

Section 8.20 Annual Statement as to Compliance; Notice of Default.

(a) The Servicer shall deliver to the Trustee, on or before 90 days after the end of the fiscal year of the Servicer, an Officer's Certificate of the Servicer, dated as of the end of the Fiscal Year of the Servicer, stating that (i) a review of the activities of the Servicer during the preceding 12-month period (or, in the case of the first such certificate, during the period from the Closing Date to June 30, 2007) and of its performance under this Agreement has been made under such officers' supervision and (ii) to the best of such officers' knowledge, based on such review, the Servicer has fulfilled its obligations in all material respects under this Agreement and, with respect to the Servicer, the Servicing Agreement throughout such year or, if there has been a material default in the fulfillment of any such obligation, specifying each such material default known to such officers and the nature and status thereof. The Trustee shall send a copy of each such Officers' Certificate and each report referred to in Section 8.19 to the Rating Agencies. A copy of each such Officers' Certificate and each report referred to in Section 8.19 may be obtained by the Issuer, any Noteholder or any Note Owner by a request in writing to the Trustee addressed to its Corporate Trust Office, together with evidence satisfactory to the Trustee that such Person is one of the foregoing parties.

(b) The Servicer shall deliver to the Trustee, the Issuer and the Rating Agencies, promptly after having obtained knowledge thereof, but in no event later than five Business Days thereafter, written notice in an Officers' Certificate of the Servicer of any event which with the giving of notice or lapse of time, or both, would become a Servicer Default under Section 5.01 of the Servicing Agreement.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.1 Supplemental Indentures without Consent of Noteholders.

(a) Without the consent of any Noteholders but with prior notice to the Rating Agencies, the Issuer and the Trustee, when authorized by an Issuer Order, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(i) to correct or amplify the description of any property at any time subject to the lien of this Indenture, or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of this Indenture, or to subject to the lien of this Indenture additional property;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another person to the Issuer, and the assumption by any such successor of the covenants of the Issuer herein and in the Notes contained;

(iii) to add to the covenants of the Issuer, for the benefit of the Noteholders, or to surrender any right or power herein conferred upon the Issuer;

(iv) to convey, transfer, assign, mortgage or pledge any property to the Trustee;

(v) to cure any ambiguity, to correct or supplement any provision herein or in any supplemental indenture which may be inconsistent with any other provision herein or in any supplemental indenture or to make any other provisions with respect to matters or questions arising under this Indenture or in any supplemental indenture; provided that such action shall not materially adversely affect the interests of the Noteholders;

(vi) to evidence and provide for the acceptance of the appointment hereunder by a successor trustee with respect to the Notes and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee, pursuant to the requirements of Article VI; or

(vii) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to maintain the applicable ratings on the Notes.

Each of the Trustee and the Trustee is hereby authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations that may be therein contained.

(b) The Issuer and the Trustee, when authorized by an Issuer Order, may, also without the consent of any of the Noteholders but with prior notice to the Rating Agencies, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Noteholders under this Indenture; provided, however, that such action shall be subject to the satisfaction of the Rating Agency Condition.

Section 9.2 Supplemental Indentures with Consent of Noteholders. The Issuer and the Trustee, when authorized by an Issuer Order, also may, with prior notice to the Rating Agencies and with the consent of the Noteholders of at least a majority of the Outstanding Amount of the Notes, by Act of such Noteholders delivered to the Issuer and the Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Noteholders under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Noteholder of each Outstanding Note affected thereby:

(i) change the date of payment of any payment of principal of or interest on any Note, or reduce the principal amount thereof, the interest rate thereon or the Redemption Price with respect thereto, change the provisions of this Indenture relating to the application of collections on, or the proceeds of the sale of, the Trust Estate to payment of principal of or interest on the Notes, or change any place of payment where, or the coin or currency in which, any Note or the interest thereon is payable or impair the right to institute suit for the enforcement of the provisions of this Indenture requiring the application of funds available therefore, as provided in Article V, to the payment of any

such amount due on the Notes on or after the respective due dates thereof (or, in the case of redemption, on or after the Redemption Date);

(ii) reduce the percentage of the Outstanding Amount of the Notes, the consent of the Noteholders of which is required for any such supplemental indenture, or the consent of the Noteholders of which is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture;

(iii) modify or alter the provisions of the proviso to the definition of the term "Outstanding";

(iv) reduce the percentage of the Outstanding Amount of the Notes required to direct the Trustee to direct the Issuer to sell or liquidate the Trust Estate pursuant to Section 5.4;

(v) modify any provision of this Section except to increase any percentage specified herein or to provide that certain additional provisions of this Indenture or the other Basic Documents cannot be modified or waived without the consent of the Noteholder of each Outstanding Note affected thereby;

(vi) modify any of the provisions of this Indenture in such manner as to affect the calculation of the amount of any payment of interest or principal due on any Note on any Distribution Date (including the calculation of any of the individual components of such calculation) or to affect the rights of the Noteholders to the benefit of any provisions for the mandatory redemption of the Notes contained herein; or

(vii) permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any part of the Trust Estate or, except as otherwise permitted or contemplated herein, terminate the lien of this Indenture on any property at any time subject hereto or deprive any Noteholder of any Note of the security provided by the lien of this Indenture.

It shall not be necessary for any Act of Noteholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Promptly after the execution by the Issuer and the Trustee of any supplemental indenture pursuant to this Section, the Trustee shall mail to the Noteholders of the Notes to which such amendment or supplemental indenture relates a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

Section 9.3 Execution of Supplemental Indentures. In executing, or permitting the additional trusts created by, any supplemental indenture permitted by this Article IX or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to

receive, and subject to Sections 6.1 and 6.2, shall be fully protected in relying upon, an Opinion of Counsel to the effect that the execution of such supplemental indenture is authorized or permitted by this Indenture or a ratings affirmation letter from the Rating Agencies as provided in Section 9.1(b). The Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise.

Section 9.4 Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and be deemed to be modified and amended in accordance therewith with respect to the Notes affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Trustee, the Issuer and the Noteholders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.5 [Reserved]

Section 9.6 Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article IX may, and if required by the Trustee shall, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Outstanding Notes.

ARTICLE X

REDEMPTION OF NOTES

Section 10.1 Redemption. (a) The Trustee shall, upon receipt of written notice from the Servicer pursuant to Section 4.5 of the Indenture, give prompt written notice to the Noteholders of the occurrence of such event. In the event that the Trust Estate, other than the Trust Accounts, is sold pursuant to Section 4.5(a) of the Indenture, that portion of the amounts on deposit in the Trust Accounts to be distributed to the Noteholders shall be paid to the Noteholders as provided in Sections 8.10 and 8.11 of this Indenture. If amounts are to be paid to Noteholders pursuant to this Section 10.1, the notice of such event from the Trustee to the Noteholders shall include notice of the redemption of Notes by application of such amounts on the next Quarterly Distribution Date which is not sooner than 15 days after the date of such notice (the "Section 4.5 Redemption Date"), whereupon all such amounts shall be payable on the Section 4.5 Redemption Date.

(b) If amounts are to be paid to Class B Noteholders pursuant to Section 8.11(f) of this Indenture, the notice of such event from the Trustee to the Class B Noteholders shall include notice of the redemption of such Class B Notes by application of such amounts on the Auction Rate Distribution Date specified in Section 8.11(f) or the next succeeding Auction Rate Distribution Date, if such Auction Rate Distribution Date occurs sooner than 15 days after the

date of such notice (the "Section 8.11(f) Redemption Date", together with the Section 4.5 Redemption Date, the "Redemption Date"), whereupon all such amounts shall be payable on the Section 8.11(f) Redemption Date.

Section 10.2 Form of Redemption Notice. Notice of redemption under Section 10.1(a) or (b) shall be given by the Trustee by first-class mail, postage prepaid, or by facsimile, mailed or transmitted on or prior to the applicable Redemption Date to each Noteholder described in Section 10.1(a) or (b), as of the close of business on the Record Date preceding the applicable Redemption Date, at such Noteholder's address or facsimile number appearing in the Note Register.

All notices of redemption shall state:

(i) the Redemption Date;

(ii) the Redemption Price; and

(iii) the place where such Notes are to be surrendered for payment of the Redemption Price (which shall be the Corporate Trust Office of the Trustee).

Notice of redemption of the Notes shall be given by the Trustee in the name and at the expense of the Issuer. Failure to give notice of redemption, or any defect therein, to any Noteholder of any Note shall not impair or affect the validity of the redemption of any other Note.

Section 10.3 Notes Payable on Redemption Date. The Notes or portions thereof to be redeemed shall on the Redemption Date become due and payable at the Redemption Price and (unless the Issuer shall default in the payment of the Redemption Price) no interest shall accrue on the Redemption Price for any period after the date to which accrued interest is calculated for purposes of calculating the Redemption Price.

ARTICLE XI

MISCELLANEOUS

Section 11.1 Compliance Certificates and Opinions, etc.

(a) Upon any application or request by the Issuer to the Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Trustee and the Rating Agencies an Officers' Certificate of the Issuer stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this indenture shall include:

(i) a statement to the effect that each signatory of such certificate or opinion has read or has caused to be read such covenant or condition and the definitions herein relating thereto;

(ii) a brief statement as to the nature and scope of the review or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement to the effect that, in the opinion of each such signatory, such signatory has made such review or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with.

(b) (i) Prior to the deposit of any property or securities intended to comprise a portion of the Trust Estate with the Trustee that is to be made the basis for the release of any other property or securities subject to the lien of this Indenture as provided in Section 3.5 of the Servicing Agreement, the Issuer shall, in addition to any obligation imposed in Section 11.1(a) or elsewhere in this Indenture, furnish to the Trustee and the Rating Agencies an Officers' Certificate of the Issuer certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such deposit) to the Issuer of the other property or securities to be so deposited to the credit of the Trust Estate.

(ii) Whenever the Issuer is required to furnish to the Trustee and the Rating Agencies an Officers' Certificate of the Issuer certifying or stating the opinion of any signer thereof as to the matters described in clause (b)(i) above, the Issuer shall also deliver to the Trustee an Independent Certificate as to the same matters, if the fair value to the Issuer of the securities to be so deposited and of all other such securities made the basis of any such withdrawal or release since the commencement of the then-current fiscal year of the Issuer, as set forth in the certificates delivered pursuant to clause (b)(i) above and this clause (b)(ii), is 10% or more of the Outstanding Amount of the Notes, but such a certificate need not be furnished with respect to any securities so deposited, if the fair value thereof to the Issuer as set forth in the related Officers' Certificate is less than the greater of $25,000 or one percent of the Outstanding Amount of the Notes.

(iii) Other than any property released as contemplated by clause (b)(v) below, whenever any property or securities are to be released from the lien of this Indenture, the Issuer shall also furnish to the Trustee an Officers' Certificate of the Issuer certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such release) of the property or securities proposed to be released and stating that in the opinion of such person the proposed release will not impair the security under this Indenture in contravention of the provisions hereof.

(iv) [Reserved]

Section 11.2 Form of Documents Delivered to Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters, and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an Authorized Officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate of an Authorized Officer or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Servicer, or the Issuer, stating that the information with respect to such factual matters is in the possession of the Servicer, or the Issuer, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

Section 11.3 Acts of Noteholders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Noteholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Noteholders in person or by agents duly appointed in writing; and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Noteholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.1) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

(b) The fact and date of the execution by any person of any such instrument or writing may be proved in any manner that the Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Noteholder shall bind the Noteholder of every Note issued upon registration of transfer thereof or in exchange therefore or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

Section 11.4 Notices, etc., to Trustee, Issuer and Rating Agencies. Any request, demand, authorization, direction, notice, consent, waiver or Act of Noteholders or other documents provided or permitted by this Indenture shall be in writing and if such request, demand, authorization, direction, notice, consent, waiver or Act of Noteholders is to be made upon, given or furnished to or filed with:

(a) The Trustee by any Noteholder, the Servicer, or by the Issuer shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office.

(b) [Reserved]

(c) The Issuer by the Trustee or by any Noteholder shall be sufficient for every purpose hereunder if in writing and mailed, first-class, postage prepaid, to the Issuer addressed to: Pennsylvania Higher Education Assistance Agency, 1200 North Seventh Street, Harrisburg, Pennsylvania 17102, Attention: Chief Financial Officer or any other address previously furnished in writing to the Trustee by the Issuer. The Issuer shall promptly transmit any notice received by it from the Noteholders to the Trustee.

Notices required to be given to the Rating Agencies by the Issuer or the Trustee shall be in writing, personally delivered or mailed by certified mail, return receipt requested, to (i) in the case of Moody's, at the following address: ABS Monitoring Department, 99 Church Street, New York, New York 10007, (ii) in the case of S&P, at the following address: 55 Water Street, New York, New York 10041-0003, Attention: Asset Backed Surveillance Department, 32nd Floor, and (iii) in the case of Fitch, at the following address: One State Street Plaza, New York, New York 10004, Attention: ABS Surveillance, or email to abs.surveillance@fitchratings.com; or as to each of the foregoing, at such other address as shall be designated by written notice to the other parties.

Section 11.5 Notices to Noteholders; Waiver. Where this Indenture provides for notice to Noteholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class, postage prepaid to each Noteholder affected by such event, at his address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Noteholders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Noteholder shall affect the sufficiency of

such notice with respect to other Noteholders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Noteholders shall be filed with the Trustee but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Noteholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to the Rating Agencies, failure to give such notice shall not affect any other rights or obligations created hereunder, and shall not under any circumstance constitute a Default.

Section 11.6 Alternate Payment and Notice Provisions. Notwithstanding any provision of this Indenture or any of the Notes to the contrary, the Issuer may enter into any agreement with any Noteholder providing for a method of payment, or notice by the Trustee, the Trustee or any Paying Agent to such Noteholder, that is different from the methods provided for in this Indenture for such payments or notices. The Issuer will furnish to the Trustee a copy of each such agreement and the Trustee will cause payments to be made and notices to be given in accordance with such agreements.

Section 11.7 [Reserved]

Section 11.8 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 11.9 Successors and Assigns. All covenants and agreements in this Indenture and the Notes by the Issuer shall bind its successor and assigns, whether so expressed or not. All agreements of the Trustee in this Indenture shall bind the successors, co-trustees and agents (excluding any legal representatives or accountants) of the Trustee.

Section 11.10 Separability. In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 11.11 Benefits of Indenture. Nothing in this Indenture or in the Notes, express or implied shall give to any person, other than the parties hereto and their successors hereunder, the Noteholders, any other party secured hereunder, and any other Person with an ownership interest in any part of the Trust Estate, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 11.12 Legal Holidays. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Notes or this Indenture) payment 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 on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

Section 11.13 Governing Law. This Indenture shall be construed in accordance with the laws of the Commonwealth of Pennsylvania.

Section 11.14 Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 11.15 [Reserved]

Section 11.16 Trust Obligations. No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer, the Servicer, or the Trustee, on the Notes or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) the Trustee or (ii) any shareholder, beneficiary, agent, officer, director or employee of the Trustee in its individual capacity.

Section 11.17 No Recourse Under Indenture or on Notes. All covenants, stipulations, promises, agreements and obligations of the Issuer contained in this Indenture shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Issuer, payable solely from the Trust Estate, and not of any member, officer or employee of the Issuer in his individual capacity, and no recourse shall be had for the payment of the principal of or interest on the Notes or for any claim based thereon or on this Indenture against any member, officer or employee of the Issuer or against any natural person executing the Notes or against any assets or moneys of the Issuer which are not part of the Trust Estate.

Section 11.18 Inspection. The Issuer agrees that, on reasonable prior notice, it shall permit any representative of the Trustee, during the Issuer's normal business hours, to examine all the books of account, records, reports, and other papers of the Issuer with respect to the Trust Estate, and to make copies and extracts therefrom. The Trustee shall and shall cause its representatives to hold in confidence all such information obtained from such review or inspection except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent that the Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder.

Section 11.19 Immunity of Officers, Directors, Agents and Employees of Issuer. No recourse shall be had for the enforcement of any obligation, covenant, promise or agreement of the Issuer contained in this Indenture or in any Note issued thereunder or for any claim based hereon or thereon or otherwise in respect thereof or upon any obligation, covenant, promise or agreement of the Issuer contained in this Indenture, against any officer, director, agent or employee, as such, in his individual capacity, past, present or future, of the Issuer or any of successor thereto, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and

understood that no personal liability whatsoever shall attach to, or be incurred by, any officer, director, agent or employee, as such, past, present or future, of the Issuer or of any successor thereto, either directly or by reason of any of the obligations, covenants, promises or agreements entered into between the Issuer and the Trustee to be implied therefrom as being supplemental hereto or thereto, and that all personal liability of that character against every such officer, director, agent and employee is, by the execution of this Indenture and the Notes, and as a condition of, and as part of the consideration for, the execution of this Indenture and the Notes, expressly waived and released.

Section 11.20 No Pecuniary Liability of the Issuer. No agreements or provisions contained herein nor any agreement, covenant or undertaking by the Issuer in connection with the Student Loans or the issuance, sale and delivery of the Notes shall give rise to any pecuniary liability of the Issuer or a charge against its general credit, or shall obligate the Issuer financially in any way, except as may be payable from the Trust Estate pledged by this Indenture for the payment of the Notes and their application as provided herein; no failure of the Issuer to comply with any term, covenant or agreement herein, or in any document executed by the Issuer in connection with the Student Loans or the issuance and sale of the Notes, shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charge, except to the extent that the same can be paid or recovered from the Trust Estate pledged by this Indenture for the payment of the Notes; nothing herein shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein, provided that no costs, expenses or other monetary relief shall be recoverable from the Issuer, except as may be from the Trust Estate pledged by this Indenture for the payment of the Notes; no provision, covenant or agreement contained in this Indenture, or any obligation herein imposed upon the Issuer, or the breach thereof, shall constitute an indebtedness of the Issuer within the meaning of any Commonwealth of Pennsylvania constitutional or statutory limitation or shall constitute or give rise to a charge against its general credit; and in making the agreements, provisions and covenants set forth in this Indenture, the Issuer has not obligated itself, except with respect to the application of the Trust Estate pledged by this Indenture.

Section 11.21 Payments of Taxes and Other Governmental Charges.

(a) The Trustee shall request, and Noteholders shall provide, all appropriate tax certifications and forms necessary to enable the Trust or its agents, to determine their duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold in respect of the Notes under any present or future law or regulation of the United States or any present or future law or regulation of any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any law or regulation, and to pay, deduct or withhold any such taxes or charges and remit them to the relevant taxing authorities as required under law. Such certification shall take the form of a correct, complete and executed U.S. Internal Revenue Service Form W-9, W-8BEN, W-8ECI, or W-8IMY (or any successors thereto), as applicable, with appropriate attachments, that identifies such Noteholder.

(b) If such forms are not provided or if any tax or other governmental charge shall otherwise become payable by or on behalf of the Trustee, including any tax or

governmental charge required to be withheld from any payment made by the Trustee under the provisions of any applicable law or regulation with respect to the Notes, such tax or governmental charge shall be payable by the Noteholder and may be withheld by the Trustee. The Issuer and the Trustee shall have the right to refuse the surrender, registration of transfer or exchange of any Note with respect to which such tax or other governmental charge shall be payable until such payment shall have been made by the Noteholder.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be duly executed by their respective officers, thereunto duly authorized and duly attested, all as of the day and year first above written.

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

By:_____
Richard E. Willey
President and Chief Executive Officer

MANUFACTURERS AND TRADERS TRUST COMPANY

By:_____
Name:
Title:

APPENDIX A

DEFINITIONS AND USAGE

Usage

The following rules of construction and usage shall be applicable to any instrument that is governed by this appendix (this "Appendix"):

(a) All terms defined in this Appendix shall have the defined meanings when used in any instrument governed hereby and in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(b) As used herein, in any instrument governed hereby and in any certificate or other document made or delivered pursuant thereto, accounting terms not defined in this Appendix or in any such instrument, certificate or other document, and accounting terms partly defined in this Appendix or in any such instrument, certificate or other document, to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles as in effect on the date of such instrument. To the extent that the definitions of accounting terms in this Appendix or in any such instrument, certificate or other document are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained in this Appendix or in any such instrument, certificate or other document shall control.

(c) The words "hereof," "herein," "hereunder" and words of similar import when used in an instrument refer to such instrument as a whole and not to any particular provision or subdivision thereof; references in an instrument to "Article," "Section" or another subdivision or to an attachment are, unless the context otherwise requires, to an article, Section or subdivision of or an attachment to such instrument; and the term "including" means "including without limitation."

(d) The definitions contained in this Appendix are equally applicable to both the singular and plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

(e) Any agreement, instrument or statute defined or referred to below or in any agreement or instrument that is governed by this Appendix means such agreement or instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by assignment, assumption, waiver or consent and (in the case of statutes) by succession of comparable successor statutes and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns.

Definitions

"Accrual Period" means, (i) with respect to Class A Notes, the period from and including the immediately preceding Quarterly Distribution Date to, but excluding, the then-current Quarterly Distribution Date, or in the case of the initial such period, the period from and including the Closing Date to, and including, January 24, 2007; and (ii) with respect to Class B Notes, initially , the period beginning on the Closing Date and continuing through the day immediately preceding the Initial Rate Adjustment Date, and thereafter, the period beginning on an Auction Rate Distribution Date and ending on the day before the next Auction Rate Distribution Date.

"Acquisition Account Initial Deposit" means approximately $731,758,692.

"Actual/360" means that interest is calculated on the basis of the actual number of days elapsed in a year of 360 days.

"Adjusted Pool Balance" means, for any Quarterly Distribution Date, (i) if the Pool Balance as of the last day of the related Collection Period is greater than 40% of the Initial Pool Balance, the sum of such Pool Balance, the Capitalized Interest Account Balance and the Specified Reserve Account Balance for such Quarterly Distribution Date, or (ii) if the Pool Balance as of the last day of the related Collection Period is less than or equal to 40% of the Initial Pool Balance, the sum of such Pool Balance and the Capitalized Interest Account Balance.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Auction Procedures" means the procedures set forth in Section 2.02(a) of Appendix B hereto.

"Auction Rate Distribution Date" means each Payment Date (as defined in Appendix B).

"Authorized Officer" means (i) with respect to the Trustee, any officer of the Trustee or any of its Affiliates who is authorized to act for the Trustee in matters relating to itself or to the Trust and to be acted upon by the Trustee pursuant to the Basic Documents and who is identified on the list of Authorized Officers delivered by the Trustee on the Closing Date (as such list may be modified or supplemented from time to time thereafter), (ii) with respect to the Issuer, any officer of the Issuer who is authorized to act for the Issuer in matters relating to or to be acted upon by the Issuer pursuant to the Basic Documents and (iii) with respect to the Servicer, any officer of the Servicer who is authorized to act for the Servicer in matters relating to or to be acted upon by the Servicer pursuant to the Basic Documents and who is identified on the list of Authorized Officers delivered by the Servicer to the Trustee on the Closing Date (as such list may be modified or supplemented from time to time thereafter).

"Available Funds" means, as to an Auction Rate Distribution Rate, a Quarterly Distribution Date, any Monthly Servicing Payment Date or any Monthly Expense Payment Date, the sum of the following amounts received with respect to the related Collection Period or, in the case of a Monthly Servicing Payment Date or a Monthly Expense Payment Date, the applicable portion of these amounts:

(a) all collections on the Student Loans received by the Servicer on the Student Loans, including any Guarantee Payments received on the Student Loans, but net of:

(1) any collections in respect of principal on the Student Loans applied to repurchase guaranteed loans from the Guarantors under the Guarantee Agreements, and

(2) amounts required by the Higher Education Act to be paid to the Department or to be repaid to borrowers, whether or not in the form of a principal reduction of the applicable Student Loan, on the Student Loans for that Collection Period, if any;

(b) any Interest Subsidy Payments and Special Allowance Payments with respect to the Student Loans during that Collection Period;

(c) all Liquidation Proceeds from any Student Loans which became Liquidated Student Loans during that Collection Period in accordance with the Servicer's customary servicing procedures, net of expenses incurred by the Servicer related to their liquidation and any amounts required by law to be remitted to the borrowers on the Liquidated Student Loans, and all Recoveries on Liquidated Student Loans which were written off in prior Collection Periods or during that Collection Period;

(d) the aggregate amounts, if any, received from the Servicer as reimbursement of non guaranteed interest amounts, or lost Interest Subsidy Payments and Special Allowance Payments, on the Student Loans pursuant to Section 3.5 of the Servicing Agreement, respectively;

(e) amounts received pursuant to Section 3.1 of the Servicing Agreement during that Collection Period as to yield or principal adjustments;

(f) Investment Earnings on amounts on deposit in each Trust Account;

(g) on the October, 2007 Quarterly Distribution Date, as applicable, all funds then on deposit in the Capitalized Interest Account that are required under the Indenture to be transferred into the Collection Account for payment on that Quarterly Distribution Date;

(h) amounts transferred from the Reserve Account in excess of the Specified Reserve Account Balance as of that Quarterly Distribution Date; and

(i) amounts received from the Servicer or the Issuer, as applicable, pursuant to Sections 8.9(a) and 8.9(b) of this Indenture;

provided that if on any Distribution Date there would not be sufficient funds, after application of Available Funds, as defined above, and application of amounts available from the Reserve Account and the Capitalized Interest Account to pay any of the items specified in clauses (a) through (d) of Section 8.11 of the Indenture (but excluding clause (f) thereof, in the event that a condition exists as described in either clause (i) or (ii) of Paragraph (x) of Section 8.11 of the Indenture), as set forth in Section 8.12 of the Indenture, relating to such distributions, then Available Funds for that Distribution Date will include, in addition to the Available Funds as defined above, amounts on deposit in the Collection Account, or amounts held by the Trustee, or which the Trustee reasonably estimates to be held by it, for deposit into the Collection Account on the related Determination Date which would have constituted Available Funds for the Distribution Date succeeding that Distribution Date, up to the amount necessary to pay such items, and the Available Funds for the succeeding Distribution Date will be adjusted accordingly.

"Basic Documents" means the Indenture, the Servicing Agreement, the Guarantee Agreements, and other documents and certificates delivered in connection with any such documents.

"Benefit Plan" means (i) an employee benefit plan (as defined in Section 3(3) of ERISA), whether or not subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(1) of the Code, whether or not subject to Section 4975 of the Code or (iii) any entity whose underlying assets include plan assets by reason of a plan's investment in the entity.

"Book-Entry Note" means a beneficial interest in the Notes, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 2.10 of the Indenture.

"Business Day" means (i) with respect to calculating LIBOR of a specified maturity, any day on which banks in New York, New York and London, England are open for the transaction of international business and (ii) for all other purposes, any day other than a Saturday, a Sunday or a day on which banking institutions or trust companies in New York, New York or Harrisburg, Pennsylvania are authorized or obligated by law, regulation or executive order to remain closed.

"Capitalized Interest Account" means the account designated as such, established and maintained pursuant to Section 8.6(a) of the Indenture.

"Capitalized Interest Account Balance" means, for any Quarterly Distribution Date through and including the October, 2007 Quarterly Distribution Date:

(i) if neither of the Capitalized Interest Conditions are in effect, the amount on deposit in the Capitalized Interest Account on the Quarterly Distribution Date following those distributions with respect to clause (c) (or clause (e), if a Class B Interest Subordination Condition is in effect) under Section 8.11 of the Indenture; or

(ii) if either of the Capitalized Interest Conditions are in effect, the excess, if any, of (x) the amount on deposit in the Capitalized Interest Account on the Quarterly

Distribution Date following those distributions with respect to clause (c) under Section 8.11 of the Indenture, over (y) the Class B Noteholders' Interest Distribution Amount.

"Capitalized Interest Account Initial Deposit" means $14,250,000.

"Capitalized Interest Conditions" means the following two conditions:

(1) on any Distribution Date following distributions applied in accordance with clauses (a) through (j) under Section 8.11 of the Indenture to be made on that Distribution Date, the Outstanding Amount of the Class A Notes, would be in excess of:

(a) the outstanding principal balance of the Student Loans as of the last day of the related Collection Period plus

(b) any accrued but unpaid interest on the Student Loans as of the last day of the related Collection Period plus

(c) the balance of the Capitalized Interest Account on the Distribution Date following those distributions made in accordance with clause (c) (or clause (e) if a Class B Interest Subordination Condition is in effect) under Section 8.11 of the Indenture plus

(d) the balance of the Reserve Account on the Distribution Date following those distributions made under clauses (a) through (j) under Section 8.11 of the Indenture minus

(e) the Specified Reserve Account Balance for that Distribution Date, or

(2) an Event of Default described in Section 5.1(i) or (ii) with respect to the Class A Notes or Section 5.1(iv) or (v) has occurred and is continuing.

"Carryover Servicing Fee" has the meaning specified in Attachment A to the Servicing Agreement.

"Class A Note" means a Class A-1 Note, a Class A-2 Note or a Class A-3 Note.

"Class A Note Interest Shortfall" means, for any Quarterly Distribution Date, the excess of (i) the Class A Noteholders' Interest Distribution Amount on the preceding Quarterly Distribution Date, over (ii) the amount of interest actually distributed to the Class A Noteholders on that preceding Quarterly Distribution Date, plus interest on the amount of that excess, to the extent permitted by law, at the interest rate applicable for each such class of Notes from that preceding Quarterly Distribution Date to the current Quarterly Distribution Date.

"Class A Note Principal Shortfall" means, as of the close of any Quarterly Distribution Date, the excess of (i) the Class A Noteholders' Principal Distribution Amount on that Quarterly Distribution Date, over (ii) the amount of principal actually distributed to the Class A Noteholders on such Quarterly Distribution Date.

"Class A Noteholder" means the Person in whose name a Class A Note is registered in the Note Register.

"Class A Noteholders' Distribution Amount" means, for any Quarterly Distribution Date, the sum of the Class A Noteholders' Interest Distribution Amount and the Class A Noteholders' Principal Distribution Amount for that Quarterly Distribution Date.

"Class A Noteholders' Interest Distribution Amount" means, for any Quarterly Distribution Date, the sum of: (1) the amount of interest accrued at the Class A-1 Rate, the Class A-2 Rate or the Class A-3 Rate, as applicable, for the related Accrual Period on the Outstanding Amount of all classes of Class A Notes on the immediately preceding Quarterly Distribution Date(s) after giving effect to all principal distributions to Class A Noteholders on that preceding Quarterly Distribution Date or, in the case of the first Quarterly Distribution Date, on the Closing Date, and (2) the Class A Note Interest Shortfall for that Quarterly Distribution Date.

"Class A Noteholders' Principal Distribution Amount" means, for any Quarterly Distribution Date, the Principal Distribution Amount multiplied by the Class A Percentage for that Quarterly Distribution Date, plus any Class A Note Principal Shortfall as of the close of business on the preceding Quarterly Distribution Date; provided that the Class A Noteholders' Principal Distribution Amount will not exceed the Outstanding Amount of the Class A Notes. In addition, on the maturity date for any class of Class A Notes, the principal required to be distributed to the related Noteholders will include the amount required to reduce the Outstanding Amount of that Class to zero.

"Class A Percentage" means 100% minus the Class B Percentage.

"Class A-1 Maturity Date" means the Quarterly Distribution Date scheduled to occur on October 25, 2016.

"Class A-2 Maturity Date" means the Quarterly Distribution Date scheduled to occur on October 25, 2020.

"Class A-3 Maturity Date" means the Quarterly Distribution Date scheduled to occur on October 25, 2036.

"Class A-1 Noteholder" means a Person in whose name a Class A-1 Note is registered in the Note Register.

"Class A-2 Noteholder" means a Person in whose name a Class A-2 Note is registered in the Note Register.

"Class A-3 Noteholder" means a Person in whose name a Class A-3 Note is registered in the Note Register.

"Class A-1 Notes" means the $269,125,000 Student Loan Revenue Notes Series 2006 - 2 Senior Class A-1 issued pursuant to the Indenture, substantially in the form of Exhibit A-1 thereto.

"Class A-2 Notes" means the $158,390,000 Student Loan Revenue Notes Series 2006 - 2 Senior Class A-2 issued pursuant to the Indenture, substantially in the form of Exhibit A-1 thereto.

"Class A-3 Notes" means the $299,985,000 Student Loan Revenue Notes Series 2006 – 2 Senior Class A-3 issued pursuant to the Indenture, substantially in the form of Exhibit A-1 thereto.

"Class A-1 Rate" means, for any Accrual Period after the initial Accrual Period, Three-Month LIBOR, as determined on the second Business Day before the beginning of the applicable Accrual Period, plus 0.01 %, based on an Actual/360 accrual method. For the initial Accrual Period, the Class A-1 Rate shall mean the Initial Accrual Rate plus 0.01%, based on an Actual/360 accrual method.

"Class A-2 Rate" means, for any Accrual Period after the initial Accrual Period, Three-Month LIBOR, as determined on the second Business Day before the beginning of the applicable Accrual Period, plus 0.09 % based on an Actual/360 accrual method. For the initial Accrual Period, the Class A-2 Rate shall mean the Initial Accrual Rate plus 0.09%, based on an Actual/360 accrual method.

"Class A-3 Rate" means, for any Accrual Period after the initial Accrual Period, Three-Month LIBOR, as determined on the second Business Day before the beginning of the applicable Accrual Period, plus 0.13 % based on an Actual/360 accrual method. For the initial Accrual Period, the Class A-3 Rate shall mean the Initial Accrual Rate plus 0.13%, based on an Actual/360 accrual method.

"Class B Interest Subordination Condition" means, if after giving effect to all required distributions of principal and interest on the Notes on any Distribution Date, the outstanding principal balance of the Student Loans as of the last day of the related Collection Period, plus accrued but unpaid interest thereon as of the last day of the related Collection Period, and amounts then on deposit in the Reserve Account in excess of the Specified Reserve Account Balance as of such Distribution Date, would be less than the Outstanding Amount of the Class A Notes.

"Class B Maturity Date" means the Auction Rate Distribution Date scheduled to occur on October 25, 2042.

"Class B Note Interest Shortfall" means, with respect to any Auction Rate Distribution Date, the excess of (i) the Class B Noteholders' Interest Distribution Amount on the preceding Auction Rate Distribution Date over (ii) the amount of interest actually distributed to the Class B Noteholders on such preceding Auction Rate Distribution Date, plus interest on the amount of such excess interest due to the Class B Noteholders, to the extent permitted by law, at

the Class B Rate from such preceding Auction Rate Distribution Date to the current Auction Rate Distribution Date.

"Class B Note Principal Shortfall" means, as of the close of any Quarterly Distribution Date, the excess of (i) the Class B Noteholders' Principal Distribution Amount on such Quarterly Distribution Date over (ii) the amount of principal actually distributed to the Class B Noteholders on such Quarterly Distribution Date.

"Class B Noteholder" means the Person in whose name a Class B Note is registered in the Note Register.

"Class B Noteholders' Distribution Amount" means, for any Auction Rate Distribution Date, the sum of the Class B Noteholders' Interest Distribution Amount and the Class B Noteholders' Principal Distribution Amount for that Auction Rate Distribution Date.

"Class B Noteholders' Interest Distribution Amount" means, for any Auction Rate Distribution Date, the sum of (1) the amount of interest accrued at the Class B Rate for the related Accrual Period on the Outstanding Amount of the Class B Notes from the immediately preceding Auction Rate Distribution Date(s) (or, in the case of the first Auction Rate Distribution Date, the Closing Date), after giving effect to all principal distributions to Class B Noteholders on that preceding Quarterly Distribution Date, and (ii) the Class B Note Interest Shortfall for that Auction Rate Distribution Date.

"Class B Noteholders' Principal Distribution Amount" means, for any Quarterly Distribution Date, the Principal Distribution Amount multiplied by the Class B Percentage for that Quarterly Distribution Date, plus any Class B Note Principal Shortfall as of the close of business on the preceding Quarterly Distribution Date; provided that the Class B Noteholders' Principal Distribution Amount will not exceed the Outstanding Amount of the Class B Notes. In addition, on the Class B Maturity Date, the principal required to be distributed to the Class B Noteholders will include the amount required to reduce the Outstanding Amount of the Class B Notes to zero.

"Class B Notes" means the $22,500,000 Student Loan Revenue Notes Series 2006 - 2 Subordinate Class B issued pursuant to the Indenture, substantially in the form of Exhibit A-2 thereto.

"Class B Percentage" means, with respect to any Quarterly Distribution Date:

(a) prior to the Stepdown Date or with respect to any Quarterly Distribution Date on which a Trigger Event is in effect, zero; and

(b) on and after the Stepdown Date and provided that no Trigger Event is in effect, a fraction expressed as a percentage, the numerator of which is the aggregate Outstanding Amount of the Class B Notes immediately prior to that Quarterly Distribution Date and the denominator of which is the aggregate Outstanding Amount of all Notes, immediately prior to that Quarterly Distribution Date.

"Class B Rate" means, the rate of interest per annum that results from the implementation of the Auction Procedures and is determined as described in Section 2.02(a)(iii)(b) of Appendix B hereto.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to applicable law. The initial Clearing Agency shall be DTC, and the initial nominee for such Clearing Agency shall be Cede & Co.

"Clearing Agency Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

"Closing Date" means November 17, 2006.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and Treasury Regulations promulgated thereunder.

"Collection Account" means the account designated as such, established and maintained pursuant to Section 8.6(a) of this Indenture.

"Collection Account Initial Deposit" means $0.

"Collection Period" means with respect to the first Quarterly Distribution Date, the period beginning on the Closing Date and ending on December 31, 2006, and for each subsequent Quarterly Distribution Date, the Collection Period means the three calendar months immediately following the end of such previous Collection Period.

"Consolidation Loans" means the Student Loans made in accordance with the Section 428C of the Higher Education Act.

"Corporate Trust Office" means Manufacturers and Traders Trust Company, the corporate trust office of the Trustee which office at the Closing Date is located at Manufacturers and Traders Trust Company, 213 Market Street, Harrisburg, PA 17101, Attention: Corporate Trust Services, telephone: (717) 255-2323, facsimile: (717)231-2608, or at such other address as the Trustee may designate from time to time by notice to the Noteholders and the Issuer, or the principal corporate trust office of any successor to the Trustee (the address of which the successor Trustee will notify the Noteholders, and the Issuer).

"Cutoff Date" means the Closing Date.

"Default" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Definitive Notes" has the meaning specified in Section 2.10 of the Indenture.

"Delivery" means, when used with respect to Trust Account Property:

(a) with respect to bankers' acceptances, commercial paper, negotiable certificates of deposit and other obligations that constitute "instruments" within the meaning of Section 9-102(a)(47) of the UCC and are susceptible of physical delivery, transfer thereof to the Trustee, or its respective nominee or custodian by physical delivery to the Trustee, or its respective nominee or custodian endorsed to, or registered in the name of, the Trustee, or its respective nominee or custodian or endorsed in blank, and, with respect to a certificated security (as defined in Section 8-102(a)(3) of the UCC) transfer thereof (i) by delivery of such certificated security endorsed to, or registered in the name of, the Trustee, or its respective nominee or custodian or endorsed in blank to a securities intermediary (as defined in Section 8-102(a)(14) of the UCC) and the making by such securities intermediary of entries on its books and records identifying such certificated securities as belonging to the Trustee, or its respective nominee or custodian and the sending by such securities intermediary of a confirmation of the purchase of such certificated security by the Trustee, or its respective its nominee or custodian, or (ii) by delivery thereof to a "clearing corporation" (as defined in Section 8-102(a)(5) of the UCC) and the making by such clearing corporation of appropriate entries on its books reducing the appropriate securities account of the transferor and increasing the appropriate securities account of a securities intermediary by the amount of such certificated security, the identification by the clearing corporation of the certificated securities for the sole and exclusive account of the securities intermediary, the maintenance of such certificated securities by such clearing corporation or the nominee of either subject to the clearing corporation's exclusive control, the sending of a confirmation by the securities intermediary of the purchase by the Trustee, or its respective nominee or custodian of such securities and the making by such securities intermediary of entries on its books and records identifying such certificated securities as belonging to the Trustee, or its respective nominee or custodian (all of the foregoing, but not including Student Loans, "Physical Property"); and such additional or alternative procedures as may hereafter become appropriate to effect the complete transfer of ownership of any such Trust Account Property to the Trustee, or its respective nominee or custodian, consistent with changes in applicable law or regulations or the interpretation thereof;

(b) with respect to any security issued by the U.S. Treasury, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association that is a book-entry security held at a Federal Reserve Bank pursuant to Federal book-entry regulations, the following procedures, all in accordance with applicable law, including applicable Federal regulations and Divisions 8 and 9 of the UCC: the crediting of such book-entry security to an appropriate book-entry account of the Trustee or its nominee or the custodian or securities intermediary at a Federal Reserve Bank, causing the custodian to continuously indicate by book-entry such book-entry security as credited to the relevant book-entry account, the continuous crediting of such book-entry security to a securities account of the custodian at such Federal Reserve Bank and the continuous identification of such book-entry security by the custodian as credited to the appropriate book-entry account; and

(c) with respect to any item of Trust Account Property that is an uncertificated security under Division 8 of the UCC and that is not governed by clause (b) above, registration on the books and records of the issuer thereof in the name of the securities intermediary, the

sending of a confirmation by the securities intermediary of the purchase by the Trustee or its nominee or custodian of such uncertificated security, the making by such securities intermediary of entries on its books and records identifying such uncertificated certificates as belonging to the Trustee or its nominee or custodian.

"Department" means the United States Department of Education, an agency of the Federal government.

"Determination Date" means (i) with respect to any Quarterly Distribution Date, the second Business Day preceding such Quarterly Distribution Date and (ii) with respect to any Auction Rate Distribution Date, the Interest Rate Determination Date, as defined in Appendix B hereto.

"Distribution Date" means with respect to (i) Class A Notes, each Quarterly Distribution Date and (ii) Class B Notes, each Auction Rate Distribution Date, and means for any Note, its stated maturity.

"DTC" means The Depository Trust Company, or any successor thereto.

"Eligible Investments" means book-entry securities, negotiable instruments or securities represented by instruments in bearer or registered form which evidence:

(a) direct obligations of, and obligations fully guaranteed as to timely payment by, the United States of America, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Student Loan Marketing Association (Sallie Mae), or any agency or instrumentality of the United States of America the obligations of which are backed by the full faith and credit of the United States of America;

(b) demand deposits, time deposits or certificates of deposit of any depository institution or trust company incorporated under the laws of the United States of America or any State (or any domestic branch of a foreign bank) and subject to supervision and examination by Federal or state banking or depository institution authorities (including depository receipts issued by any such institution or trust company as custodian with respect to any obligation referred to in clause (a) above or portion of such obligation for the benefit of the holders of such depository receipts); provided that at the time of the investment or contractual commitment to invest therein (which shall be deemed to be made again each time funds are reinvested following each Quarterly Distribution Date), the commercial paper or other short-term senior unsecured debt obligations (other than such obligations the rating of which is based on the credit of a Person other than such depository institution or trust company) thereof shall have a credit rating from each of the Rating Agencies in the highest investment category granted thereby;

(c) commercial paper having, at the time of the investment, a rating from each of the Rating Agencies in the highest investment category granted thereby;

(d) investments in money market funds having a rating from each of the Rating Agencies in the highest investment category granted thereby (including funds for which the Trustee, or its Affiliates is investment manager or advisor);

(e) bankers' acceptances issued by any depository institution or trust company referred to in clause (b) above;

(f) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or any agency or instrumentality thereof the obligations of which are backed by the full faith and credit of the United States of America, in either case entered into with a depository institution or trust company (acting as principal) described in clause (b) above;

(g) asset-backed securities, including asset-backed securities issued by Affiliates, or entities formed by Affiliates, of the Issuer, but excluding mortgage-backed securities, that at the time of investment, have a rating in the highest investment category granted by each of the Rating Agencies, but not at a purchase price in excess of par; and

(h) Investment agreements with an investment provider the long term debt of which is rated (secured or unsecured) no lower than the "AA" category (without regard to numerical or other modifiers) by each Rating Agency then rating the Notes; provided, that, by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Notes the proceeds of which are invested thereunder; (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Trustee shall give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; (d) the Trustee receives an Opinion of Counsel (which opinion shall be addressed to the Issuer and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms; and (e) the investment agreement must provide that if during its term the provider's rating (secured or unsecured) is withdrawn or suspended or falls below the "AA" category (without regard to numerical or other modifiers), the investment provider must give notice of same to the Issuer and the Trustee and must, at the direction of the Issuer or the Trustee, within 10 days of receipt of such direction, either (x) repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Trustee or (y) collateralize the investment agreement with direct obligations of, or fully guaranteed by, the United States of America or any agency or instrumentality thereof described in clause (a) above.

A proposed investment provider not rated by Fitch, but rated no lower than the "AA" category (without regard to numerical or other modifiers) by Moody's and S&P shall be considered to be rated by each of the Rating Agencies no lower than the "AA" category (without regard to numerical or other modifiers).

(i) any other investment which would not result in the downgrading or withdrawal of any rating of the Notes by any of the Rating Agencies as affirmed in writing delivered to the Trustee.

For purposes of the definition of "Eligible Investments" the phrase "highest investment category" means (i) in the case of Fitch, "AAA" for long-term investments (or the equivalent) and "F-1+" for short-term investments (or the equivalent), (ii) in the case of Moody's, "Aaa" for long-term investments (or the equivalent) and "P-1" for short-term investments (or the equivalent), and (iii) in the case of S&P, "AAA" for long-term investments (or the equivalent) and "A-1+" for short-term investments (or the equivalent). A proposed investment not rated by Fitch but rated in the highest investment category by Moody's and S&P shall be considered to be rated by each of the Rating Agencies in the highest investment category granted thereby.

"Eligible Lender" means any "eligible lender," as defined in the Higher Education Act or the Health Service Act, as the case may be, which has received "eligible lender" designation from the Secretary of Education or the Secretary of Health and Human Services, as the case may be.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" has the meaning specified in Section 5.1 of the Indenture.

"Executive Officer" means, with respect to any corporation or the Issuer, the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, any Executive Vice President, any Senior Vice President, any Vice President, the Secretary or the Treasurer of such corporation; and with respect to any partnership, any general partner thereof.

"FDIC" means the Federal Deposit Insurance Corporation.

"Federal Funds Rate" means the rate set forth for such day opposite the caption "Federal Funds (effective)" in the weekly statistical release designated H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System. If such rate is not published in the relevant H.15(519) for any day, the rate for such day shall be the arithmetic mean of the rates for the last transaction in overnight Federal Funds arranged prior to 9:00 a.m. New York City time on that day by each of four leading brokers in such transactions located in New York City selected by the Trustee. The Federal Funds rate for each Saturday and Sunday and for any other that is not a Business Day shall be the Federal Funds Rate for the preceding Business Day as determined above.

"FFELP" means Federal Family Education Loan Program.

"Fitch" means Fitch, Inc., also known as Fitch Ratings, or any successor rating agency.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, assign, transfer, create and grant a lien upon and a security interest in and right of set-off

against, deposit, set over and confirm pursuant to the Indenture. A Grant of the Trust Estate or of any other agreement or instrument shall include all rights, powers and options (but none of the obligations) of the Granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for principal and interest payments in respect of the Trust Estate and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the Granting party or otherwise and generally to do and receive anything that the Granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Guarantee Agreement" means any agreement between the Guarantor and the eligible lender trustee providing for the payment by the Guarantor of amounts authorized to be paid pursuant to the Higher Education Act to holders of qualifying Student Loans guaranteed in accordance with the Higher Education Act by the Guarantor.

"Guarantee Payment" means any payment made by the Guarantor pursuant to a Guarantee Agreement in respect of a Student Loan.

"Guarantor" means the Issuer, in its capacity as guarantor under a Guarantee Agreement.

"H.15(519)" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System.

"H.15 Daily Update" means the daily update for H.15(519), available through the world wide web site of the Board of Governors of the Federal Reserve System at http://www.federalreserve.gov/releases/h15/update, or any successor site or publications.

"Higher Education Act" means the Higher Education Act of 1965, as amended, together with any rules, regulations and interpretations thereunder.

"Indenture" means the Indenture, dated as of November 1, 2006, by and between the Issuer and the Trustee.

"Independent" means, when used with respect to any specified Person, that the Person (a) is in fact independent of any other obligor upon the Notes, the Issuer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in any such other obligor, the Issuer or any Affiliate of any of the foregoing Persons and (c) is not connected with any such other obligor, the Issuer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, placement agent, trustee, partner, director or person performing similar functions.

"Independent Certificate" means a certificate or opinion to be delivered to the Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 11.1 of the Indenture, made by an Independent appraiser, and such

opinion or certificate shall state that the signer has read the definition of "Independent" in the Indenture and that the signer is Independent within the meaning thereof.

"Index Maturity" means, with respect to any Accrual Period, a period of time equal to two or three months, as applicable, commencing on the first day of that Accrual Period.

"Initial Accrual Rate" means, for the Class A Notes and the Accrual Period commencing on the Closing Date to, but excluding, the first Quarterly Distribution Date, the rate per annum as determined on the related Determination Date, as follows:

X + 8/31 multiplied by (Y – X)

where:

X = Two-Month LIBOR, and
Y = Three-Month LIBOR.

"Initial Pool Balance" means the Pool Balance as of the Cutoff Date, which is approximately $725,607,089.

"Insolvency Event" means, with respect to a specified Person, (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such Person or any substantial part of its property in an involuntary case under any applicable Federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or ordering the winding-up or liquidation of such Person's affairs, which decree or order remains unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such Person of a voluntary case under any applicable Federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by such Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or the making by such Person of any general assignment for the benefit of creditors, or the failure by such Person generally to pay its debts as such debts become due, or the taking of action by such Person in furtherance of any of the foregoing.

"Interest Subsidy Payments" means payments, designated as such, consisting of interest subsidies by the Department in respect of the Student Loans received by the Servicer and remitted to the Trustee in accordance with the Higher Education Act.

"Investment Earnings" means, with respect to any Quarterly Distribution Date, the investment earnings (net of losses and investment expenses) on amounts on deposit in the Trust Accounts to be deposited into the Collection Account on or prior to such Quarterly Distribution Date pursuant to Section 8.6(b) of this Indenture.

"Issuer" means the Pennsylvania Higher Education Assistance Agency.

"Issuer Order" and "Issuer Request" means a written order or request signed in the name of the Issuer by any one of its Authorized Officers and delivered to the Trustee.

"LIBOR" means Two-Month LIBOR or Three-Month LIBOR, as applicable.

"LIBOR Determination Date" means, for each Accrual Period with respect to the Class A Notes, the second Business Day before the beginning of that Accrual Period.

"Lien" means a security interest, lien, charge, pledge, equity or encumbrance of any kind, other than tax liens and any other liens, if any, which attach to the respective Student Loan by operation of law as a result of any act or omission by the related Obligor.

"Liquidated Student Loan" means any defaulted Student Loan liquidated by the Servicer (which shall not include any Student Loan on which Guarantee Payments are received) or which the Servicer has, after using all reasonable efforts to realize upon such Student Loan, determined to charge off.

"Liquidation Proceeds" means, with respect to any Liquidated Student Loan which became a Liquidated Student Loan during the current Collection Period in accordance with the Servicer's customary servicing procedures, the moneys collected in respect of the liquidation thereof from whatever source, other than Recoveries, net of the sum of any amounts expended by the Servicer in connection with such liquidation and any amounts required by law to be remitted to the Obligor on such Liquidated Student Loan.

"Minimum Purchase Amount" means, for any Distribution Date, an amount that would be sufficient to (i) reduce the Outstanding Amount of each class of Notes on such Distribution Date to zero and (ii) pay to the respective Noteholders the Class A Noteholders' Interest Distribution Amount and the Class B Noteholders' Interest Distribution Amount payable on such Distribution Date.

"Monthly Expense Payment Date" means the 25th day of each calendar month or such later date as the applicable fee is due and payable.

"Monthly Servicing Payment Date" means the 25th day of each calendar month or, if such day is not a Business Day, the immediately following Business Day, commencing December 26, 2006.

"Moody's" means Moody's Investors Service, Inc.

"Note Depository Agreement" means the Blanket Letter of Representations, dated August 9, 2006, by the Issuer in favor of DTC.

"Note Final Maturity Date" means, for a class of Notes, the Class A-1 Maturity Date, the Class A-2 Maturity Date, the Class A-3 Maturity Date or the Class B Maturity Date, as applicable.

"Note Interest Shortfall" means the Class A Note Interest Shortfall, if any, and/or the Class B Note Interest Shortfall, if any, as applicable.

"Note Owner" means, with respect to a Book-Entry Note, the Person who is the owner of such Book-Entry Note, as reflected on the books of the applicable Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

"Note Pool Factor" means, as of the close of business on a Quarterly Distribution Date, a seven-digit decimal figure equal to the Outstanding Amount of a class of Notes divided by the original Outstanding Amount of such class of Notes. The Note Pool Factor for each Class will be 1.0000000 as of the Closing Date; thereafter, the Note Pool Factor for each Class will decline to reflect reductions in the Outstanding Amount of that class of Notes.

"Note Rates" means, collectively, with respect to any applicable Accrual Period, the Class A-1 Rate, the Class A-2 Rate, the Class A-3 Rate and the Class B Rate for such applicable Accrual Period.

"Note Register" and "Note Registrar" have the respective meanings specified in Section 2.4 of the Indenture.

"Noteholder" means either a Class A Noteholder or a Class B Noteholder, as the context requires.

"Notes" means the Class A-1 Notes, the Class A-2 Notes, the Class A-3 Notes and the Class B Notes, collectively.

"Obligor" on a Student Loan means the borrower or co-borrowers of such Student Loan and any other Person who owes payments in respect of such Student Loan, including the Guarantor thereof and, with respect to any Interest Subsidy Payment or Special Allowance Payment, if any, thereon, the Department.

"Officers' Certificate" means (i) in the case of the Issuer, a certificate signed by any two Authorized Officers of the Issuer, under the circumstances described in, and otherwise complying with, the applicable requirements of Section 11.1 of the Indenture, and delivered to the Trustee and (ii) in the case of the Servicer, a certificate signed by any two Authorized Officers of the Servicer.

"Opinion of Counsel" means (i) with respect to the Issuer, one or more written opinions of counsel who may, except as otherwise expressly provided in the Indenture, be employees of or counsel to the Issuer and who shall be satisfactory to the Trustee, and which opinion or opinions shall be addressed to the Trustee, shall comply with any applicable requirements of Section 11.1 of the Indenture and shall be in form and substance satisfactory to the Trustee, and (ii) with respect to the Servicer, one or more written opinions of counsel who may be an employee of or counsel to the Servicer, which counsel shall be acceptable to the Trustee.

"Outstanding" means, as of any date of determination, all Notes theretofore authenticated and delivered under the Indenture except:

(a) Notes theretofore cancelled by the Note Registrar or delivered to the Note Registrar for cancellation;

(b) Notes or portions thereof, for which payment has been made to the applicable Noteholders in reduction of the outstanding principal balance thereof or for which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Noteholders thereof (provided, however, that if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture); and

(c) Notes in exchange for or in lieu of other Notes which have been authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Trustee is presented that any such Notes are held by a bona fide purchaser; provided that in determining whether the Noteholders of the requisite Outstanding Amount of the Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder or under any other Basic Document, Notes owned by Issuer shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that a Responsible Officer of the Trustee either actually knows to be so owned or has received written notice thereof shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Issuer.

"Outstanding Amount" means, as of any date of determination, the aggregate principal balance of all the Notes of the applicable Class or Classes of Notes, as the case may be, Outstanding at such date of determination.

"Paying Agent" means the Trustee or any other Person that meets the eligibility standards for the Trustee specified in Section 6.12 of the Indenture and is authorized by the Issuer to make the payments to and distributions from the Collection Account and payments of principal of and interest and any other amounts owing on the Notes on behalf of the Issuer.

"Person" means any individual, corporation, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization, limited liability company, limited liability partnership or government or any agency or political subdivision thereof.

"Physical Property" has the meaning assigned to such terms in the definition of "Delivery" above.

"Pool Balance" means, for any date, the aggregate principal balance of the Student Loans on that date, including accrued interest that is expected to be capitalized, plus amounts on deposit in the Collection Account which reflect reductions to principal due to the following:

(a) all payments received by the Trustee through that date from borrowers, the Guarantor and the Department;

(b) all amounts received by the Trustee through that date from repurchases of the Student Loans by the Servicer;

(c) all Liquidation Proceeds and Realized Losses on the Student Loans liquidated through that date;

(d) the amount of any adjustments to the outstanding principal balances of the Student Loans that the Servicer makes under the Servicing Agreement through that date; and

(e) the amount by which Guarantor reimbursements of principal on defaulted Student Loans through that date are reduced from 99% to 97%, or other applicable percentage, as required by the risk sharing provisions of the Higher Education Act.

"Predecessor Note" means, with respect to any particular Note, every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purpose of this definition, any Note authenticated and delivered under Section 2.5 of the Indenture and in lieu of a mutilated, lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note.

"Primary Servicing Fee" for any Monthly Servicing Payment Date has the meaning specified in Attachment A to the Servicing Agreement, and shall include any such fees from prior Monthly Servicing Payment Dates that remain unpaid.

"Principal Distribution Amount" means, (i) as to the initial Quarterly Distribution Date, the amount by which the aggregate Outstanding Amount of all the Notes exceeds the Adjusted Pool Balance as of the last day of the initial Collection Period, and (ii) as to each subsequent Quarterly Distribution Date, the amount by which the Adjusted Pool Balance for the preceding Quarterly Distribution Date exceeds the Adjusted Pool Balance for such Quarterly Distribution Date.

"Proceeding" means any suit in equity, action at law or other judicial or administrative proceeding.

"Purchase Amount" means, with respect to any Student Loan, the amount required to prepay in full such Student Loan under the terms thereof including all accrued interest thereon.

"Purchased Student Loan" means a Student Loan which is, as of the close of business on the last day of a Collection Period, purchased by the Servicer pursuant to Section 3.5 of the Servicing Agreement or sold to another eligible lender holding one or more Serial Loans with respect to such Student Loan pursuant to Section 3.11(e) of the Servicing Agreement.

"Quarterly Distribution Date" means the 25th day of each January, April, July and October, or, if such day is not a Business Day, the immediately following Business Day, commencing on January 25, 2007.

"Rating Agency" means Moody's, S&P and Fitch. If any such organization or successor thereto is no longer in existence, "Rating Agency" with respect to such organization shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any intended action, that each Rating Agency then rating a class of Notes shall have been given 10 days' prior written notice thereof and that each such Rating Agency shall have notified the Issuer, the Servicer and the Trustee in writing that such proposed action will not result in and of itself in the reduction or withdrawal of its then current rating of any class of Notes.

"Realized Loss" means the excess of the principal balance, including any interest that had been or had been expected to be capitalized, of any Liquidated Student Loan over Liquidation Proceeds for that Liquidated Student Loan to the extent allocable to principal, including any interest that had been or had been expected to be capitalized.

"Record Date" means, with respect to a Distribution Date or Redemption Date and for each class of Notes, the close of business on the day preceding such Distribution Date or Redemption Date.

"Recoveries" means moneys collected from whatever source with respect to any Liquidated Student Loan which was written off in prior Collection Periods or during the current Collection Period, net of the sum of any amounts expended by the Servicer for the account of any Obligor and any amounts required by law to be remitted to any Obligor.

"Redemption Date" means, in the case of a payment to Noteholders pursuant to Section 10.1 of the Indenture, the applicable Distribution Date specified pursuant to Section 10.1 of the Indenture.

"Redemption Price" means an amount equal to the Outstanding Amount of the Notes, plus accrued and unpaid interest thereon at the applicable Note Rates to but excluding the Redemption Date.

"Reference Banks" means four major banks in the London interbank market, as selected by the Trustee.

"Registrar" means the Note Registrar.

"Reserve Account" means the account designated as such, established and maintained pursuant to Section 8.6(a) of the Indenture.

"Reserve Account Initial Deposit" means $1,813,808.

"Responsible Officer" means, with respect to the Trustee, or the Paying Agent, any officer within the Corporate Trust Office of the Trustee, or the Paying Agent, as the case may be, including any Vice President, Assistant Vice President, Assistant Treasurer, Assistant

Secretary, or any other officer of the Trustee, or the Paying Agent, as the case may be, customarily performing functions similar to those performed by any of the above designated officers, and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject, in each case having direct responsibility for the administration of the Indenture and the other Basic Documents on behalf of the Trustee, or the Paying Agent, as the case may be.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Schedule of Student Loans" means the listing of the Student Loans set forth in Schedule A to the Indenture (which Schedule may be in the form of microfiche).

"Serial Loan" means an additional student loan other than a Consolidation Loan, which is made to a borrower who is also a borrower under at least one Student Loan.

"Servicer" means initially the Issuer, in its capacity as servicer of the Student Loans.

"Servicer Default" means an event specified in Section 5.1 of the Servicing Agreement.

"Servicer Distribution Date" has the meaning specified in the Servicing Agreement.

"Servicer's Report" means any report of the Servicer delivered pursuant to Section 8.19(a) of the Indenture, substantially in the form acceptable to the Trustee.

"Servicing Agreement" means the Servicing Agreement, dated as of November 1, 2006, between the Trustee and the Servicer.

"Servicing Fee" has the meaning specified in Attachment A to the Servicing Agreement.

"Special Allowance Payments" means payments, designated as such, consisting of effective interest subsidies by the Department in respect of the Student Loans to the Trustee on behalf of the Trust in accordance with the Higher Education Act.

"Specified Reserve Account Balance" means, for any Quarterly Distribution Date, the greater of:

(a) 0.25% of the Pool Balance as of the close of business on the last day of the related Collection Period and

(b) $1,088,285;

provided that in no event will that balance exceed the Outstanding Amount of the Notes.

"State" means any one of the 50 States of the United States of America or the District of Columbia.

"Stepdown Date" means the earlier of (i) the Quarterly Distribution Date in January, 2013 or (ii) the first date on which no Class A Notes remain Outstanding.

"Student Loans" means education loans to students and parents of students under the Federal Family Education Loan Program.

"Student Loan" means any student loan that is listed on the Schedule of Student Loans on the Closing Date plus any student loan that is permissibly substituted for a Student Loan by the Servicer pursuant to Section 3.5 of the Servicing Agreement, but shall not include any Purchased Student Loan following receipt by or on behalf of the Issuer of the Purchase Amount with respect thereto or any Liquidated Student Loan following receipt by or on behalf of the Issuer of Liquidation Proceeds with respect thereto or following such Liquidated Student Loan having otherwise been written off by the Servicer.

"Student Loan Files" means the documents specified in Section 2.1 of the Servicing Agreement.

"Successor Servicer" has the meaning specified in Section 3.7(e) of the Indenture.

"Telerate Page 3750" means the display page so designated on the Moneyline Telerate Service (or such other page as may replace that page on that service for the purpose of displaying comparable rates or prices).

"Third-Party Financial Advisor" has the meaning specified in Section 4.4 of the Indenture.

"Three-Month LIBOR" means, with respect to any Accrual Period, the London interbank offered rate for deposits in U.S. Dollars having the Index Maturity which appears on Telerate Page 3750 as of 11:00 a.m. London time, on the related LIBOR Determination Date. If this rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. Dollars, having the Index Maturity and in a principal amount of not less than U.S. $1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR Determination Date, to prime banks in the London interbank market by the Reference Banks. The Trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference Banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Trustee, at approximately 11:00 a.m., New York time, on that LIBOR Determination Date, for loans in U.S. Dollars to leading European banks having the Index Maturity and in a principal amount of not less than U.S. $1,000,000. If the banks selected as described above are not providing quotations, Three-Month LIBOR, in effect for the applicable Accrual Period will be Three-Month LIBOR, in effect for the previous Accrual Period.

"Treasury Regulations" means regulations, including proposed or temporary regulations, promulgated under the Code. References in any document or instrument to specific provisions of proposed or temporary regulations shall include analogous provisions of final Treasury Regulations or other successor Treasury Regulations.

"Trigger Event" means any Quarterly Distribution Date on which, (i) while any of the Class A Notes are Outstanding, the aggregate Outstanding Amount of all the Notes, after giving effect to distributions under clauses 8.11(a) through (e) of the Indenture to be made on such Quarterly Distribution Date, exceeds the Pool Balance plus the balance of the Reserve Account, the Capitalized Interest Account and the Collection Account as of the end of the related Collection Period or (ii) there has not been an optional purchase or sale of the Student Loans through an auction after the Pool Balance falls below 10% of the Initial Pool Balance pursuant to Section 4.5(a) of the Indenture.

"Trust Account Property" means the Trust Accounts, all cash and investments held from time to time in any Trust Account (whether in the form of deposit accounts, Physical Property, book-entry securities, uncertificated securities or otherwise), including the Reserve Account Initial Deposit, the Capitalized Interest Account Initial Deposit and all earnings on and proceeds of the foregoing.

"Trust Accounts" has the meaning specified in Section 8.6(b) of the Indenture.

"Trust Auction Date" has the meaning specified in Section 4.4 of the Indenture.

"Trust Estate" has the meaning specified in the Granting Clause of the Indenture.

"Trustee Fee" means the fees agreed to be paid to the Trustee for its services under the Indenture as described in a separate agreement between the Issuer and the Trustee.

"Two-Month LIBOR" means, with respect to any Accrual Period for the Class A Notes, the London interbank offered rate for deposits in U.S. Dollars having the Index Maturity which appears on Telerate Page 3750 as of 11:00 a.m. London time, on the related LIBOR Determination Date. If this rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. Dollars, having the Index Maturity and in a principal amount of not less than U.S. $1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR Determination Date, to prime banks in the London interbank market by the Reference Banks. The Trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference Banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Trustee, at approximately 11:00 a.m., New York time, on that LIBOR Determination Date, for loans in U.S. Dollars to leading European banks having the Index Maturity and in a principal amount of not less than U.S. $1,000,000. If the banks selected as described above are not providing quotations, Two-Month LIBOR in effect for the applicable Accrual Period will be Two-Month LIBOR in effect for the previous Accrual Period.

"UCC" means, unless the context otherwise requires, the Uniform Commercial Code, as in effect in the relevant jurisdiction, as amended from time to time.

APPENDIX B

CERTAIN TERMS AND PROVISIONS OF THE AUCTION RATE NOTES

ARTICLE I

DEFINITIONS

Except as provided below in this Appendix B, all terms that are defined in Appendix A of the Indenture and used in this Appendix B shall have the same meanings, as such terms are given in Appendix A of the Indenture. In addition, the following terms shall have the following respective meanings:

"All Hold Rate" means the Applicable LIBOR Rate less 0.20%; provided, that in no event shall the applicable All Hold Rate be greater than the applicable Maximum Rate.

"Applicable LIBOR Rate" means, (a) for Auction Periods of 35 days or less, One-Month LIBOR, (b) for Auction Periods of more than 35 days but less than 91 days, Three-Month LIBOR, (c) for Auction Periods of more than 90 days but less than 181 days, Six-Month LIBOR, and (d) for Auction Periods of more than 180 days, One-Year LIBOR.

"Auction" means the implementation of the Auction Procedures on an Auction Date.

"Auction Agent" means the Initial Auction Agent under the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement becomes effective, after which "Auction Agent" means the Substitute Auction Agent.

"Auction Agent Agreement" means the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement is entered into, after which "Auction Agent Agreement" means such Substitute Auction Agent Agreement.

"Auction Agent Fee" has the meaning set forth in the Auction Agent Agreement.

"Auction Date" means, initially, December 14, 2006 with respect to the Class B Notes, and thereafter, the Business Day immediately preceding the first day of each Auction Period, other than:

(a) each Auction Period commencing after the ownership of the applicable Auction Rate Notes is no longer maintained in Book-entry Form by the Securities Depository;

(b) each Auction Period commencing after and during the continuance of a Payment Default; or

(c) each Auction Period commencing less than two Business days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to Section 2.02(h) of this Appendix B.

"Auction Note Interest Rate" means each variable rate of interest per annum borne by Auction Rate Notes for each Auction Period and determined in accordance with the provisions of Sections 2.01 and 2.02 of this Appendix B; provided, however, that in the event of a Payment Default, the Auction Note Interest Rate shall equal the applicable Non-Payment Rate; provided further, however, that such Auction Note Interest Rate shall in no event exceed the lesser of the Net Loan Rate and the Maximum Rate.

"Auction Period" means the Interest Period applicable to the Auction Rate Notes during which time the Auction Note Interest Rate for such Auction Rate Notes is determined pursuant to Section 2.02(a) of this Appendix B, which Auction Period (after the Initial Period for such Auction Rate Notes) shall begin on an Interest Rate Adjustment Date and end on, and include, the day immediately preceding the next succeeding Interest Rate Adjustment Date, and initially shall consist generally of 28 days for the Class B Notes, as may be adjusted pursuant to Section 2.02(g) of this Appendix B.

"Auction Period Adjustment" means an adjustment to the Auction Period as provided in Section 2.02(g) of this Appendix B.

"Auction Procedures" means the procedures set forth in Section 2.02(a) of this Appendix B by which the Auction Rate is determined.

"Auction Rate" means the rate of interest per annum that results from implementation of the Auction Procedures and is determined as described in Section 2.02(a)(iii)(b) of this Appendix B.

"Auction Rate Notes" means the Class B Notes.

"Available Auction Rate Notes" has the meaning set forth in Section 2.02(a)(iii)(A)(1) of this Appendix B.

"Bid" has the meaning set forth in Section 2.02(a)(i)(a) of this Appendix B.

"Bid Auction Rate" has the meaning set forth in Section 2.02(a)(iii)(a) of this Appendix B.

"Bidder" has the meaning set forth in Section 2.02(a)(i)(a) of this Appendix B.

"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 Noteholder, with the securities "immobilized" to the custody of the Securities Depository, and (c) the book entry is the record that identifies the owners of beneficial interests in that principal and interest.

"Broker-Dealer" means Citigroup Global Markets Inc. with respect to the Class B Notes, and any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been appointed as such by the Issuer pursuant to Section 2.02(f) of this Appendix B, and (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

"Broker-Dealer Agreement" means the agreement between the Auction Agent and the Broker-Dealer, and approved by the Issuer, pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. The Broker-Dealer Agreement shall be in substantially the form of the Broker-Dealer Agreement dated as of November 1, 2006, among the Issuer, the Auction Agent, and Citigroup Global Markets Inc.

"Broker-Dealer Fee" has the meaning set forth in the Auction Agent Agreement.

"Business Day" means any day other than a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close or such other date as may be agreed to in writing by the Auction Agent, the Broker-Dealers and the Issuer.

"Cap Rate" means, with respect to any Interest Period applicable to the Auction Rate Notes, the lesser of (i) the applicable Maximum Rate and (ii) the Net Loan Rate in effect for such Interest Period.

"Carry-over Amount" means, for any Interest Period during which interest is calculated at the Net Loan Rate, the excess, if any, of (a) the amount of interest on an Auction Rate Note that would have accrued with respect to the related Interest Period at the lesser of (i) the applicable Auction Rate and (ii) the Maximum Rate over (b) the amount of interest on such Auction Rate Note actually accrued with respect to such Auction Rate Note with respect to such Interest Period based on the Net Loan Rate, together with the unreduced portion of any such excess from prior Interest Periods; provided that any reference to "principal" or "interest" in the Indenture and the Auction Rate Notes shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

"Effective Interest Rate" means, with respect to any Student Loan, the interest rate per annum payable by the borrower as of the last day of the calendar quarter borne by such Student Loan after giving effect to any reduction in such interest rate pursuant to borrower incentives, (a) less all accrued rebate fees on such Student Loan constituting Consolidation Loans paid during such calendar quarter expressed as a percentage per annum and (b) plus all accrued Interest Subsidy Payments and Special Allowance Payments applicable to such Student Loan during such calendar quarter expressed as a percentage per annum.

"Eligible Carry-over Make-up Amount" means, with respect to each Interest Period relating to the Auction Rate Notes as to which, as of the first day of such Interest Period, there is any unpaid Carry-over Amount, an amount equal to the lesser of (a) interest computed on the principal balance of the Auction Rate Notes in respect to such Interest Period at a per annum rate equal to the excess, if any, of the Net Loan Rate over the Auction Rate, together with the unreduced portion of any such excess from prior Interest Periods and (b) the aggregate Carry-over Amount remaining unpaid as of the first day of such Interest Period together with interest accrued and unpaid thereon through the end of such Interest Period.

"Existing Owner" means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Owner Registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealers in connection with an Auction, a Person who is a beneficial owner of Auction Rate Notes.

"Existing Owner Registry" means the registry of Persons who are owners of the Auction Rate Notes, maintained by the Auction Agent as provided in the Auction Agent Agreement.

"Hold Order" has the meaning set forth in Section 2.02(a)(i)(a) of this Appendix B.

"Initial Auction Agent" means U.S. Bank National Association, a national banking association, and its successors and assigns.

"Initial Auction Agent Agreement" means the Auction Agent Agreement dated as of November 1, 2006, by and among the Issuer, the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

"Initial Payment Date" means, with respect to the Class B Notes, December 15, 2006.

"Initial Period" means, as to Auction Rate Notes, the period commencing on the Closing Date and continuing through the day immediately preceding the Initial Rate Adjustment Date for such Auction Rate Notes.

"Initial Rate" means 5.398% for the Class B Notes.

"Initial Rate Adjustment Date" means, with respect to the Class B Notes, December 15, 2006.

"Interest Period" means, with respect to the Auction Rate Notes, the Initial Period and each period commencing on an Interest Rate Adjustment Date for the Auction Rate Notes and ending on and including the day before (a) the next Interest Rate Adjustment Date for the Auction Rate Notes or (b) the Stated Maturity of the Auction Rate Notes, as applicable.

"Interest Rate Adjustment Date" means the date on which an Auction Note Interest Rate is effective, and is the Initial Rate Adjustment Date and, thereafter the first Business Day

following each Interest Rate Determination Date and, with respect to the Auction Rate Notes, is the date of commencement of each Auction Period.

"Interest Rate Determination Date" means, with respect to the Auction Rate Notes, the Auction Date, or if no Auction Date is applicable to the Auction Rate Notes, the Business Day immediately preceding the date of commencement of an Auction Period.

"Market Agent" means, with respect to the Auction Rate Notes, Citigroup Global Markets Inc.

"Market Agent Agreement" means the Market Agent Agreement dated as of November 1, 2006 among the Market Agent, the Issuer and the Trustee, as the same may be amended from time to time.

"Maximum Rate" means the least of (a) either (i) the Applicable LIBOR Rate plus 1.50% (if the ratings assigned by DBRS, Fitch, Moody's and S&P to the Auction Rate Notes are "AA(low)", "AA-", "Aa3" and "AA-", respectively, or better) or (ii) the Applicable LIBOR Rate plus 2.50% (if any one of the ratings assigned by DBRS, Fitch, Moody's and S&P to the Auction Rate Notes is less than "AA(low)", "AA-", "Aa3" and "AA-", respectively, and greater than or equal to "A(low)", "A-", "A3" and "A-", respectively), or (iii) the Applicable LIBOR Rate plus 3.50% (if any one of the ratings assigned by DBRS, Fitch, Moody's and S&P to the Auction Rate Notes is less than "A(low)", "A-", "A3" and "A-", respectively), and (b) the highest rate the Issuer may legally pay, from time to time, as interest on the Auction Rate Notes. For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given written notice pursuant to the Auction Agent Agreement.

"Net Loan Rate" means, with respect to any Interest Period applicable to the Auction Rate Notes, the rate of interest per annum (rounded to the next highest one-hundredth of one percent) equal to (a) the weighted average Effective Interest Rate of the Student Loans for the calendar quarter immediately preceding such Interest Period, as determined by the Issuer on the last day of such calendar quarter, less (b) the sum of (i) the Program Expense Percentage, as determined by the Issuer on the last day of each calendar quarter and (ii) net losses realized on the Student Loans during the calendar quarter immediately preceding such Interest Period, as determined by the Issuer on the last day of such calendar quarter, expressed as a percentage of the principal balance of the Student Loans outstanding on the last day of such calendar quarter. The determinations made by the Issuer in (a) and (b) of this definition of "Net Loan Rate" shall be given in writing to the Auction Agent, the Trustee and the Broker-Dealer immediately upon their respective calculation dates.

"Non-Payment Rate" means One-Month LIBOR plus 1.50%.

"One-Month LIBOR", "Two-Month LIBOR", "Three-Month LIBOR", "Six-Month LIBOR" or "One-Year LIBOR" means the rate per annum for London Interbank Offered Rates on U.S. dollar deposits as it appears on Telerate Page 3750 as of 11:00 a.m., London Time for the Applicable LIBOR Rate, as determined by the Auction Agent or Trustee, as applicable, on

the related LIBOR Determination Date. If such a day is not a business day in London, the most recently fixed London Interbank Offered Rates on U.S. dollar deposits for the Applicable LIBOR Rate shall be used. The LIBOR Determination Date will be the second business day before the beginning of each Accrual Period. If this rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. dollars, having the relevant maturity and in a principal amount of not less than U.S. $1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR Determination Date, to prime banks in the London interbank market by four major banks selected by the Auction Agent or the Trustee. The Auction Agent or the Trustee will require the principal London office of each bank to provide a quotation of its rate. If the banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Auction Agent or the Trustee, at approximately 11:00 a.m., New York time, on that LIBOR Determination Date, for loans in U.S. Dollars to leading European banks having the relevant maturity and in a principal amount of not less than U.S. $1,000,000. If the banks selected as described above are not providing quotations, the Applicable LIBOR Rate in effect for the applicable Accrual Period will be the Applicable LIBOR Rate in effect for the previous Accrual Period. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one-hundredth of one percent.

"Order" has the meaning set forth in Section 2.02(a)(i)(a) of this Appendix B.

"Payment Date" means, initially with respect to the Series of Auction Rate Notes, the applicable Initial Payment Dates and, thereafter (a) so long as the Series of Auction Rate Notes bears interest at an Auction Note Interest Rate for an Interest Period of not greater than 90 days, the Business Day immediately following the expiration of the related Auction Period thereafter and (b) if and for so long as the Series of Auction Rate Notes bears interest at an Auction Note Interest Rate for an Interest Period of greater than 90 days, (i) the 25th day of each March, June, September and December unless any March 25, June 25, September 25 or December 25 is not a Business Day, then the Payment Date will be the next Business Day, and (ii) the Business Day immediately following the expiration of the Auction Period for the Series of Auction Rate Notes.

"Payment Default" means, with respect to the Auction Rate Notes, (a) a default in the due and punctual payment of any installment of interest on such Auction Rate Notes, or (b) a default in the due and punctual payment of any interest on and principal of such Auction Rate Notes at their maturity.

"Potential Owner" means any Person (including an Existing Owner that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring Auction Rate Notes (or, in the case of an Existing Owner thereof, an additional principal amount of Auction Rate Notes).

"Program Expenses" means (a) the fees and expenses of the Trustee; (b) the fees and expenses of any auction agent, any market agent and any broker-dealer then acting with respect to Auction Rate Notes; (c) the fees of the Servicer under the Servicing Agreement, (d) the fees and expenses of the Issuer incurred in connection with the preparation of legal opinions and

other authorized reports or statements attributable to the Notes and the Student Loans; (e) transfer fees, purchase premiums and loan origination fees on Student Loans; (f) expenses incurred by the Issuer's for maintenance and operation as a direct consequence of the Indenture, the Notes or the Student Loans; including, but not limited to, the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants and other professionals, attributable to such maintenance and operation and marketing expenses.

"Program Expense Percentage" means, the percentage that all Program Expenses (other than Consolidation Loan rebate fees) estimated for the next 12 months represent of the outstanding principal balance of the Student Loans, which as of the Closing Date is 0.55% and which the Issuer shall calculate on the last day of each calendar quarter. Any adjustment in the Program Expense Percentage shall be effective beginning on the first Interest Rate Determination Date following each such calculation.

"Sell Order" has the meaning set forth in Section 2.02(a)(i)(a) of this Appendix B.

"Submission Deadline" means 1:00 p.m., eastern time, on any Auction Date or such other time on any Auction Date by which the Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" has the meaning set forth in Section 2.02(a)(iii)(a) of this Appendix B.

"Submitted Hold Order" has the meaning set forth in Section 2.02(a)(iii)(a) of this Appendix B.

"Submitted Order" has the meaning set forth in Section 2.02(a)(iii)(a) of this Appendix B.

"Submitted Sell Order" has the meaning set forth in Section 2.02(a)(iii)(a) of this Appendix B.

"Substitute Auction Agent" means the Person with whom the Issuer and the Trustee enter into a Substitute Auction Agent Agreement.

"Substitute Auction Agent Agreement" means an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Person having the qualifications required by Section 2.02(e) of this Appendix B agrees with the Trustee and the Issuer to perform the duties of the Auction Agent under this Appendix B.

"Sufficient Bids" has the meaning set forth in Section 2.02(a)(iii)(a) of this Appendix B.

ARTICLE II

TERMS AND ISSUANCE

Section 2.01. Auction Rate and Carry-over Amounts. During the Initial Period, the Auction Rate Notes shall bear interest at the Initial Rate. Thereafter, and except with respect to an Auction Period Adjustment, the Auction Rate Notes shall bear interest at an Auction Note Interest Rate based on a 28-day Auction Period, as determined pursuant to this Section 2.01 and Section 2.02 of this Appendix B.

For the Auction Rate Notes during the Initial Period and each Auction Period thereafter, interest at the applicable Auction Note Interest Rate shall accrue daily and shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days.

The Auction Note Interest Rate to be borne by the Auction Rate Notes after such Initial Period for each Auction Period until an Auction Period Adjustment, if any, shall be determined as described below. Each such Auction Period after the Initial Period shall commence on and include the day following the expiration of the immediately preceding Auction Period and terminate on and include the Monday following the fourth week in the case of the Auction Rate Notes; provided, however, that in the case of the Auction Period that immediately follows the Initial Period for the Auction Rate Notes, such Auction Period shall commence on the Initial Rate Adjustment Date. The Auction Note Interest Rate of the Auction Rate Notes for each Auction Period shall be the Auction Rate in effect for such Auction Period as determined in accordance with Section 2.02(a) of this Appendix B; provided that, if on any Interest Rate Determination Date, an Auction is not held for any reason, the following Business Day shall be considered the Interest Rate Determination Date and an Auction is to be held on such date. If an Auction is not held for any reason on such date, then the Auction Note Interest Rate on such Auction Rate Notes for the next succeeding Auction Period shall be the applicable Cap Rate.

Notwithstanding the foregoing:

(a) if the ownership of an Auction Rate Note is no longer maintained in Book-entry Form, the Auction Note Interest Rate on the Auction Rate Notes for any Interest Period commencing after the delivery of certificates representing Auction Rate Notes pursuant to the Indenture shall equal the Cap Rate; or

(b) if a Payment Default shall have occurred, the Auction Note Interest Rate on the Auction Rate Notes for the Interest Period commencing on or immediately after such Payment Default, and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two Business days after, such Payment Default is cured, shall equal the applicable Non-Payment Rate on the first day of each such Interest Period.

In accordance with Section 2.02(a)(iii)(b) and (c) of this Appendix B, the Auction Agent shall promptly give written notice to the Trustee and the Issuer of each Auction Note Interest Rate (unless the Auction Note Interest Rate is the applicable Non-Payment Rate) and the Maximum Rate when such rate is not the Auction Note Interest Rate, applicable to the Auction

Rate Notes. The Trustee shall, upon request, notify the Noteholders and the Issuer of Auction Rate Notes of the applicable Auction Note Interest Rate applicable to such Auction Rate Notes for each Auction Period not later than the third Business Day of such Auction Period. Notwithstanding any other provision of the Auction Rate Notes or the Indenture and except for the occurrence of a Payment Default, interest payable on the Auction Rate Notes for an Auction Period shall never exceed for such Auction Period the amount of interest payable at the applicable Maximum Rate in effect for such Auction Period.

If the Auction Rate for the Auction Rate Notes is greater than the Net Loan Rate, then the Auction Note Interest Rate applicable to such Auction Rate Notes for that Interest Period will be the Net Loan Rate and the Issuer shall determine the Carry-over Amount, if any, with respect to such Auction Rate Notes for such Interest Period.

Such Carry-over Amount shall bear interest calculated at a rate equal to One-Month LIBOR (as determined by the Trustee) from the Payment Date for the Interest Period with respect to which such Carry-over Amount was calculated, until paid. Any payment in respect of Carry-over Amount shall be applied, first, to any accrued interest payable thereon and, second, in reduction of such Carry-over Amount. For purposes of the Indenture and this Appendix B, any reference to "principal" or "interest" herein shall not include within the meaning of such words Carry-over Amount or any interest accrued on any such Carry-over Amount. Such Carry-over Amount shall be separately calculated for each Auction Rate Note by the Issuer during such Interest Period in sufficient time for the Trustee to give notice to each Noteholder of such Carry-over Amount as required in the next succeeding sentence. Not less than four days before the Payment Date for an Interest Period with respect to which such Carry-over Amount has been calculated by the Issuer, the Trustee shall give written notice to each Noteholder, the Auction Agent and the Issuer, in the form provided by the Issuer, of the Carry-over Amount applicable to each Auction Rate Note, which written notice may accompany the payment of interest made to the Noteholder on such Payment Date. Such notice shall state, in addition to such Carry-over Amount, that, unless and until an Auction Rate Note has been redeemed, after which all accrued Carry-over Amounts (and all accrued interest thereon) that remains unpaid shall be canceled and no Carry-over Amount (and interest accrued thereon) shall be paid with respect to such Auction Rate Note, (a) the Carry-over Amount (and interest accrued thereon calculated at a rate equal to One-Month LIBOR) shall be paid by the Trustee pursuant to an Issuer Order on an Auction Rate Note on the earliest of (i) the date of defeasance of any of the Auction Rate Notes or (ii) the first occurring Payment Date with respect to the Auction Rate Note if and to the extent that (a) the Eligible Carry-over Make-up Amount with respect to such subsequent Interest Period is greater than zero, and (b) moneys are available pursuant to the terms of the Indenture in an amount sufficient to pay all or a portion of such Carry-over Amount (and interest accrued thereon), and (b) interest shall accrue on the Carry-over Amount at a rate equal to One-Month LIBOR until such Carry-over Amount is paid in full or is cancelled.

The Carry-over Amount (and interest accrued thereon) for Auction Rate Notes shall be paid by the Trustee pursuant to an Issuer Order on Outstanding Auction Rate Notes on the earliest of (a) the date of defeasance of any of the Auction Rate Notes or (b) the first occurring Payment Date if and to the extent that (i) the Eligible Carry-over Make-up Amount with respect

to such Interest Period is greater than zero, and (ii) on such Payment Date there are sufficient moneys in the Collection Account to pay all interest due on the Auction Rate Notes on such Payment Date, to redeem any Auction Rate Notes required to be redeemed on such Payment Date in accordance with the Indenture and to fund amounts required to be added to the Reserve Account on such Payment Date. Any Carry-over Amount (and any interest accrued thereon) on any Auction Rate Note that is due and payable on a Payment Date, which Auction Rate Note is to be redeemed on said Payment Date, shall be paid to the Noteholder thereof on said Payment Date to the extent that moneys are available therefor in accordance with the provisions of this Appendix B; provided, however, that any Carry-over Amount (and any interest accrued thereon) that is not yet due and payable on said Payment Date shall be cancelled with respect to said Auction Rate Note that is to be redeemed on said Payment Date and shall not be paid on any succeeding Payment Date. To the extent that any portion of the Carry-over Amount (and any interest accrued thereon) remains unpaid after payment of a portion thereof, such unpaid portion shall be paid in whole or in part as required hereunder until fully paid by the Trustee on the earliest of (a) the date of defeasance of any of the Auction Rate Notes or (b) the next occurring Payment Date or Dates, as necessary, if and to the extent that the conditions in the second preceding sentence are satisfied. On any Payment Date on which the Trustee pays only a portion of the Carry-over Amount (and any interest accrued thereon) on Auction Rate Notes, the Trustee shall give written notice in the manner set forth in the immediately preceding paragraph to the Noteholder of such Auction Rate Note receiving such partial payment of the Carry-over Amount remaining unpaid on such Auction Rate Note.

The Payment Date or other date on which such Carry-over Amount (or any interest accrued thereon) for Auction Rate Notes shall be paid shall be determined by the Trustee in accordance with the provisions of the immediately preceding paragraph and the Indenture, and the Trustee shall make payment of the Carry-over Amount (and any interest accrued thereon) in the same manner as, and from the same Trust Account from which, it pays interest on the Auction Rate Notes on a Payment Date. Any payment of Carry-over Amounts (and interest accrued thereon) shall reduce the amount of Eligible Carry-over Make-up Amount.

In the event that the Auction Agent no longer determines, or fails to determine, when required, the Auction Note Interest Rate with respect to Auction Rate Notes, or, if for any reason such manner of determination shall be held to be invalid or unenforceable, the Auction Note Interest Rate for the next succeeding Interest Period, which Interest Period shall be an Auction Period, for Auction Rate Notes shall be the applicable Cap Rate as determined by the Auction Agent for such next succeeding Auction Period, and if the Auction Agent shall fail or refuse to determine the Cap Rate, the Cap Rate shall be determined by the securities dealer appointed by the Issuer capable of making such a determination in accordance with the provisions of this Appendix B and written notice of such determination shall be given by such securities dealer to the Trustee.

Section 2.02. Auction Rate.

(a) *Determining the Auction Rate*. By purchasing Auction Rate Notes, whether in an Auction or otherwise, each purchaser of Auction Rate Notes, or its Broker-Dealer, must agree and shall be deemed by such purchase to have agreed (x) to participate in Auctions on the terms

described herein, (y) to have its beneficial ownership of the Auction Rate Notes maintained at all times in Book-entry Form for the account of its Participant, which in turn will maintain records of such beneficial ownership, and (z) to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

So long as the ownership of Auction Rate Notes is maintained in Book-entry Form by the Securities Depository, an Existing Owner may sell, transfer or otherwise dispose of Auction Rate Notes only pursuant to a Bid or Sell Order placed in an Auction or otherwise sell, transfer or dispose of Auction Rate Notes through a Broker-Dealer; provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer.

Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner:

(i) (A) Prior to the Submission Deadline on each Auction Date;

(1) each Existing Owner of Auction Rate Notes may submit to a Broker-Dealer by telephone or otherwise any information as to:

a. the principal amount of Outstanding Auction Rate Notes, if any, owned by such Existing Owner that such Existing Owner desires to continue to own without regard to the Auction Note Interest Rate for the next succeeding Auction Period;

b. the principal amount of Outstanding Auction Rate Notes, if any, that such Existing Owner offers to sell if the Auction Note Interest Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Owner; and/or

c. the principal amount of Outstanding Auction Rate Notes, if any, owned by such Existing Owner that such Existing Owner offers to sell without regard to the Auction Note Interest Rate for the next succeeding Auction Period;

and

(2) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of Auction Rate Notes that each Potential Owner offers to purchase, if the Auction Note Interest Rate for the next succeeding Auction Period shall not be less than the rate per annum specified by such Potential Owner.

The statement of an Existing Owner or a Potential Owner referred to in (1) or (2) of this paragraph (a) is herein referred to as an “Order,” and each Existing Owner and each Potential Owner placing an Order is herein referred to as a “Bidder”; an Order described in clause (1)a. is herein referred to as a “Hold Order”; an Order described in clauses (1)b. and (2) is herein referred to as a “Bid”; and an Order described in clause (1)c. is herein referred to as a “Sell Order.”

(B) (1) Subject to the provisions of Section 2.02(a)(ii) of this Appendix B, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

a. the principal amount of Outstanding Auction Rate Notes specified in such Bid if the Auction Note Interest Rate determined as provided in this Section 2.02(a) shall be less than the rate specified therein; or

b. such principal amount, or a lesser principal amount of Outstanding Auction Rate Notes to be determined as set forth in Section 2.02(a)(iv)(A)(4) of this Appendix B, if the Auction Note Interest Rate determined as provided in this Section 2.02(a) shall be equal to the rate specified therein; or

c. such principal amount, or a lesser principal amount of Outstanding Auction Rate Notes to be determined as set forth in Section 2.02(a)(iv)(B)(3) of this Appendix B, if the rate specified therein shall be higher than the applicable Maximum Rate and Sufficient Bids have not been made.

(2) Subject to the provisions of Section 2.02(a)(ii) of this Appendix B, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

a. the principal amount of Outstanding Auction Rate Notes specified in such Sell Order; or

b. such principal amount, or a lesser principal amount of Outstanding Auction Rate Notes set forth in Section 2.02(a)(iv)(B)(3) of this Appendix B, if Sufficient Bids have not been made.

(3) Subject to the provisions of Section 2.02(a)(ii) of this Appendix B, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

a. the principal amount of Outstanding Auction Rate Notes specified in such Bid if the Auction Note Interest Rate determined as provided in this Section 2.02(a) shall be higher than the rate specified in such Bid; or

b. such principal amount, or a lesser principal amount of Outstanding Auction Rate Notes set forth in Section 2.02(a)(iv)(A)(5) of this Appendix B, if the Auction Note Interest Rate determined as provided in this Section 2.02(a) shall be equal to the rate specified in such Bid.

(ii) (A) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(1) the name of the Bidder placing such Order;

(2) the aggregate principal amount of Auction Rate Notes that are the subject of such Order;

(3) to the extent that such Bidder is an Existing Owner:

a. the principal amount of Auction Rate Notes, if any, subject to any Hold Order placed by such Existing Owner;

b. the principal amount of Auction Rate Notes, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

c. the principal amount of Auction Rate Notes, if any, subject to any Sell Order placed by such Existing Owner;

and

(4) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner's Bid.

(B) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one thousandth of 1%.

(C) If an Order or Orders covering all Outstanding Auction Rate Notes owned by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding Auction Rate Notes owned by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(D) Neither the Issuer, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(E) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Notes owned by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(1) All Hold Orders shall be considered valid, but only up to the aggregate principal amount of Outstanding Auction Rate Notes owned by such Existing Owner, and if the aggregate principal amount of Auction Rate Notes subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Notes owned by such Existing Owner, the aggregate principal amount of Auction Rate Notes subject to each such Hold Order shall be reduced pro rata so that the aggregate principal amount of Auction Rate Notes subject to such Hold Order equals the aggregate principal amount of Outstanding Auction Rate Notes owned by such Existing Owner.

(2) a. Any Bid shall be considered valid up to an amount equal to the excess of the principal amount of Outstanding Auction Rate Notes owned by such Existing

Owner over the aggregate principal amount of Auction Rate Notes subject to any Hold Order referred to in clause (a) of this paragraph (ii);

b. subject to subclause (2)a. of this clause (E), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding Auction Rate Notes subject to such Bids is greater than such excess, such Bids shall be considered valid up to an amount equal to such excess;

c. subject to subclauses (2)a. and (2)b. of this clause (E), if more than one Bid with different rates are submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to the amount of such excess; and

d. in any such event, the amount of Outstanding Auction Rate Notes, if any, subject to Bids not valid under this clause (e) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(3) All Sell Orders shall be considered valid up to an amount equal to the excess of the principal amount of Outstanding Auction Rate Notes owned by such Existing Owner over the aggregate principal amount of Auction Rate Notes subject to Hold Orders referred to in clause (1) of this paragraph (e) and valid Bids referred to in clause (2) of this paragraph (E).

(F) If more than one Bid for Auction Rate Notes is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(G) An Existing Owner that offers to purchase additional Auction Rate Notes is, for purposes of such offer, treated as a Potential Owner.

(H) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of Auction Rate Notes not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of Auction Rate Notes not equal to an Authorized Denomination shall be rejected.

(I) Any Bid specifying a rate higher than the applicable Maximum Rate will (1) be treated as a Sell Order if submitted by an Existing Owner and (2) not be accepted if submitted by a Potential Owner.

(J) Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

(iii) (A) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being herein referred to

individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order," and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(1) the excess of the total principal amount of Outstanding Auction Rate Notes over the sum of the aggregate principal amount of Outstanding Auction Rate Notes subject to Submitted Hold Orders (such excess being herein referred to as the "Available Auction Rate Notes"), and

(2) from the Submitted Orders whether:

a. the aggregate principal amount of Outstanding Auction Rate Notes subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the applicable Maximum Rate;

exceeds or is equal to the sum of:

b. the aggregate principal amount of Outstanding Auction Rate Notes subject to Submitted Bids by Existing Owners specifying one or more rates higher than the applicable Maximum Rate; and

c. the aggregate principal amount of Outstanding Auction Rate Notes subject to Submitted Sell Orders;

(in the event such excess or such equality exists, other than because all of the Outstanding Auction Rate Notes are subject to Submitted Hold Orders, such Submitted Bids described in subclause a. above shall be referred to collectively as "Sufficient Bids"); and

(3) if Sufficient Bids exist, the "Bid Auction Rate", which shall be the lowest rate specified in such Submitted Bids such that if:

a. (x) each Submitted Bid from Existing Owners specifying such lowest rate and (y) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to own the principal amount of Auction Rate Notes subject to such Submitted Bids; and

b. (x) each such Submitted Bid from Potential Owners specifying such lowest rate and (y) all other Submitted Bids from Potential Owners specifying lower rates were accepted;

the result would be that such Existing Owners described in subclause a. above would continue to own an aggregate principal amount of Outstanding Auction Rate Notes that, when added to the aggregate principal amount of Outstanding Auction Rate Notes to be purchased by such Potential Owners described in subclause b. above, would equal not less than the Available Auction Rate Notes.

(B) Promptly after the Auction Agent has made the determinations pursuant to Section 2.02(a)(iii)(a) of this Appendix B, the Auction Agent shall advise the Trustee, the Broker-Dealers and the Issuer of the Net Loan Rate, Maximum Rate and the All Hold Rate and the components thereof on the Auction Date. Based on such determinations, the Auction Rate for the next succeeding Interest Period will be established as follows:

(1) if Sufficient Bids exist, that the Auction Rate for the next succeeding Interest Period shall be equal to the Bid Auction Rate so determined;

(2) if Sufficient Bids do not exist (other than because all of the Outstanding Auction Rate Notes are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the applicable Maximum Rate; or

(3) if all Outstanding Auction Rate Notes are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the applicable All Hold Rate.

(C) Promptly after the Auction Agent has determined the Auction Rate, the Auction Agent shall determine and advise the Trustee of the Auction Note Interest Rate, which rate shall be the lesser of (x) the Auction Rate and (y) the applicable Maximum Rate.

(iv) Existing Owners shall continue to own the principal amount of Auction Rate Notes that are subject to Submitted Hold Orders. If the Net Loan Rate is equal to or greater than the Bid Auction Rate and if Sufficient Bids have been received by the Auction Agent, the Bid Auction Rate will be the Auction Note Interest Rate, and Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as described below in subparagraph (A).

If the Cap Rate is less than the Auction Rate, the Cap Rate will be the Auction Note Interest Rate. If the Auction Agent has not received Sufficient Bids (other than because all of the Outstanding Auction Rate Notes are subject to Submitted Hold Orders), the Auction Note Interest Rate will be the applicable Maximum Rate. In any of the cases described above, Submitted Orders will be accepted or rejected and the Auction Agent will take such other action as described below in subparagraph (B).

(A) If Sufficient Bids have been made and the Maximum Rate is equal to or greater than the Bid Auction Rate (in which case the Auction Note Interest Rate shall be the Bid Auction Rate), all Submitted Sell Orders shall be accepted and, subject to the provisions of clauses (4) and (5) of this Section 2.02(a)(iv), Submitted Bids shall be accepted or rejected as follows in the following order of priority, and all other Submitted Bids shall be rejected:

(1) Existing Owners' Submitted Bids specifying any rate that is higher than the Auction Note Interest Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of Auction Rate Notes subject to such Submitted Bids;

(2) Existing Owners' Submitted Bids specifying any rate that is lower than the Auction Note Interest Rate shall be rejected, thus entitling each such Existing Owner to continue to own the aggregate principal amount of Auction Rate Notes subject to such Submitted Bids;

(3) Potential Owners' Submitted Bids specifying any rate that is lower than the Auction Note Interest Rate shall be accepted;

(4) Each Existing Owners' Submitted Bid specifying a rate that is equal to the Auction Note Interest Rate shall be rejected, thus entitling such Existing Owner to continue to own the aggregate principal amount of Auction Rate Notes subject to such Submitted Bid, unless the aggregate principal amount of Outstanding Auction Rate Notes subject to all such Submitted Bids shall be greater than the principal amount of Auction Rate Notes (the "remaining principal amount") equal to the excess of the Available Auction Rate Notes over the aggregate principal amount of Auction Rate Notes subject to Submitted Bids described in clauses (2) and (3) of this Section 2.02(a)(iv)(A), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to own the principal amount of Auction Rate Notes subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Notes obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Outstanding Auction Rate Notes owned by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding Auction Rate Notes subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Auction Note Interest Rate, subject to the provisions of Section 2.02(a)(iv)(d) of this Appendix B; and

(5) Each Potential Owner's Submitted Bid specifying a rate that is equal to the Auction Note Interest Rate shall be accepted, but only in an amount equal to the principal amount of Auction Rate Notes obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Notes over the aggregate principal amount of Auction Rate Notes subject to Submitted Bids described in clauses (2), (3) and (4) of this Section 2.02(a)(iv)(a) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding Auction Rate Notes subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding Auction Rate Notes subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Auction Note Interest Rate, subject to the provisions of Section 2.02(a)(iv)(d) of this Appendix B.

(B) If Sufficient Bids have not been made (other than because all of the Outstanding Auction Rate Notes are subject to submitted Hold Orders), or if the Cap Rate is less than the Bid Auction Rate (in which case the Auction Note Interest Rate shall be the Cap Rate), subject to the provisions of Section 2.02(a)(iv)(d) of this Appendix B, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(1) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Auction Note Interest Rate shall be rejected, thus entitling such Existing

Owners to continue to own the aggregate principal amount of Auction Rate Notes subject to such Submitted Bids;

(2) Potential Owners' Submitted Bids specifying (x) any rate that is equal to or lower than the Auction Note Interest Rate shall be accepted and (y) any rate that is higher than the Auction Note Interest Rate shall be rejected; and

(3) each Existing Owner's Submitted Bid specifying any rate that is higher than the Auction Note Interest Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Notes subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Notes obtained by multiplying the aggregate principal amount of Auction Rate Notes subject to Submitted Bids described in clause (2)(x) of this Section 2.02(a)(iv)(b) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding Auction Rate Notes owned by such Existing Owner subject to such submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Rate Notes subject to all such Submitted Bids and Submitted Sell Orders.

(C) If all Auction Rate Notes are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(D) If, as a result of the procedures described in paragraph (a) or (b) of this Section 2.02(a)(iv), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of Auction Rate Notes that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the principal amount of Auction Rate Notes to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of Auction Rate Notes purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination.

(E) If, as a result of the procedures described in paragraph (b) of this Section 2.02(a)(iv), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of Auction Rate Notes, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Auction Rate Notes for purchase among Potential Owners so that only Auction Rate Notes in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any Auction Rate Notes.

(v) Based on the result of each Auction, the Auction Agent shall determine the aggregate principal amount of Auction Rate Notes to be purchased and the aggregate principal amount of Auction Rate Notes to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Notes to be sold differs from such aggregate principal amount of Auction Rate Notes to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall

deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Auction Rate Notes.

(vi) Any calculation by the Auction Agent or the Trustee, as applicable, of the Auction Note Interest Rate, the Maximum Rate, the All Hold Rate, the Net Loan Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all other parties.

(vii) Notwithstanding anything in this Appendix B to the contrary, (a) no Auction for the Auction Rate Notes for an Auction Period of less than 180 days will be held on any Auction Date hereunder on which there are insufficient moneys in the Collection Account to pay, or otherwise held by the Trustee under the Indenture and available to pay, the principal of and interest due on the Auction Rate Notes on the Payment Date immediately following such Auction Date, and (b) no Auction will be held on any Auction Date hereunder during the continuance of a Payment Default. The Trustee shall promptly notify the Auction Agent of any such occurrence.

(b) *Application of Interest Payments for the Auction Rate Notes.*

(i) The Trustee shall determine not later than 2:00 p.m., eastern time, on the Business Day next succeeding a Payment Date, whether a Payment Default has occurred. If a Payment Default has occurred, the Trustee shall, not later than 2:15 p.m., eastern time, on such Business Day, send a notice thereof in substantially the form of Exhibit C attached hereto to the Auction Agent by telecopy or similar means and, if such Payment Default is cured, the Trustee shall immediately send a notice in substantially the form of Exhibit D attached hereto to the Auction Agent by telecopy or similar means.

(ii) The Trustee shall pay to the Auction Agent, in immediately available funds out of amounts in the Collection Account, an amount equal to the Auction Agent Fee as set forth in the Auction Agent Agreement. The Trustee shall pay to the Auction Agent, in immediately available funds out of amounts in the Collection Account, an amount equal to the Broker-Dealer Fee as calculated in the Auction Agent Agreement and the Broker-Dealer Agreement. The Trustee shall, from time to time at the request of the Auction Agent and at the direction of an Authorized Officer, reimburse the Auction Agent for its reasonable expenses as provided in the Auction Agent Agreement, such expenses to be paid out of amounts in the Collection Account.

(c) *Calculation of Maximum Rate, All Hold Rate, Net Loan Rate, Applicable LIBOR Rate, and Non-Payment Rate*. The Auction Agent shall calculate the applicable Maximum Rate, Net Loan Rate, Applicable LIBOR Rate, and All Hold Rate, as the case may be, on each Auction Date and shall notify the Trustee and the Broker-Dealers of the applicable Maximum Rate, Net Loan Rate, Applicable LIBOR Rate, and All Hold Rate, as the case may be, as provided in the Auction Agent Agreement; provided, that if the ownership of the Auction Rate Notes is no longer maintained in Book-entry Form, or if a Payment Default has occurred, then the Trustee shall determine the applicable Maximum Rate, Net Loan Rate, Applicable LIBOR Rate, All Hold Rate and Non-Payment Rate for each such Interest Period. If the ownership of the Auction Rate Notes is no longer maintained in Book-entry Form by the Securities Depository, the Trustee shall calculate the applicable Maximum Rate and the Net Loan Rate on the Business Day immediately preceding the first day of each Interest Period after the delivery of certificates

representing the Auction Rate Notes pursuant to the Indenture. If a Payment Default shall have occurred, the Trustee shall calculate the Non-Payment Rate on the Interest Rate Determination Date for (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business days after the cure of any Payment Default. The determination by the Trustee or the Auction Agent, as the case may be, of the applicable Maximum Rate, Net Loan Rate, Applicable LIBOR Rate, All Hold Rate and Non-Payment Rate shall (in the absence of manifest error) be final and binding upon all parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Trustee of the applicable Maximum Rate, Net Loan Rate, Applicable LIBOR Rate, and All Hold Rate.

(d) Notification of Rates, Amounts and Payment Dates.

(i) By 12:00 noon, eastern time, on the Business Day following each Record Date, the Trustee shall determine the aggregate amounts of interest distributable on the next succeeding Payment Date to the beneficial owners of Auction Rate Notes.

(ii) At least four days prior to any Payment Date, the Trustee shall:

(A) confirm with the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Notes is maintained in Book-entry Form by the Securities Depository, (1) the date of such next Payment Date and (2) the amount payable to the Auction Agent on the Auction Date pursuant to Section 2.02(b)(ii) of this Appendix B; and

(B) advise the Securities Depository, so long as the ownership of the Auction Rate Notes is maintained in Book-entry Form by the Securities Depository, upon request, of the aggregate amount of interest distributable on such next Payment Date to the beneficial owners of each Series of the Auction Rate Notes.

If any day scheduled to be a Payment Date shall be changed after the Trustee shall have given the notice or confirmation referred to in clause (i) of the preceding sentence, the Trustee shall, not later than 11:15 a.m., eastern time, on the Business Day next preceding the earlier of the new Payment Date or the old Payment Date, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Notes is maintained in Book-entry Form by the Securities Depository.

(e) *Auction Agent.*

(i) U.S. Bank National Association is hereby appointed as Initial Auction Agent to serve as agent for the Issuer in connection with Auctions. The Trustee and the Issuer will, and the Trustee is hereby directed to, enter into the Initial Auction Agent Agreement with U.S. Bank National Association, as the Initial Auction Agent. Any Substitute Auction Agent shall be (a) a bank, national banking association or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the

Borough of Manhattan, New York, or such other location as approved by the Trustee in writing and having a combined capital stock or surplus of at least $50,000,000, or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $50,000,000, and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Appendix B by giving at least 90 days' notice to the Trustee, each Broker-Dealer and the Issuer. The Auction Agent may be removed at any time by the Trustee upon the written direction of an Authorized Officer or by the holders of a majority of the aggregate principal amount of the Auction Rate Notes then Outstanding, and if by such Noteholders, by an instrument signed by such Noteholders or their attorneys and filed with the Auction Agent, the Issuer and the Trustee upon at least 90 days' written notice. Neither resignation nor removal of the Auction Agent pursuant to the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. If required by the Issuer, a Substitute Auction Agent Agreement shall be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 25 days after notifying the Trustee, each Broker-Dealer and the Issuer in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

(ii) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee at the direction of an Authorized Officer, shall use its best efforts to appoint a Substitute Auction Agent.

(iii) The Auction Agent is acting as agent for the Issuer in connection with Auctions. In the absence of bad faith, negligent failure to act or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(f) *Broker-Dealers.*

(i) The Auction Agent will enter into a Broker-Dealer Agreement with Citigroup Global Markets Inc., as the sole initial Broker-Dealer for the Auction Rate Notes. An Authorized Officer may, from time to time, approve one or more additional Persons to serve as a Broker-Dealer under the Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the Auction Agent.

(ii) Any Broker-Dealer may be removed at any time, at the request of an Authorized Officer, but there shall, at all times, be at least one Broker-Dealer appointed and acting as such.

(g) *Changes in Auction Period or Periods and Certain Percentages.*

(i) While any of the Auction Rate Notes are Outstanding, the Issuer may, from time to time, change the length of one or more Auction Periods (an "Auction Period Adjustment"), to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Auction Rate Notes. The Issuer shall not initiate an Auction Period Adjustment unless it shall have received the written consent of the Market Agent, which consent shall not be unreasonably withheld, not later than nine days prior to the Auction Date for such Auction Period. The Issuer shall not initiate an Auction Period Adjustment that would result in an Auction Period longer than 120 days unless it shall have satisfied a Rating Agency Condition regarding that Auction Period Adjustment. The Issuer shall initiate the Auction Period Adjustment by giving written notice by Issuer Order to the Trustee, the Auction Agent, the Market Agent, each Broker-Dealer, each Rating Agency and the Securities Depository in substantially the form of, or containing substantially the information contained in, Exhibit E attached hereto at least 10 days prior to the Auction Date for such Auction Period.

(ii) An Auction Period Adjustment shall take effect only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m., eastern time, on the Business Day before the Auction Date for the first such Auction Period, an Issuer Certificate in substantially the form attached as, or containing substantially the same information contained in, Exhibit F attached hereto, authorizing the Auction Period Adjustment specified in such certificate along with a copy of the written consent of the Market Agent and, (b) Sufficient Bids exist as of the Auction on the Auction Date for such first Auction Period. If the condition referred to in (a) above is not met, the applicable Auction Note Interest Rate for the next Auction Period shall be determined pursuant to the above provisions of this Section 2.02 and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (a) is met but the condition referred in (b) above is not met, the applicable Auction Note Interest Rate for the next Auction Period shall be the applicable Maximum Rate and the Auction Period shall be the Auction Period determined without reference to the proposed change.

In connection with any Auction Period Adjustment, the Auction Agent shall provide such further notice to such parties as is specified in Section 2.03 of the Auction Agent Agreement.

(h) *Changes in the Auction Date*. The Market Agent, with the written consent of the Issuer, may specify a different Auction Date (but in no event more than five Business days earlier than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in Section 1.01 of this Appendix B) with respect to one or more specified Auction Periods to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Auction Rate Notes. The Market Agent shall deliver a written request for consent to such change in the Auction Date to the Issuer at least 14 days prior to the effective date of such change. If the Issuer shall have delivered such written consent to the Market Agent, the Market Agent shall provide

notice of its determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Issuer, each Rating Agency and the Securities Depository. Such notice shall be substantially in the form of, or contain substantially the information contained in, Exhibit G attached hereto.

In connection with any change described in this Section 2.02(h), the Auction Agent shall provide such further notice to such parties as is specified in Section 2.03 of the Auction Agent Agreement.

Section 2.03. Additional Provisions Regarding the Interest Rates on the Auction Rate Notes. The determination of an Auction Note Interest Rate by the Auction Agent or any other Person pursuant to the provisions of the applicable Section of this Article II shall be conclusive and binding on the Noteholders of the Auction Rate Notes to which such Auction Note Interest Rate applies, and the Issuer and the Trustee may rely thereon for all purposes.

In no event shall the cumulative amount of interest paid or payable on the Auction Rate Notes (including interest calculated as provided herein, plus any other amounts that constitute interest on the Auction Rate Notes under applicable law and are contracted for, charged, reserved, taken or received pursuant to the Auction Rate Notes or related documents) calculated from the Closing Date of the Auction Rate Notes through any subsequent day during the term of the Auction Rate Notes or otherwise prior to payment in full of the Auction Rate Notes exceed the amount permitted by applicable law. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Auction Rate Notes or related documents or otherwise contracted for, charged, reserved, taken or received in connection with the Auction Rate Notes, or if the redemption or acceleration of the maturity of the Auction Rate Notes results in payment to or receipt by the Noteholder or any former Noteholder of the Auction Rate Notes of any interest in excess of that permitted by applicable law, then, notwithstanding any provision of the Auction Rate Notes or related documents to the contrary, all excess amounts theretofore paid or received with respect to the Auction Rate Notes shall be credited on the principal balance of the Auction Rate Notes (or, if the Auction Rate Notes have been paid or would thereby be paid in full, refunded by the recipient thereof), and the provisions of the Auction Rate Notes and related documents shall automatically and immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for under the Auction Rate Notes and under the related documents.

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EXHIBIT C

NOTICE OF PAYMENT DEFAULT

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES
SERIES 2006-2 SUBORDINATE CLASS B

NOTICE IS HEREBY GIVEN that a Payment Default has occurred and is continuing with respect to the Auction Rate Notes identified above. The next Auction for the Auction Rate Notes will not be held. The Auction Rate for the Auction Rate Notes for the next succeeding Interest Period shall be the Non-Payment Rate.

Manufacturers and Traders Trust Company, as Trustee

Dated: _____ By:_____

EXHIBIT D

NOTICE OF CURE OF PAYMENT DEFAULT

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES
SERIES 2006-2 SUBORDINATE CLASS B

NOTICE IS HEREBY GIVEN that a Payment Default with respect to the Auction Rate Notes identified above has been waived or cured. The next Payment Date is _____ and the Auction Date is _____.

Manufacturers and Traders Trust Company, as Trustee

Dated: _____ By:_____

EXHIBIT E

NOTICE OF PROPOSED CHANGE IN LENGTH
OF ONE OR MORE AUCTION PERIODS

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES

SERIES 2006-2 SUBORDINATE CLASS B

Notice is hereby given that the Issuer proposes to change the length of one or more Auction Periods pursuant to the Indenture as follows:

1. The change shall take effect on _____, the Interest Rate Adjustment Date for the next Auction Period (the "Effective Date").

2. The Auction Period Adjustment in Paragraph 1 shall take place only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m., eastern time, on the Business Day before the Auction Date for the Auction Period commencing on the Effective Date, a certificate from the Issuer, as required by the Indenture authorizing the change in length of one or more Auction Periods and (b) Sufficient Bids exist on the Auction Date for the Auction Period commencing on the Effective Date.

3. If the condition referred to in (a) above is not met, the Auction Rate for the Auction Period commencing on the Effective Date will be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (a) is met but the condition referred to in (b) above is not met, the Auction Rate for the Auction Period commencing on the Effective Date shall be the Maximum Rate and the Auction Period shall be the Auction Period determined without reference to the proposed change.

4. It is hereby represented, upon advice of the Auction Agent for the Series 2006-2 Subordinate Class B Notes described herein, that there were Sufficient Bids for such Series 2006-2 Subordinate Class B Notes at the Auction immediately preceding the date of this Notice.

5. Terms not defined in this Notice shall have the meanings set forth in the Indenture entered into in connection with the Series 2006-2 Subordinate Class B Notes.

PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY

Dated: _____ By:_____

EXHIBIT F

NOTICE ESTABLISHING CHANGE IN LENGTH
OF ONE OR MORE AUCTION PERIODS

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES

SERIES 2006-2 SUBORDINATE CLASS B

Notice is hereby given that the Issuer hereby establishes new lengths for one or more Auction Periods pursuant to the Indenture:

1. The change shall take effect on _____, the Interest Rate Adjustment Date for the next Auction Period (the "Effective Date").

2. For the Auction Period commencing on the Effective Date, the Interest Rate Adjustment Date shall be _____, or the next succeeding Business Day if such date is not a Business Day.

3. For Auction Periods occurring after the Auction Period commencing on the Effective Date, the Interest Rate Adjustment Date shall be [_____(date) and every _____(number) _____(day of week) thereafter] [every _____(number) _____(day of week) after the date set forth in paragraph 2 above], or the next Business Day if any such day is not a Business Day; provided, however, that the length of subsequent Auction Periods shall be subject to further change hereafter as provided in the Indenture.

4. The changes described in paragraphs 2 and 3 above shall take place only upon delivery of this Notice and the satisfaction of other conditions set forth in the Indenture and our prior notice dated _____ regarding the proposed change.

5. Terms not defined in this Notice shall have the meanings set forth in the Indenture relating to the Series 2006-2 Subordinate Class B Notes.

PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY

Dated: _____ By:_____

EXHIBIT G

NOTICE OF CHANGE IN AUCTION DATE

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
STUDENT LOAN REVENUE NOTES

SERIES 2006-2 SUBORDINATE CLASS B

Notice is hereby given by _____, as Broker-Dealer for the Auction Rate Notes identified above, that with respect to the Auction Rate Notes, the Auction Date is hereby changed as follows:

1. With respect to Series 2006-2 Subordinate Class B Notes, the definition of "Auction Date" shall be deemed amended by substituting "_____(number) Business Day" in the second line thereof and by substituting "_____(number) Business days" for "two Business days" in subsection (d) thereof.

2. This change shall take effect on _____ which shall be the Auction Date for the Auction Period commencing on _____.

3. The Auction Date for the Series 2006-2 Subordinate Class B Notes shall be subject to further change hereafter as provided in the Indenture.

4. Terms not defined in this Notice shall have the meaning set forth in the Indenture relating to the Series 2006-2 Subordinate Class B Notes.

_____, as Broker-Dealer

Dated:_____ By:_____

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SCHEDULE A

Schedule of Student Loans

SCHEDULE B

Location of Student Loan Files

[See Attachment B to the Servicing Agreement]

EXHIBIT A-1

FORM OF FLOATING RATE NOTE

SEE REVERSE FOR CERTAIN DEFINITIONS

Unless this Note is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Issuer (as defined below) or its agent for registration of transfer, exchange or payment, and any Note issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

THE PRINCIPAL OF THIS NOTE IS PAYABLE IN INSTALLMENTS AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. THIS NOTE IS NOT GUARANTEED OR INSURED BY ANY GOVERNMENTAL AGENCY.

NUMBER
[_____]

PRINCIPAL AMOUNT: $[_____]
CUSIP NO.: [_____]
ISIN No.: [_____]
EUROPEAN COMMON CODE: [_____]

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

STUDENT LOAN REVENUE NOTES
2006-2 SENIOR CLASS [A - __]

The Pennsylvania Higher Education Assistance Agency (herein referred to as the "Issuer"), for value received, hereby promises to pay to CEDE & CO., or registered assigns, the principal sum of [_____] ($[_____]) payable on each Distribution Date pursuant to Section 3.1 of the Indenture, dated as of November 1, 2006 (the "Indenture"), between the Issuer and Manufacturers and Traders Trust Company as Trustee (the "Trustee") (capitalized terms used but not defined herein being defined in Appendix A to the Indenture, which also contains rules as to usage that shall be applicable herein); provided, however, that the entire unpaid principal amount of this Note shall be due and payable on the [_____, 20__] Distribution Date (the "Class [A - __] Maturity Date").

The Issuer shall pay interest on this Note at the rate per annum equal to the Class [A - __] Rate (as defined on the reverse hereof), on each Distribution Date until the principal of this Note is paid or made available for payment, on the principal amount of this Note outstanding on the preceding Distribution Date (after giving effect to all payments of principal made on the preceding Distribution Date), subject to certain limitations contained in Section 3.1 of the Indenture. Interest on this Note shall accrue from and including the immediately preceding Distribution Date (or, in the case of the first Accrual Period, the Closing Date) to but excluding the following Distribution Date (each an "Accrual Period"). Interest shall be calculated on the basis of the actual number of days elapsed in each Accrual Period divided by 360. Such principal of and interest on this Note shall be paid in the manner specified on the reverse hereof.

The principal of and interest on this Note are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to this Note shall be applied first to interest due and payable on this Note as provided above and then to the unpaid principal of this Note.

The Indenture and the obligations thereby secured, including this Note, are limited obligations of the Issuer, and the Notes are payable only out of the sources set forth in the Indenture. Neither the credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged for the payment of the principal of, or the interest on, or the premium (if any) payable upon this Note; nor shall this Note be deemed an obligation of the Commonwealth or any political subdivision thereof; nor shall the Commonwealth or any political subdivision thereof be liable for the payment of the principal or, or the interest on, or the premium (if any) payable upon this Note. The Issuer has no taxing power.

Reference is made to the further provisions of this Note set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Note.

Unless the certificate of authentication hereon has been executed by the Trustee whose name appears below by manual signature, this Note shall not be entitled to any benefit under the Indenture referred to on the reverse hereof, or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Pennsylvania Higher Education Assistance Agency has caused this Note to be executed in its name and on its behalf by the manual or facsimile signature of its Chairman, and its corporate seal or a facsimile thereof to be hereunto affixed, duly attested by the manual or facsimile signature of its President and Chief executive Officer.

PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY

By:_____
Chairman

[Seal]

Attest:

_____
President and Chief
Executive Officer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes designated above and referred to in the within-mentioned Indenture.

MANUFACTURERS AND TRADERS TRUST
COMPANY, as Trustee,

By:_____
Authorized Signatory

Dated: _____, 2006

[REVERSE OF NOTE]

This Note is one of a duly authorized issue of Notes of the Issuer, designated as its Student Loan Revenue Notes, Series 2006-2 Senior Class [A - __] Notes (the "Class [A - __] Notes"), which, together with the other Class [A - __] Notes and Class B Notes issued by the Issuer (collectively, the "Notes"), are issued under and secured by the Indenture, to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Trustee, and the Noteholders. The Notes are subject to all terms of the Indenture.

The Class [A - __] Notes are senior to the Class B Notes, as and to the extent provided in the Indenture.

Principal of the Class [A - __] Notes shall be payable on each Distribution Date in an amount described on the face hereof. "Distribution Date" means the 25th day of each January, April, July and October or, if any such date is not a Business Day, the next succeeding Business Day, commencing January 25, 2007.

As described on the face hereof, the entire unpaid principal amount of this Note shall be due and payable on the Class [A - __] Maturity Date. Notwithstanding the foregoing, the entire unpaid principal amount of the Notes shall be due and payable on the date on which (i) an Event of Default shall have occurred and be continuing and (ii) the Trustee or the Noteholders representing not less than a majority of the Outstanding Amount of the Notes shall have declared the Notes to be immediately due and payable in the manner provided in Section 5.2 of the Indenture. All principal payments on the Class [A - __] Notes shall be made pro rata to the Noteholders entitled thereto.

Interest on the Class [A - __] Notes shall be payable on each Distribution Date on the principal amount outstanding of the Class [A - __] Notes until the principal amount thereof is paid in full, at a rate per annum equal to the Class [A - __] Rate. The "Class [A - __] Rate" for each Accrual Period, other than the initial Accrual Period, shall be equal to Three-Month LIBOR as determined on the second Business Day before the beginning of that Accrual Period plus [__]%. The interest rate for the initial Accrual Period shall be as set forth in the definition of Class [A - __] Rate contained in Appendix A to the Indenture.

If Definitive Notes have been issued as of the applicable Record Date, then payments of interest on this Note on each Distribution Date, together with the installment of principal, if any, to the extent not in full payment of this Note, shall be made by check mailed to the Person whose name appears as the Registered Holder of this Note (or one or more Predecessor Notes) on the Note Register on the Record Date. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears on the Note Register as of the applicable Record Date without requiring that this Note be submitted for notation of payment, and the mailing of such check shall constitute payment of the amount thereof regardless of whether such check is returned undelivered. With respect to Notes registered on the applicable Record Date in the name of the nominee of the Clearing Agency (initially, such nominee to be Cede & Co.), unless Definitive Notes have been issued, payments shall be made by wire transfer

in immediately available funds to the account designated by such nominee. Any reduction in the principal amount of this Note (or any one or more Predecessor Notes) effected by any payments made on any Distribution Date shall be binding upon all future Noteholders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the then remaining unpaid principal amount of this Note on a Distribution Date, then the Trustee, in the name of and on behalf of the Issuer, shall notify the Person who was the Noteholder hereof as of the preceding Record Date by notice mailed no later than fifteen days prior to such Distribution Date and the amount then due and payable shall be payable only upon presentation and surrender of this Note at the Trustee's Corporate Trust Office or at the office of the Trustee's agent appointed for such purposes.

The Issuer shall pay interest on overdue installments of interest on this Note at the Class [A - __] Rate to the extent lawful.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this Note may be registered on the Note Register upon surrender of this Note for registration of transfer at the office or agency designated by the Issuer pursuant to the Indenture, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Noteholder hereof or his attorney duly authorized in writing, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in Securities Transfer Agent's Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP (all in accordance with the Exchange Act), and such other documents as the Trustee may require, and thereupon one or more new Notes of authorized denominations and in the same aggregate principal amount shall be issued to the designated transferee or transferees. No service charge will be charged for any registration of transfer or exchange of this Note, but the transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such registration of transfer or exchange.

Each Noteholder or Note Owner, by acceptance of this Note or, in the case of a Note Owner, a beneficial interest in this Note, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer, the Trustee under the Indenture or any certificate or other writing delivered in connection therewith, against (i) the Trustee, (ii) the Issuer, the Commonwealth of Pennsylvania or any agency, municipality, authority or political subdivision thereof, (iii) any partner, owner, beneficiary, agent, officer, director or employee of the Trustee, any holder or owner of a beneficial interest in the Trustee or of any successor or assign thereof.

No recourse shall be had for the payment of the principal of, or the interest or premium, if any, on this Bond or for any claim based hereon or on the Indenture or on any indenture supplemental thereto, against any director, member, officer, agent or employee, past, present or future, of the Issuer, or of any successor body, either directly or through the Issuer or any such successor body, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability of such

directors, members, officers, agents or employees being released as a condition of and as consideration for the execution of the Indenture and the issuance of this Note.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and laws of the Commonwealth to exist, to have happened or to be performed precedent to and in the issuance of this Note and the execution and delivery of the Indenture exist, have happened and have been performed as so required. This Note is issued and the Indenture was made and entered into under and pursuant to resolutions duly adopted by the Issuer.

Upon acquisition or transfer this Note or a beneficial interest in this Note, as the case may be, by, for or with the assets of, a Benefit Plan, such Note Owner shall be deemed to have represented that such acquisition or purchase will not constitute or otherwise result in: (i) in the case of a Benefit Plan subject to Section 406 of ERISA or Section 4975 of the Code, a prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code which is not covered by a class or other applicable exemption and (ii) in the case of a Benefit Plan subject to a substantially similar law, a non-exempt violation of such substantially similar law. Any transfer found to have been made in violation of such deemed representation shall be null and void and of no effect.

Each Noteholder or Note Owner, by acceptance of this Note or, in the case of a Note Owner, a beneficial interest in this Note, covenants and agrees that by accepting the benefits of the Indenture such Noteholder or Note Owner will not at any time institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, reorganization, arrangement, insolvency, receivership or liquidation proceedings or other proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to the Notes, the Indenture or the other Basic Documents.

Prior to the due presentment for registration of transfer of this Note, the Issuer, the Trustee, and any agent of the Issuer or the Trustee may treat the Person in whose name this Note (as of the day of determination or as of such other date as may be specified in the Indenture) is registered as the owner hereof for all purposes whether or not this Note be overdue, and neither the Issuer or the Trustee, nor any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Noteholders under the Indenture at any time by the Issuer with the consent of the Noteholders representing a majority of the Outstanding Amount of all Notes at the time outstanding. The Indenture also contains provisions permitting the Noteholders representing specified percentages of the Outstanding Amount of the Notes, on behalf of all the Noteholders, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the holder of this Note (or any one or more Predecessor Notes) shall be conclusive and binding upon such holder and upon all future holders of this Note and of any Note issued upon registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or waiver is made upon this Note. The Indenture also permits the Trustee to amend or waive

certain terms and conditions set forth in the Indenture without the consent of holders of the Notes issued thereunder.

The Notes are issuable only in registered form in denominations as provided in the Indenture, subject to certain limitations therein set forth.

This Note shall be construed in accordance with the laws of the Commonwealth of Pennsylvania, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder and thereunder shall be determined in accordance with such laws.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Note from the sources, at the times, place, and rate, and in the coin or currency, herein prescribed.

ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee

_____

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____
(name and address of assignee)

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints

_____

attorney, to transfer said Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

_____*/
Signature Guaranteed:

_____*/

_____

*/ NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Note in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in STAMP or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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EXHIBIT A-2

FORM OF AUCTION RATE NOTE

SEE REVERSE FOR CERTAIN DEFINITIONS

Unless this Note is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Issuer (as defined below) or its agent for registration of transfer, exchange or payment, and any Note issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

THE PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. THIS NOTE IS NOT GUARANTEED OR INSURED BY ANY GOVERNMENTAL AGENCY.

NUMBER
[_____]

PRINCIPAL AMOUNT: $[_____]
CUSIP NO.: [_____]
ISIN No.: [_____]
EUROPEAN COMMON CODE: [_____]

FORM OF
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

STUDENT LOAN REVENUE NOTES
2006-2 SUBORDINATE SERIES B

The Pennsylvania Higher Education Assistance Agency (herein referred to as the "Issuer"), for value received, hereby promises to pay to CEDE & CO., or registered assigns, the principal sum of [_____] ($[_____]) payable on each Distribution Date pursuant to Section 3.1 of the Indenture, dated as of _____, 2006 (the "Indenture"), between the Issuer and Manufacturers and Traders Trust Company as Trustee (the "Trustee") (capitalized terms used but not defined herein being defined in Appendix A and in Appendix B to the Indenture, which also contains rules as to usage that shall be applicable herein); provided, however, that the entire unpaid principal amount of this Note shall be due and payable on the [_____, 20__] Distribution Date (the "Class B Maturity Date").

The Issuer shall pay interest on this Note at the rate per annum equal to the Class B Rate (as defined on the reverse hereof), on each applicable Auction Rate Distribution Date until the principal of this Note is paid or made available for payment, on the principal amount of this Note outstanding on the preceding Auction Rate Distribution Date (after giving effect to all payments of principal made on the preceding Auction Rate Distribution Date), subject to certain limitations contained in Section 3.1 of the Indenture. Interest on this Note shall accrue from and including the immediately preceding Auction Rate Distribution Date to but excluding the following Auction Rate Distribution Date (or, in the case of the first Accrual Period, from the Closing Date continuing through the day immediately preceding the Initial Rate Adjustment Date) (each an "Accrual Period"). Interest shall be calculated on the basis of the actual number of days elapsed in each Accrual Period divided by 360. Such principal of and interest on this Note shall be paid in the manner specified on the reverse hereof.

The principal of and interest on this Note are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to this Note shall be applied first to interest due and payable on this Note as provided above and then to the unpaid principal of this Note.

The Indenture and the obligations thereby secured, including this Note, are limited obligations of the Issuer, and the Notes are payable only out of the sources set forth in the Indenture. Neither the credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged for the payment of the principal of, or the interest on, or the premium (if any) payable upon this Note; nor shall this Note be deemed an obligation of the Commonwealth or any political subdivision thereof; nor shall the Commonwealth or any political subdivision thereof be liable for the payment of the principal or, or the interest on, or the premium (if any) payable upon this Note. The Issuer has no taxing power.

Reference is made to the further provisions of this Note set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Note.

Unless the certificate of authentication hereon has been executed by the Trustee whose name appears below by manual signature, this Note shall not be entitled to any benefit under the Indenture referred to on the reverse hereof, or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Pennsylvania Higher Education Assistance Agency has caused this Note to be executed in its name and on its behalf by the manual or facsimile signature of its Chairman, and its corporate seal or a facsimile thereof to be hereunto affixed, duly attested by the manual or facsimile signature of its President and Chief executive Officer.

PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY

By:_____
Chairman

[Seal]

Attest:

_____
President and Chief
Executive Officer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes designated above and referred to in the within-mentioned Indenture.

MANUFACTURERS AND TRADERS TRUST
COMPANY, as Trustee,

By:_____
Authorized Signatory

Dated: _____, 2006

[REVERSE OF NOTE]

This Note is one of a duly authorized issue of Notes of the Issuer, designated as its Student Loan Revenue Notes 2006-2 Subordinate Series B (the "Class B Notes"), which, together with the other Class A Notes and Class B Notes issued by the Issuer (collectively, the "Notes"), are issued under and secured by the Indenture, to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Trustee, and the Noteholders. The Notes are subject to all terms of the Indenture.

The Class B Notes are subordinate to the Class A Notes, as and to the extent provided in the Indenture.

The Class B Notes are not subject to optional redemption.

As described on the face hereof, the entire unpaid principal amount of this Note shall be due and payable on the Class B Maturity Date. Notwithstanding the foregoing, the entire unpaid principal amount of the Notes shall be due and payable on the date on which (i) an Event of Default shall have occurred and be continuing and (ii) the Trustee or the Noteholders representing not less than a majority of the Outstanding Amount of the Notes shall have declared the Notes to be immediately due and payable in the manner provided in Section 5.2 of the Indenture. All principal payments on the Class B Notes, other than at maturity and as provided in the two immediately preceding sentences, shall be payable pursuant mandatory redemption in authorized denominations or integral multiples thereof on the applicable Auction Rate Distribution Date in accordance with the terms of the Indenture.

Interest on the Class B Notes shall be payable on each Auction Rate Distribution Date on the principal amount outstanding of the Class B Notes until the principal amount thereof is paid in full, at a rate per annum equal to the Auction Rate, as determined in Appendix B of the Indenture.

If Definitive Notes have been issued as of the applicable Record Date, then payments of interest on this Note on each Distribution Date, together with the installment of principal, if any, to the extent not in full payment of this Note, shall be made by check mailed to the Person whose name appears as the Registered Holder of this Note (or one or more Predecessor Notes) on the Note Register on the Record Date. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears on the Note Register as of the applicable Record Date without requiring that this Note be submitted for notation of payment, and the mailing of such check shall constitute payment of the amount thereof regardless of whether such check is returned undelivered. With respect to Notes registered on the applicable Record Date in the name of the nominee of the Clearing Agency (initially, such nominee to be Cede & Co.), unless Definitive Notes have been issued, payments shall be made by wire transfer in immediately available funds to the account designated by such nominee. Any reduction in the principal amount of this Note (or any one or more Predecessor Notes) effected by any payments made on any Distribution Date shall be binding upon all future Noteholders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof,

whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the then remaining unpaid principal amount of this Note on a Distribution Date, then the Trustee, in the name of and on behalf of the Issuer, shall notify the Person who was the Noteholder hereof as of the preceding Record Date by notice mailed no later than fifteen days prior to such Distribution Date and the amount then due and payable shall be payable only upon presentation and surrender of this Note at the Trustee's Corporate Trust Office or at the office of the Trustee's agent appointed for such purposes.

The Issuer shall pay interest on overdue installments of interest on this Note at the Class B Rate to the extent lawful.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this Note may be registered on the Note Register upon surrender of this Note for registration of transfer at the office or agency designated by the Issuer pursuant to the Indenture, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Noteholder hereof or his attorney duly authorized in writing, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in Securities Transfer Agent's Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP (all in accordance with the Exchange Act), and such other documents as the Trustee may require, and thereupon one or more new Notes of authorized denominations and in the same aggregate principal amount shall be issued to the designated transferee or transferees. No service charge will be charged for any registration of transfer or exchange of this Note, but the transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such registration of transfer or exchange.

Each Noteholder or Note Owner, by acceptance of this Note or, in the case of a Note Owner, a beneficial interest in this Note, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer, the Trustee under the Indenture or any certificate or other writing delivered in connection therewith, against (i) the Trustee, (ii) the Issuer, the Commonwealth of Pennsylvania or any agency, municipality, authority or political subdivision thereof, (iii) any partner, owner, beneficiary, agent, officer, director or employee of the Trustee, any holder or owner of a beneficial interest in the Trustee or of any successor or assign thereof.

No recourse shall be had for the payment of the principal of, or the interest or premium, if any, on this Bond or for any claim based hereon or on the Indenture or on any indenture supplemental thereto, against any director, member, officer, agent or employee, past, present or future, of the Issuer, or of any successor body, either directly or through the Issuer or any such successor body, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability of such directors, members, officers, agents or employees being released as a condition of and as consideration for the execution of the Indenture and the issuance of this Note.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and laws of the Commonwealth to exist, to have happened or to be

performed precedent to and in the issuance of this Note and the execution and delivery of the Indenture exist, have happened and have been performed as so required. This Note is issued and the Indenture was made and entered into under and pursuant to resolutions duly adopted by the Issuer.

Upon acquisition or transfer this Note or a beneficial interest in this Note, as the case may be, by, for or with the assets of, a Benefit Plan, such Note Owner shall be deemed to have represented that such acquisition or purchase will not constitute or otherwise result in: (i) in the case of a Benefit Plan subject to Section 406 of ERISA or Section 4975 of the Code, a prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code which is not covered by a class or other applicable exemption and (ii) in the case of a Benefit Plan subject to a substantially similar law, a non-exempt violation of such substantially similar law. Any transfer found to have been made in violation of such deemed representation shall be null and void and of no effect.

Each Noteholder or Note Owner, by acceptance of this Note or, in the case of a Note Owner, a beneficial interest in this Note, covenants and agrees that by accepting the benefits of the Indenture such Noteholder or Note Owner will not at any time institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, reorganization, arrangement, insolvency, receivership or liquidation proceedings or other proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to the Notes, the Indenture or the other Basic Documents.

Prior to the due presentment for registration of transfer of this Note, the Issuer, the Trustee, and any agent of the Issuer or the Trustee may treat the Person in whose name this Note (as of the day of determination or as of such other date as may be specified in the Indenture) is registered as the owner hereof for all purposes whether or not this Note be overdue, and neither the Issuer or the Trustee, nor any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Noteholders under the Indenture at any time by the Issuer with the consent of the Noteholders representing a majority of the Outstanding Amount of all Notes at the time outstanding. The Indenture also contains provisions permitting the Noteholders representing specified percentages of the Outstanding Amount of the Notes, on behalf of all the Noteholders, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the holder of this Note (or any one or more Predecessor Notes) shall be conclusive and binding upon such holder and upon all future holders of this Note and of any Note issued upon registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or waiver is made upon this Note. The Indenture also permits the Trustee to amend or waive certain terms and conditions set forth in the Indenture without the consent of holders of the Notes issued thereunder.

The Notes are issuable only in registered form in denominations as provided in the Indenture, subject to certain limitations therein set forth.

This Note shall be construed in accordance with the laws of the Commonwealth of Pennsylvania, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder and thereunder shall be determined in accordance with such laws.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Note from the sources, at the times, place, and rate, and in the coin or currency, herein prescribed.

ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee

_____

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____
(name and address of assignee)

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints

_____

attorney, to transfer said Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

_____*/
Signature Guaranteed:

_____*/

_____

*/ NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Note in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in STAMP or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT B

Form of Note Depository Agreement
for U.S. Dollar Denominated Notes - DTC Blanket Issuer
Letter of Representations Dated August 6, 2006

APPENDIX B

PROPOSED FORM OF OPINION OF NOTE COUNSEL EXPECTED TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE NOTES

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APPENDIX B

BELOW IS THE
PROPOSED FORM OF OPINION OF NOTE COUNSEL EXPECTED TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE NOTES

November 17, 2006

Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street
Harrisburg, PA 17102-1444

RE: $750,000,000 Pennsylvania Higher Education Assistance Agency
Student Loan Revenue Notes
Series 2006-2 Senior Class A-1, A-2 and A-3 and Subordinate Class B

We have served as Note Counsel in connection with the issuance by the Pennsylvania Higher Education Assistance Agency (the "Agency"), a public corporation and government instrumentality organized and existing under the laws of the Commonwealth of Pennsylvania, of the Agency's Student Loan Revenue Notes, Series 2006-2 Senior Class A-1, A-2 and A-3 and Subordinate Class B (the "Notes"), in the aggregate principal amount of $750,000,000 and dated as of November 17, 2006.

The Notes are issued pursuant to the terms of the Pennsylvania Higher Education Assistance Agency Act, Act of August 7, 1963, P.L. 549, as amended (the "Act"), an authorizing resolution adopted by the Agency on March 23, 2006 (the "Resolution"), and a Trust Indenture, dated as of November 1, 2006 (the "Indenture"), between the Agency and Manufacturers and Traders Trust Company, as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings defined in the Trust Indenture.

The Notes are being issued for the purpose of providing funds for the acquisition by the Agency of a portfolio of student loans, capitalized interest and for payment of the costs of issuance of the Notes. Pursuant to the terms of the Indenture, the Notes are payable solely from and are equally and ratably secured, without prejudice, priority or distinction (within each separate class of Notes), by the assignment and pledge to the Trustee, and the creation of a valid and continuing security interest in favor of the Trustee, in and to the Trust Estate described and defined in the Indenture, which includes, among other things, all of the Agency's right, title and interest in and to the Student Loans, the Servicing Agreement, each Guarantee Agreement, and the moneys on deposit in certain funds and accounts established under the Indenture.

We have examined the proceedings relating to the authorization and issuance of the Notes, including, among other things, the Act, the Resolution, the Indenture, and such other laws, documents and certificates as we have deemed necessary to express this opinion. In rendering our opinion, we have not undertaken to verify the factual matters by independent investigation and have relied on the covenants, warranties and representations made by the Issuer in the Indenture and other financing documents.

In rendering this opinion we have examined and relied upon the opinion of counsel to the Agency with respect, among other things, to the due organization, existence and good standing of the Agency, the authorization, execution and delivery of the documents to which it is a party and the validity and binding effect thereof on the Agency.

From our examination of the foregoing and such other items as we have deemed relevant, we are of the opinion that:

1. The Agency has been duly incorporated and is validly existing under the Act and has corporate power and lawful authority to execute and deliver the Indenture and to issue and deliver the Notes.

2. The Indenture has been duly authorized, executed and delivered by the Agency and, assuming the due authorization, execution and delivery thereof by the Trustee, is a valid and binding obligation of the Agency, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, moratorium and other similar laws and equitable principles affecting creditors' rights and remedies generally, and by the exercise of judicial discretion in accordance with general principles of equity, and the Trust Estate has been validly assigned thereunder to the Trustee.

3. The Notes have been duly authorized, executed and delivered by the Agency and, when authenticated by the Trustee, constitute valid and binding limited obligations of the Agency, entitled to the benefits and security of the Indenture and are enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, moratorium and other similar laws and equitable principles affecting creditors' rights and remedies generally, and by the exercise of judicial discretion in accordance with general principles of equity.

4. Under existing laws of the Commonwealth of Pennsylvania ("Pennsylvania"), the interest on the Notes is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Notes or the interest thereon.

5. Interest on the Notes is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

We express no opinion on the validity or priority of any liens on or security interests in the Trust Estate.

We express no opinion herein on the adequacy, completeness or accuracy of any official statement, placement memorandum or other disclosure document pertaining to the offering of the Notes.

We call to your attention that the Notes are limited obligations of the Authority payable solely from the moneys pledged therefor under the Indenture, and the obligations of the Agency under the Indenture and the Notes do not pledge the general credit or taxing power of Pennsylvania or any political subdivision, agency or instrumentality of Pennsylvania, nor shall Pennsylvania or any political subdivision, agency or instrumentality thereof be liable for the payment of the principal of or interest on the Notes (other than the Authority, to the extent described herein).

Very truly yours,

APPENDIX C

DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS

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APPENDIX C

DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS

The Federal Higher Education Act of 1965, as amended (the "Higher Education Act"), provides for: (i) direct federal insurance of student loans, (ii) reinsurance of student and parental loans guaranteed or insured by a state agency or private non profit corporation (collectively, the "Federal Act Loans"), (iii) interest subsidy payments ("Interest Subsidy Payments") to eligible lenders with respect to certain eligible students loans, and (iv) special allowance payments described below under "Special Allowance Payments" (the "Special Allowance Payments"), representing an additional subsidy paid by the Secretary of Education (the "Secretary of Education") to owners of eligible student and parental loans (collectively, the "Student Loans"). The program established by the Higher Education Act, formerly known as the "Guaranteed Student Loan Program", is referred to as the Federal Family Education Loan Program (the "FFEL Program").

The Federal Health Education Assistance Loan Program (the "HEAL Program") created pursuant to 42 U.S.C. §§ 294 through 294aa, (the "HEAL Act"), enabled the Secretary of Health and Human Services (the "Secretary of HHS") to provide a federal program of student loan insurance for students in (and certain former students of) eligible institutions. The HEAL Act authorized the Secretary of HHS to insure loans to repeat borrowers up to certain dollar amounts through December 15, 1995. After September 30, 1995, the Secretary of HHS could authorize insurance only for loans issued to enable students who have obtained prior HEAL Loans to continue or complete their educational program or to obtain a loan to pay interest on such prior loans but no insurance may be granted for any HEAL Loan made after September 30, 1998. Congress did not extend the September 30, 1998 authorization date.

The summaries below do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Higher Education Act and the regulations thereunder. There can be no assurance that the provisions of the Higher Education Act will continue in their present forms. See "CERTAIN RISK FACTORS" in this Official Statement.

LEGISLATIVE MATTERS

History

The Higher Education Act is subject to comprehensive reauthorization approximately every 5 or 6 years and to frequent statutory and regulatory changes, and therefore, there can be no assurance that the provisions of the Higher Education Act will continue in their present form. The Higher Education Amendments of 1986 (the "1986 Amendments") modified the FFEL Program by (i) repealing authorization of auxiliary loans to assist students ("ALAS Loans"), (ii) establishing initial authority for SLS Loans (as hereinafter defined), (iii) modifying the terms upon which PLUS Loans (as hereinafter defined) could be made available, and (iv) establishing initial authority for Consolidation Loans (as hereinafter defined). The Higher Education Amendments of 1992 (the "1992 Amendments") contained additional provisions that affected the terms of certain Higher Education Act loans and the payment of Special Allowance Payments for certain loans, regulated the relationship between the Secretary of Education and the various Guaranty Agencies and established a direct lending demonstration program. The Student Loan Reform Act of 1993 (the "1993 Student Loan Act"), provided further material changes to the student loan programs under the FFEL Program. These changes included the establishment of the Federal Direct Student Loan Program. Certain additional amendments were made to the Higher Education Act by the Higher Education Technical Amendments Act of 1993.

Types of Loans

Currently, four types of loans can be made by the Agency under the Higher Education Act: (i) loans for which the federal government makes certain Interest Subsidy Payments available to reduce student interest costs during certain periods (the "Subsidized Stafford Loans"); (ii) loans for student borrowers who do not qualify for Interest Subsidy Payments (the "Unsubsidized Stafford Loans," and together with Subsidized Stafford Loans, "Stafford Loans"); (iii) supplemental loans to graduate or professional students or parents of eligible dependent students (the "PLUS Loans"); and (iv) loans to borrowers to fund payment and consolidation of the borrower's obligations under Stafford Loans and certain other loans authorized pursuant to other federal programs (the "Consolidation Loans").

Certain loan types have had other names in the past. References to those various loan types include, where appropriate, their predecessors. Until July 1, 1994, the Agency also guaranteed new supplemental loans to graduate and professional students and undergraduate independent students and, under certain circumstances, undergraduate dependent

students (the “SLS Loans”; which term includes loans formerly designated as ALAS Loans). The Agency continues to guarantee those SLS Loans made prior to July 1, 1994.

Student Loans and their guarantees will have different characteristics and be governed by different laws depending upon a variety of factors, including when they were originated for certain purposes and when the bonds by which they are financed were issued for certain other purposes (and applicable governing federal law). In turn, these loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies and Special Allowance Payments.

Certain 1998 Legislation

Under the Higher Education Amendments of 1998 (the “1998 Amendments”), the Secretary is required to recall an additional $250 million of reserves from Guaranty Agencies, including the Agency over the federal fiscal years 2002, 2006 and 2007. The Agency's share of this additional recall is $26.3 million. Of this amount, $8.9 million was paid on September 1, 2002. While the Agency believes that it will be able to maintain adequate reserves despite the recall, no assurances can be made that this recall will have no adverse impact on the Agency. The 1998 Amendments also contained the normal periodic reauthorization of the FFEL Program.

Certain Post-1998 Legislation

Since the 1998 reauthorization, the Higher Education Act was amended by the Ticket to Work and Work Incentives Improvement Act of 1999 (the "1999 Act"), the Consolidated Appropriations Act of 2001 (the "2001 Act"), Public Law 107-139 in 2002, Public Law 108-366 in 2004 and The Higher Education Reconciliation Act of 2005 (the “Higher Education Reconciliation Act”).

The 1999 Act changed the financial index on which Special Allowance Payments are computed on new loans from the 91-day Treasury bill rate to the three-month commercial paper rate (financial) for FFEL Program loans disbursed on or after January 1, 2000 and before July 1, 2003. For these FFEL Program loans, the Special Allowance Payments to lenders are based upon the three-month commercial paper (financial) rate plus 2.34 percent (1.74 percent during in-school and grace periods). The 1999 act did not change the rate that the borrower pays on FFEL Program loans.

The 2001 Act changed the financial index on which the interest rate for some borrowers of SLS and PLUS loans are computed. The index was changed from the 1-year Treasury bill rate to the weekly average one-year constant maturity Treasury yield. This change was effective beginning in July 2001.

Public Law 107-139 amended the Higher Education Act to (i) extend current borrower interest rates for student or parent loans with a first disbursement before July 1, 2006 and for consolidation loans with an application received by the lender before July 1, 2006, (ii) establish fixed borrower interest rates on student loans made on or after July 1, 2006 and (iii) extend the computation of Special Allowance Payments based on the three-month commercial paper (financial) index.

On February 8, 2006, the President of the United States signed The Deficit Reduction Act of 2005 which affected many of the provisions contained in the Higher Education Act. Included in The Deficit Reduction Act of 2005 is The Higher Education Reconciliation Act of 2005, which extends the Department of Education's authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act through September 30, 2012. Several provisions of the Higher Education Act governing the FFEL Program were also amended. Listed below is a brief summary of some of these amendments which could be material to the Agency’s student loan program:

- Extend until October 1, 2012, the authority under the Higher Education Act to provide federal insurance on loans, make subsidized loans and make consolidation loans;

- Expanded the PLUS Loan program to include graduate and professional students;

- Beginning July 1, 2007, increase annual Stafford loan limits for first-year students from $2,625 to $3,500 and for second-year students from $3,500 to $4,500, and the annual unsubsidized Stafford loan limit from $10,000 to $12,000 for graduate and professional students;

- Reduce insurance on defaulted student loans from 98% to 97% for loans for which the first disbursement is made after July 1, 2006;

- Reduce the reimbursement available for student loans serviced by servicers designated for Exceptional Performance from 100% to 99% for all claims filed after July 1, 2006;

- Require payment by lenders to the Department of Education of any interest paid by borrowers on student loans first disbursed on or after April 1, 2006, that exceeds the special allowance support level applicable to such loans;

- For loans with a first disbursement made on or after July 1, 2001, provide new deferral eligibility for up to three years for a borrower who is serving on active duty during a war or other military operation or national emergency, or performing qualifying National Guard duty during a war or other military operation or national emergency;

- Make math, science and special education teachers, with loans disbursed on or after October 1, 1998, eligible for increased forgiveness amounts of up to $17,500; and

- Standard special allowance will be paid on loans that were:

    - Not earning a quarterly rate of 9.5% as of the date of enactment of the Higher Education Reconciliation Act (February 8, 2006);

    - Financed by a tax-exempt obligation that after September 30, 2004 has matured, or been refunded, retired or defeased;

    - Sold or transferred to or purchased by any other holder after September 30, 2004.

Congressional legislation to reauthorize the Higher Education Act has been under consideration by Congress throughout 2005 and into 2006, with temporary extensions being enacted from time to time during continued consideration of more extensive reauthorization and amendatory bills. The current authorization for programs other than FFEL Program (which was reauthorized by the 2005 Amendments) expires on September 30, 2006, with major amendatory bills still pending. If such amendatory legislation is not enacted by September 30, 2006, it is expected that a further temporary extension of authorization will be enacted. However, such a result cannot be guaranteed. Such further amendatory legislation may also affect elements of the FFEL Program.

FEDERAL FAMILY EDUCATION LOAN PROGRAM

As described above, the Higher Education Act currently authorizes certain student loans to be covered under the Federal Family Education Loan Program.

Eligible Borrowers and Institutions

Loans under the FFEL Program may only be made to “Qualified Students” and parents of dependent Qualified Students or to consolidate obligations under various federally authorized student loan programs. A “Qualified Student” is generally defined as a United States Citizen or national or otherwise eligible individual under federal regulations who: (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an “eligible institution”; (ii) is carrying at least one half of the normal full time academic workload for the course of study the student is pursuing, as determined by such institution; (iii) has agreed to notify promptly the holder of the FFEL Program loan of any address change or certain changes in status; and (iv) meets the application “need” requirements, if applicable, for the particular loan program.

“Eligible institutions” include institutions of higher education and proprietary institutions of higher education. Eligible institutions of higher education must meet certain standards, which generally provide that the institution: (i) only admits persons that have a high school diploma or its equivalent; (ii) is legally authorized to operate within the Commonwealth; (iii) provides not less than a two year program with credit acceptable toward a bachelor's degree; (iv) is a public or non profit institution; and (v) is accredited by a nationally recognized accrediting agency or is determined by the Secretary of Education to meet the standard of an accredited institution. Eligible proprietary institutions of higher education include business trade and vocational schools meeting standards which provide that the institution: (i) only admits persons that have a high school diploma or its equivalent, or persons who are beyond the age of compulsory school attendance and have the ability to benefit from the training offered (as defined by statute and regulation); (ii) is authorized by the Commonwealth to provide a program of vocational education designed to fit individuals for useful employment in recognized occupations; (iii) has been in existence for at least two years; and (iv) is accredited by a nationally recognized accrediting agency or is specially accredited by the Secretary.

With certain exceptions, an institution with a “cohort” default rate that is higher than the specified thresholds in the Higher Education Act is not an eligible institution. An institution's cohort default rate is generally based on the percentage of its current and former students who default on their Stafford Loans or SLS Loans within a specified period of time after entering repayment. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101 508) (the “1990 Budget Act”) eliminated eligibility for any institution with a default rate over 35%, with the exception of historically African American colleges and certain community colleges controlled by Native American tribes. In addition, the 1990 Budget Act extended a requirement originally enacted in the 1989 Budget Act excluding institutions with a default rate of over 30% from the SLS program. The 1992 Amendments lowered the default rate trigger for disqualifying schools to 25% beginning in fiscal year 1994.

With specified exceptions, institutions are excluded from consideration as eligible institutions if the institution: (i) offers more than 50% of its courses by correspondence; (ii) enrolls 50% or more of its students in correspondence courses; (iii) has a student enrollment in which more than 25% of the students are incarcerated; or (iv) has a student enrollment in which more than 50% of the students are admitted without a high school diploma or its equivalent on the basis of their ability to benefit from the education provided (as defined by statute and regulation). Further, institutions are specifically excluded from participation if: (i) the institution has filed for bankruptcy; or (ii) the owner, or its chief executive officer, has been convicted of or pled *nolo contendere* or guilty to a crime involving the acquisition, use or expenditure of federal student aid funds, or has been judicially determined to have committed fraud involving funds under the student aid program. In order to participate in the program, the eligibility of an institution must be approved by the Secretary of Education under standards established by regulation.

Financial Need Analysis

FFEL Program loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated costs of attendance, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses (as determined by the institution). Each Stafford Loan borrower must undergo a need analysis, which requires the borrower to submit a need analysis form to a federal central processor. The central processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and/or the family must contribute towards the student's cost of education (the “Family Contribution”). After receiving information on the Family Contribution, the institution then subtracts the Family Contribution from its costs of attendance to determine the student's eligibility for grants, loans, and work assistance. The differences between the amount of grants, other aid and Subsidized Stafford Loans for which the borrower is eligible and the student's estimated costs of attendance may be borrowed through Unsubsidized Stafford Loans, subject to certain loan limits. Parents and graduate and professional students may finance the Family Contribution amount through their own resources or through PLUS Loans. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Stafford Loan or PLUS Loan funding to borrowers or the availability of Stafford Loans or PLUS Loans for secondary market acquisition.

Limitations on Principal Amount

The Higher Education Act requires all Stafford and PLUS Loans to be disbursed by eligible lenders in at least two separate disbursements. Moreover, the Act sets limits on the amounts of both Subsidized Stafford and Unsubsidized Stafford Loans that can be borrowed in an academic year and in the aggregate. Currently, dependent undergraduates may borrow up to $2,625 of Subsidized Stafford loans in each academic year through the completion of their freshman year and $3,500 in each academic year through the completion of their sophomore year. Beginning July 1, 2007, these amounts are increased to $3,500 and $4,500 respectively. Additionally, an undergraduate student who has successfully completed the first and second year, but who has not successfully completed the remainder of a program of undergraduate education, may borrow up to $5,500 in each academic year thereafter. The maximum aggregate amount of Subsidized Stafford Loans which an undergraduate student may have outstanding is subject to an aggregate limit of $23,000 for undergraduate study. Graduate or professional students may borrow up to $8,500 per academic year, subject to an aggregate limit of $65,500, including undergraduate loans, for graduate and professional study. In addition to Subsidized Stafford Loans, independent undergraduate students, graduate and professional students, and certain dependent undergraduate students are eligible to receive Unsubsidized Stafford Loans in amounts in excess of the amounts borrowed using Subsidized Stafford Loans (see below Terms of Loans – Stafford Loans). Aggregate limitations listed above exclude loans made under the SLS Loan and PLUS Loan programs. The Secretary of Education has discretion to raise these limits, to accommodate students undertaking specialized training requiring exceptionally high costs of education. With respect to PLUS Loans, the maximum amount of loans for an academic year at the present time cannot exceed the cost of education minus other financial aid for graduate or professional students or parents or guardians of dependent students.

A borrower eligible to consolidate his or her educational loans is one who, at the time of application for a Consolidation Loan, is in repayment status, or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation. Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on all federally insured or reinsured student loans incurred under the FFEL Program selected by the borrower, as well as loans made pursuant to various other student loan programs and which may have been made by different lenders. Prior to June 15, 2006, a lender was only permitted to make a Consolidation Loan to an eligible borrower at the request of the borrower if that lender held an outstanding loan of the borrower or the borrower certified that he or she was unable to obtain a Consolidation Loan from the holders of the outstanding loans made to the borrower. This so called "single holder rule" was repealed effective June 15, 2006 by the Emergency Appropriations Act of 2006. Lenders are now permitted to make Consolidation Loans to any eligible borrower regardless of whether or not they hold an outstanding loan of the borrower.

Congress repealed the ability of borrowers to consolidate while still in school in the Higher Education Reconciliation Act.

Terms of Loans

The maximum interest rates and other salient terms of loans made under the Higher Education Act are controlled by statute, and the interest rate requirements have been amended with some frequency, The Agency can charge less than or equal to the maximum permitted interest rates described herein.

Stafford Loans

Subsidized Stafford Loans are FFEL Program loans with respect to which the Agency is eligible to receive Interest Subsidy Payments and Special Allowance Payments, which provide the Agency with a guaranteed rate of interest (determined under the Higher Education Act). Unsubsidized Stafford Loans are made to students who do not qualify for such subsidy payments because either their own income or their family income is higher than the permitted level. Unsubsidized Stafford Loans are not eligible for interest subsidies but are eligible for Special Allowance Payments. See "Special Allowance Payments" below for a more complete discussion of Special Allowance Payments.

An eligible student may receive both a Subsidized Stafford Loan and an Unsubsidized Stafford Loan for the same enrollment period; however, the combination may not exceed the annual or aggregate loan limits specified in Federal statute or regulations. Unsubsidized Stafford Loans are available to both dependent and independent students; however, independent students have higher loan limits because the maximums allowed under the SLS Program were added to the Stafford Loan maximums effective for periods of enrollments beginning after June 30, 1994, after which no new SLS Loans were made. For independent students, the following amounts are in addition to any Unsubsidized Stafford Loan eligibility under the normal Stafford Loan limits: for the first and second years of undergraduate programs, an independent student may borrow up to an additional $4,000 for a full year program (prorated amounts are available for shorter programs of study); up to $5,000 each year for the remainder of the undergraduate program; and $10,000 for graduate programs. Beginning July 1, 2007, graduate students will be able to borrow $12,000. The 1996 Appropriations Act authorized a higher amount in Unsubsidized Stafford Loans to assist health profession students who were eligible for HEAL assistance for loan periods beginning after June 30, 1996, but could not borrow under the HEAL Program because of lack of funding for that program; for such students the combination of Subsidized and Unsubsidized Stafford Loans may exceed the normal annual loan limit and aggregate limit for Stafford Loans for such students. Aggregate limits of $46,000 for an undergraduate and $138,500 for a graduate student include the total of outstanding Stafford Loans, SLS Loans and loans under the Federal Direct Student Loan Program.

The interest rates and Special Allowance Payment provisions, and the lender fee and plan for doing business requirements applicable to the Unsubsidized Stafford Loans are the same as for Subsidized Stafford Loans. However, certain terms of the Unsubsidized Stafford Loans differ from those of Subsidized Stafford Loans. The primary difference, in addition to the loan limits (described in the preceding paragraph), is that the federal government does not make Interest Subsidy Payments during the enrollment period, grace period, or during authorized deferment periods for an Unsubsidized Stafford Loan. Interest accrues from the date of each disbursement and any interest not paid by the borrower during the enrollment, grace or deferment periods is normally capitalized. The amount of periodic payment and the repayment schedule for an Unsubsidized Stafford Loan are established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the loan principal commences. At the option of the lender, the note or other written evidence of the loan may require that the amount of the periodic payment be adjusted annually or the period of repayment of principal be lengthened or shortened in order to reflect adjustments in variable interest rates.

Stafford Loans made to student borrowers to cover the costs of instruction for any period of instruction beginning prior to January 1, 1981, and subsequent loans to such borrowers made prior to their retirement of all previous Stafford Loans, bore interest at a maximum permitted rate of 7% per annum. Eligible loans made to new student borrowers to cover the costs of instruction for any period of instruction beginning on or after January 1, 1981, and before September 13, 1983, and subsequent loans to such borrowers made prior to their retirement of all previous Stafford Loans, bore interest at a maximum permitted rate of 9% per annum. Loans made to first time Stafford borrowers to cover costs of instruction for any periods of instruction beginning on or after September 13, 1983, and prior to July 1, 1988, and subsequent loans to such borrowers, bore interest at a rate of 8% per annum. Stafford Loans made to new borrowers for periods of enrollment beginning on or after July 1, 1988 (but prior to October 1, 1992) pursuant to Section 427A of the Higher Education Act ("427A Loans") bore interest at rates of 8% per annum from disbursement through four years after repayment commenced and 10% per annum thereafter, subject to a provision requiring annual discharge of principal to the extent that quarterly interest calculated at the 10% per annum rate exceeded the amount that would result from application of the average bond equivalent rate of 91 day Treasury bills (the "91 Day T Bill Rate") auctioned for such quarter, plus 3.25%. No principal is discharged if the borrower is delinquent for more than 30 days on a loan payment at the end of the calendar year. For new 427A Loans made to all existing borrowers after July 23, 1992 and for 427A Loans made to all new borrowers after July 23, 1992 but prior to October 1, 1992, the provision that required annual discharge of principal was effective immediately instead of after four years, the rate with which the quarterly calculation of interest was compared was the 91 Day T Bill Rate plus 3.10% and any excess with respect to a loan for a period during which the Secretary of Education was making Interest Subsidy Payments was credited to the Secretary.

Under current law, however, for a loan disbursed to a student on or after July 23, 1992, while that student has an outstanding balance of principal or interest on any prior loan with an interest rate of 7%, 8%, 9% or 10%, then prior to January 1, 1995, the loan shall convert to an annual variable interest rate loan. If the sum of the 91 Day T Bill Rate for the relevant calendar quarter plus 3.10% is less than the applicable interest rate on such outstanding student loan, then an adjustment shall be made to the payment by calculating excess interest (calculated in accordance with the Higher Education Act) and crediting such excess to the student's account, at the option of the lender, by reducing the principal balance of the loan, either by reducing the amount of the periodic payments on the loan, by reducing the number of payments or by reducing the amount of the final payment of the loan.

Loans made to first time Stafford borrowers for which the first disbursement was made on or after October 1, 1992, but before July 1, 1994, and subsequent loans to such borrowers, may bear interest at a variable rate determined for each twelve month period commencing July 1 and ending June 30. The rate is the lesser of: (i) the 91 Day T Bill Rate at the final auction held prior to June 1 plus 3.1%; and (ii) 9%. The interest rate on Subsidized and Unsubsidized Stafford Loans made on or after July 1, 1994, will be the 91 day T Bill Rate (at the final auction held prior to June 1) plus 3.1%, not to exceed 8.25%. The annual interest rate on Federal Stafford Loans first disbursed on or after July 1, 1995 but before July 1, 1998 may not exceed 8.25% and is based on the sum of: (i) the bond equivalent rate of the 91 day Treasury bills auctioned at the final auction held prior to June 1; and (ii) a spread factor of 2.5% during the in school period, the 6 month grace period, and any periods when the borrower qualifies for deferment of repayment or 3.1% during the repayment period and any periods of forbearance of payments.

Pursuant to the Higher Education Act, the annual interest rate for loans first disbursed on or after July 1, 1998 was to be the bond equivalent rate of the securities with a comparable maturity as established by the Secretary plus 1.0%, not to exceed 8.25%. In June 1998, a law was enacted making temporary provisions for loans first disbursed on or after July 1, 1998 but before October 1, 1998 (the "1998 Temporary Provisions"). Pursuant to the 1998 Temporary Provisions, the interest rates for loans first disbursed on or after July 1, 1998 but before October 1, 1998 could not exceed 8.25% and is based on the sum of (i) the bond equivalent rate of the 91 day Treasury bills auctioned at the final auction held prior to June 1; and (ii) a spread factor of 1.7% during the in school period, the six month grace period, and any periods when the borrower qualifies for deferment of repayment or 2.3% during the repayment period and any periods of forbearance of payments.

Under the 1998 Amendments, interest rates for loans first disbursed on or after October 1, 1998 are to be the sum of: (i) the bond equivalent rate of the 91 day Treasury bills auctioned at the final auction held prior to June 1; and (ii) a spread factor of 1.7% during the in school period, the 6 month grace period, and any periods when the borrower qualifies for deferment of repayment or 2.3% during the repayment period and any periods of forbearance of payments (the same rates as are in effect under the 1998 Temporary Provisions), capped at 8.25%.

Under the Higher Education Reconciliation Act, interest rates for Stafford Loans first disbursed on or after July 1, 2006 will be fixed at 6.8% per annum.

PLUS/SLS Loans

PLUS/SLS Loans disbursed to or refinanced by borrowers who are parents or guardians of dependent students or independent undergraduate students on or after July 1, 1987 and before October 1, 1992 bear a variable rate that cannot exceed 12% per annum. The rate for any July 1 through June 30 period equals the bond equivalent rate of 52 week Treasury Bills auctioned at the final auction held prior to June 1 plus 3.25%. PLUS/SLS Loans made on or after October 1, 1992, but before July 1, 1994, bear interest at the variable rate calculated as per the formula above (using 3.10% rather than 3.25%), but, the interest rate cannot exceed 10% per annum in the case of PLUS Loans and 11% in the case of SLS Loans. The interest rate on PLUS Loans made on or after July 1, 1994, is the 52-week T Bill Rate plus 3.1%, not to exceed 9%. For such loans made on or after July 1, 1998, the applicable interest rate is equal to the bond equivalent rate of the security with a comparable maturity plus 2.1%, not to exceed 9%. Pursuant to the 1998 Temporary Provisions, however, for PLUS Loans first disbursed on or after July 1, 1998 but before October 1, 1998, the interest for any 12 month period beginning on July 1 and ending on June 30 is determined on the preceding June 1 and is equal to the lesser of: (i) the bond equivalent rate of 91 day Treasury bills auctioned at the final auction held prior to June 1 plus; 3.1%; or (ii) 9%. The 1998 Amendments, as extended by Public Law 107-139, provide that interest on PLUS Loans first disbursed on or after October 1, 1998 and prior to July 1, 2006 shall equal the lesser of: (i) the bond equivalent rate of 91 day Treasury bills auctioned at the final auction held prior to such June 1 plus 3.1%; or (ii) 9%. Under the Higher Education Reconciliation Act, interest rates for loans first disbursed on or after July 1, 2006 will be fixed at 8.5% per annum.

A borrower may refinance all outstanding PLUS Loans or SLS Loans under a single repayment schedule for principal and interest, with the new repayment period calculated from the date of repayment of the most recent included loan. The interest rate of such refinanced loan is the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a PLUS Loan or SLS Loan that was initially originated at a fixed rate prior to July 1, 1987 in order to permit he borrower to obtain the variable interest rate available on PLUS Loans or SLS Loans on and after July 1, 1987. If a lender is unwilling to refinance the original PLUS Loan or SLS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

PLUS/SLS Loans may be eligible for Special Allowance Payments. See “Special Allowance Payments” below.

Consolidation Loans

The interest rate on Consolidation Loans made prior to July 1, 1994 is the higher of 9% or the weighted average of the interest rates on the different loans consolidated, rounded to the next whole percent. The interest rate on Consolidation Loans made on or after July 1, 1994 is the weighted average of the rates on the loans consolidated, rounded to the next whole percent. The interest rate on Consolidation Loans as to which applications are received after October 1, 1998 is the weighted average of loans being consolidated, rounded to the nearest 1/8 and capped at 8.25%. Consolidation Loans may be eligible for Special Allowance Payments. See “Special Allowance Payments” below.

GRACE PERIOD, DEFERMENT PERIODS, FORBEARANCE, INTEREST SUBSIDIES

General Grace Period

Repayment of principal on Subsidized Stafford Loans generally begins upon completion of a grace period after the borrower is no longer enrolled on at least a half time basis at an eligible school. Various grace periods ranging from 6 to 12 months have been available with respect to such loans originated during different periods. At present, a 6 month grace period is available with respect to new loans. Such grace periods may be waived by borrowers. For Subsidized Stafford Loans, the lender continues to bill the U.S. Department of Education for the interest that accrues during the grace period. The repayment period on an Unsubsidized Stafford Loan begins at the end of the 6 month grace period, when the first payment of principal is due from the borrower, although interest begins accruing when each loan disbursement is made. During the grace period on Unsubsidized Stafford Loans interest accrues and must be paid by the borrower or capitalized (added to the loan principal balance at the end of the grace period). At the end of the grace period, the lender may capitalize any accrued interest that the borrower has not paid.

The repayment period for PLUS Loans generally begins 60 days after the loan is disbursed subject to deferral under certain circumstances. Repayment of interest, however, may be deferred only during certain periods specified under the Higher Education Act. Further, whereas federal Interest Subsidy Payments are not available for such deferments, the Higher Education Act provides an opportunity for the capitalization of interest during such periods upon agreement of the lender and borrower. SLS borrowers have the option to defer commencement of repayment of principal until the commencement of

repayment of Subsidized Stafford Loans. Repayment of principal on SLS Loans to students generally begins 60 days after the loan is disbursed subject to deferral under certain circumstances.

Repayment of Consolidation Loans begins 60 days after all holders of the loans consolidated have been paid in full. Deferment of principal repayment is authorized under certain circumstances defined in the Higher Education Act. On Subsidized Stafford Loans and certain Consolidation Loans made on or after January 1, 1993, during authorized deferment periods, the federal government also pays the interest on the loan. Any period of deferment is not included in determining the repayment term of the loan as described below.

General Payment Periods

Each Stafford and PLUS/SLS Loan generally must be scheduled for repayment over a period of not less than five years nor more than ten years after the commencement of repayment, as determined by the lender and the borrower shortly after the borrower has completed the borrower's education (subject to certain deferment and forbearance periods). The Higher Education Act currently requires minimum yearly payments of $600 on Stafford, PLUS and SLS Loans (including principal and interest) or the balance of the loan (including principal and interest), whichever amount is less, unless borrower and lender agree to lower payments, in which case the payment may not be less than the amount of interest due and payable. Generally payments are required to be made monthly. No penalties can be charged for loan prepayment. Graduated or income sensitive repayment schedules applicable to loans disbursed to new borrowers on or after July 1, 1993, are available under the Higher Education Act which may extend or shorten previously agreed upon repayment periods. Lenders must offer an extended repayment schedule to borrowers who are considered “new borrowers” on or after October 7, 1998, and who have more than $30,000 in outstanding principal and interest in FFEL Program loans. This extended repayment schedule must provide a repayment period of no more than 25 years. The repayment term for Consolidation Loans depends upon the amount to be consolidated and the amount the borrower has outstanding in other student loans not included in the consolidation and varies from 10 years to 30 years.

Deferment

After the beginning of the repayment period, borrowers are entitled to have principal payments deferred during authorized periods when they meet certain conditions specified in the Higher Education Act and comply with requirements defined by the U.S. Department of Education. For Subsidized Stafford Loans, the lender continues to bill the U.S. Department of Education for the interest that accrues during the deferment period; however, during deferment periods on Unsubsidized Stafford Loans and SLS Loans, interest accrues and must be paid by the borrower or capitalized (added to the loan principal balance). Accrued interest for deferment periods may not be capitalized more frequently than quarterly and it is common practice to capitalize such interest only at the end of the deferment period. Periods of deferment are excluded in determining the total length of the repayment period. Authorized deferments include periods when the borrower has returned to an educational institution on a half time basis or is pursuing studies pursuant to an approved graduate fellowship program or a rehabilitation program for individuals with disabilities, when the borrower is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, when the borrower is seeking but unable to find full time employment, when the borrower is temporarily totally disabled or when the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled. Other deferment periods include periods when the borrower is on parental leave to care for a newborn child or newly adopted child, or is the mother of a preschool child and is trying to re enter the work force. For new borrowers to whom loans are first disbursed on or after July 1, 1993, repayment of principal may be deferred while the borrower is at least a half time student or is enrolled in an approved graduate fellowship program or is enrolled in a rehabilitation program, or when the borrower is seeking but unable to find full-time employment, subject to a maximum deferment of three years, or when for any reason the lender determines that payment of principal will cause the borrower economic hardship also subject to a maximum deferment of three years. Certain of the 1998 Amendments allow all half time students to be eligible for deferments.

Forbearance

If the lender reasonably believes that borrowers intend to repay their loans, lenders are encouraged to grant forbearance to prevent borrowers from defaulting on their repayment obligations. The lender may grant forbearance if the borrower is currently unable to make scheduled payments due to poor health or other acceptable reasons (normally described either in Federal regulations or other official guidance from the U.S. Department of Education); in certain situations, the lender is required to grant forbearance upon receipt of a written request and adequate supporting documentation. In addition, Federal regulations describe situations when “administrative forbearance” may be granted and specify certain situations when the lender must grant a “mandatory administrative forbearance.” The forbearance may be in the form of temporary cessation of payments, allowing an extension of time for making payments or temporarily accepting smaller payments than previously

scheduled. Regardless of loan type, interest accrues throughout any period of forbearance and must be either paid by the borrower or capitalized (interest may not be capitalized more frequently than quarterly but is commonly done at the end of the forbearance period). Periods of forbearance are excluded in determining the total length of the repayment period. Certain of the 1998 Amendments provide, among other things, that forbearance requests need not be written and may be electronic and that forbearance periods not to exceed 60 days may be granted if such suspension is warranted in order to research or document further information regarding information relating to the loan or request.

Interest Subsidy Payments

The Secretary of Education makes Interest Subsidy Payments to the owner of Subsidized Stafford Loans while the student is a qualified student, during a grace period and during certain periods of deferment. Such payments are in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during the deferment period. The Higher Education Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments in accordance with its provisions. Such eligibility may be lost if the requirements of the federal government and the Guaranty Agency relating to the servicing and collection of the loans are not met.

Interest Subsidy Payments are not available for PLUS Loans.

Since August 1993, the Secretary of Education no longer makes Interest Subsidy Payments on Consolidation Loans other than those loans which consolidate only Subsidized Stafford Loans.

Insurance Benefits and Federal Reimbursement of a Guarantee Fund

An insured Stafford, PLUS/SLS or Consolidation Loan is considered to be in default for purposes of the Higher Education Act when an installment payment is not made or other terms of the loan are not complied with and (i) the failure persists for 270 days in the case of a loan repayable in monthly installments, or (ii) the failure persists for a period of 330 days in the case of a loan repayable in less frequent installments.

The Secretary of Education will honor insurance claims if (i) the borrower has died (or, if the parent is a borrower of a PLUS Loan, the student has died), becomes permanently and totally disabled, in certain limited circumstances has filed for bankruptcy, the student's school closed or loan eligibility was falsely certified, or (ii) the loan is determined to be in default and the lender has used due diligence in attempting to collect the defaulted loan, and the claim is supported by the documents required by the Secretary of Education.

For Stafford, PLUS/SLS or Consolidation Loans with an initial disbursement prior to October 1, 1993, the eligible lender is guaranteed by the Guaranty Agency for 100% of the unpaid principal and accrued interest outstanding at the time of payment of a claim for bankruptcy, death, default, total and permanent disability, school closure or false certification. For Stafford, PLUS/SLS or Consolidation Loans with an initial disbursement on or after October 1, 1993, the guarantee is for 98% of the principal and accrued interest outstanding at the time of default. For Stafford, PLUS/SLS or Consolidation Loans with an initial disbursement on or after July 1, 2006, the guarantee will be 97% of the principal and accrued interest outstanding at the time of default. For all Stafford, PLUS/SLS or Consolidation loans serviced by a servicer that has been designated an “Exceptional Performer” by the Department of Education, the reimbursement is increased to 100% (99% for claims filed on or after July 1, 2006). Additionally, for all Stafford, PLUS/SLS or Consolidation Loans with an initial disbursement on or after October 1, 1993, the guarantee is 100% of principal and accrued interest outstanding at the time of bankruptcy, death, total and permanent disability, school closure or false certification. Under the Higher Education Act, the Secretary of Education enters into a guaranty agreement and supplemental guaranty agreement with a Guaranty Agency which provides for federal reimbursement (“Federal Reimbursement”) within the limits described below for amounts paid to eligible lenders by the Guaranty Agency with respect to defaulted Stafford, PLUS/SLS, or Consolidation Loans.

The Secretary of Education will reimburse a Guaranty Agency for 100% of the amounts expended prior to October 1, 1993 in connection with a claim resulting from the death, bankruptcy, default, total and permanent disability of a borrower, school closure or false certification. Under the 1993 Student Loan Reform Act, the Secretary of Education will reimburse a Guaranty Agency for 100% of the amounts expended on or after October 1, 1993 in connection with a claim resulting from the death, bankruptcy, total and permanent disability of a borrower, school closure or false certification, and 98% in the case of claims connected with defaults. Claims based on death, bankruptcy, total and permanent disability, school closure or false certification are not included in calculating a Guaranty Agency's claims rate experience for Federal Reimbursement. The Secretary of Education will reimburse a Guaranty Agency for any amounts paid to satisfy claims not resulting from death, bankruptcy, disability, school closure or false certification with the amount of reimbursement dependent

on the Guaranty Agency's claims rate in that fiscal year. The reimbursement formula is based on the amount of Federal Reimbursements during the current fiscal year as a percentage of the original principal amount of loans in repayment on the last day of the prior fiscal year.

The Federal Reimbursement formula for Federal Family Education Loan Program loans for which the first disbursement occurs prior to October 1, 1993, is summarized below:

Claims Rate	Federal Reimbursement
0% up to 5%	100%
5% up to 9%	100% of claims up to 5% 90% of claims 5% and over
9% and over	100% of claims up to 5% 90% of claims 5% and over up to 9% and 80% of claims 9% and over

The 1993 Student Loan Reform Act reduced the required maximum guaranty level for guarantees of Federal Family Education Loan Program loans for which the first disbursement occurs on or after October 1, 1993 to 98% instead of 100% of the principal amount, unless the loan is made by a lender-of-last resort, in which case the maximum guaranty level is 100%. The 1993 Student Loan Reform Act reduced the minimum guaranty level from 80% to 78%. Under the 1993 Student Loan Reform Act, the level at which the Secretary of Education will reinsure Guaranty Agency guarantees is reduced to 98% for annual default rates from 0% to 5%; 88% for annual default rates from 5% to 9%; and 78% for annual default rates greater than 9% for loans made on or after October 1, 1993. The Secretary of Education is not required to reimburse the Agency for more than 98% of the principal amount of and interest on such loans that default. Under prior law, the Secretary of Education would have been required to reimburse the Agency for 100% of the principal amount of such loans upon their default.

The Federal Reimbursement formula for FFEL Program loans for which the first disbursement occurs on or after to October 1, 1993, is summarized below:

Claims Rate	Federal Reimbursement
0% up to 5%	98%
5% up to 9%	98% of claims up to 5% 88% of claims 5% and over
9% and over	98% of claims up to 5% 88% of claims 5% and over up to 9% and 78% of claims 9% and over

Pursuant to the 1998 Amendments the foregoing reimbursement rates were reduced to the following:

Claims Rate	Federal Reimbursement
0% up to 5%	95%
5% up to 9%	95% of claims up to 5% 85% of claims 5% and over
9% and over	95% of claims up to 5% 85% of claims 5% and over up to 9% and 75% of claims 9% and over

The claims rate that determines Federal Reimbursement is not accumulated from year to year, but is determined solely on federally reimbursed claims in any one fiscal year compared with the original principal amount of loans in repayment at the beginning of that year.

After a Guaranty Agency has submitted a claim to the Secretary of Education for a defaulted loan, the Guaranty Agency continues to seek repayment of the loan. Any payments it receives on a defaulted loan are remitted to the federal

government after deducting and retaining: a percentage amount equal to the complement of the reimbursement percentage in effect at the time the loan was reimbursed, and an amount equal to 24% of such payments (23% beginning October 1, 2003, or 18.5% in the case of a payment from the proceeds of a consolidation loan) for certain administrative costs. On or after October 1, 2006, a guaranty agency may not charge a borrower collection costs in an amount in excess of 18.5% of the outstanding principal and interest of a defaulted loan that is paid off by a consolidation loan and must remit to the Secretary of Education a portion of this collection charge equal to 8.5% of the outstanding principal and interest of the defaulted loan. On and after October 1, 2009, a guaranty agency must remit to the Secretary of Education the entire collection charge for defaulted loans paid off by excess consolidation proceeds. Excess consolidation proceeds are the proceeds from defaulted loan consolidations that exceed 45% of the guaranty agency's total collections on defaulted loans in a federal fiscal year. Guaranty agencies must also adopt procedures to preclude consolidation lending from being an excessive proportion of the guaranty agency's default recoveries. The Secretary of Education may, however, require the assignment to the Secretary of Education of defaulted guaranteed loans, in which event no further collections activity need be undertaken by the guaranty agency, and no amount of any recoveries shall be paid to the guaranty agency.

The Higher Education Act provides that the full faith and credit of the United States is pledged to the payment of insurance claims and guarantee reimbursements not subject to reduction and further provides that Guaranty Agencies shall be deemed, subject to provisions relative to the reduction of Guaranty Agency reserves, to have a contractual right against the United States to receive reimbursement in accordance with its provisions. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary of Education is authorized, to the extent provided in advance by appropriations acts, to issue obligations through the Secretary of the Treasury to provide funds to make such federal payments.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made quarterly by the Secretary of Education to holders of qualifying insured loans and guaranteed loans, subject to certain requirements. Special Allowance Payments provide additional income to owners of FFEL Program Loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan (Stafford Loans, PLUS Loans, SLS Loans or Consolidation Loans), the date the loan was originally made or insured and the type of funds used to finance such loan (tax-exempt or taxable). For those loans originated prior to January 1, 2000, such formulas are based on the 91-Day T-Bill Rate and on the maximum interest rate which may be charged on such loan (the "Applicable Loan Rate"). The provisions on Special Allowance Payments were further amended by the 1999 amendments to the program contained in Section 409 of Public Law 106-170, signed into law on December 17, 1999 (the "1999 Amendments"). For those loans originated on or after January 1, 2000, Special Allowance Payment formulas are based on the 3-month commercial paper (financial) (the "3 Month CP Rate") rate and on the maximum interest rate which may be charged on such loan (the "Applicable Loan Rate").

Except as described below under "Legislative and Administrative Matters - Enforcement of Spending Limits," the Higher Education Act provides that the holder of a qualifying loan has a contractual right against the United States, during the life of the loan, to receive Special Allowance Payments calculated as described above. The Higher Education Act also provides that if Special Allowance Payments have not been made within 30 days after the Secretary of Education receives an accurate, timely and complete request therefor, the Secretary of Education must pay interest on the amounts due beginning on the 31st day at the Special Allowance Payment rate plus the rate of interest applicable to the affected loans.

Stafford Loans

For loans disbursed before November 16, 1986 or made with respect to periods of enrollment beginning before November 16, 1986, Special Allowance Payments available to eligible lenders which finance loans with the proceeds of taxable obligations were equal to the 91-Day T-Bill Rate plus 3.5% less the applicable interest rate for such loans. For loans disbursed on or after November 16, 1986 or made with respect to periods of enrollment beginning on or after November 16, 1986, Special Allowance Payments available to eligible lenders which finance loans with the proceeds of taxable obligations were decreased by 0.25%. For loans disbursed on or after October 1, 1992, Special Allowance Payments available to eligible lenders that finance loans with taxable obligations were further decreased by 0.15%. For loans made on or after July 1, 1995, the full Special Allowance Payment is decreased from the 91-Day T-Bill Rate plus 3.1% less the applicable interest rate for such loans to the 91-Day T-Bill Rate plus 2.5% less the applicable interest rate for such loans during the in-school, grace and deferment periods.

The minimum Special Allowance Payment rates for loans made on or after October 1, 1980 and financed with proceeds of tax-exempt obligations (except for certain loans under §427A(d) of the Higher Education Act, while bearing interest at 10%) effectively provide an overall minimum return of 9.5% on such loans. The 1993 Student Loan Reform Act

eliminates the 9.5% minimum return on Stafford Loans originated from the proceeds of tax exempt bonds issued on or after October 1, 1993. The Special Allowance Payment for loans purchased with such bonds will be equal to the full Special Allowance Payment otherwise payable to holders of other loans. The rate of Special Allowance Payments to eligible lenders which apply proceeds of tax-exempt obligations issued prior to October 1, 1993, to fund their acquisition of loans, however, will be one-half the rate which would be payable to eligible lenders which finance such loans with taxable obligations without giving effect to the reductions effected as of November 16, 1986 and October 1, 1992.

Pursuant to the 1998 Temporary Provisions, for loans made on or after July 1, 1998 but before October 1, 1998 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment was equivalent to the 91-Day T-Bill Rate minus the Applicable Loan Rate plus 2.2% during the in-school period, the grace period and certain deferment periods, and 2.8% during repayment or forbearance periods. For Stafford Loans made on or after October 1, 1998 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment is equivalent to the applicable bond equivalent rate of the security with a comparable maturity, as determined by the Secretary, minus the applicable interest rates on such loans from such applicable bond equivalent rate, plus 1%. For loans made on or after October 1, 1998 and before July 1, 2006, the Special Allowance Payment will be equivalent to the 91-Day T-Bill Rate minus the Applicable Loan Rate plus 2.2% during the in-school period, the grace period and certain deferment periods, and 2.8% during repayment or forbearance periods.

The 1999 Amendments provided that the formula for determining Special Allowance Payments changed for Stafford Loans originated on or after January 1, 2000 such that the Special Allowance Payments will be based on the average of the 3 Month CP Rate as reported by the Federal Reserve in Publication H-15 (or its successor), minus the applicable interest rates on the loans, and plus (x) 2.34% for loans in repayment status, or (y) 1.74% for loans during the in-school period, the grace period or certain deferment periods.

The Higher Education Reconciliation Act modified the provisions addressing Special Allowance Payments, applicable to Stafford Loans that are first disbursed and to Special Allowance Payments made on and after April 1, 2006, to require a credit to the federal government against amounts that would otherwise be payable to the holders of such Stafford Loans in the amount by which interest accruing or payable upon such Stafford Loans during any 3-month period exceeds the amount that would have been received upon such loans if interest thereon was paid at an annual rate equivalent to the 3-Month CP Rate plus: (i) 1.74 percent, with respect to Stafford Loans during in-school, grace and deferment periods; and (ii) 2.34 percent, with respect to Stafford Loans otherwise. As of the date of this Official Statement, the Department has indicated that it intends to require holders to make payments to it if the credit exceeds the amount that would otherwise be payable to the holder during a period.

PLUS/SLS Loans

The formula for Special Allowance Payment rates for PLUS Loans and SLS Loans is similar to that for the newer Stafford Loans. However, prior to July 1, 2006, no Special Allowance Payments are made with respect to PLUS or SLS Loans unless, at the time of computation, the rate determined by the formulas described above under "HIGHER EDUCATION ACT - Terms of Loans - PLUS/SLS Loans" would exceed the applicable allowed Maximum Rate, as described in each section below.

Prior to enactment of the Higher Education Reconciliation Act, under the Higher Education Act, Special Allowance Payments were not made on PLUS loans that were disbursed on or after January 1, 2000 and before July 1, 2006 for any 12-month period beginning July 1, unless the bond equivalent rate of 91-day Treasury bills auction at the final auction held prior to the previous June 1, plus 3.10 percent, exceeded 9.0 percent. In addition, under the Higher Education Act, Special Allowance Payments would not be made on PLUS loans disbursed on or after July 1, 2006 during any 12-month period beginning July 1, where the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial), for the last calendar week ending on or before that July 1, plus 2.64 percent, exceeded 9.0 percent. Pursuant to the Higher Education Reconciliation Act, the above limitation on the payment of Special Allowance Payments for PLUS loans have been eliminated. Thus, Special Allowance Payments on PLUS loans that were first disbursed on or after January 1, 2000 and before July 1, 2006, may be made for periods beginning April 1, 2006. The first Special Allowance Payments for such loans will be for the second quarter of 2006 (April 1, 2006 through June 30, 2006). Beginning with the quarter ending September 30, 2006, PLUS loans first disbursed on or after July 1, 2006 will be eligible for Special Allowance Payments. However, holders of PLUS loans are also required to credit the federal government for amounts that would otherwise be payable to the holders of such PLUS Loans in the amount by which interest accruing or payable upon such PLUS Loans during any 3-month period exceeds the amount that would have been received upon such loans if interest thereon was paid at the 3-Month CP Rate plus 2.64%. See "Floor Income" below.

Consolidation Loans

The Special Allowance Payment rates applicable to Consolidation Loans are determined in the same manner as for Stafford Loans. The Special Allowance Payment rates applicable to Consolidation Loans are determined by using the new interest rate on the Consolidation Loan, not the interest rates on the individual loans that were consolidated. The formula for determining Special Allowance Payments changed for Consolidation Loans originated on or after January 1, 2000 such that the Special Allowance Payments are now based on the 3 Month CP Rate, minus the applicable interest rate on the loans plus 2.64%.

Floor Income

The Higher Education Reconciliation Act provides that, with respect to a loan for which the first disbursement of principal is made on or after April 1, 2006, if the applicable interest rate for any 3 month period exceeds the special allowance support level applicable to such loan for such period, then an adjustment shall be made by calculating the excess interest and crediting such amounts to the government not less often than annually. The amount of any adjustment of interest for any quarter will be equal to: a) the applicable interest rate minus the special allowance support level for the loan, multiplied by b) the average daily principal balance of the loan during the quarter, divided by c) four.

Fees

Guarantee Fee. A guaranty agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which must be deducted proportionately from each installment payment of the proceeds of the loan to the borrower. For loans guaranteed on or after July 1, 2006, the 1% guarantee fee is eliminated and a 1% federal default fee must be collected from proceeds of the loan or other non-federal sources and must be deposited into the Federal Student Loan Reserve Fund. Guarantee fees may not currently be charged to borrowers of Consolidation Loans. However, lenders may be charged a fee to cover the costs of increased or extended liability with respect to Consolidation Loans. For loans made prior to July 1, 1994, the maximum guarantee fee was 3% of the principal amount of the loan, but no such guarantee fee was authorized to be charged with respect to Unsubsidized Stafford Loans.

Origination Fee. Lenders are authorized to charge the borrower of a Subsidized Stafford Loan or an Unsubsidized Stafford Loan an origination fee in an amount not to exceed 3% of the principal amount of the loan, and is required to charge the borrower of a PLUS Loan an origination fee in the amount of 3% of the principal amount of the loan. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. These fees are not retained by the lender, but must be passed on to the Secretary of Education. Pursuant to the provisions of the Higher Education Reconciliation Act, Stafford Loan origination fees will be phased out by July 1, 2010. Beginning with Stafford Loans for which the first disbursement of principal is made on or after July 1, 2006, and before July 1, 2007, the maximum origination fee that can be charged is 2%. The maximum fee decreases to 1.5% on July 1, 2007, 1.0% on July 1, 2008, 0.5% on July 1, 2009, and is eliminated July 1, 2010.

Lender Origination Fee. Lenders are to pay a 0.50% origination fee to the Secretary of Education on each loan originated on or after October 1, 1993.

Rebate Fee on Consolidation Loans. Each holder of a Consolidation Loan is to pay the Secretary of Education, on a monthly basis, a rebate fee at an annual rate of 1.05% for loans made after October 1, 1993. The rebate fee has been reduced to 0.62% for applications received between October 1, 1998 and January 31, 1999.

FEDERAL DIRECT STUDENT LOAN PROGRAM

General

Under the Federal Direct Student Loan Program (the “FDSL Program”) a variety of student loans, including loans for parents of students, can be obtained directly from the student's institution of higher education (“IHE”) without application to an outside lender. The FDSL Program provides for a variety of repayment plans from which borrowers may choose, including repayment plans based on income. It also provides certain programs under which principal may be forgiven or interest rates reduced.

Participation in Federal Family Education Loan Programs

Students enrolled in schools participating in the FDSL Program may participate in the Federal Family Education Loan Program, but not simultaneously.

Selection Criteria During Phase-in Period

IHEs must apply to participate in the FDSL Program. In order to include a cross section of participants, the Department of Education will select from among applicants based on anticipated loan volume, length of academic program, control, highest degree offered, size of student enrollment, geographic location and default experience. Beginning in 1995-96, the Secretary of Education must select IHEs that are reasonably representative of each of these categories.

Federal Direct Student Loan Program Loan Terms and Conditions

Unless otherwise specified, loans made under the FDSL Program will have the same terms, conditions and benefits of and be available in the same amounts as their corresponding Federal Family Education Loan Program loans.

Repayment Options

Four repayment plans are to be offered to borrowers of FDSL Program loans: (i) standard repayment plan; (ii) extended repayment plan; (iii) graduated repayment plan; and (iv) an income contingent repayment plan.

Federal Direct Student Loan Program Loan Consolidation

A borrower of a FDSL Program loan may consolidate the loan with Federal Family Education Loan Program and other federal loans (including FFEL Program loans that have already been consolidated), as under the current Consolidation Loan program at any time, under terms and conditions established by the Secretary of Education.

The Higher Education Reconciliation Act provides that the Secretary shall offer FDSL Program consolidation loans to borrowers whose application for a FFEL Consolidation Loan has been denied by a FFEL Program lender or whose application for a FFEL Consolidation Loan with income-sensitive repayment terms has been denied.

Contracts

The Secretary of Education is to provide for origination, servicing and collections for the FDSL Program through contracts at competitive prices. The Secretary of Education will enter into contracts with entities that have an extensive, relevant experience and demonstrated effectiveness in these areas and may include, but are not limited to, Guaranty Agencies.

OTHER LEGISLATIVE AND ADMINISTRATIVE MATTERS

Credit Reform

The 1990 Budget Act included the Credit Reform Act of 1990. Under this legislation, commencing October 1, 1991, the budgeted cost of the FFEL Program includes the present value of the long-term cost to the government of loans during each fiscal year (excluding administrative costs and certain incidental costs), regardless of how far into the future the costs will be incurred. The costs resulting from loan reinsurance commitments made prior to fiscal year 1992 will also be reflected in future budgets based on the years in which they are paid.

Regulations

Regulations applicable to the FFEL Program were published by the Secretary of Education on November 10, 1986 and became effective on December 26, 1986. The Secretary of Education indicated that these regulations were not intended to reflect the 1986 Amendments and that issuance of further regulations to implement such changes was anticipated. The 1986 Amendments provide that the changes to the FFEL Program provided therein shall be effective without regard to whether such changes are reflected in regulations. On December 18, 1992, the Secretary of Education published final regulations designed to reflect the 1986 Amendments, subsequent statutory changes up to and including the Emergency Unemployment Act of 1991 and certain self-implementing provisions of the 1992 Amendments. These regulations became

effective February 1, 1993. On April 28, 1994, the Secretary of Education published interim final regulations designed to reflect the 1992 Amendments that were not self-implementing provisions of the Act. These regulations became effective July 1, 1994 with the exception of selected sections, which were promulgated in final form on June 28, 1994, effective July 1, 1995. On October 29, 1999, the Secretary of Education published final regulations implementing the 1998 Amendments. These regulations became effective July 1, 2000, and supersede previous regulations to the extent they are inconsistent.

Servicer Provisions and Third-Party Servicer Regulations

On April 29, 1994, the Secretary of Education published regulations which, among other things, establish requirements governing contracts between holders of FFEL Program loans and third-party servicers, establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a Guaranty Agency's or lender's participation in the FFEL Program, and establish sanctions for third-party servicers.

Under these regulations, a third-party servicer is jointly and severally liable with its client lenders, Guaranty Agencies and educational institutions, as applicable, for liability to the Secretary of Education arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the regulations, or violates other FFEL Program requirements, the regulations authorize the Secretary of Education to fine the servicer or limit, suspend, or terminate the servicer's eligibility to contract to service Student Loans. The effect of such a limitation, suspension, or termination on a servicer's eligibility to service loans already on its system, or to accept new loans for servicing under existing contracts, is unclear. No assurance exists that the Agency will not be held liable by the Secretary of Education for liabilities arising out of its FFEL Program activities for the Agency or other client lenders, or that its eligibility will not be limited, suspended, or terminated in the future. If the Agency were so held liable or its eligibility limited, suspended, or terminated, its ability to properly service Student Loans and to satisfy its obligations with respect thereto could be adversely affected.

Loan Origination and Servicing Procedures Applicable to Student Loans

The Higher Education Act and its implementing regulations impose specified requirements, guidelines and procedures with respect to originating and servicing student loans. Generally, those procedures require that completed loan applications be processed, a determination of whether an applicant is an eligible borrower under applicable standards be made, the borrower's responsibilities under the loan be explained to him or her, the promissory note evidencing the loan be executed by the borrower and then that the loan proceeds be disbursed in a specified manner by the lender. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferrals and forbearance and credit the Borrower for payments made thereon. If a borrower becomes delinquent in repaying a loan, a lender or a servicing agent must perform certain collection procedures (primarily telephone calls and demand letters), which vary depending upon the length of time a loan is delinquent. 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 lenders who fail to comply with their provisions. In certain circumstances, the Agency may be liable for certain violations of consumer protection laws that apply to the financed student loans, either as assignee or as the party directly responsible for obligations arising after the transfer.

Master Promissory Notes

Beginning in July of 2000, all lenders are required to use a master promissory note (the “MPN”) for new Stafford Loans. The MPN permits a borrower to obtain future loans without the necessity of executing a new promissory note. Borrowers are not, however, required to obtain all of their future loans from their original lender, but if a borrower obtains a loan from a lender, which does not presently hold an MPN for that borrower, that borrower will be required to execute a new MPN. A single borrower may have several MPNs evidencing loans to multiple lenders. If multiple loans have been advanced pursuant to a single MPN, any or all of those loans may be individually sold by the holder of the MPN to one or more different secondary market purchasers, such as the Agency.

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APPENDIX D

THE SERVICING AGREEMENT

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SERVICING AGREEMENT

by and between

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

as Servicer

and

MANUFACTURERS AND TRADERS TRUST COMPANY

Dated as of November 1, 2006

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SERVICING AGREEMENT
BETWEEN
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
AND
MANUFACTURERS AND TRADERS TRUST COMPANY

This Servicing Agreement, dated as of November 1, 2006, is made by and between Manufacturers and Traders Trust Company, a New York banking corporation having power and authority to accept and execute trusts and having a corporate trust office in Harrisburg, Pennsylvania, as trustee (the "Trustee") under the Indenture (defined below), and the Pennsylvania Higher Education Assistance Agency, a public corporation and governmental instrumentality organized under the laws of the Commonwealth of Pennsylvania in its capacity as servicer (the "Servicer").

RECITALS:

The Issuer is undertaking the origination and/or acquisition of Student Loans as provided in the Trust Indenture dated as of November 1, 2006 (the "Indenture") between the Issuer and the Trustee.

The Servicer has obtained funds necessary to acquire and/or originate such Student Loans through the issuance by the Issuer of its Student Loan Revenue Notes, Series 2006-2 Senior Class A and Subordinate Class B (collectively, the "Notes"). The Notes are being issued pursuant to the provisions of the Indenture.

The Servicer has developed a computerized loan servicing system and is capable of providing services related to the origination, acquisition and servicing of the Student Loans. The Servicer has also developed a procedure for electronic student loan transactions ("Electronic Student Loan Transactions"), pursuant to which master promissory notes and subsequent disbursements may be signed, acknowledged and authenticated electronically.

Payment of principal of and interest on the Notes is expected to be derived from, among other things, principal and interest payments received by the Servicer on the Student Loans it acquires and/or insures.

In consideration of the mutual covenants herein contained, the Trustee and the Servicer, intending to be legally bound, do hereby agree as follows:

ARTICLE I

Section 1.1 Definitions and Usage. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in Appendix A to the Indenture, which also contains rules of usage and construction that shall be applicable herein.

Section 1.2 Term and Scope.

(a) The Term of this Agreement shall commence on the date first above written and shall continue for so long as any portion of the Student Loans shall be held by the Issuer or the Trustee, unless earlier terminated as provided in Sections 2.6 and 5.1 hereof.

(b) This Agreement pertains to the acquisition of Student Loans and the subsequent servicing of such Student Loans. Electronic Student Loan transactions may be undertaken in accordance with the Issuer's (or any other lender's) Electronic Signature Process.

Section 1.3 Representations, Warranties and Covenants of the Servicer. The Servicer, represents and warrants to, and covenants with the Trustee as follows:

(a) The Servicer is a public corporation and governmental instrumentality duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania governing its creation and existence, and is duly authorized and qualified to transact any and all business contemplated by this Agreement and possesses all requisite authority, power, licenses, permits and franchises to conduct its business and to execute, deliver and comply with its obligations under the terms of this Agreement, the execution, delivery and performance of which have been duly authorized by all necessary action.

(b) The execution and delivery of this Agreement by the Servicer, and the performance and compliance with the terms hereof by the Servicer will not violate or conflict with (i) the instruments creating the Servicer or governing its operations, or (ii) any laws in any respect which could have any material adverse effect whatsoever upon the validity, performance or enforceability of any of the terms of this Agreement applicable to the Servicer, and will not constitute a default under, or result in the breach of, any contract, agreement or other instrument to which the Issuer is a party or which may be applicable to the Servicer or any of its assets.

(c) This Agreement, and all documents and instruments contemplated hereby, which are executed and delivered by the Servicer, will constitute valid, legal and binding obligations of the Servicer, enforceable in accordance with their respective terms except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization or other laws or equitable principles affecting creditors' rights generally.

(d) No litigation is pending or, to the best of the Servicer’s knowledge, threatened against the Servicer which would prohibit its entering into this Agreement or consummating the transactions contemplated herein.

(e) The Servicer is not a party to or bound by any agreement or instrument or subject to any charter or other restriction or any judgment, order, writ, injunction, decree, law or regulation which now or in the future may substantially and adversely affect the ability of the Servicer to perform its obligations under this Agreement or which requires the consent of any third person to the execution of this Agreement or the consummation of the transactions contemplated herein.

(f) The Commonwealth of Pennsylvania has created the Board of Claims, pursuant to the provisions of the Act of May 20, 1937, P.L. 728, as amended by the act of

October 5, 1978, Act No. 260, 72 P.S. 4651 - 1 et seq., for the adjustment of claims arising from contracts entered into by the Commonwealth. Claims against the Servicer respecting any matter pertaining to this Agreement or any part thereof are subject to the statutory jurisdiction of the Board of Claims.

ARTICLE II

Section 2.1 Custody of Student Loan Files. To assure uniform quality in servicing the Student Loans and to reduce administrative costs, the Issuer has hereby appointed the Servicer, and the Servicer hereby accepts such appointment, to act for the benefit of the Issuer as custodian of the following documents or instruments (collectively the "Student Loan Files"):

(a) the original fully executed copy of the note (or all electronic records evidencing the same) evidencing the Student Loan; and

(b) any and all other documents and computerized records that the Servicer shall keep on file, in accordance with its customary procedures, relating to such Student Loan or any obligor with respect thereto.

Section 2.2 Duties of Servicer as Custodian. The Servicer shall hold the Student Loan Files for the benefit of the Issuer and maintain such accurate and complete accounts, records and computer systems pertaining to each Student Loan File as shall enable the Issuer to comply with this Agreement and the Indenture. In performing its duties as custodian, the Servicer shall act with reasonable care, using that degree of skill and attention that the Servicer exercises with respect to the Student Loan files relating to similar student loans that the Servicer services on behalf of the Issuer and shall ensure that it fully complies with all applicable Federal and state laws, including the Higher Education Act, with respect thereto. The Servicer shall take all actions necessary with respect to the Student Loan Files held by it under this Agreement and of the related accounts, records and computer systems, in order to enable the Issuer or the Trustee to verify the accuracy of the Servicer's record keeping with respect to the Servicer's obligations as custodian hereunder. The Servicer shall promptly report to the Issuer and the Trustee any material failure on its part to hold the Student Loan Files and maintain its accounts, records and computer systems as herein provided and promptly take appropriate action to remedy any such failure. Nothing herein shall be deemed to require an initial review or any periodic review by the Issuer or the Trustee of the Student Loan Files. If in the reasonable judgment of the Trustee it is necessary to preserve the interests of the Noteholders in the Student Loans or at the request of the Issuer, the Servicer shall transfer physical possession of the notes evidencing the Student Loans to the Trustee or any other custodian for either of them designated by the Trustee in writing.

Section 2.3 Maintenance of and Access to Records. The Servicer shall maintain each Student Loan File at one of its offices specified in Attachment B to this Agreement or at such other office as shall be consented to by the Issuer upon written notice to the Issuer. Upon reasonable prior notice, the Servicer shall make available to the Issuer and the Trustee, or their respective duly authorized representatives, attorneys or auditors a list of locations of the Student Loan Files and the related accounts, records and computer systems maintained by the Servicer at such times during normal business hours as the Issuer shall instruct.

Section 2.4 Release of Documents. Upon written instruction from the Trustee, the Servicer shall release any Student Loan File to the Trustee or the Trustee's designee, as the case may be, at such place or places as the Trustee may reasonably designate, as soon as practicable. The Trustee shall cooperate with the Servicer to provide the Servicer with access to the Student Loan Files in order for the Servicer to continue to service the Student Loans after the release of the Student Loan Files. In the event the Servicer is not provided access to the Student Loan Files, the Servicer shall not be deemed to have breached its obligations pursuant to Section 3.1, 3.2, 3.3 or 3.4 if it is unable to perform such obligations due to its inability to have access to the Student Loans Files. The Servicer shall not be liable for any losses with respect to the servicing of such Student Loans arising after the release of the related Student Loan Files to the extent the losses are attributable to the Servicer's inability to have access to the related Student Loan Files.

Section 2.5 Instructions; Authority to Act. The Servicer shall be deemed to have received proper instructions with respect to the Student Loan Files upon its receipt of written instructions signed by a Responsible Officer of the Issuer.

Section 2.6 Effective Period and Termination. The Servicer's appointment as custodian shall become effective as of the Closing Date and shall continue in full force and effect for so long as the Servicer shall remain the servicer hereunder. If the Servicer or any successor servicer shall resign as Servicer in accordance with the provisions of this Agreement or if all the rights and obligations of the Servicer or any such successor servicer shall have been terminated under Section 5.1, the appointment of the Servicer or such successor servicer as custodian shall be terminated simultaneously with the effectiveness of such resignation or termination. On or prior to the effective date of any resignation or termination of such appointment, the Servicer shall deliver the Student Loan Files to the successor servicer, the Trustee or the Trustee's agent, at the direction of the Trustee, at such place or places as the Trustee or the successor servicer, as applicable, may reasonably designate. In establishing an effective date for the termination of the Servicer as custodian of the Student Loan Files, the parties shall provide for a reasonable period for the Servicer to deliver the Student Loan Files to its designated successor.

ARTICLE III

Section 3.1 Duties of Servicer. The Servicer, for the benefit of the Issuer (to the extent provided herein), shall manage, service, administer and make collections on the Student Loans with reasonable care, using that degree of skill and attention that the Servicer exercises with respect to similar student loans that it services on behalf of itself, beginning on the Closing Date until the Student Loans are paid in full. Without limiting the generality of the foregoing or of any other provision set forth in this Agreement and notwithstanding any other provision to the contrary set forth herein, the Servicer shall manage, service, administer and make collections with respect to the Student Loans (including the collection of any Interest Subsidy Payments and Special Allowance Payments on behalf of the Issuer) in accordance with, and otherwise comply with, all applicable Federal and state laws, including all applicable rules, regulations and other requirements of the Higher Education Act and the applicable Guarantee Agreements, the failure to comply with which would adversely affect the eligibility of one or more of the Student Loans for Federal reinsurance or Interest Subsidy Payments or Special Allowance Payments or one or more of the Student Loans for receipt of Guarantee Payments.

The Servicer's duties shall include, but shall not be limited to, collection and posting of all payments, responding to inquiries of borrowers on such Student Loans, monitoring borrowers' status, making required disclosures to borrowers, performing due diligence with respect to borrower delinquencies, sending payment coupons to borrowers and otherwise establishing repayment terms, reporting tax information to borrowers, if applicable, accounting for collections and furnishing monthly statements with respect thereto to the Trustee and the Issuer. The Servicer shall follow its customary standards, policies and procedures in performing its duties as Servicer. Without limiting the generality of the foregoing, the Servicer is authorized and empowered to execute and deliver, on behalf of itself, the Issuer, the Trustee and the Noteholders or any of them, instruments of satisfaction or cancellation, or partial or full release or discharge, and all other comparable instruments, with respect to such Student Loans; provided, however, that the Servicer agrees that it will not (a) permit any rescission or cancellation of a Student Loan except as ordered by a court of competent jurisdiction or governmental authority or as otherwise consented to in writing by the Trustee provided, however, that the Servicer may write off any delinquent Student Loan if the remaining balance of the borrower's account is less than $50 or (b) reschedule, revise, defer or otherwise compromise with respect to payments due on any Student Loan except pursuant to any applicable interest only, deferral or forbearance periods or otherwise in accordance with all applicable standards, guidelines and requirements with respect to the servicing of Student Loans; provided further, however, that the Servicer shall not agree to any reduction of yield with respect to any Student Loan (either by reducing borrower payments or reducing principal balance) except as permitted by the Indenture or hereunder if, and to the extent the Servicer reimburses the Issuer in an amount sufficient to offset any such effective yield reduction made by the Servicer consistent with such customary servicing procedures as it follows with respect to comparable student loans which it services on behalf of itself and the Issuer. The Issuer hereby grants a power of attorney and all necessary authorization to the Servicer to maintain any and all collection procedures with respect to the Student Loans, including filing, pursuing and recovering claims with the Guarantors for Guarantee Payments and with the Department for Interest Subsidy Payments and Special Allowance Payments and taking any steps to enforce such Student Loans such as commencing a legal proceeding to enforce a Student Loan in the names of the Issuer, the Trustee and the Noteholders. The Issuer shall upon the written request of the Servicer furnish the Servicer with any other powers of attorney and other documents reasonably necessary or appropriate to enable the Servicer to carry out its servicing and administrative duties hereunder.

Section 3.2 Collection of Student Loan Payments.

(a) The Servicer shall make reasonable efforts (including all efforts that may be specified under the Higher Education Act or any Guarantee Agreement) to collect all payments called for under the terms and provisions of the Student Loans as and when the same shall become due and shall follow such collection procedures as it follows with respect to similar student loans that it services on behalf of itself and the Issuer. The Servicer shall allocate collections with respect to the Student Loans between principal, interest and fees in accordance with Section 8.8 of the Indenture. The Servicer may in its discretion waive any late payment charge or any other fees that may be collected in the ordinary course of servicing a Student Loan. The Servicer may, at its option, retain any late payment charges that it collects.

(b) The Servicer shall make reasonable efforts to claim, pursue and collect all Guarantee Payments from the Guarantors pursuant to the Guarantee Agreements with respect to any of the Student Loans as and when the same shall become due and payable, shall comply with all applicable laws and agreements with respect to claiming, pursuing and collecting such payments and shall follow such practices and procedures as it follows with respect to comparable guarantee agreements and student loans that it services on behalf of itself and the Issuer. In connection therewith, the Servicer is hereby authorized and empowered to convey to any Guarantor the note and the related Student Loan File representing any Student Loan in connection with submitting a claim to such Guarantor for a Guarantee Payment in accordance with the terms of the applicable Guarantee Agreement. All amounts so collected by the Servicer shall constitute Available Funds for the applicable Collection Period and shall be deposited into the Collection Account or transferred to the Trustee in accordance with Section 8.7 of the Indenture. The Issuer shall, upon the written request of the Servicer, furnish the Servicer with any power of attorney and other documents necessary or appropriate to enable the Servicer to convey such documents to any Guarantor and to make such claims.

(c) The Servicer on behalf of the Issuer, shall make reasonable efforts to claim, pursue and collect all Interest Subsidy Payments and Special Allowance Payments from the Department with respect to any of the Student Loans as and when the same shall become due and payable, shall comply with all applicable laws and agreements with respect to claiming, pursuing and collecting such payments and shall follow such practices and procedures as the Servicer follows with respect to similar student loans that it services on behalf of itself and the Issuer. All amounts so collected by the Servicer shall constitute Available Funds for the applicable Collection Period and shall be deposited into the Collection Account or transferred to the Trustee in accordance with Section 8.7 of the Indenture. In connection therewith, the Servicer shall prepare and file with the Department on a timely basis all claims forms and other documents and filings necessary or appropriate in connection with the claiming of Interest Subsidy Payments and Special Allowance Payments on behalf of the Issuer and shall otherwise assist the Issuer in pursuing and collecting such Interest Subsidy Payments and Special Allowance Payments from the Department. The Issuer shall upon the written request of the Servicer furnish the Servicer with any power of attorney and other documents reasonably necessary or appropriate to enable the Servicer to prepare and file such claims forms and other documents and filings.

Section 3.3 Realization upon Student Loans. For the benefit of the Issuer, the Servicer shall use reasonable efforts consistent with its servicing practices and procedures that it utilizes with respect to comparable student loans that it services on behalf of itself and the Issuer and including all efforts that may be specified under the Higher Education Act or Guarantee Agreement in its servicing of any delinquent Student Loans.

Section 3.4 No Impairment. The Servicer shall not impair the rights of the Issuer, the Trustee or Noteholders in such Student Loans.

Section 3.5 Purchase of Student Loans; Reimbursement.

(a) The Servicer and the Trustee shall give notice to the other parties promptly, in writing, upon the discovery of any breach of the provisions of Sections 3.1, 3.2, 3.3 or 3.4 which has a material adverse effect on the interest of the Issuer. In the event of such a material breach which is not curable by reinstatement of the Guarantor's guarantee of such Student Loan, the

Servicer shall purchase the affected Student Loan not later than 210 days following the earlier of the date of discovery of such material breach and the date of receipt of the Guarantor reject transmittal form with respect to such Student Loan. In the event of a material breach with respect to such Student Loan which is curable by reinstatement of the Guarantor's guarantee of such Student Loan, unless the material breach shall have been cured within 360 days following the earlier of the date of discovery of such material breach and the date of receipt of the Guarantor reject transmittal form with respect to such Student Loan, the Servicer shall purchase such Student Loan not later than the sixtieth day following the end of such 360-day period. The purchase price hereunder will be the unpaid principal amount of such Student Loan plus accrued and unpaid interest (calculated using the applicable percentage that would have been insured pursuant to Section 428(b)(1)(G) of the Higher Education Act) plus an amount equal to all forfeited Interest Subsidy Payments and Special Allowance Payments with respect to such Student Loan. In consideration of the purchase of any such Student Loan pursuant to this Section 3.5, the Servicer shall remit the Purchase Amount to the Trustee in the manner and at the time specified in Section 8.9 of the Indenture. Any breach that relates to compliance with the requirements of the Higher Education Act or of the applicable Guarantor but that does not affect such Guarantor's obligation to guarantee payments of a Student Loan will not be considered to have a material adverse effect for purposes of this Section 3.5A.

(b) In addition, if any breach of Section 3.1, 3.2, 3.3 or 3.4 by the Servicer does not trigger such purchase obligation but does result in the refusal by a Guarantor to guarantee all or a portion of the accrued interest (or any obligation of the Issuer to repay such interest to a Guarantor), or the loss (including any obligation of the Issuer to repay to the Department) of Interest Subsidy Payments and Special Allowance Payments, with respect to any Student Loan affected by such breach, then the Servicer shall reimburse the Issuer in an amount equal to the sum of all such nonguaranteed interest amounts that would have been owed to the Issuer by the Guarantor but for such breach by the Servicer and such forfeited Interest Subsidy Payments or Special Allowance Payments by netting such sum against the Servicing Fee payable to the Servicer for such period and remitting any additional amounts owed in the manner specified in Section 8.9 of the Indenture not later than (i) the last day of the next Collection Period ending not less than 60 days from the date of the Guarantor's refusal to guarantee all or a portion of accrued interest or loss of Interest Subsidy Payments or Special Allowance Payments, or (ii) in the case where the Servicer reasonably believes such amounts are likely to be collected, not later than the last day of the next Collection Period ending not less than 360 days from the date of the Guarantor's refusal to guarantee all or a portion of accrued interest or loss of Interest Subsidy Payments or Special Allowance Payments. At the time such payment is made, the Servicer shall not be required to reimburse the Issuer for interest that is then capitalized, however, such amounts shall be reimbursed if the borrower subsequently defaults and such capitalized interest is not paid by the Guarantor.

(c) Anything in this Section 3.5 to the contrary notwithstanding, if as of the last Business Day of any month the aggregate outstanding principal amount of Student Loans with respect to which claims have been filed with and rejected by a Guarantor or with respect to which the Servicer determines that claims cannot be filed pursuant to the Higher Education Act as a result of a breach by the Servicer exceeds 1% of the Pool Balance, the Servicer shall purchase, within 30 days of a written request of the Issuer or the Trustee, such affected Student Loans in an aggregate principal amount such that after such purchase the aggregate principal

amount of such affected Student Loans is less than 1% of the Pool Balance. The Student Loans to be purchased by the Servicer pursuant to the preceding sentence shall be based on the date of claim rejection (or date of notice referred to in the first sentence of this Section 3.5) with the Student Loans with the earliest such date to be purchased first.

(d) In lieu of repurchasing Student Loans pursuant to this Section 3.5, the Servicer may, at its option, arrange for the substitution of Student Loans which are substantially similar as of the date of substitution on an aggregate basis to the Student Loans for which they are being substituted with respect to the following characteristics:

(1) status (i.e., in-school, grace, deferment, forbearance or repayment),

(2) program type (i.e., unsubsidized or subsidized Stafford (pre-1993 vs. post-1993), PLUS or SLS),

(3) school type,

(4) total return,

(5) principal balance, and

(6) remaining term to maturity.

In addition, each substituted Student Loan shall comply, as of the date of substitution, with the representations and warranties made by the Issuer in the Indenture. In choosing Student Loans to be substituted pursuant to this subsection (d), the Servicer shall make a reasonable determination that the Student Loans to be substituted will not have a material adverse effect on the Noteholders.

In the event the Servicer elects to substitute Student Loans pursuant to this Section 3.5, the Servicer will remit to the Trustee the amount of any shortfall between the Purchase Amount of the substituted Student Loans and the Purchase Amount of the Student Loans for which they are being substituted. The Servicer shall also remit to the Trustee an amount equal to all nonguaranteed interest amounts that would have been owed to the Issuer by the Guarantor but for the breach of the Servicer and forfeited Interest Subsidy Payments and Special Allowance Payments with respect to the Student Loans in the manner provided in Section 8.9 of the Indenture.

(e) The sole remedy of the Issuer, the Trustee and the Noteholders with respect to a breach pursuant to Section 3.1, 3.2, 3.3 or 3.4 shall be to require the Servicer to purchase Student Loans, to reimburse the Issuer as provided above or to substitute Student Loans pursuant to this Section.

(f) [RESERVED].

(g) The Servicer shall not be deemed to have breached its obligations pursuant to Section 3.1, 3.2, 3.3 or 3.4 if it is rendered unable to perform such obligations, in whole or in part, by a force outside the control of the parties hereto (including acts of God, acts of war, fires, earthquakes, hurricanes, floods and other disasters). The Servicer shall diligently perform its

duties under this Agreement as soon as practicable following the termination of such interruption of business.

Section 3.6 Primary Servicing Fee; Carryover Servicing Fee. The Primary Servicing Fee for each calendar month and any Carryover Servicing Fees payable on any Distribution Date in arrears by the Trustee out of the Trust Estate shall be equal to the amounts determined by reference to the schedule of fees attached hereto as Attachment A. Notwithstanding anything to the contrary contained herein or in any other Basic Document, the Servicer shall be entitled to receive any Carryover Servicing Fee on any Distribution Date only if and to the extent that sufficient funds are available pursuant to Section 8.11(h) of the Indenture.

Section 3.7 Access to Certain Documentation and Information Regarding Student Loans. Upon reasonable prior notice, the Servicer shall provide to the Trustee and its agents access to the Student Loan Files and shall permit the Trustee to examine and make copies of, and abstracts from, the records and books of account of the Servicer relating to the Student Loans in the Trust Estate and shall permit the Trustee or the Trustee's representative to undertake periodic site reviews of the Servicer's operations relating to the servicing of the Student Loans (including on the premises of any agent of the Servicer). Reasonable access shall be afforded to the Trustee or the Trustee's representative, without charge, but only upon reasonable request and during the normal business hours at the respective offices of the Servicer. Nothing in this Section shall affect the obligation of the Servicer to observe any applicable law prohibiting disclosure of information regarding the Obligors and the failure of the Servicer to provide access to information as a result of such obligation shall not constitute a breach of this Section.

Section 3.8 Servicer Expenses. The Servicer shall be required to pay all expenses incurred by it in connection with its activities hereunder, including fees and disbursements of independent accountants, taxes imposed on the Servicer and expenses incurred in connection with distributions and reports to the Trustee, provided, however, the Carryover Servicing Fee will be subject to increase to the extent that a demonstrable and significant increase occurs in the costs incurred by the Servicer in providing the services to be provided hereunder, whether due to changes in applicable governmental regulations, Guarantor program requirements or regulations or postal rates and subject to satisfaction of the Rating Agency Condition. Notwithstanding anything to the contrary contained herein, the Servicer may, at its option, collect fees from the Obligors in connection with sending payment histories and amortization schedules to Obligors, faxing documents to Obligors, providing credit reference letters to Borrowers, providing a "speed pay" payment option to Obligors and for other similar optional services requested by an Obligor and may retain such fees. The Servicer may also, at its option, collect fees from Obligors for returned check processing or other insufficient fund transactions and may assess such fees from the Obligor's Student Loan payment and retain such fees.

Section 3.9 Appointment of Subservicer. The Servicer may at any time, appoint a subservicer to perform all or any portion of its obligations as Servicer hereunder; provided, however, that any applicable Rating Agency Condition shall have been satisfied in connection therewith; provided, further, that the Servicer shall remain obligated and be liable to the Issuer, the Trustee and the Noteholders for the servicing and administering of the Student Loans in accordance with the provisions hereof without diminution of such obligation and liability by virtue of the appointment of such subservicer and to the same extent and under the same terms and conditions as if the Servicer alone were servicing and administering the Student Loans. The

fees and expenses of the subservicer shall be as agreed between the Servicer and its subservicer from time to time and none of the Issuer, the Trustee or the Noteholders shall have any responsibility therefor. With respect to satisfying the Rating Agency Condition referred to above, the term "subservicer" shall be deemed not to include systems providers, systems developers or systems maintenance contractors, collection agencies, credit bureaus, lock box providers, mail service providers and other similar types of service providers.

Section 3.10 Reports. With respect to Student Loans, the Servicer shall prepare reports and data and furnish the following information to the Issuer and the Trustee, unless otherwise noted, at the specified times:

(a) The reports and data listed in Attachment C, at the times indicated in the attachment;

(b) Within 30 days following the end of each calendar quarter, to the Department, owner's request for interest and Special Allowance Payments (ED 799);

(c) To credit bureaus selected by Servicer, credit bureau reporting in accordance with the Higher Education Act;

(d) At any time the Trustee shall have reasonable grounds to believe that such request would be necessary in connection with its performance of its duties under related documents, and within five (5) Business Days of receipt of a request therefor, the Servicer shall furnish to the Trustee a list of all Student Loans (by borrower loan identification number, type and outstanding principal balance) and any additional information requested relating to the Student Loans; and

(e) From time to time as may be reasonably requested, reports and data providing additional information on the Student Loans.

Section 3.11 Covenants and Agreements of the Issuer, Trustee and Servicer. The Issuer, the Servicer and the Trustee each agree that:

(a) Any payment and any communications received at any time by the Issuer and the Trustee with respect to a Student Loan shall be immediately transmitted to the Servicer. Such communications shall include, but not be limited to, requests or notices of loan cancellation, notices of borrower disqualification, letters, changes in address or status, notices of death or disability, notices of bankruptcy and forms requesting deferment of repayment or forbearance.

(b) The Servicer may change any part or all of its equipment, data processing programs and any procedures and forms in connection with the services performed hereunder so long as the Servicer continues to service the Student Loans in conformance with the requirements herein. The Servicer shall not make any material change in its servicing system and operations with respect to the Student Loans without the prior written consent of the Issuer, which consent will not be unreasonably withheld, conditioned or delayed. Each written request for consent by the Servicer shall be acted upon promptly by the Issuer. Anything in this paragraph B to the contrary notwithstanding, the Servicer will not be required to request the

consent of the Trustee with respect to any changes in the Servicer's servicing system and operations which the Servicer reasonably determines are required due to changes in the Higher Education Act or Guarantor program requirements.

(c) The Issuer will furnish the Servicer with a copy of any and all Guarantee Agreements relating to the Student Loans serviced hereunder.

(d) The Servicer may and, at the direction of the Issuer, shall include marketing or informational material generally provided to borrowers of loans owned by the Issuer with communications sent to a borrower.

(e) The Servicer may, in its discretion, if requested by a borrower of a Student Loan, arrange for the sale of such Student Loan to another lender which holds another student loan of such borrower at a price not less than the Purchase Amount.

(f) The Servicer shall arrange for the sale of a Student Loan to the Issuer, as applicable, upon receipt by the Servicer of an executed consolidation loan application from the borrower of the related Student Loan or a request from the borrower to add additional loans to such Student Loan as permitted under the Higher Education Act. The sale price for such Student Loan shall equal the Purchase Amount.

Section 3.12 [RESERVED]

Section 3.13 Financial Statements. The Servicer shall provide to the Trustee at any time that the Servicer is not an Affiliate of the Issuer (a) as soon as possible, and in no event more than 180 days after the end of each fiscal year of the Servicer, audited financials as at the end of and for such year and (b) as soon as possible, and in no event more than 45 days after the end of each quarterly accounting period of the Servicer, unaudited financials as at the end of and for such period.

Section 3.14 Insurance. The Servicer shall maintain or cause to be maintained insurance with respect to its property and business against such casualties and contingencies and of such types and in such amounts as is customary in the case of institutions of the same type and size.

Section 3.15 Indenture. The Servicer agrees to perform all duties and obligations required of the Servicer under the Indenture using that degree of skill and attention that the Servicer exercises with respect to its comparable business activities. The Servicer agrees to deliver all notices and certifications required to be delivered by the Servicer as provided in the Indenture.

ARTICLE IV

Section 4.1 [RESERVED].

Section 4.2 Indemnities of Servicer. The Servicer shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Servicer under this Agreement. The Servicer shall pay for any loss, liability or expense, including reasonable attorneys' fees, that may be imposed on, incurred by or asserted against the Issuer or the Trustee by the Department pursuant to the Higher Education Act, to the extent that such loss, liability or expense arose out of, or was imposed upon the Issuer or the Trustee through, the gross negligence, willful misfeasance or bad faith of the Servicer in the performance of its obligations and duties under this Agreement or by reason of the reckless disregard of its obligations and duties under this Agreement, where the final determination that any such loss, liability or expense arose out of, or was imposed upon the Issuer or the Trustee through, any such gross negligence, willful misfeasance, bad faith or recklessness on the part of the Servicer is established by a court of law, by an arbitrator or by way of settlement agreed to by the Servicer. Notwithstanding the foregoing, if the Servicer is rendered unable, in whole or in part, by a force outside the control of the parties hereto (including acts of God, acts of war, fires, earthquakes, hurricanes, floods and other disasters) to satisfy its obligations under this Agreement, the Servicer shall not be deemed to have breached any such obligation upon delivery of written notice of such event to the other parties hereto, for so long as the Servicer remains unable to perform such obligation as a result of such event.

For purposes of this Section, in the event of the termination of the rights and obligations of the Servicer (or any successor thereto pursuant to Section 4.3) pursuant to Section 5.1, or a resignation by such Servicer pursuant to this Agreement, such Servicer shall be deemed to be the Servicer pending appointment of a successor servicer pursuant to Section 5.2.

Liability of the Servicer under this Section shall survive the resignation or removal of the Trustee or the termination of this Agreement. If the Servicer shall have made any payments pursuant to this Section and the Person to or on behalf of whom such payments are made thereafter collects any of such amounts from others, such Person shall promptly repay such amounts to the Servicer, without interest.

Section 4.3 Merger or Consolidation of, or Assumption of the Obligations of, Servicer. The Servicer hereby agrees that, upon (a) any merger or consolidation of the Servicer into another Person, (b) any merger or consolidation to which the Servicer shall be a party resulting in the creation of another Person or (c) any Person succeeding to the properties and assets of the Servicer substantially as a whole, the Servicer shall (i) cause such Person (if other than the Servicer) to execute an agreement which states expressly that such Person assumes every obligation of the Servicer hereunder, (ii) deliver to the Trustee an Officers' Certificate and an Opinion of Counsel to the effect that such consolidation, merger or succession and such agreement of assumption comply with this Section and that all conditions precedent provided for in this Agreement relating to such transaction have been complied with, (iii) cause the Rating Agency Condition to have been satisfied with respect to such transaction and (iv) cure any existing Servicer Default or any continuing event which, after notice or lapse of time or both, would become a Servicer Default. Upon compliance with the foregoing requirements, such

Person shall be the successor servicer under this Agreement without further act on the part of any of the parties to this Agreement.

Section 4.4 Limitation on Liability of Servicer. The Servicer shall not be under any liability to the Issuer, the Noteholders or the Trustee except as provided under this Agreement, for any action taken or for refraining from the taking of any action pursuant to this Agreement, for errors in judgment, for any incorrect or incomplete information provided by schools, borrowers, Guarantors and the Department, for the failure of any party to this Servicing Agreement or any other Basic Document to comply with its respective obligations hereunder or under any other Basic Document or for any losses attributable to the insolvency of any Guarantor; provided, however, that this provision shall not protect the Servicer against its obligation to purchase Student Loans pursuant to Section 3.5 hereof or to pay to the Trustee amounts required pursuant to Section 3.5 hereof or against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of duties or by reason of reckless disregard of obligations and duties under this Agreement. The Servicer may rely in good faith on any document of any kind prima facie properly executed and submitted by any person respecting any matters arising under this Agreement.

Except as provided in this Agreement, the Servicer shall not be under any obligation to appear in, prosecute or defend any legal action where it is not named as a party; provided, however, that the Servicer may undertake any reasonable action that it may deem necessary or desirable in respect of this Agreement and the other Basic Documents and the rights and duties of the parties to this Agreement and the other Basic Documents and the interests of the Noteholders. To the extent that the Servicer is required to appear in or is made a defendant in any legal action or other proceeding relating to the servicing of the Student Loans, the Issuer shall indemnify and hold the Servicer harmless from all cost, liability or expense of the Servicer not arising out of or relating to the failure of the Servicer to comply with the terms of this Agreement.

Section 4.5 No Resignation. Subject to the provisions of Section 4.3, the Servicer shall not resign from the obligations and duties hereby imposed on it as Servicer under this Agreement except upon determination that the performance of its duties under this Agreement are no longer permissible under applicable law. Notice of any such determination permitting the resignation of the Servicer shall be communicated to the Trustee and the Issuer at the earliest practicable time (and, if such communication is not in writing, shall be confirmed in writing at the earliest practicable time) and any such determination shall be evidenced by an Opinion of Counsel to such effect delivered to the Trustee concurrently with or promptly after such notice. No such resignation shall become effective until the Trustee or a successor servicer shall have assumed the responsibilities and obligations of the Servicer in accordance with Section 5.2.

ARTICLE V

Section 5.1 Servicer Default. If any one of the following events (a "Servicer Default") shall occur and be continuing:

(1) any failure by the Servicer (i) to deliver to the Trustee for deposit in the Trust Accounts any payment required by the Basic Documents or (ii) in the event that daily deposits into the Collection Account are not

required, to deliver to the Trustee any payment required by the Basic Documents, which failure in case of either clause (i) or (ii) continues unremedied for five Business Days after written notice of such failure is received by the Servicer from the Trustee or five Business Days after discovery of such failure by an officer of the Servicer; or

(2) any failure by the Servicer duly to observe or to perform in any material respect any other term, covenant or agreement of the Servicer set forth in this Agreement or any other Basic Document to which the Servicer is a signatory, which failure shall (i) materially and adversely affect the rights of the Trustee, on behalf of the Noteholders and (ii) continues unremedied for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given (A) to the Servicer by the Trustee, or (B) to the Servicer, and to the Trustee, by the Noteholders representing at least a majority of the Outstanding Amount of the Notes; provided, however, that any breach of Sections 3.1, 3.2, 3.3 or 3.4 shall not be deemed a Servicer Default so long as the Servicer is in compliance with its repurchase and reimbursement obligations under Section 3.5; or

(3) an Insolvency Event occurs with respect to the Servicer; or

(4) any failure by the Servicer to comply with any requirements under the Higher Education Act resulting in a loss of its eligibility as a third-party servicer;

then, and in each and every case, so long as the Servicer Default shall not have been remedied, either the Trustee or the Noteholders of Notes evidencing at least a majority of the Outstanding Amount of the Notes, by notice then given in writing to the Servicer (and to Trustee if given by the Noteholders) may terminate all the rights and obligations (other than the obligations set forth in Section 3.5 and Section 4.2) of the Servicer under this Agreement. As of the effective date of termination of the Servicer, all authority and power of the Servicer under this Agreement, whether with respect to the Notes or the Student Loans or otherwise, shall, without further action, pass to and be vested in the Trustee or such successor servicer as may be appointed under Section 5.2. The predecessor Servicer shall cooperate with the successor servicer and the Trustee in effecting the termination of the responsibilities and rights of the predecessor Servicer under this Agreement, including the transfer to the successor servicer for administration by it of all cash amounts that shall at the time be held by the predecessor Servicer for deposit, or shall thereafter be received by it with respect to a Student Loan. All reasonable costs and expenses (including attorneys' fees) incurred in connection with transferring the Student Loan Files to the successor

servicer and amending this Agreement and any other Basic Documents to reflect such succession as Servicer pursuant to this Section shall be paid by the predecessor Servicer upon presentation of reasonable documentation of such costs and expenses. Upon receipt of notice of the occurrence of a Servicer Default, the Trustee shall give notice thereof to the Rating Agencies.

Section 5.2 Appointment of Successor.

(a) Upon receipt by the Servicer of notice of termination pursuant to Section 5.1, or the resignation by the Servicer in accordance with the terms of this Agreement, the predecessor Servicer shall continue to perform its functions as Servicer under this Agreement, in the case of termination, only until the date specified in such termination notice or, if no such date is specified in a notice of termination, until receipt of such notice and, in the case of resignation, until the Trustee or a successor servicer shall have assumed the responsibilities and duties of the Servicer. In the event of the termination hereunder of the Servicer, the Issuer shall appoint a successor servicer, and the successor servicer shall accept its appointment by a written assumption in form reasonably acceptable to the Trustee. In the event that a successor servicer has not been appointed and accepted its appointment at the time when the predecessor Servicer has ceased to act as Servicer in accordance with this Section, the Trustee without further action shall automatically be appointed the successor servicer, unless the Trustee shall have previously appointed a Successor Servicer and such Successor Servicer shall have accepted such appointment and succeeded to the duties of the Servicer hereunder and under the Indenture. The Trustee shall be entitled to the Servicing Fee and any Carryover Servicing Fees for any period it serves in the capacity of Servicer under this Agreement. Notwithstanding the above, the Trustee shall, if it shall be unwilling or legally unable so to act, appoint or petition a court of competent jurisdiction to appoint any established institution whose regular business shall include the servicing of student loans, as the successor servicer under this Agreement; provided, however, that such right to appoint or to petition for the appointment of any such successor servicer shall in no event relieve the Trustee from any obligations otherwise imposed on it under the Basic Documents until such successor has in fact assumed such appointment.

(b) Upon appointment, the successor to the Servicer (including the Trustee acting as successor to the Servicer) shall be the successor in all respects to the predecessor Servicer and shall be subject to all the responsibilities, duties and liabilities placed on the predecessor Servicer that arise thereafter or are related thereto and shall be entitled to an amount agreed to by such successor servicer (which shall not exceed the Servicing Fee unless the Rating Agency Condition is satisfied with respect to such compensation arrangements) and all the rights granted to the predecessor Servicer by the terms and provisions of this Agreement; provided, that the successor servicer shall assume no liability or responsibility for any acts, representations, obligations and covenants of any predecessor Servicer prior to the date that the successor servicer becomes Servicer hereunder.

(c) Notwithstanding the foregoing or anything to the contrary herein or in the other Basic Documents, the Trustee, to the extent it is acting as successor servicer pursuant hereto and thereto, shall be entitled to resign to the extent a qualified successor servicer has been appointed and has assumed all the obligations of the Servicer in accordance with the terms of this Agreement and the other Basic Documents.

Section 5.3 Notification to the Rating Agencies. Upon any termination of, or appointment of a successor to, the Servicer pursuant to this Article V, the Trustee shall give prompt written notice thereof to the Noteholders and the Rating Agencies (which, in the case of any such appointment of a successor, shall consist of prior written notice thereof to the Rating Agencies).

Section 5.4 Waiver of Past Defaults. The Trustee may waive in writing any default by the Servicer in the performance of its obligations hereunder and any consequences thereof, except a default in making any required deposits to or payments from any of the Trust Accounts (or giving instructions regarding the same) in accordance with this Agreement. Upon any such waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Agreement and the Indenture. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto.

ARTICLE VI

Section 6.1 Amendment.

This Agreement (a) may be amended, supplemented or modified only by written instrument duly executed by the parties; (b) shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; and (c) except as provided in Sections 1.2(c) and 2.6 hereof, may not be terminated or assigned by any party hereto without the prior written consent of the other party. Any succession as a result of merger or acquisition by either party shall not require any assignment, and the successor shall be considered as an original party hereto.

Promptly after the execution of any amendment to this Agreement (or, in the case of the Rating Agencies, fifteen days prior thereto), the Trustee shall furnish written notification of the substance of such amendment to each of the Rating Agencies.

Section 6.2 Notices. All notices hereunder shall be given by United States certified or registered mail, by facsimile or by other telecommunication device capable of creating written record of such notice and its receipt. Notices hereunder shall be effective when received and shall be addressed to the respective parties hereto at the addresses set forth below, or at such other address as shall be designated by any party hereto in a written notice to each other party pursuant to this section.

If to the Servicer, to:

Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street, 6th Floor
Harrisburg, Pennsylvania 17102-1444
Attn: Chief Financial Officer

If to the Issuer, to:

Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street, 6th Floor
Harrisburg, Pennsylvania 17102-1444
Attn: Chief Financial Officer

If to the Trustee, to:

Manufacturers and Traders Trust Company
213 Market Street
Harrisburg, Pennsylvania 17101
Attn: Corporate Trust Department

Section 6.3 Insurance. The Servicer hereby represents and warrants that it is entitled to the insurance benefits and coverage provided under the Risk Management Program of the Commonwealth of Pennsylvania. The Servicer further covenants that during the Term of this Agreement it shall notify the Trustee if for any reason it shall fail to remain entitled to at least such benefits and coverage, and in such event, to the extent permitted by applicable laws or regulation in the Commonwealth of Pennsylvania, it shall obtain other insurance policies and coverage.

Section 6.4 Relationship of the Parties. The parties to this Agreement intend that the Servicer shall render the services contemplated by this Agreement as an independent contractor. The Servicer and its employees, agents, and servants are not to be considered agents or employees of the Trustee for any purpose whatsoever.

Section 6.5 Documentation.

(a) The Servicer shall have custody of, and be responsible for, a) the original promissory notes or, b) in the event that such original promissory notes cannot be located, copies of such promissory notes certified to be a true and correct copy by the Issuer, evidencing the Loans. The Servicer shall maintain custody of either a tape or CD Rom containing an electronic imprint of all promissory notes signed electronically in accordance with the Servicer's Electronic Signature Process. The Issuer shall deliver such notes, or copies thereof as the Servicer reasonably advises is necessary to permit proper servicing hereunder. Nothing in the foregoing shall require the Issuer or the Servicer to obtain Master Promissory Notes relating to Student Loans it has purchased from other lenders, if other lenders: (i) retain or (ii) guarantee, all or any portion of the student's payment obligation under such Master Promissory Note.

(b) The Servicer shall maintain on its origination and servicing system referred to by the servicemark “Compass” (or such successor system, together with attendant upgrades and updates, the “Origination and Servicing System”) records for each Student Loan clearly identifying each Loan as property of the Issuer pledged to the Trustee and as security for the Notes, including principal amount outstanding, type of loan, name of student and indicators which identify whether the student utilized the Issuer's Electronic Signature Process. The Servicer may combine documentation and system records for each Master Promissory Note so long as the Servicer does so in a manner which will insure that each Student Loan comprising

such Master Promissory Note may be separately identified and transferred or sold. From time to time the Servicer shall, upon request of the Trustee, submit such information and take such action as may be reasonably required by the Trustee, to assure that such Student Loans are maintained in a proper and secure condition.

(c) Except as required by law, the Servicer shall maintain the confidentiality of the information provided hereunder and shall not disclose or in any way communicate such information to third parties without the express written consent of the Issuer. The Servicer shall provide a reasonably designed security system for access to original documents and to its computer system.

Section 6.6 Subordination of Agreement to Indenture. No Modification or Amendment to Indenture.

(a) The duties or obligations of the Servicer and the Trustee, to any party, arising under this Agreement are hereby subordinated to the duties or obligations of the Servicer and the Trustee established under or arising out of the Indenture. If there is a conflict between this Agreement and the Indenture, the Indenture shall control.

(b) Neither this Agreement nor any provision contained herein shall be or shall be deemed to be a modification of or an amendment to the Indenture or to any covenant, obligation or duty of the Servicer, the Issuer or the Trustee contained therein or arising therefrom.

Section 6.7 Recordation of Agreement. Each party agrees that this Agreement, or a memorandum of any portion or portions hereof, may be recorded in all appropriate public offices for recording security agreements.

Section 6.8 Limitation on Rights of Noteholders. No holder of a Note shall have any right to institute a suit with respect to this Agreement except as provided in this Agreement and the Indenture and for the equal benefit of all Noteholders.

Section 6.9 Governing Law. This Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 6.10 Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof. Such invalid or unenforceable provisions shall be amended, if possible, in accordance with Section 6.1 hereof in order to accomplish the purposes of this Agreement.

Section 6.11 Further Assurances and Corrective Instruments. To the extent permitted by law, the Trustee and the Servicer agree that each will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required or appropriate to further express the intention, or to facilitate the performance of this Agreement.

Section 6.12 No Rights Conferred on Others. Nothing in this Agreement shall confer any right upon any person other than the Servicer and the Trustee.

Section 6.13 Limitation on Liability of Parties. Each party to this Agreement shall be liable under this Agreement only to the extent that obligations are imposed upon the party against whom enforcement is sought.

Section 6.14 Limitation on Liability of Directors, Officers, Members, Employees and Agents of a Party. No director, officer, member, employee or agent of any party to this Agreement shall be liable to any other party or to the Bondholders for the taking of any action or for refraining to take any action in good faith pursuant to this Agreement.

Section 6.15 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original; however, all such counterparts shall together constitute one and the same instrument.

Section 6.16 Headings. The headings or captions of the various sections of this Agreement have been inserted for convenience of reference only, and shall not be deemed to be a part of this Agreement.

Section 6.17 Forms and Reports. All forms of Student Loan documents and reports required by this Agreement to be delivered to the Trustee, shall be in form and content reasonably satisfactory to the Trustee.

Section 6.18 [Reserved]

Section 6.19 Effect of New Law. The Servicer shall be relieved from the performance of any obligation imposed upon the Servicer by this Agreement if performance by the Servicer is prohibited because of a change in any existing law or the enactment of any new law, in each case effective after the date of this Agreement, including without limitation any law pertaining to the Higher Education Act and all rules, regulations and interpretations of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System or any other state or federal regulatory agency.

Section 6.20 Payment of Expenses. The Servicer shall pay its own expenses incurred in connection with the preparation, execution and delivery of this Agreement and the transactions herein contemplated, including but not limited to the fees and expenses of legal counsel. Expenses of the Trustee shall be paid in accordance with the Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on their behalf by their duly authorized officers as of November 1, 2006.

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY, as Servicer

By:_____
Name: Richard E. Willey
Title: President and Chief Executive Officer

MANUFACTURERS AND TRADERS TRUST COMPANY, as Trustee

By:_____
Name:
Title:

AGREED TO AND ACCEPTED BY:

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY, as Issuer

By:_____
Name: Richard E. Willey
Title: President and Chief Executive Officer

ATTACHMENT A

SCHEDULE OF FEES

The Servicer will receive a Primary Servicing Fee and a Carryover Servicing Fee (together, the "Servicing Fee"). The "Primary Servicing Fee" for any month is an amount equal to the sum of .50 of 1% of the outstanding principal amount of the Student Loans as of the last day of the preceding calendar month, plus any such amounts from prior Monthly Servicing Payment Dates that remain unpaid. The Primary Servicing Fee will be payable out of Available Funds and amounts on deposit in the Reserve Account on the 25th day of each month (or, if any such date is not a Business Day, on the next succeeding Business Day), commencing on December 26, 2006 (each, a "Monthly Servicing Payment Date"). The "Carryover Servicing Fee" will be payable out of Available Funds in accordance with Section 8.11(i) of the Indenture on each Distribution Date and is the sum of (a) the amount of certain increases in the costs incurred by the Servicer which are agreed to pursuant to Section 3.8 of the Servicing Agreement, (b) any Conversion Fees, Transfer Fees and Removal Fees (as defined below) incurred since the last Distribution Date and (c) any amounts described in (a) and (b) above that remain unpaid from prior Distribution Dates plus interest on such amounts for the period from the Distribution Date on which such amounts become due to the date such amounts are paid in full at a rate per annum for each Interest Period (as defined below) equal to the sum of (a) the average accepted auction price (expressed on a bond equivalent basis) for 91-day Treasury Bills sold at the most recent 91-day Treasury Bill auction prior to the Interest Period as reported by the U.S. Treasury Department and (b) 0.5%.

"Interest Period" shall mean the period from each Distribution Date through the second day before the next Distribution Date. The Carryover Servicing Fee will be payable to the Servicer on each succeeding Distribution Date out of Available Funds after payment on such Distribution Date of all senior amounts payable prior to clause (i) of Section 8.11 of the Indenture. On the December 26, 2006 Monthly Servicing Payment Date, the Servicer shall receive the Primary Servicing Fee for the month of November.

Servicer will be paid a fee ("Conversion Fee") for any Student Loan added to the Trust Estate which Student Loan is not serviced on the Servicer's system unless such Student Loan is being substituted into the Trust Estate by the Servicer pursuant to Section 3.5 of the Servicing Agreement. The Conversion Fee is equal to the greater of $0 per account or the Servicer's verifiable costs plus 0%.

Servicer will be paid a fee ("Transfer Fee") for any Student Loan transferred in or out of the Trust Estate which is at the time of transfer being serviced on the Servicer's system (regardless of the owner) unless such Student Loans are being removed or added to the Trust Estate in order to comply with the Servicer's purchase/substitution obligation under Section 3.5 of the Servicing Agreement or such Student Loans are being removed pursuant to Section 3.11F of the Servicing Agreement. The Transfer Fee is equal to $0 per account transaction.

Servicer will be paid a fee ("Removal Fee") for performing all activities required to remove a Student Loan from the Servicer's system to another servicer unless such Student Loan is being removed due to the termination of the Servicer pursuant to Section 5.1 of the Servicing Agreement. The Removal Fee is equal to $0 per account plus any verifiable direct expenses incurred for shipping such Student Loan to the new servicer.

ATTACHMENT B

LOCATIONS

1200 North Seventh Street, 6th Floor
Harrisburg, Pennsylvania 17102-1444
Phone: (717) 720-2575

ATTACHMENT C

REPORTS

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