

NEW ISSUE – Book Entry Only**Ratings: (See “Ratings” herein)**

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 Co-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.

\$188,800,000
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
FLOATING RATE STUDENT LOAN ASSET-BACKED NOTES, SERIES 2009-1
CLASS A-1

<u>Class</u>	<u>Original Principal Amount</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Price to Public</u>	<u>Underwriting Discount</u>	<u>Net Proceeds⁽¹⁾</u>
A-1 Notes	\$188,800,000	3-month LIBOR plus 0.90%	July 25, 2029	100.0%	\$1,067,627	\$187,732,373

⁽¹⁾ Before deducting expenses, estimated to be \$472,000.

The above captioned notes (the “Notes”) are being issued by the Pennsylvania Higher Education Assistance Agency (the “Agency”), pursuant to a discrete Indenture dated as of December 1, 2009 (the “Indenture”) between the Agency and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania (the “Trustee”). The Notes will be secured under the Indenture by a pool of student loans made under the Federal Family Education Loan Program, rights the Agency has under certain agreements, a cash Reserve Account, a Capitalized Interest Account and the other moneys and investments pledged to the Trustee under the Indenture.

The Notes are LIBOR-based notes. A description of how LIBOR is determined appears under “DESCRIPTION OF THE NOTES—Determination of LIBOR” herein. The Notes will receive quarterly distributions of principal and interest on the 25th day (or the next business day if it is not a business day) of each January, April, July and October as described in this Official Statement, beginning April 26, 2010.

Credit enhancement for the Notes will include overcollateralization and cash on deposit in the Reserve Account, a Capitalized Interest Account and certain other funds held under the Indenture.

It is a condition to the issuance of the Notes that they be rated “AAA” by Fitch Ratings and “AAA” by Standard & Poor’s Ratings Services.

Potential investors should carefully review the risk factors listed under “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 Notes will be made in book entry form in the principal amount of \$100,000 and any integral multiple of \$1,000 in excess thereof. See “BOOK ENTRY ONLY 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 AND SECURED SOLELY BY THE TRUST ESTATE CREATED UNDER THE INDENTURE DESCRIBED HEREIN. 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 have not been registered under the Securities Act of 1933, as amended, or any other state securities or blue sky laws, and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance on certain exemptions set forth in such acts. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Notes or passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is unlawful.

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 Raffaele & Puppio, LLP, Media, Pennsylvania, and Stradley Ronon Stevens & Young, LLP, Philadelphia, Pennsylvania, Co-Note Counsel. Certain legal matters in connection with the Notes will be passed upon for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., Pepper Hamilton LLP, Philadelphia, Pennsylvania, and Buchanan Ingersoll & Rooney PC, 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 December 29, 2009.

Morgan Stanley
(Sole Bookrunner)

Jefferies & Company
(Co-Manager)

Dated: December 17, 2009

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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.

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 Agency or Morgan Stanley & Co. Incorporated and Jefferies & Company, Inc. (collectively, 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. 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 hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency, or that the information or opinions or estimates are correct, as of any date subsequent to the date hereof

Except for any information provided by the Trustee concerning the Trustee, the Trustee has no responsibility for any information in this Official Statement. Further, the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Notes, except to the extent that the Trustee may agree to forward continuing disclosure materials received from and prepared by the Agency to the Repository.

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.

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 OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute projections or estimates of future events, generally known as forward looking statements. These statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in these forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performances or achievements expressed or implied by these forward-looking statements. The Agency does not plan to issue any updates or revisions to those forward-looking statements if or when changes in its expectations, or events, conditions or circumstances on which these statements are based occur. Some of the factors which could cause actual results to differ from expectations are described in this Official Statement under "RISK FACTORS."

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OFFICIAL STATEMENT

\$188,800,000
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
FLOATING RATE STUDENT LOAN ASSET-BACKED NOTES, SERIES 2009-1
CLASS A-1

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 \$188,800,000 aggregate principal amount of Floating Rate Student Loan Asset-Backed Notes, Series 2009-1 consisting of Class A-1 Notes (the "Notes"). The Notes are being issued pursuant to provisions of the Act and a resolution adopted on January 24, 2008 by the Agency and are secured by a discrete Indenture dated as of December 1, 2009 (the "Indenture") between the Agency and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as trustee (the "Trustee").

The Notes offered by this Official Statement will be the only class of notes issued pursuant to the Indenture. No additional notes or obligations, other than the residual Class R Certificates, will be issued under the Indenture. The residual Class R Certificates are not being offered pursuant to this Official Statement. The Agency will issue the residual Class R Certificates in return for proceeds that also will constitute a source of funds under the Indenture. See "USE OF PROCEEDS" herein. No payments will be made on the residual Class R Certificates until all of the Notes have been paid in full.

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 \$9.7 billion will be outstanding under various separately secured trust indentures following the issuance of the Notes. See APPENDIX B—"SUMMARY OF AGENCY OPERATIONS—Bonded Indebtedness." The Notes will not be cross-defaulted or cross-collateralized with any other obligations of the Agency.

The Notes are being issued to provide funds for the Agency to acquire a pool of student loans (the "Student Loans") made under the Federal Family Education Loan Program (the "FFEL Program"). The Student Loans being acquired are currently pledged to secure certain outstanding indebtedness of the Agency. Upon such acquisition, the Notes issued under the Indenture will be secured by the acquired Student Loans, and the acquisition proceeds will be used to redeem certain outstanding indebtedness of the Agency.

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 purchase the Student Loans and (iii) to pay costs associated with the issuance of the Notes. See "USE OF PROCEEDS" herein.

On the Closing Date, the portion of the proceeds used to purchase the Student Loans will be applied to the repayment of certain outstanding indebtedness of the Agency secured in part by a pledge of such Student Loans. Upon such purchase, the Student Loans will be released from the pledge securing such repaid indebtedness and those Student Loans will immediately become subject to the pledge of the Indenture on the Closing Date.

Descriptions of the Agency, its student loan origination, purchase, sale, guarantee and servicing activities and operations, the Notes, the Servicing Agreement, 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—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions."

Pursuant to a separate and distinct indenture, the Agency also expects to issue its Floating Rate Student Loan Asset-Backed Notes, Series 2009-2 (the "Separate Notes") on or about the Closing Date. The Separate Notes will be secured by a separate and independent trust estate held by a trustee under a separate and independent indenture relating to the Separate Notes. The Notes issued under the Indenture that are described in this Official Statement are not cross-collateralized or cross-defaulted with the Separate Notes. The Separate Notes are not described in or offered by this Official Statement.

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 (the “Trustee”)

General Terms

Principal Amount: The Agency is issuing \$188,800,000 Floating Rate Student Loan Asset-Backed Notes, Series 2009-1 consisting of Class A-1 Notes.

Indenture: The Notes are issued under and secured by a discrete Indenture, dated as of December 1, 2009. The Notes offered by this Official Statement will be the only class of notes issued pursuant to the Indenture. No additional notes or obligations, other than the residual Class R Certificates, will be issued under the Indenture. 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: The Notes will be issued in minimum denominations of \$100,000 and any integral multiple of \$1,000 in excess thereof.

Book Entry Only: 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. See “BOOK ENTRY ONLY SYSTEM” in this Official Statement.

Maturity: Subject to earlier principal payment or redemption, the Notes will mature on the date shown on the front cover of this Official Statement. See “DESCRIPTION OF THE NOTES—Distributions of Principal” herein.

Interest Rate: The Notes will bear interest based upon LIBOR, as described herein. See “DESCRIPTION OF THE NOTES—Distributions of Interest” herein.

Use of Proceeds: Proceeds derived from the sale of the Notes will be used (i) to fund initial deposits to the Reserve Account and to the Capitalized Interest Account, both established under the Indenture, (ii) to purchase the Student Loans, with the sale proceeds applied to the repayment of certain outstanding indebtedness of the Agency, and (iii) to pay costs associated with the issuance of the Notes. See “USE OF PROCEEDS” herein.

Closing Date: The Closing Date for the offering is on or about December 29, 2009.

Information About the Agency

The Agency is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to 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. See “THE AGENCY” herein.

As Servicer: Under a Servicing Agreement, dated as of December 1, 2009 (the “Servicing Agreement”), the Agency, as Servicer, will be responsible for servicing, maintaining custody of, and making collections on the Student Loans. See APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT.” It will bill and collect payments from borrowers, guarantee agencies and the Department of Education. See APPENDIX B—“SUMMARY OF AGENCY OPERATIONS” herein for a description of the Agency’s loan servicing function. The Agency services student loans that it owns and provides third party servicing for student loans owned by others. At June 30, 2009, the Agency serviced approximately 7.2 million student loans with an aggregate principal balance of approximately \$59.5 billion and provided “remote” servicing for approximately 5.7 million additional loans. In June of 2009, the Agency became one of four servicers awarded a contract to service Title IV loans owned by the Department of Education. See “THE AGENCY AS SERVICER” herein.

As Guarantor: The Agency is the guarantor of approximately 96.3% of the Student Loans pledged to secure the Notes. See “THE STUDENT LOAN POOL—Distribution of Student Loans by Guarantee Agency as of the Statistical Cutoff Date.” The Agency, as a Guarantor, guarantees 98% (97% on loans first distributed on or after July 1, 2006) of the principal of and accrued interest on these Student Loans. Subject to the terms and conditions of the Federal Higher Education Act of 1965, as amended (the “Higher Education Act”), this guarantee is reinsured by the United States Department of Education. The Agency also guarantees FFEL Program loans originated by other lenders. During the Agency’s fiscal year ended June 30, 2009, the Agency guaranteed approximately 864,000 FFEL Program loans originated by other lenders with an aggregate principal balance of approximately \$4.2 billion. At June 30, 2009, the Agency had outstanding guarantees of FFEL Program loans with an aggregate original principal balance of approximately \$51.3 billion. See “INFORMATION RELATING TO THE AGENCY AS GUARANTOR” herein.

Student Loans

On the Closing Date, the Agency will pledge to the Trustee under the Indenture a portfolio of Student Loans originated under the FFEL Program, which are described more fully herein under “THE STUDENT LOAN POOL.” Information relating to the portfolio of Student Loans is presented as of a statistical cutoff date, which is the close of business on November 30, 2009 (the “Statistical Cutoff Date”).

The Agency acts as guarantor with respect to approximately 96.3% of the Student Loans in the pool. The Agency, as a Guarantor, guarantees 98% (97% on loans first distributed on or after July 1, 2006) of the principal of and accrued interest on these Student Loans. See “APPENDIX B—“SUMMARY OF AGENCY OPERATIONS—Guaranty Operations—Federal Programs” and “INFORMATION RELATING TO THE AGENCY AS GUARANTOR” herein. Subject to the terms and conditions of the Higher Education Act, 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—Special Allowance Payments on FFEL Program Loans” herein.

The Agency believes that the information set forth in the Official Statement with respect to the Student Loans as of the Statistical Cutoff Date is representative of the characteristics of the Student Loans as they will exist on the Closing Date,

although certain characteristics of the Student Loans may vary. See “RISK FACTORS—The characteristics of the Student Loans held in the Trust Estate may change.”

**COMPOSITION OF THE STUDENT LOANS
AS OF THE STATISTICAL CUTOFF DATE**

Aggregate Outstanding Principal Plus Interest Balance.....	\$195,704,382
Number of Borrowers.....	19,210
Average Outstanding Principal Plus Interest Balance per Borrower.....	\$10,188
Number of Loans.....	36,681
Average Outstanding Principal Plus Interest Balance per Loan.....	\$5,335
Weighted Average Annual Borrower Interest Rate	4.46%
Weighted Average Remaining Term (Months)	167

The Aggregate Outstanding Principal Balance shown in the table above includes accrued interest to be capitalized.

The Agency has determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future. See APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments.”

The weighted average remaining term to maturity shown in the table above 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.

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 and secured solely by the Trust Estate. The “Trust Estate” consists of: (a) the Student Loans, and all obligations of the Obligor thereunder, including all moneys accrued and paid thereunder on or after the Closing 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 in the Servicing Agreement; (c) each Guarantee Agreement, including the Guarantee Payments made pursuant thereto by the Guarantor in respect of 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)(but not including the Department Rebate Account as provided in the Indenture); 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.

Initial Parity

Based on information relating to the portfolio of Student Loans as of the Statistical Cutoff Date, the Agency expects that the Parity Ratio under the Indenture will be approximately 104.9% on the Closing Date. “Parity Ratio” means, (a) on the Closing Date, (i) the Adjusted Pool Balance (as defined below) on the Closing Date divided by (ii) the Outstanding Amount of the Notes on the Closing Date, and (b) on any Distribution Date, (i) the Adjusted Pool Balance divided by (ii) the Outstanding Amount of the Notes, after giving effect to distributions to be made on that Distribution Date. The Student Loans actually pledged under the Indenture on the Closing Date will have characteristics that differ somewhat from the characteristics of the Student Loans described herein due to payments received on and other changes in the Student Loans that occur during the period from the Statistical Cutoff Date to the Closing Date. These changes could result in the actual Parity Ratio on the Closing Date varying somewhat from the estimated Parity Ratio set forth above. However, the Agency does not expect that the actual Parity Ratio on the Closing Date will differ materially from the estimated Parity Ratio provided above. See “RISK FACTORS—The characteristics of the Student Loans held in the Trust Estate may change.”

Credit Enhancement

Credit enhancement for the Notes will include overcollateralization and cash on deposit in the Reserve Account, a Capitalized Interest Account and certain other funds held under the Indenture (excluding the Department Rebate Account). See “DESCRIPTION OF THE NOTES—Credit Enhancement” in this Official Statement.

Administration of the Trust Estate

Trust Accounts. The Trustee will establish and maintain the following Trust Accounts under the Indenture:

- a “Collection Account”;

- a “Reserve Account”; and
- a “Capitalized Interest Account.”

The Indenture also establishes the Department Rebate Account which will not be part of the Trust Estate securing the Notes.

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. The Trustee also will withdraw all Investment Earnings, if any, on deposit in each existing Trust Account on each Distribution Date and deposit such amounts into the Collection Account and include such amounts as Available Funds for that Distribution Date.

On the Closing Date, the Collection Account also will contain a special Temporary Costs of Issuance Subaccount and a special Temporary Student Loan Subaccount created therein. On the Closing Date, the Agency will deposit or cause to be deposited into these Subaccounts the amounts identified in this Official Statement under “USE OF PROCEEDS.” The Trustee will disburse the amounts on deposit in the Temporary Costs of Issuance Subaccount to pay the costs of issuance of the Notes. On the Closing Date, the Trustee will disburse the amounts on deposit in the Temporary Student Loan Subaccount to purchase the Student Loans. After such payments, these Subaccounts will thereafter be terminated.

Reserve Account. On the Closing Date, the Agency will deposit or cause to be deposited into the Reserve Account an amount equal to the Specified Reserve Account Balance. The Specified Reserve Account Balance is the amount required to be maintained in the Reserve Account. The “Specified Reserve Account Balance” means, with respect to the Closing Date, the deposit specified in this Official Statement under “USE OF PROCEEDS,” and thereafter with respect to any 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) 0.15% of the Initial Pool Balance, provided that in no event will such balance exceed the outstanding amount of the Notes. In the event that the Available Funds in the Collection Account and amounts on deposit in the Capitalized Interest Account are insufficient to make any required deposits to the Department Rebate Account, pay the Monthly Consolidation Loan Rebate Fees (as defined below), make payments to the Department of Education with respect to the Student Loans, pay fees of the Trustee (other than amounts due for extraordinary services), pay the Servicing Fee or interest on the Notes and, on its final maturity date, the principal of the 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 and described herein under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account.”

Capitalized Interest Account. On the Closing Date, the Agency will deposit or cause to be deposited into the Capitalized Interest Account the initial deposit specified in this Official Statement under “USE OF PROCEEDS.” After the initial deposit, the Capitalized Interest Account will not be replenished. In the event that the Available Funds in the Collection Account are insufficient to make any required deposits to the Department Rebate Account, pay the Monthly Consolidation Loan Rebate Fees, payments to the Department of Education with respect to the Student Loans or to pay fees of the Trustee (other than amounts due for extraordinary services), the Servicing Fee or interest on the Notes through the October 25, 2010 Distribution Date, the Trustee is directed by the Indenture to withdraw from the Capitalized Interest Account such amounts as may be necessary to make such payments (before applying to any such payment any amounts on deposit in the Reserve Account), to the extent of funds available therein, in the priority set forth in the Indenture and described herein under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account.” Any remaining funds on deposit in the Capitalized Interest Account on the October 25, 2010 Distribution Date will be transferred on that date to the Collection Account and included in Available Funds on that Distribution Date.

Department Rebate Account. The Department Rebate Account will initially be established as a segregated account in the name of the Agency. Generally, amounts on deposit in the Department Rebate Account will be used to pay amounts due and payable by the Agency to the Department of Education related to the Student Loans or any other payment due and payable to a Guarantor relating to its guarantee of the Student Loans. See “DESCRIPTION OF THE NOTES—Distributions—Department Rebate Account” for a description of the Department Rebate Account.

Dates

Distribution Dates. The “Distribution Dates” for the 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 Distribution Date will be the next Business Day. The first Distribution Date for the Notes is April 26, 2010.

Monthly Expense Payment Dates. The “Monthly Expense Payment Dates” under the Indenture are the 25th day of each month; however, if any 25th day of a month is not a Business Day, the Monthly Expense Payment Date will be the next Business Day. The first Monthly Expense Payment Date for the Notes is January 25, 2010.

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 quarterly distributions, the close of business on the day preceding the related Distribution Date; and
- for the redemption of the Notes following an optional purchase or mandatory auction of the Student Loans as described herein under “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction,” the close of business on the day preceding the date fixed for redemption.

Information About the Notes

General. The Notes are debt obligations of the Agency and will be issued pursuant to the Indenture. The Notes are limited obligations of the Agency payable solely from the Trust Estate created under the Indenture without recourse to any other assets or property of the Agency. Neither the Commonwealth of Pennsylvania (sometimes, 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.

Interest Payments. Interest will accrue on the principal balances of the Notes during three-month Accrual Periods, except for the initial Accrual Period as explained below, and will be paid on Distribution Dates. The initial interest Accrual Period for the Notes begins on the Closing Date and ends on April 25, 2010, the day before the first Distribution Date. For all other Distribution Dates, the interest Accrual Period will begin on the prior Distribution Date and end on the day before such Distribution Date.

The Notes will bear interest, except for the initial interest Accrual Period, at an annual rate equal to Three-Month LIBOR plus 0.90%. The Trustee will calculate the rate of interest on the Notes on the second Business Day prior to the start of the applicable interest Accrual Period as described under “DESCRIPTION OF THE NOTES—Determination of LIBOR” in this Official Statement. Interest on the Notes will be calculated on the basis of the actual number of days elapsed during the interest Accrual Period divided by 360. The LIBOR rate for the Notes for the initial interest Accrual Period will be calculated by reference to the following formula:

$$x + [(28 / 31 * (y-x)] \text{ plus } (0.90\%),$$

as calculated by the Trustee.

where:

x = Three-Month LIBOR; and

y = Four-Month LIBOR.

Principal Payments. Principal distributions will be allocated to the Notes on each Distribution Date in an amount equal to the lesser of:

- the Class A Noteholders’ Principal Distribution Amount for that Distribution Date; and
- funds available to pay principal as described below under “—Flow of Funds.”

Additional principal payments are also required to be made to the Noteholders on each Distribution Date with any Available Funds remaining after all required prior distributions as described in the 9th clause below under “—Flow of Funds.”

The term “Class A Noteholders’ Principal Distribution Amount” means:

- for the first Distribution Date, the amount, if any, by which the sum of the Initial Pool Balance and the initial amounts on deposit in the Capitalized Interest Account and the Reserve Account as of the Closing Date exceeds the Adjusted Pool Balance as of the last day of the related Collection Period for the initial Distribution Date;
- for each Distribution Date thereafter, the amount, if any, by which the Adjusted Pool Balance as of the last day of the related Collection Period for the preceding Distribution Date exceeds the Adjusted Pool Balance as of the last day of the related Collection Period for the current Distribution Date; and
- on the final maturity date for the Notes, the amount necessary to reduce the aggregate principal balance of the Notes to zero.

“Adjusted Pool Balance” means, for any Distribution Date, the sum of the Pool Balance as of the last day of the related Collection Period, plus the amount then on deposit in the Capitalized Interest Account and the Specified Reserve Account Balance for that Distribution Date.

“Pool Balance” for any date means the aggregate principal balance of the Student Loans on that date, including accrued interest thereon that is expected to be capitalized, after giving effect to the following, without duplication: (i) all payments in respect of principal received by the Trustee through that date from borrowers, Guarantors and the Department of Education; (ii) all amounts in respect of principal received by the Trustee through that date from sales of Student Loans permitted under the Indenture and the Servicing Agreement (including repurchases by the Servicer); (iii) all amounts in respect of principal received in connection with Liquidation Proceeds and Realized Losses on the Student Loans liquidated through that date; (iv) the amount of any adjustment to the outstanding principal balances of the Student Loans that the Servicer makes under the Servicing Agreement through that date; and (v) the aggregate amount by which Guarantor reimbursements of the unpaid principal balances of defaulted Student Loans through that date are reduced from 100% to 97%, or other applicable percentage, as required by the risk sharing provisions of the Higher Education Act.

“Initial Pool Balance” mean the Pool Balance as of the Closing Date.

“Collection Period” means, with respect to the first Distribution Date, the period beginning on the Closing Date and ending on March 31, 2010, and with respect to each subsequent Distribution Date, the Collection Period will mean the three calendar months immediately following the end of the previous Collection Period.

Final Maturity. The Notes are due and payable in full on the final maturity date shown on the front cover of this Official Statement. The actual maturity of the Notes could occur earlier if, for example:

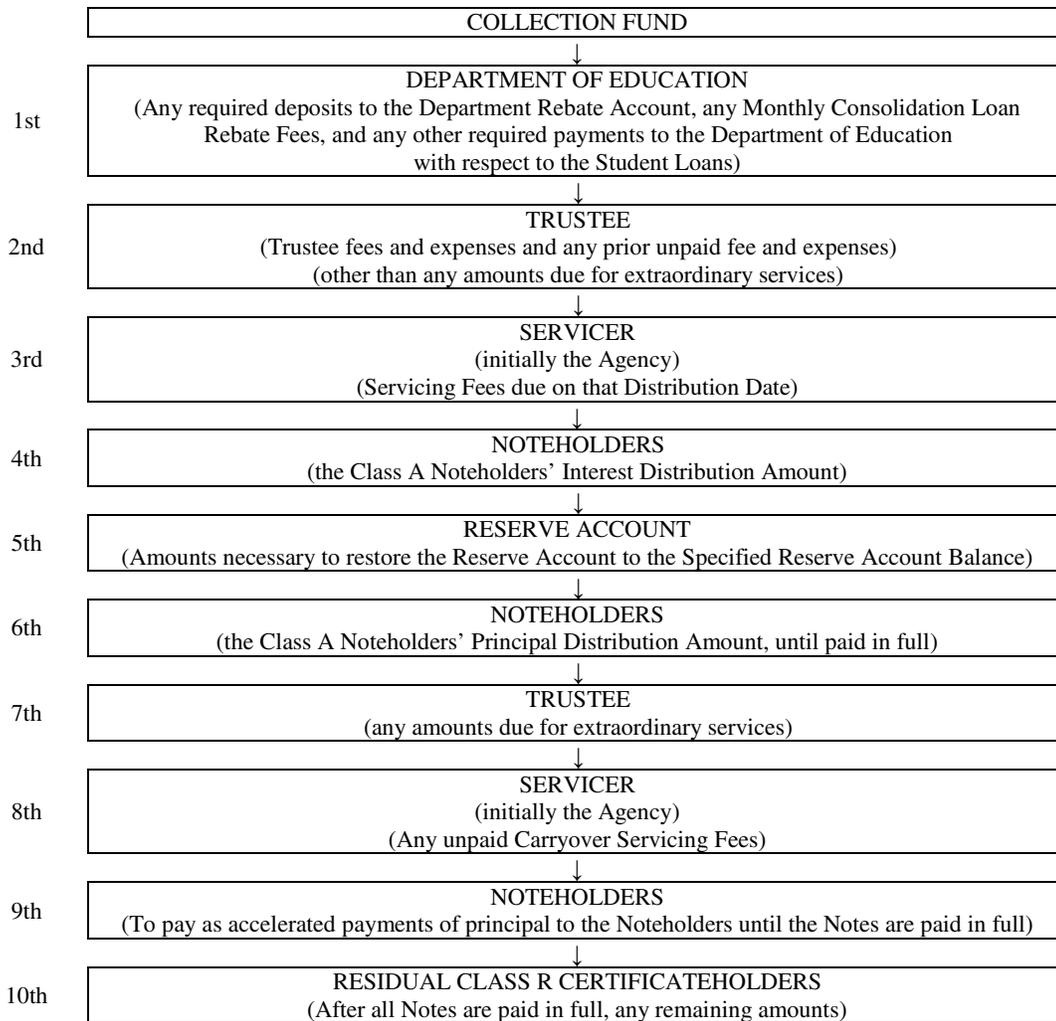
- there are prepayments on the Student Loans;
- the Servicer exercises its option to purchase all of the Student Loans remaining in the Trust Estate from the lien of the Indenture (which will not occur until a date when the Pool Balance is 10% or less of the Initial Pool Balance); or
- the Trustee auctions all of the remaining Student Loans (which, absent an event of default, will not occur until a date when the Pool Balance is 10% or less of the Initial Pool Balance).

Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Notes. The projected weighted average life, expected maturity date and percentages of remaining principal amount of Notes under various assumed prepayment scenarios may be found under “Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Notes” included as APPENDIX E to this Official Statement.

Flow of Funds

On each Monthly Expense Payment Date that is not a Distribution Date, the Trustee will (i) transfer to the Department Rebate Account an amount sufficient to make the balance therein equal to the Department Rebate Interest Amount, (ii) pay any aggregate monthly rebate fees to the Secretary of Education with respect to the Student Loans consisting of Consolidation Loans as described in this Official Statement under APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAM—Fees—Rebate Fee” (the “Monthly Consolidation Loan Rebate Fees”), and (iii) pay to the Servicer the Servicing Fee due with respect to the preceding calendar month. These deposits and distributions will be made from Available Funds in the Collection Account on that Monthly Expense Payment Date; and if necessary, from amounts transferred from the Capitalized Interest Account and then from amounts transferred from the Reserve Account.

On each Distribution Date, the Trustee will make the following distributions and deposits in the amounts and in the order of priority shown below in the following chart. These deposits and distributions will be made from Available Funds in the Collection Account on that Distribution Date; and if necessary, from amounts transferred from the Capitalized Interest Account for that Distribution Date with respect to clauses 1st through 4th and from amounts transferred from the Reserve Account for that Distribution Date with respect to clauses 1st through 4th and with respect to the payment of principal on the Notes at their final maturity.



See APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Events of Default—Remedies; Priorities” for a description of the flow of funds following the occurrence of an Event of Default and an acceleration of the maturity of the Notes under the Indenture.

Optional Purchase and Mandatory Auction

The Notes are subject to redemption in whole prior to maturity at a redemption price of 100% of the principal amount thereof plus interest accrued to the redemption date (as described below) from proceeds deposited into the Collection Account from the sale of all Student Loans to the Servicer pursuant to the exercise of the purchase option granted to the Servicer under the Indenture. The Servicer, or any other Eligible Lender designated by the Servicer in writing to the Agency and the Trustee, will have the option to purchase the Student Loans 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. To exercise such option, the Servicer is required to deposit, in the Collection Account, on or prior to the next Distribution Date, an amount equal to the greater of (i) the Minimum Purchase Amount (as defined below), and (ii) the fair market value of the Student Loans, as determined by a third-party financial advisor with nationally recognized experience in the securitization of student loans, and which may be an underwriter of the Notes, but may not be the Servicer or an affiliate of the Servicer (the “Third-Party Financial Advisor”). In the event that the Servicer effects the purchase of the Student Loans, the Notes will be subject to redemption in whole on the next Distribution Date with the proceeds from the sale of the Student Loans and any other amounts available in the Trust Accounts. See “DESCRIPTION OF THE NOTES—Optional Purchase” herein. The Trustee will, upon an election of the Servicer to purchase the Student Loans as described above, give prompt written notice of such election to the Noteholders specifying that the Notes will be subject to redemption in whole on the next Distribution Date.

“Minimum Purchase Amount” means, for any Distribution Date, that amount which, when added to all moneys in the Trust Accounts, would be sufficient to (i) reduce the Outstanding Amount of the Notes on such Distribution Date to zero, (ii) pay

to the Noteholders the Class A Noteholders' Interest Distribution Amount payable on such Distribution Date, and (iii) pay any accrued and unpaid fees and expenses under the Indenture, including any amounts payable to the Department of Education with respect to the Student Loans.

In addition, the Notes are subject to redemption in whole prior to maturity at a redemption price of 100% of the principal amount thereof plus interest accrued to the redemption date (as described below) from proceeds of the sale of the Student Loans on a Student Loan Auction Date (as defined below). If the Notes have not been redeemed as a result of the exercise by the Servicer of its option to purchase the Student Loans 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 "Student Loan Auction Date"). In connection with any auction of the Student Loans at which at least three (3) bids are received, the Third-Party Financial Advisor, on behalf of the Trustee, will 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, will accept the highest of such remaining bids if it is equal to or in excess of the greater of the Minimum Purchase Amount or the fair market value of the Student Loans as determined by the Third-Party Financial Advisor. If at least three (3) bids are not received, or the highest bid after the resolicitation process is completed is not equal to or in excess of the greater of (i) the Minimum Purchase Amount, and (ii) the fair market value of the Student Loans as determined by the Third-Party Financial Advisor, the Third-Party Financial Advisor will not consummate such sale. If the sale is not consummated as described above, the Third-Party Financial Advisor, on behalf of the Trustee, will continue to solicit and re-solicit bids for sale of the Student Loans, with respect to future Distribution Dates upon terms similar to those described above, including the Servicer's waiver of its option to purchase the Student Loans, with respect to each such future Distribution Date, until the Third-Party Financial Advisor has received at least one bid that is equal to or in excess of the greater of (i) the Minimum Purchase Amount, and (ii) the fair market value of the Student Loans as determined by the Third-Party Financial Advisor. In the event that there is a successful auction of the Student Loans as described above, the Notes will be subject to redemption in whole on the next Distribution Date immediately following such auction with the proceeds from the sale of the Student Loans and any other amounts available in the Trust Accounts. See "DESCRIPTION OF THE NOTES—Mandatory Auction" herein. Upon a successful auction of the Student Loans as described above, the Trustee will give prompt written notice to the Noteholders of the occurrence of such event specifying that the Notes will be subject to redemption in whole on the next Distribution Date.

Ratings

It is a condition to the issuance of the Notes that they be rated "AAA" by Fitch Ratings and "AAA" by Standard & Poor's Ratings Services. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "RATINGS" herein.

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

Stevens & Lee will deliver its opinion that, for federal income tax purposes: (i) the Notes will be treated as debt; and (ii) the federal income tax obligor of the Notes will not be treated as an association or publicly traded partnership that is taxable as a corporation. See "TAX MATTERS" in this Official Statement.

Assuming the characterization of the Notes as "debt" and the treatment of the federal income tax obligor of the Notes as other than an association or publicly traded partnership that is taxable as a corporation, as stated above, payments of interest with regard to the Notes will be includable in gross income for federal income tax purposes when received or accrued by the registered owners in accordance with their respective methods of tax accounting and applicable provisions of the Code. Co-Note Counsel will deliver their opinion that, 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.

Reports to Noteholders

Under the Indenture, the Agency has agreed to provide quarterly reports to Noteholders. See “REPORTS TO NOTEHOLDERS” in this Official Statement. Generally, you will receive those reports not from the Agency, but through Cede & Co., as nominee of DTC and registered owner of the Notes. See “BOOK ENTRY ONLY SYSTEM.” These periodic reports will contain information concerning the Notes and the Student Loans pledged under the Indenture.

Quarterly reports are also anticipated to be available on the Agency’s website at <http://www.pheaa.org>.

Identification Numbers

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

	<u>CUSIP Number*</u>	<u>ISIN Number</u>
Class A-1 Notes:	709163HT9	US709163HT90

* Copyright 2007, American Bankers Association. CUSIP data herein is provided by Standard & Poor’s CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of noteholders only at the time of issuance of the Notes and the Agency does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

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. There can be no assurance that other risk factors will not become material in the future.

The Notes are not suitable investments for all investors

The Notes are complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default, basis and market risk, and tax consequences of an investment, as well as the interaction of these factors.

The Notes are payable solely from the Trust Estate and you will have no other recourse against the Agency

Interest and principal on the Notes will be paid solely from the funds and assets held in the Trust Estate created under the Indenture. Except for any substitutions of Student Loans required to be made by the Servicer under the Servicing Agreement, the only Student Loans to be pledged to the Trustee are those to be pledged on the Closing Date, and there will be no subsequent acquisitions of or recycling of student loans into the Trust Estate. No insurance or guarantee of the Notes will be provided by any government agency or instrumentality, by any insurance company or by any other person or entity. Therefore, your receipt of payments on the Notes will depend solely on the amount and timing of payments and collections on the Student Loans and interest paid or earnings on the funds held in the Trust Accounts established pursuant to the Indenture. You will have no recourse against the Agency or any other party if the Trust Estate is insufficient for repayment of the Notes.

Certain credit enhancement features are limited and if they are depleted, there may be shortfalls in distributions to Noteholders

Certain credit enhancement features, including the Reserve Account and the Capitalized Interest Account, are limited in amount. In addition, the Capitalized Interest Account will not be replenished and is only available for a limited duration. In certain circumstances, if there is a shortfall in Available Funds, such amounts may be depleted. This depletion could result in shortfalls and delays in distributions to Noteholders.

The characteristics of the Student Loans held in the Trust Estate 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 pledged under the Indenture 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. The Agency does not expect the characteristics of the Student Loans actually pledged under the Indenture on the Closing Date to differ materially from the characteristics of the Student Loans described in this Official Statement as of the Statistical Cutoff Date. However, in making your investment decision, you should assume that the actual characteristics of the Student Loans pledged under the Indenture will vary somewhat from the characteristics of the Student Loans presented in this Official Statement as of the Statistical Cutoff Date.

Projections and assumptions related to future performance may not prove accurate

The Agency expects that the Trust Estate will be sufficient to pay when due the principal of and interest on the Notes. This expectation is based upon projections and cash flow assumptions, which the Agency believes are reasonable, regarding the financing and repayment performance of the Student Loans, and the occurrence of certain future events and conditions.

There can be no assurance, however, that principal and interest payments from the Student Loans will be received as anticipated, that the projected yield on the Student Loans will be realized, that the reinvestment rates assumed with respect to the investment of various funds and accounts will be realized, or that operating costs will be incurred at the levels and on the schedule anticipated. Such projections are based upon the Agency's prior experience with student loan performance. There can be no assurance, however, that the performance experience of the Student Loans pledged under the Indenture will conform to the

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

historical performance of other student loans. Furthermore, future events over which the Agency has no control, such as general economic conditions, the job market for graduates of institutions of higher education, the college graduation rate, military and national emergencies and regulatory changes among others, may adversely affect the Trust Estate's actual receipt of revenues. The effect of these factors, including the effect on the amount of assets from the Trust Estate available to make payments of principal of and interest on the Notes and operating costs, is impossible to predict.

The Trust Estate securing the Notes will contain Student Loans made under the FFEL Program. In general, under current law a Guarantor reinsured by the Department of Education will guarantee 98% of each Student Loan held in the Trust Estate first disbursed on or before June 30, 2006 and 97% of each Student Loan held in the Trust Estate first disbursed on or after July 1, 2006. As a result, if the borrower under one of those Student Loans defaults, the Trust Estate will experience a loss of approximately 2% or 3%, as the case may be, of the outstanding principal and accrued interest on the defaulted Student Loan. The Agency will have no right to pursue the borrower for the remaining 2% or 3% unguaranteed portion. 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.

See "*THE STUDENT LOAN POOL*—Distribution of Student Loans by Special Allowance Payment Interest Rate Index as of the Statistical Cutoff Date," which specifies the percentages of Student Loans that adjust based on the three-month commercial paper rate or the 91 day Treasury bill rate, as applicable.

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.

Withdrawal or downgrade of the initial ratings may decrease the prices of your Notes

This Official Statement specifies the minimum required ratings for the Notes at the time of issuance. A security rating is not a recommendation to buy, sell or hold securities. Similar ratings on different types of securities do not necessarily mean the same thing. A rating agency may revise or withdraw its rating at any time if it believes circumstances have changed. A subsequent downgrade in the rating on your Notes is likely to decrease the price a subsequent purchaser will be willing to pay for your Notes.

Your ability to sell your Notes may be limited

Despite the recent federal market intervention and programs, the current period of general market illiquidity may continue or worsen and may adversely affect the secondary market for the Notes. Accordingly, you may not be able to sell your Notes when you want to do so or you may be unable to obtain the price that you wish to receive for your Notes and, as a result, you may suffer a loss on your 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 and the other Guarantors, and any pledged Trust Accounts established under the Indenture.

Consequently, Noteholders must rely upon payments on the Student Loans from the borrowers, the Agency as guarantor, other Guarantors and, if available, amounts on deposit in the pledged Trust Accounts, to repay the Notes. If these sources of funds are insufficient to repay the Notes, Noteholders will experience a loss on their investment.

If the Agency as Guarantor of the Student Loans or another 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 and the other Guarantors. See “THE STUDENT LOAN POOL—Distribution of Student Loans by Guarantee Agency as of the Statistical Cutoff Date.” A deterioration in the financial status of the Agency or another Guarantor and its respective 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.

Other Guarantors’ financial conditions could be adversely affected by similar factors.

A deterioration in the financial status of the Agency as Guarantor or another Guarantor could result in the inability to make guarantee claim payments. 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.

Payment offsets by the guarantor or the Department Of Education could prevent the Agency from paying you the full amount of the principal and interest due on your Notes

The Agency may use the same Department of Education lender identification number for the Student Loans pledged under the Indenture as it uses for other FFEL Program loans it holds for its own account securing Other Secured Debt or on behalf of other issuing entities. If it does, the billings submitted by the Servicer to the Department of Education (for items such as special allowance payments or interest subsidy payments) and the claims submitted to the applicable Guarantor with respect to the Student Loans pledged under the Indenture will be consolidated with the billings and claims for payments for student loans affiliated with Other Secured Debt of the Agency or with other issuing entities using the same lender identification number. Payments on those billings by the Department of Education as well as claim payments by the applicable guarantors will be made to the Agency or to the Servicer with respect to Other Secured Debt and on behalf of the various issuing entities in a lump sum. Those payments must be allocated by the Servicer among the various issuing entities that reference the same lender identification number.

If the Department of Education or a guarantor determines that it is owed a liability on any student loan reported within a single lender identification number, including Student Loans the Agency holds on behalf of the Trust Estate for your Notes, and loans the Agency holds that secure Other Secured Debt or for other issuing entities, the Department of Education or the applicable guarantor may seek to collect that liability by offsetting it against payments due to the Agency with respect to that lender identification number. Such offsetting or shortfall of payments could adversely affect the amount of Available Funds for any Collection Period and thus the Agency's ability to pay you principal and interest on the Notes.

The Servicing Agreement for your Notes, as well as other servicing agreements entered into by the Agency, contains provisions for cross-indemnification concerning those payments and offsets. Even with cross-indemnification provisions, however, the amount of funds available to the Trust Estate from indemnification would not necessarily be adequate to compensate the Trust Estate and investors in the Notes for any previous reduction in the Available Funds.

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 or another Guarantor is unable to meet its guarantee obligations, the Agency or that Guarantor 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 or any other Guarantor. 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. It is impossible to predict the amount and timing of payments that will be received on the Student Loans 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.

The optional purchase right and the provision for the auction of the Student Loans create additional uncertainty regarding the timing of payments to Noteholders. See “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction” herein.

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

The inability of the Servicer to meet its repurchase obligation may result in losses on your Notes

Under some circumstances, the Agency is required, as the Servicer, to purchase or provide the Trust Estate with a substitute for a Student Loan pledged under the Indenture. This right arises generally if a breach of the representations, warranties or covenants of the Servicer has a material adverse effect on the Student Loans and if the breach is not cured or the Trust Estate is not reimbursed within the applicable cure period. See “APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT” hereto. We cannot guarantee you, however, that the Servicer will have the financial resources to make a purchase or substitution. In this case, you will bear any resulting loss.

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 another 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, or another 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 as described herein under “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction.” 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 Borrower Benefit Programs

The Agency currently offers two Borrower Benefit Programs to borrowers with respect to the Student Loans. One Borrower Benefit Program allows for a 0.25% interest rate reduction to borrowers who elect to have their installments deducted automatically from their bank accounts. The other Borrower Benefit 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. The principal of the affected Student Loans may amortize faster than anticipated as a result of these Borrower Benefit Programs. We cannot predict which borrowers would qualify or decide to participate in such Borrower Benefit Programs. The effect of these Borrower Benefit Programs is to reduce the amount of interest on the Student Loans.

Geographic concentration may increase risk of loss on the Notes

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. See “THE STUDENT LOAN POOL—Distribution of Student Loans by Geographical Distribution as of the Statistical Cutoff Date” in this Official Statement for the percentage of the Student Loans by outstanding principal balance as of the Statistical Cutoff Date that were recorded, by billing address, as being made to borrowers located in the Commonwealth of Pennsylvania and other states.

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.

General economic conditions may affect performance of the Notes

Regional and national economic developments in recent years have, by a number of measures, resulted in a greater reduction in household wealth and in the availability of civilian employment than during any comparable period during which the Agency’s student loan program has operated. Such developments have also resulted in a reduction in the availability of consumer credit and of general financial market liquidity. It is impossible to predict how long these conditions may continue or whether these conditions may worsen during the period for which they continue.

Future performance of Student Loans may be adversely affected by the current economic recession or by subsequent economic and other events affecting the employment prospects of borrowers or otherwise affecting their ability and willingness to incur and to repay student loans. High levels of unemployment, either regionally or nationally, may result in increased borrower delinquency and default. Failures by borrowers to pay the principal of and interest on the Student Loans in a timely fashion or an increase in deferments or forbearances could affect the timing and amount of Available Funds for any Collection Period. The effect of these factors on the timing and amount of Available Funds for any Collection Period, and the ability of the Trust Estate to make payments of principal of and interest on the Notes and pay related operating costs, is impossible to predict.

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, either the Trustee or the Noteholders of Notes evidencing at least a majority of the Outstanding Amount of the Notes may remove the Servicer. 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.

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.

The Federal Direct Student Loan Program could result in reduced revenues for the Servicer and Guarantors

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 legislation may eliminate the Federal Family Education Loan Program

The President's fiscal year 2010 budget submitted to Congress in 2009 proposed the elimination of the FFEL Program in favor of the Federal Direct Student Loan Program, beginning July 1, 2010.

On September 17, 2009, the United States House of Representatives passed the Student Aid and Fiscal Responsibility Act ("SAFRA"). SAFRA calls for all new federal student loans to be originated through the Federal Direct Student Loan Program effective July 1, 2010. SAFRA spends the projected budgetary savings on increased maximum Pell Grants, Access and Completion Grants, community college grants, grants for minority-servicing institutions, school construction and early childhood education. The bill allows for the conversion of the special allowance support level on FFEL Program loans originated on or after January 1, 2000, to be based on the one-month LIBOR rate versus the current calculation based on the three-month Commercial Paper rate. If this bill or similar legislation permitting such a conversion were to become law, the Indenture includes a provision that authorizes the Agency, upon satisfaction of the Rating Agency Condition, to convert the special allowance support level on the Student Loans held under the Indenture that were originated on or after January 1, 2000 (or such other date as may be included in any final legislation) to be based on the one-month LIBOR rate. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Special Allowance Payments on FFEL Program Loans" herein.

SAFRA provides an opportunity for state-based non-profit lenders to service the new loans made in the Federal Direct Student Loan Program. This servicing would be in addition to the servicing these holders would be doing on the loans outstanding as of July 1, 2010. The Agency has been appointed as a servicer of loans under the Federal Direct Student Loan Program.

It is uncertain what changes will be made to the bill before and if it becomes law. If SAFRA becomes law in substantially its current form, the Agency's ability to originate, service, and finance FFEL Program loans would terminate as of the effective date set forth in the final legislation. This may decrease the Agency's revenues with respect to FFEL Program loans and increase its costs of servicing the Student Loans due to lost economies of scale.

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 or other relevant federal or state laws, rules and regulations may be amended or modified in the future, including as part of any reauthorization of the Higher Education Act, in a manner that could adversely affect the FFEL Program as well as the student loans made under this program and the financial condition of the Guarantors.

The current reauthorization of the Higher Education Act expires in 2014. In the past, when the Higher Education Act has been subject to reauthorization, amendments to its provisions have been common. Among other things, the guarantee reimbursement rate may be adjusted from time to time. Future changes could affect the ability of the Agency or the Servicer to satisfy its obligations to purchase or substitute student loans or, in the case of the Servicer, its ability to exercise any optional purchase of the Student Loans pledged under the Indenture. Future changes could also have a material adverse effect on the revenues received by the Guarantors that are available to pay claims on defaulted student loans in a timely manner.

We cannot predict whether any changes in legislation will be adopted when the Higher Education Act becomes subject to reauthorization or at any other time or, if adopted, what impact those changes would have on the Agency or the securities that it issues. Similarly, it is not possible to predict the effect of any changes in legislation upon the Student Loans or the Notes.

Congressional actions affect the Student Loans and the financial condition of Guarantors

Funds for payment of interest subsidies and other payments under the FFEL Program are subject to annual budgetary appropriation by Congress. In recent years, federal budget legislation has contained provisions that restricted payments made under the FFEL Program to achieve reductions in federal spending. Future federal budget legislation may adversely affect expenditures by the Department of Education and the financial condition of the Guarantors, including the Agency.

The use of master promissory notes for the Student Loans may compromise the Trustee's security interest

Certain loans made under the FFEL Program may be evidenced by a master promissory note. Once a borrower executes a master promissory note with a lender, additional student loans made by the lender to such borrower are evidenced by a confirmation sent to the borrower, and all student loans are governed by the single master promissory note. A student loan evidenced by a master promissory note may be sold independently of the other student loans governed by the master promissory note. If the Agency originates a student loan governed by a master promissory note and does not retain possession of the master promissory note, other parties could claim an interest in the student loan. This could occur if the holder of the master promissory note were to take an action inconsistent with the Agency's rights to a Student Loan, such as delivery of a duplicate copy of the master promissory note to a third-party for value. Although such action should not defeat the Agency's rights to the Student Loan or impair the security interest held by the Trustee for the Noteholders' benefit, it could delay receipt of principal and interest payments on the Student Loan.

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 owner's name or the name of the beneficial owner's 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 Trust Estate created under the Indenture may be affected by delayed payments from borrowers called to active military service or who suffer economic hardship as a result of a natural disaster or national emergency

The Higher Education Act, the Servicemembers Civil Relief Act (“SCRA”) and similar state and local laws provide payment relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their Student Loans. Recent and ongoing military operations by the United States have increased the number of citizens who are in active military service, including persons in reserve status who have been called or may be called to active duty. The SCRA 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.

Similarly, federal or state laws and other regulations may provide financial relief to borrowers who live in a disaster area or who may suffer a direct economic hardship as a result of a national emergency.

We do not know how many Student Loans have been or may be affected by the application of these laws. As a result, there may be unanticipated delays in payment and losses on the Student Loans subject to these regulations.

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

Bills may be introduced in the Pennsylvania General Assembly from time to time that may affect the Agency and its operations. The likelihood that any proposed legislation will become law or when such 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 from the Trust Estate, which includes a discrete pool of Student Loans. The Notes are not a general obligation of the

Agency. The Agency, however, is the Guarantor of a significant portion of the Student Loans pledged to secure the Notes. See “RISK FACTORS—If the Agency as Guarantor of the Student Loans or another Guarantor of the Student Loans experiences financial deterioration or failure, delays in payment or losses on the Notes may result.”

Potential for auction rate securities litigation

For over a decade, a common structure in which student loan backed debt obligations have been issued has been as auction rate securities (“Auction Rate Securities”). The Agency has issued Auction Rate Securities and, as of October 31, 2009, had approximately \$6.7 billion in principal amount of Auction Rate Securities outstanding. In February 2008, the market for Auction Rate Securities encountered a serious disruption when all of the major investment banking firms that act as broker-dealers for Auction Rate Securities announced they would no longer purchase Auction Rate Securities for their own accounts to ensure that the auctions not fail. At such time and thereafter, a significant amount of auctions for Auction Rate Securities have failed. Beginning in March 2008, several class action lawsuits have been filed against many of the investment banking firms who have acted as broker-dealers for Auction Rate Securities and also against issuers of Auction Rate Securities. Among the theories on which such litigation has been based are inadequate disclosure and misrepresentation. Some of the complaints have alleged that Auction Rate Securities were sold to investors as “cash equivalents,” and that Auction Rate Securities are now illiquid. The Agency has not been a party to any such lawsuit nor has any such lawsuit been threatened against the Agency. No assurance can be given, however, that such a lawsuit will not be filed against the Agency, or that if such a lawsuit is filed against the Agency and is successful, that the Agency’s financial condition and operations would not be materially effected.

Litigation and other occurrences may negatively impact the Agency, including as Servicer and a Guarantor of the Student Loans

Litigation and other occurrences may negatively impact the Agency, including as Servicer and a Guarantor of the Student Loans.

In 2004 the Agency settled a claim with a student loan borrower and his lender regarding the servicing of his student loan debt. As part of the settlement, the borrower’s lender directed the Agency to update the credit reporting associated with the borrower’s loans. The Agency requested the requisite updates but a national credit reporting agency failed to update the reporting. The borrower filed a new legal action against the Agency and the lender alleging a violation of the Fair Credit Reporting Act. If successful, the borrower may be able to recover attorney’s fees and punitive damages.

In 2006 following a Program Review, Federal Student Aid (“FSA”) found that the Agency was not in compliance with applicable requirements related to Special Allowance Payment billings on certain loans eligible for a minimum 9.5% SAP under the FFEL Program. The Agency appealed the finding and during the appeal, FSA instructed the Agency to identify the affected loans, calculate the amount of the alleged overbilling of SAP and to provide its methodology for such calculations, which FSA then reviewed and approved. Earlier this year, FSA provided alternative instructions for payment of the disputed 9.5% Special Allowance Payment in the approximate amount of \$11,300,000. The Agency made full payment to the Department of Education to close the audit finding. The Agency has subsequently been named as a defendant in a *qui tam* action brought by Jon Oberg, a former Department of Education employee (Oberg v. Nelnet, Inc., et al., United States District Court, Eastern District of Virginia, Alexandria Division, No. 1:07-CV-960) alleging that the Agency, among other prominent FFEL Program participants, violated the Federal False Claims Act in connection with the 9.5% Special Allowance Payment billings. The Agency has filed a motion to dismiss the suit and that motion was recently granted.

Kilgore, et al. v. American Education Services, et al., United States District Court, Northern District of California, CA #08-02958 is one of a series of cases arising from the closure and bankruptcy of Silver State Helicopter schools. The case was filed as a class action on behalf of students who enrolled in Silver State Helicopter schools; who borrowed their tuition from Student Loan Xpress and

Liberty Bank; and who failed to complete their education before the Silver State Helicopter bankruptcy. American Education Services was contracted by Liberty Bank and Student Loan Xpress to originate and service the student loans. The Agency's role was thus limited and did not involve the establishment of the loan program, student recruitment, or the administration of the school and loan program. Related cases include Hyatt, et al. v. Student Loan Express, Inc., et al., Superior Court of Washington, Snohomish County, No. 09-2-07720-5, Fields, et al. v. American Education Services, et al., United States Bankruptcy Court for the Southern District of California, No. 08-09681-M7, and Mason, et al. v. American Education Services, et al., District Court for Clark County, Nevada, CA #A565943. The Agency has been advised by Student Loan Xpress that it has reached a settlement that includes these cases, and that Student Loan Xpress is arranging to have such settlement approved by the court.

In 2008 the Agency entered into a Memorandum of Understanding with a FFEL Program student loan guarantor documenting the Agency's agreement to reprocess on behalf of impacted lenders all federal Special Allowance Payments and interest subsidies on student loans that were submitted to the Department of Education during a period of time when the student loans were not reflected as guaranteed on the records of such guarantor. The Agency has recently learned that approximately 317 additional loans that were submitted to such guarantor were not reflected as guaranteed in the records of such guarantor. The Agency continues to work with such guarantor on the documentation of the guarantee of the additional loans.

A guarantor has returned several FFEL Program default claims submitted to it by the Agency claiming that such consolidation loans included amounts not requested to be consolidated or loans that the borrowers allegedly expressly requested not be included in the consolidation.

The Agency is also involved in various legal matters.

The Internal Revenue Service is auditing the Agency's \$150,000,000 Student Loan Revenue Bonds, Senior Subseries P and Subordinate Series Q. It appears that the Internal Revenue Service is focusing on issues involving reallocation of student loans to and from the bonds in question, as well as the Agency's practice of including rebate fees due to the Department of Education on consolidation loans as qualified administrative costs in determining the effective yield on such loans. To date, the Internal Revenue Service has not issued a report or notice to the Agency with respect to its audit, nor has any claim or demand been made by the Internal Revenue Service to the Agency.

During the 2007-2008 fiscal year, the Agency indefinitely suspended its purchasing of student loans, and the Agency has failed to honor approximately \$174,624,825 in student loan purchase commitments with various institutions as of November 2, 2009.

Over the last several months, various breaches, violations, defaults or events of defaults (including by operation of relevant cross-default provisions) have occurred on variable rate bonds and other credit facilities of the Agency. Other than defaults or events of defaults relating to certain of the Agency's non-recourse, asset backed variable rate demand obligations, such defaults have been cured or waived from time to time.

Any determination adverse to the Agency in any of the foregoing matters will not affect the collateral pledged to secure the Notes, nor in the judgment of the Agency, a material impact on the financial condition of the Agency. Such determination may have an adverse affect on the Agency's ability to continue as Servicer of the Students Loans. See "THE AGENCY AS SERVICER."

DESCRIPTION OF THE NOTES

General

The Notes will be issued under the terms of the Indenture. The following summary describes the material terms of the Notes as described in the Indenture. This summary does not restate the entire Indenture.

The Notes are expected to be delivered and have the maturity date as set forth on the cover page hereof. The Notes will be dated the date of their authentication. The Notes will be issuable as registered notes in minimum denominations of \$100,000 and any integral multiple of \$1,000 in excess thereof. Upon issuance, the Notes will only be registered in the name of Cede & Co. as nominee of DTC. See “BOOK ENTRY ONLY SYSTEM” herein. Unless definitive notes are issued under the limited circumstances described herein under “BOOK ENTRY ONLY SYSTEM,” no holder will be entitled to receive a physical certificate representing a Note. All references to actions by Noteholders refer to actions taken by DTC on instructions from its participating organizations and all references to distributions, notices, reports and statements to Noteholders refer to distributions, notices, reports and statements to DTC or its nominee, as the registered holder of the Notes, for distribution to Noteholders under DTC’s procedures.

Distributions of Interest

Interest will accrue on the outstanding principal balance of the Notes at the interest rate described below. Interest will accrue during each applicable Accrual Period and will be payable on each Distribution Date to the Noteholders of record as of the close of business on the Record Date, which is the day next preceding the related Distribution Date. Interest accrued as of any Distribution Date but not paid on that Distribution Date will be due on the next Distribution Date together with, to the extent lawful, an amount equal to interest thereon at the interest rate applicable to the Notes. Interest payments on the Notes for any Distribution Date will generally be funded from Available Funds remaining after all required prior distributions; and if necessary, from amounts on deposit in the Capitalized Interest Account and Reserve Account. See “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account” and “—Credit Enhancement” below. If these sources are insufficient to pay the Class A Noteholders’ Interest Distribution Amount for that Distribution Date, the shortfall will be allocated pro rata to the Noteholders, based upon the principal amount held by each Noteholder.

The interest rate on the Notes for each interest Accrual Period, except for the initial interest Accrual Period, will be equal to Three-Month LIBOR plus 0.90%.

The interest rate for the Notes for the initial interest Accrual Period will be calculated by reference to the following formula:

$$x + [(28 / 31 * (y-x)] \text{ plus } (0.90\%),$$

as calculated by the Trustee.

where:

x = Three-Month LIBOR; and

y = Four-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 Noteholders on each Distribution Date in an amount generally equal to the Class A Noteholders’ Principal Distribution Amount for that Distribution Date, until the principal balance of the Notes is reduced to zero. Principal payments on the Notes will generally be funded from Available Funds described herein (subject to all prior required distributions). See “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account” and “—Credit Enhancement” below.

Additional principal payments are also required to be made to the Noteholders on each Distribution Date with any Available Funds remaining after all required prior distributions as described in the 9th clause below under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account.”

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 Notes except at maturity of the Notes or earlier redemption or prepayment of the Notes following an optional purchase or mandatory auction of the Trust Estate as described herein under “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction.”

The outstanding principal balance of the Notes will be due and payable in full on its stated maturity date. The Notes are subject to earlier redemption following an optional purchase or mandatory auction of the Trust Estate as described herein under “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction.”

See also “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 the Notes is paid.

Determination of LIBOR

For each interest Accrual Period, “Three-Month LIBOR” and “Four-Month LIBOR” shall mean, with respect to any Accrual Period, the London interbank offered rate for deposits in U.S. dollars having the applicable Index Maturity as it appears on Reuters Screen LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, as of 11:00 a.m., London time, on the related Determination Date as obtained by the Trustee from such source. If this rate does not appear on Reuters Screen LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, the rate for that day will be determined on the basis of the rates at which deposits in U.S. dollars, having the applicable 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 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 City time, on that Determination Date, for loans in U.S. dollars to leading European banks having the applicable 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 or Four-Month LIBOR as the case may be, in effect for the applicable Accrual Period will be Three-Month LIBOR or Four-Month LIBOR, as the case may be, in effect for the previous Accrual Period.

“Business Day” means for purposes of calculating LIBOR, any day on which banks in New York, New York and London, England are open for the transaction of international business.

“Index Maturity” means, with respect to any Accrual Period, a period of time equal to three or four months, as applicable, commencing on the first day of that Accrual Period.

“Reference Banks” means four major banks in the London interbank market, as selected by the Trustee.

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 are currently anticipated to 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.

Prepayment, Yield and Maturity Considerations

The rate of payment of principal of the Notes and the yield on the Notes will be affected by prepayments on the Student Loans held in the Trust Estate that may occur as described below. Therefore, payments on the Notes could occur significantly earlier than expected. Consequently, the actual maturity on the Notes could be significantly earlier, the average life of the Notes could be significantly shorter, and periodic balances could be significantly lower, than expected. Each Student Loan is prepayable in whole or in part, without penalty, by the borrowers at any time, or as a result of a borrower’s default, death, disability or bankruptcy and subsequent liquidation or collection of guarantee payments with respect thereto. The rate of those prepayments cannot be predicted and may be influenced by a variety of economic, social, competitive and other factors, as described below. In general, the rate of prepayments may tend to increase to the extent that alternative financing becomes available on more favorable terms or at interest rates significantly below the interest rates applicable to the Student Loans.

On the other hand, the rate of principal payments and the yield on the Notes will be affected by scheduled payments with respect to, and maturities and average lives of, the Student Loans. These may be lengthened as a result of, among other

things, grace periods, deferral periods, forbearance periods, or repayment term or monthly payment amount modifications. Therefore, payments on the Notes could occur significantly later than expected. Consequently, the actual maturity and weighted average life of the Notes could be significantly longer than expected and periodic balances could be significantly higher than expected. The rate of payment of principal of the Notes and the yield on the Notes may also be affected by the rate of defaults resulting in losses on defaulted Student Loans which have been liquidated, by the severity of those losses and by the timing of those losses, which may affect the ability of a Guarantor to make timely guarantee payments with respect to the Student Loans. In addition, the maturity of certain of the Student Loans could extend beyond the latest legal maturity date for the Notes.

The rate of prepayments on the Student Loans cannot be predicted due to a variety of factors, some of which are described above, and any reinvestment risks resulting from a faster or slower incidence of prepayment of Student Loans will be borne entirely by the Noteholders. Such reinvestment risks may include the risk that interest rates and the relevant spreads above particular interest rate indices are lower at the time Noteholders receive payments from the Agency than those interest rates and those spreads would otherwise have been if those prepayments had not been made or had those prepayments been made at a different time.

Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Notes. The projected weighted average life, expected maturity date and percentages of remaining principal amount of Notes under various assumed prepayment scenarios may be found under “Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Notes” included as APPENDIX E to this Official Statement.

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 and a Capitalized Interest 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. Funds on deposit in the Trust Accounts are only permitted to 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 Expense Payment Date (to the extent necessary to make required deposits to the Department Rebate Account, pay any Monthly Consolidation Loan Rebate Fees or pay the Servicing Fee payable on such date) or the following Distribution Date, as applicable.

Servicing Compensation

The Servicer will be entitled to receive the Servicing Fee as compensation for performing the functions as Servicer. The Servicing Fee will be payable on each Monthly Expense Payment Date and will be paid solely out of Available Funds and, if necessary, from amounts on deposit in the Capitalized Interest Account and the Reserve Account on that date. See “THE AGENCY AS SERVICER—Compensation of the Servicer.”

The Servicer will also be entitled to receive any Carryover Servicing Fee on each Distribution Date out of Available Funds as described in this Official Statement (subject to all prior required distributions). See “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account.”

The Carryover Servicing Fee is the sum of: (i) the amount of specified removal fees; (ii) any amounts described in (i) that remain unpaid from prior Distribution Dates; and (iii) interest on any unpaid amounts.

Distributions

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

Amounts Deposited into Collection Account	Due Date
<input type="checkbox"/> all payments by or on behalf of Obligor with respect to the Student Loans (other than Purchased Student Loans) and all Liquidation Proceeds collected or received during the Collection Period	Within two Business Days of receipt
<input type="checkbox"/> 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
<input type="checkbox"/> 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 Expense Payment Date that is not a Distribution Date, the Trustee will (i) transfer to the Department Rebate Account an amount sufficient to make the balance therein equal to the Department Rebate Interest Amount, (ii) pay Monthly Consolidation Loan Rebate Fees, and (iii) pay to the Servicer the Servicing Fee due with respect to the preceding calendar month. These deposits and distributions will be made from Available Funds in the Collection Account on that Monthly Expense Payment Date; and if necessary, from amounts transferred from the Capitalized Interest Account and then from amounts transferred from the Reserve Account.

On each Distribution Date, the Trustee will make the following distributions and deposits in the amounts and in the order of priority shown below. These deposits and distributions will be made from Available Funds in the Collection Account on that Distribution Date; and if necessary, from amounts transferred from the Capitalized Interest Account for that Distribution Date with respect to clauses 1st through 4th and from amounts transferred from the Reserve Account for that Distribution Date with respect to clauses 1st through 4th and with respect to the payment of principal on the Notes at their final maturity.

- *first*, to the Department Rebate Account an amount sufficient to make the balance therein equal to the Department Rebate Interest Amount, then to the Department of Education, any Monthly Consolidation Loan Rebate Fees and any other required payments to the Department of Education with respect to the Student Loans;
- *second*, to the Trustee for its compensation and reimbursement of reasonable expenses incurred under the Indenture (other than amounts due to the Trustee for extraordinary services);
- *third*, to the Servicer, the Servicing Fee due and unpaid on that Distribution Date;
- *fourth*, to the Noteholders, the Class A Noteholders' Interest Distribution Amount, pro rata, based on the related principal amount Outstanding held by each Noteholder;
- *fifth*, to the Reserve Account, the amount, if any, necessary to reinstate the balance of the Reserve Account to the Specified Reserve Account Balance;
- *sixth*, to the Noteholders, pro rata, based on the principal amount Outstanding of each such Noteholder, the Class A Noteholders' Principal Distribution Amount, until paid in full;
- *seventh*, to the Trustee, the aggregate unpaid amounts due to the Trustee for extraordinary services under the Indenture, if any;
- *eighth*, to the Servicer, the aggregate unpaid amount of the Carryover Servicing Fee, if any;
- *ninth*, to the Noteholders, pro rata, based on the related principal amount Outstanding of each such Noteholder, to pay as accelerated payments of principal on the Notes until the Notes are paid in full; and
- *tenth*, to the residual Class R Certificateholders, after all Notes have been paid in full, the remainder, without preference or priority, in proportion to each such Class R Certificateholder's respective interest as set forth in the related Class R Certificate and the Indenture.

Department Rebate Account. The Department Rebate Account will not be part of the Trust Estate securing the Notes. The Department Rebate Account will initially be established as a segregated account in the name of the Agency. Amounts on deposit in the Department Rebate Account will be used to pay amounts due and payable with respect to the Student Loans to the Department of Education or a Guarantor in respect of Interest Subsidy Payments, Special Allowance Payments or similar payments and to comply with the terms of any Joint Sharing Agreements. The "Joint Sharing Agreements" are generally entered into by the Agency with the Trustee and other trustees to properly pay to or from the correct trust estate or indenture amounts which should be reallocated to reflect payments (or liabilities) on the student loans securing each such trust estate or indenture. Amounts in the Department Rebate Account in excess of the Department Rebate Interest Amount will be transferred to the Collection Account. "Department Rebate Interest Amount" means, with respect to any date of determination, the sum of (A) the greater of (a)(i) the amount of interest paid by borrowers on the Student Loans first disbursed on or after April 1, 2006 that exceeds the Special Allowance Payment support levels applicable to such Student Loans under the Higher Education Act since the prior Department Rebate Payment Date less (ii) the amount of accrued Interest Subsidy Payments or Special Allowance Payments due to the Agency since the prior Department Rebate Payment Date and (b) \$0.00, plus (B) amounts owed under any Joint Sharing Agreement. See APPENDIX C—"FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments—Floor Income."

Flow of Funds After Events of Default. See APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Events of Default—Remedies; Priorities” for a description of the flow of funds following the occurrence of an Event of Default and an acceleration of the maturity of the Notes under the Indenture.

Residual Class R Certificates. The residual Class R Certificates are not being offered pursuant to this Official Statement. The Agency will issue the residual Class R Certificates in return for proceeds that also will constitute a source of funds under the Indenture. See “USE OF PROCEEDS” herein. No payments will be made on the residual Class R Certificates until all of the Notes have been paid in full. The Indenture establishes a subordinate pledge of the Trust Estate to secure, upon prior payment in full of the Notes, the residual interest of the holders of the Class R Certificates in any remaining assets held in the Trust Estate after principal of and interest on the Notes is paid in full.

Credit Enhancement

Credit enhancement for the Notes will include overcollateralization and cash on deposit in the Reserve Account, a Capitalized Interest Account and certain other funds held under the Indenture (excluding the Department Rebate Account).

Initial Parity. Based on information relating to the portfolio of Student Loans as of the Statistical Cutoff Date, the Agency expects that the Parity Ratio under the Indenture will be approximately 104.9% on the Closing Date. The Student Loans actually pledged under the Indenture on the Closing Date will have characteristics that differ somewhat from the characteristics of the Student Loans described herein due to payments received on and other changes in the Student Loans that occur during the period from the Statistical Cutoff Date to the Closing Date. These changes could result in the actual Parity Ratio on the Closing Date varying somewhat from the estimated Parity Ratio set forth above. However, the Agency does not expect that the actual Parity Ratio on the Closing Date will differ materially from the estimated Parity Ratio provided above. See “RISK FACTORS—The characteristics of the Student Loans held in the Trust Estate may change.”

Reserve Account. On the Closing Date, the Agency will deposit or cause to be deposited into the Reserve Account an amount equal to the Specified Reserve Account Balance. The Specified Reserve Account Balance is the amount required to be maintained in the Reserve Account. The “Specified Reserve Account Balance” means, with respect to the Closing Date, the deposit specified in this Official Statement under “USE OF PROCEEDS,” and thereafter with respect to any 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) 0.15% of the Initial Pool Balance, provided that in no event will such balance exceed the outstanding amount of the Notes.

The Reserve Account may be replenished on each Distribution Date, in 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 first through fourth under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account” in this Official Statement.

Amounts held from time to time in the Reserve Account will continue to be held for the benefit of the Noteholders. In the event that the Available Funds in the Collection Account and amounts on deposit in the Capitalized Interest Account are insufficient to make any required deposits to the Department Rebate Account, pay the Monthly Consolidation Loan Rebate Fees, make payments to the Department of Education with respect to the Student Loans, pay fees of the Trustee (other than amounts due for extraordinary services), pay the Servicing Fee or pay interest on the Notes and, on its final maturity date, the principal of the 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 and described herein under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account.”

If the amount held in the Trust Accounts, including the Reserve Account and the Capitalized Interest Account, on any Distribution Date is sufficient to pay the remaining principal amount of and interest accrued on the Notes, and to pay any accrued and unpaid amounts to the Department of Education with respect to the Student Loans, Servicing Fees, Trustee fees, and Carryover Servicing Fees (including following an optional purchase or mandatory auction of the Student Loans as described herein under “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction”), such amount will be so applied on such Distribution Date and the Trustee will make such payments.

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.

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.

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 the amount specified in this Official Statement under “USE OF PROCEEDS.” After the initial deposit, the Capitalized Interest Account will not be replenished.

In the event that the Available Funds in the Collection Account are insufficient to make any required deposits to the Department Rebate Account, pay the Monthly Consolidation Loan Rebate Fees, make payments to the Department of Education with respect to the Student Loans or to pay fees of the Trustee (other than amounts due for extraordinary services), the Servicing Fee or interest on the Notes through the October 25, 2010 Distribution Date, the Trustee is directed by the Indenture to withdraw from the Capitalized Interest Account such amounts as may be necessary to make such payments (before applying to any such payment any amounts on deposit in the Reserve Account), to the extent of funds available therein, in the priority set forth in the Indenture and described herein under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account.”

Any remaining funds on deposit in the Capitalized Interest Account on the October 25, 2010 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, 2010 Distribution Date.

Optional Purchase

The Notes are subject to redemption in whole prior to maturity at a redemption price of 100% of the principal amount thereof plus interest accrued to the redemption date (as described below) from proceeds deposited into the Collection Account from the sale of all Student Loans to the Servicer pursuant to the exercise of the purchase option granted to the Servicer under the Indenture. The Servicer, or any other Eligible Lender designated by the Servicer in writing to the Agency and the Trustee, will have the option to purchase the Student Loans 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. To exercise such option, the Servicer is required to deposit, in the Collection Account, on or prior to the next Distribution Date, an amount equal to the greater of (i) the Minimum Purchase Amount, and (ii) the fair market value of the Student Loans, as determined by a Third-Party Financial Advisor. In the event that the Servicer effects the purchase of the Student Loans, the Notes will be subject to redemption in whole on the next Distribution Date with the proceeds from the sale of the Student Loans and any other amounts available in the Trust Accounts. The Trustee will, upon an election of the Servicer to purchase the Student Loans as described above, give prompt written notice of such election to the Noteholders specifying that the Notes will be subject to redemption in whole on the next Distribution Date.

Mandatory Auction

In addition, the Notes are subject to redemption in whole prior to maturity at a redemption price of 100% of the principal amount thereof plus interest accrued to the redemption date (as described below) from proceeds of the sale of the Student Loans on a Student Loan Auction Date (as defined below). If the Notes have not been redeemed as a result of the exercise by the Servicer of its option to purchase the Student Loans 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 “Student Loan Auction Date”). In connection with any auction of the Student Loans at which at least three (3) bids are received, the Third-Party Financial Advisor, on behalf of the Trustee, will 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, will accept the highest of such remaining bids if it is equal to or in excess of the greater of the Minimum Purchase Amount or the fair market value of the Student Loans as determined by the Third-Party Financial Advisor. If at least three (3) bids are not received, or the highest bid after the resolicitation process is completed is not equal to or in excess of the greater of (i) the Minimum Purchase Amount, and (ii) the fair market value of the Student Loans as determined by the Third-Party Financial Advisor, the Third-Party Financial Advisor will not consummate such sale. If the sale is not consummated as described above, the Third-Party Financial Advisor, on behalf of the Trustee, will continue to solicit and re-solicit bids for sale of the Student Loans, with respect to future Distribution Dates upon terms similar to those described above, including the Servicer’s waiver of its option to purchase the Student Loans, with respect to each such future Distribution Date, until the Third-Party Financial Advisor has received at least one bid that is equal to or in excess of the greater of (i) the Minimum Purchase Amount, and (ii) the fair market value of the Student Loans as determined by the Third-Party Financial Advisor. In the event that there is a successful auction of the Student Loans as described above, the Notes will be subject to redemption in whole on the next Distribution Date immediately following such auction with the proceeds from the sale of the Student Loans and any other amounts available in the Trust Accounts. Upon a successful auction of the Student Loans as described above, the Trustee will give prompt written notice to the Noteholders of the occurrence of such event specifying that the Notes will be subject to redemption in whole on the next Distribution Date.

USE OF PROCEEDS

General

The proceeds of the sale of the Notes are expected to be \$187,732,373 net of the Underwriters' discount of \$1,067,627. Net proceeds derived from the sale of the Notes will be used (i) to fund initial deposits to the Reserve Account and to the Capitalized Interest Account, both established under the Indenture, (ii) to purchase certain Student Loans and (iii) to pay costs associated with the issuance of the Notes. On the Closing Date, the portion of the proceeds in the amount set forth below as "Deposit to Temporary Student Loan Subaccount" will be applied on the Closing Date to the repayment of certain outstanding indebtedness of the Agency secured in part by a pledge of such Student Loans through the purchase of the Student Loans. Upon such purchase, the Student Loans will be released from the pledge securing such repaid indebtedness and those Student Loans will immediately become subject to the pledge of the Indenture on the Closing Date.

Estimated Sources and Uses

SOURCES

Proceeds of the Notes	\$187,732,373
Proceeds of the Class R Certificates ⁽¹⁾	<u>11,000,000</u>
TOTAL SOURCES	<u>\$198,732,373</u>

USES

Deposit to Temporary Student Loan Subaccount	\$195,814,068
Deposit to Capitalized Interest Account	1,957,044
Deposit to Reserve Account	489,261
Deposit to Temporary Costs of Issuance Subaccount ⁽²⁾	<u>472,000</u>
TOTAL USES	<u>\$198,732,373</u>

⁽¹⁾ The Notes offered by this Official Statement will be the only class of notes issued pursuant to the Indenture. No additional notes or obligations, other than the residual Class R Certificates, will be issued under the Indenture. The residual Class R Certificates are not being offered pursuant to this Official Statement. The Agency will issue the residual Class R Certificates in return for proceeds set forth above that also will constitute a source of funds under the Indenture. No payments will be made on the residual Class R Certificates until all of the Notes have been paid in full.

⁽²⁾ Costs of Issuance include 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 will be deposited to the Temporary Costs of Issuance Account created under the Indenture for the purpose of paying the costs of issuance.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

Limited Liability

The Notes are limited obligations of the Agency, payable solely from and secured solely and exclusively by the Trust Estate, without recourse to any other assets or property of the Agency. Neither 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 the Noteholders 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 Closing 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 in the Servicing Agreement; (c) each Guarantee Agreement, including the Guarantee Payments made pursuant thereto by the Guarantor in respect of 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)(but not including the Department Rebate Account as provided in the Indenture); 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. For a more complete description of the Trust Estate, see APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Priority of Lien” herein. See also “THE STUDENT LOAN POOL” herein.

The Indenture also establishes a subordinate pledge of the Trust Estate to secure, upon prior payment in full of the Notes, the residual interest of the holders of the Class R Certificates in any remaining assets held in the Trust Estate after principal of and interest on the Notes is paid in full.

Education Loan Program Loans

The Higher Education Act provides for, among other things, (i) direct federal insurance of FFEL Program loans, (ii) reinsurance of student and parental loans guaranteed or insured by a state agency or private non-profit corporation (the “Guaranty Agencies”), (iii) interest subsidy payments (“Interest Subsidy Payments”) to eligible lenders with respect to certain eligible Education Loans, and (iv) special allowance payments (“Special Allowance Payments”), representing additional subsidies paid by the United States Secretary of Education (the “Secretary of Education”) to owners of eligible student and parental loans. The Agency is one of the Guaranty Agencies.

“Stafford Loans” (formerly known as Guaranteed Education Loans) consist of both subsidized and unsubsidized loans to undergraduate and graduate students which are eligible for Special Allowance Payments.

“Parent Loans to Undergraduate Students”, or “PLUS Loans,” are supplemental loans made to parents of eligible dependent undergraduate students which may be eligible for Special Allowance Payments.

“Supplemental Loans for Students”, or “SLS Loans,” are loans to eligible professional and graduate students and independent undergraduate students which may be eligible for Special Allowance Payments.

“Consolidation Loans” are education loans to fund payment and consolidation of the borrower’s Stafford Loans and certain other loans authorized under other federal programs.

“Loans to Graduate or Professional Student Borrowers” or “Grad PLUS Loans” are loans to eligible graduate or professional students and may be eligible for Special Allowance Payments.

All of the Student Loans pledged under the Indenture will consist of education loans to students and parents of students made under the FFEL Program. Except for any substitutions of Student Loans required to be made by the Servicer under the Servicing Agreement, the only Student Loans to be pledged to the Trustee are those to be pledged on the Closing Date, and there will be no subsequent acquisitions of or recycling of student loans into the Trust Estate. For additional information on the FFEL Program loans, see APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

Information relating to the portfolio of Student Loans is presented as of a Statistical Cutoff Date and is set forth in this Official Statement under “THE STUDENT LOAN POOL.”

Direct Lending and Current Dates of Expiration of Federal Authority to Insure Loans

The foregoing description of various FFEL Program loans and the description of the Higher Education Act set forth in APPENDIX C hereto are based on current law presently in effect. Both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive and frequent amendment in recent years.

The making of the student loans under the FFEL Program is currently authorized to September 30, 2012 (or, in the case of borrowers who have received student loans prior to that date, to September 30, 2016, except that authority to make Consolidation Loans under the FFEL Program expires on October 1, 2012).

Federal Direct Student Loan Program. Under the Federal Direct Student Loan Program (“FDSL Program”), enacted in August 1993, a variety of student loans (Subsidized Stafford Loans, PLUS Loans and Unsubsidized Stafford Loans) can be obtained directly from the student’s institution of higher education (the “HIE”) or through an alternative originator designated by the Secretary of Education without application to an outside lender. The FDSL Program is funded and administered by the Secretary of Education. The FDSL Program provides for a variety of repayment plans from which the borrowers may choose, including repayment plans based on income. Unless otherwise specified, the FDSL Program loans have the same terms and conditions and are available in the same amounts as Student Loans made to borrowers for Subsidized Federal Stafford Loans, Federal PLUS Loans and Unsubsidized Federal Stafford Loans. The FFEL Program and the FDSL Program continue as the two main sources of student loans. The FDSL Program, nationwide, has reached approximately 20% of the total loan volume, with approximately 2% of total loan volume in Pennsylvania. The Pennsylvania State University transitioned to the FDSL Program beginning with the 2008/2009 academic school year. This university accounted for approximately 10% of the Agency’s

guarantee volume per year and 31% of origination volume for the Agency as a lender per year. See “RISK FACTORS—Proposed legislation may eliminate the Federal Family Education Loan Program.”

Legislative And Administrative Matters

Both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendments and there can be no assurance that further amendment will not materially change the provisions described herein or the effect thereof. See “RISK FACTORS—Changes in the Higher Education Act or other Relevant Law.” For additional information on the FFEL Program loans, see APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

Special Allowance Payments on FFEL Program Loans

Subject to the terms and conditions of the FFEL Program, 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”).

See “THE STUDENT LOAN POOL—Distribution of Student Loans by Special Allowance Payment Interest Rate Index as of the Statistical Cutoff Date,” which specifies the percentages of Student Loans that adjust based on the three-month commercial paper rate or the 91 day Treasury bill rate, as applicable.

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.”

On September 17, 2009, the United States House of Representatives passed SAFRA. See “RISK FACTORS—Proposed legislation may eliminate the Federal Family Education Loan Program.” SAFRA, among other things, allows for the conversion of the special allowance support level on FFEL Program loans originated on or after January 1, 2000, to be based on the one-month LIBOR rate versus the current calculation based on the three-month Commercial Paper rate. If this bill or similar legislation permitting such a conversion of the special allowance support level on FFEL Program becomes law, the Indenture permits the Agency, upon satisfaction of the Rating Agency Condition, to convert the special allowance support level on the Student Loans held under the Indenture that were originated on or after January 1, 2000 (or such other applicable date as may be in any final legislation) to be based on the one-month LIBOR rate. See APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Supplemental Indentures.”

BOOK ENTRY ONLY SYSTEM

Beneficial ownership interests in the Notes will be available in book entry form only. Purchases and sales by the beneficial owners of the Notes can be made in denominations of \$100,000 and any integral multiple of \$1,000 in excess 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.

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 the Notes in the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). Direct Participants and Indirect Participants are

collectively referred to herein as “DTC 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 and Indirect 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 transmissions to them of notices of significant events with respect to the Notes, such as redemptions, 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 notices be provided directly to them.

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.

NONE OF THE AGENCY, THE UNDERWRITERS OR 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.

THE AGENCY, THE UNDERWRITERS AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, 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 WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

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. For a summary of the Agency's lending operations, see APPENDIX B—"SUMMARY OF AGENCY OPERATIONS."

The Agency has approximately 2,300 employees and the Agency's principal offices are located in Harrisburg, Pennsylvania, with four regional offices located throughout Pennsylvania.

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. See APPENDIX B—"SUMMARY OF AGENCY OPERATIONS—Bonded Indebtedness."

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 William F. Adolph, Jr.-Chairman	6/30/15
Senator Sean Logan-Vice Chairman	6/30/13
Representative Paul I. Clymer	6/30/11
Representative Craig A. Dally	6/30/11
Senator Jane M. Earll	6/30/15
Senator Edwin B. Erickson	6/30/15
Senator Wayne D. Fontana	6/30/13
Representative Dan Frankel	6/30/13
Senator Vincent J. Hughes	6/30/13
Representative Sandra J. Major	6/30/15
Representative Jennifer L. Mann	6/30/13
Senator Jeffrey E. Piccola	6/30/11
Honorable Roy Reinard, III*	N/A
Representative James R. Roebuck, Jr.	6/30/13
Mr. A. William Schenk, III**	N/A
Senator Robert M. Tomlinson	6/30/11
Senator Leanna M. Washington	6/30/11
Representative John T. Yudichak	6/30/11
Mr. Murray Ufberg	6/30/11
Secretary Gerald L. Zahorchak (PA Secretary of Education)*	N/A
* Remains on board without reappointment.	
**Nominated for another term by Governor; remains on Board until succeeded.	

Information concerning the Agency’s operations and programs is included as APPENDIX B—“SUMMARY OF AGENCY OPERATIONS” and APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAMS.”

Senior Management

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

James L. Preston is the Agency’s President and Chief Executive Officer. Mr. Preston joined the Agency in April 2003. 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.

Jason L. Swartley is the Agency’s General Counsel. Mr. Swartley joined the Agency in 1996. His current responsibilities include reviewing and approving all Agency agreements and managing all aspects of the Agency’s legal and compliance initiatives. Mr. Swartley is a graduate of Washington and Jefferson College (BA), The Dickinson School of Law of the Pennsylvania State University (JD), Temple University School of Law (LL.M. in Trial Advocacy), and The Smeal College of Business of the Pennsylvania State University (MBA).

Timothy A. Guenther is the Agency’s Chief Financial Officer and is directly responsible for all aspects of financial reporting, accounting, budgeting and administration. He is also responsible for all functions within the Public Finance Department. Prior to his employment with the Agency, Mr. Guenther was a senior manager with KPMG. In addition to managing traditional accounting and auditing services while at KPMG, he also provided activity based costing and business process reengineering consulting services.

Brian Lecher is Chief Information Officer. Mr. Lecher joined the Agency in 1997. His responsibilities include the planning and oversight of all facets of the Agency’s information technology infrastructure and initiatives. Prior to assuming this role Mr. Lecher served as the Agency’s Executive Vice President for Electronic Commerce. He holds masters degrees in Information Systems and Public Administration.

Kelly Powell Logan is Executive Director of Public Service and Marketing. Ms. Logan joined the Agency in January 2003. Prior to Ms. Logan’s tenure at the Agency, she spent eight years in state government, attaining the post of Governor’s Cabinet Secretary in the Department of General Services. In that position, she oversaw a department of 1,500 and an operating budget of \$135 million. In the private sector, Kelly served in leadership roles in marketing, human resources and purchasing. Ms. Logan graduated with a Bachelor’s of Science degree in Business Administration from Villanova University; a Master’s of Business Administration degree from Pennsylvania State University and was part of the Strategic Leadership for State Executives at the Governors Center, Duke University.

Andrew D. Mehalko is Vice President, Student Loan Accounting. Mr. Mehalko joined the Agency in 1988 as the Accounting Manager for Student Loan Financings. He is responsible for financial and servicer reporting for the Agency's Revenue Bond Program, as well as the Agency's Public Finance Department, which includes management of tax-exempt and taxable financing, covenant compliance and reporting, loan acquisition and portfolio maintenance. Mr. Mehalko also shares responsibilities for developing the Agency's lending and secondary market strategies with the CFO.

Loan Originations

Due to an inability to access the credit markets or financing markets necessary to fund student loans, effective March 7, 2008, the Agency suspended its activities as a lender for any new loans first disbursed on or after that date.

During its fiscal year ended June 30, 2009, the Agency originated FFEL Program loans with an aggregate principal balance of \$1.6 billion. Of these loans, \$1.4 billion were Stafford and unsubsidized Stafford Loans, \$107,000 were PLUS Loans, and \$116,000 were consolidation loans.

During its fiscal year ended June 30, 2008, the Agency originated FFEL Program loans with an aggregate principal balance of \$1.3 billion. Of these loans, \$529 million were Stafford and unsubsidized Stafford Loans, \$47 million were PLUS Loans, and \$726 million were consolidation loans.

During its fiscal year ended June 30, 2007, the Agency originated FFEL Program loans with an aggregate principal balance of \$2.5 billion. Of these loans, \$525 million were Stafford and unsubsidized Stafford Loans, \$45 million were PLUS Loans, and \$1.9 billion were consolidation loans.

During its fiscal year ended June 30, 2006, the Agency originated FFEL Program 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 \$1.9 billion were consolidation loans.

The types of education loans actually made or acquired in the future by the Agency will be determined by the Agency on the basis of anticipated demand and other financial considerations and applicable legal requirements. In the past, numerous legislative or regulatory changes have been made at the federal level that have affected the ability of the Agency to make education loans or the terms of such loans.

Under the Keystone family of loan programs, the Agency provides a Keystone Stafford loan for Pennsylvania students with family incomes of less than \$21,000. For loans disbursed between July 1, 2007 and October 31, 2007 the Agency pays all the federally required origination and federal default fees on behalf of the borrower. The borrower is eligible for a 2% interest rate reduction after 36 on time payments, a 2% graduation credit, a .50% credit after 24 on time payments and a .25% interest rate reduction for automatic direct debit of payment. For Keystone loans disbursed between November 1, 2007 and January 1, 2009 the Agency pays all the federally required origination and federal default fees on behalf of the borrower. The borrower is eligible for a .50% interest rate reduction for automatic direct debit of payment. The Agency also provides a KeystoneBEST and a KeystonePLUS loan for other students. For the KeystoneBEST loans, the Agency pays all of the federally required origination and federal default fees on behalf of the borrower. Federally required origination fees decreased from 2% in 2006 to 1.5% in 2007. For the KeystoneBEST loans disbursed between July 1, 2007 and October 31, 2007, the Agency provides a 1% graduation credit, a 2% interest rate reduction after 36 consecutive on-time payments, a .50% credit for 24 on time payments and a 0.25% interest rate reduction for automatic direct debit of payment. For the KeystoneBEST loans disbursed on or after November 1, 2007, the Agency pays all the federally required origination and federal default fees. The borrower is eligible for a 0.25% interest rate reduction for automatic direct debit of payment. For the KeystonePLUS loans disbursed between July 1, 2007 and October 31, 2007, the Agency provides a 1% rebate of the loan amount for the first 24 consecutive on-time payments, an additional 1% rebate after 48 consecutive on-time payments, and a 0.25% interest rate reduction for automatic direct debit of payment. For the KeystonePLUS loans disbursed on or after November 1, 2007, the Agency provides a 0.60% immediate interest rate reduction, an additional 0.50% rebate after 12 consecutive on-time payments, and a 0.25% interest rate reduction for automatic direct debit of payment.

Results of Operations and Financial Condition

At June 30, 2009, the Agency had total student loans of \$11.2 billion, compared to \$11.8 billion at June 30, 2008. At June 30, 2009, the Agency had total assets of \$12.3 billion and net assets of \$398 million, compared to \$12.9 billion of total assets and \$345 million of net assets at June 30, 2008. Approximately \$263.5 million of its net assets at June 30, 2009, and approximately \$256.3 million of its net assets at June 30, 2008, were restricted for pledges under prior financings and unavailable to satisfy obligations to creditors. Approximately \$90.7 million and \$55.5 million of its remaining net assets at June 30, 2009 and 2008, respectively, were unrestricted for other purposes.

For the fiscal year ended June 30, 2009, the Agency had total revenue of \$657.2 million, student loan interest revenue of \$344.1 million, servicing revenue of \$164.9 million, and operating income of \$60.6 million. For the fiscal year ended June 30, 2008, the Agency had total revenue of \$915.3 million, student loan interest revenue of \$615.9 million, servicing revenue of \$131.3 million, and operating loss of \$27 million.

The financial performance of the Agency has been, and could be adversely affected in the future, by changes in the FFEL Program resulting from federal legislation reauthorizing the Higher Education Act. See APPENDIX B—“SUMMARY OF AGENCY OPERATIONS” and APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAMS.”

THE AGENCY AS SERVICER

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, 2009, the Agency serviced approximately 7.2 million student loans with an aggregate principal balance of approximately \$59.5 billion and provided “remote” servicing for approximately 5.7 million additional loans. At June 30, 2008, the Agency serviced approximately 6.6 million student loans with an aggregate principal balance of approximately \$56.9 billion and provided “remote” servicing for approximately 5.5 million additional loans. The Agency is one of the nation’s largest alternative loan servicers, and alternative loans totaled approximately \$28.8 billion of the \$59.5 billion serviced at June 30, 2009. The Agency provides 24/7 system access for schools and students and services loans for the top ten student loan holders in the country and borrowers in every state.

The Agency uses its proprietary COMPASS system for full servicing of student loans for AES’ external clients, as well as Agency-owned assets. COMPASS is a mainframe-based decision support tool which is utilized by the Agency’s personnel, as well as multiple clients that include lending institutions, academic institutions, and other higher education servicing agencies. Each client’s data is physically separated, monitored, and secured.

In June of 2009, the Agency became one of four servicers awarded a contract to service Title IV loans owned by the Department of Education. On August 26, 2009, the Agency successfully completed the acceptance and validation process for the initial phase of the Title IV Servicing Management contract and had been approved by the federal government to begin servicing Title IV FFEL Program loans for the Department of Education.

This initial phase of servicing involves FFEL Program loans which were sold to the Department under the Ensuring Continued Access to Student Loans Act (ECASLA). ECASLA gave the Department temporary authority to purchase FFEL loans from private lenders to ensure an uninterrupted flow of financing in order to continue making student loans during the financial market disruptions, which began in 2008.

The Agency is scheduled to begin servicing newly originated student loans made under the FDSL program in the 2010-2011 Academic Year.

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, other Guarantors and the Department of Education. See “APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT” hereto. Under some circumstances, following a Servicer Default under the Servicing Agreement, 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 Servicer’s repurchase obligations and its rights to indemnification) of the Servicer under the Servicing Agreement. As of the effective date of termination of the Servicer, all authority and power of the Servicer under the Servicer Agreement, whether with respect to the Notes or the Student Loans or otherwise, will, without further action, pass to and be vested in the Trustee or such successor servicer as may be appointed pursuant to the terms of the Servicing Agreement. See “APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT—Rights Upon Servicer Default” 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—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT” hereto.

Compensation of the Servicer

The Servicer will receive a Servicing Fee in consideration for servicing the Student Loans under the Indenture.

The Servicing Fee for any month is equal to 1/12 of 0.70% of the outstanding principal amount of the Student Loans, calculated based upon the outstanding principal amount of the Student Loans as of the last day of the preceding calendar month.

The Servicing Fee will be payable in arrears out of Available Funds and, if necessary, from amounts on deposit in the Capitalized Interest Account and the Reserve Account, on each Monthly Expense Payment Date, beginning on January 25, 2010.

The Servicing Fees will include any such amounts from any prior Monthly Expense Payment Dates that remain unpaid. On the initial Monthly Expense Payment Date, the Servicer will receive the Servicing Fee calculated based on the partial prior calendar month.

The Servicer will also be entitled to receive any Carryover Servicing Fee on each Distribution Date out of Available Funds described in this Official Statement (subject to all prior required distributions). See “DESCRIPTION OF THE NOTES—Distributions.” The Carryover Servicing Fee is the sum of: (i) the amount of specified removal fees; (ii) any amounts described in (i) that remain unpaid from prior Distribution Dates; and (iii) interest on any unpaid amounts. See “DESCRIPTION OF THE NOTES—Servicing Compensation” herein.

INFORMATION RELATING TO THE AGENCY AS GUARANTOR

General

The Agency guarantees FFEL Program loans originated by other lenders. During the Agency’s fiscal year ending June 30, 2009, the Agency guaranteed 864,000 FFEL Program loans originated by other lenders with an aggregate principal balance of \$4.2 billion. At June 30, 2009, the Agency had outstanding guarantees of FFEL Program loans with an aggregate original principal balance of approximately \$51.3 billion.

The Agency is a Guarantor with respect to the portfolio of Student Loans pledged to secure the Notes. See “THE STUDENT LOAN POOL—Distribution of Student Loans by Guarantee Agency as of the Statistical Cutoff Date.” Subject to the terms and conditions of the FFEL Program, 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 APPENDIX B—“SUMMARY OF AGENCY OPERATIONS” herein for further discussion of risks related to revenues from guarantee activities of the Agency.

See “THE STUDENT LOAN POOL—Distribution of Student Loans by Guarantee Agency as of the Statistical Cutoff Date” for information with respect to the Student Loan portfolio guaranteed by the Agency and other Guarantors and pledged to secure the Notes.

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 the Student Loans that will be transferred to the Trust Estate.

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:

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

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$3,131,246	\$3,403,031	\$3,853,665	\$4,265,217	\$3,947,640

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:

Reserve Ratio as of Close of Federal Fiscal Year				
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
0.31%	0.16%	0.20%	0.25%	0.25%

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				
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
25.48%	26.30%	33.93%	37.76%	32.81%

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				
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
1.1%	1.3%	1.42%	1.96%	1.98%

The United States Department of Education is required to make reinsurance payments to guarantors with respect to FFEL Program loans in default. Those reinsurance payments are subject to specified reductions when the guarantor's claims rate for a fiscal year equals or exceeds certain trigger percentages of the aggregate original principal amount of FFEL 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 FFEL 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 STUDENT LOAN POOL

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

The Student Loans were selected from the Agency’s portfolio of student loans by employing several criteria, including requirements that each Student Loan as of the Statistical 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; and
- contains terms in accordance with those required by the FFEL Program, the guarantee agreements and other applicable requirements.

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. The Agency believes that 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 the Closing Date, although certain characteristics of the Student Loans may vary. See “RISK FACTORS—The characteristics of the Student Loans held in the Trust Estate may change.”

The aggregate outstanding principal balance of the Student Loans in each of the following tables includes the principal balance due from borrowers as of the Statistical Cutoff Date, including accrued interest to be capitalized.

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.

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 Plus Interest Balance.....	\$195,704,382
Number of Borrowers	19,210
Average Outstanding Principal Plus Interest Balance per Borrower.....	\$10,188
Number of Loans	36,681
Average Outstanding Principal Plus Interest Balance per Loan.....	\$5,335
Weighted Average Annual Borrower Interest Rate.....	4.46%
Weighted Average Remaining Term (Months).....	167

The Aggregate Outstanding Principal Balance shown in the table above and in the tables below includes accrued interest to be capitalized.

The Agency has determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future. See APPENDIX C—“FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments.”

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.

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

Loan Type	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
Subsidized Stafford	15,540	\$ 33,497,679	17.1%
Unsubsidized Stafford	9,399	25,188,177	12.9
PLUS/SLS	588	2,636,542	1.3
Subsidized Consolidation	5,340	60,849,276	31.1
Unsubsidized Consolidation	<u>5,814</u>	<u>73,532,708</u>	<u>37.6</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Current Status	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
Repayment	29,265	\$148,643,838	76.0%
Deferment.....	3,945	24,390,185	12.5
Forbearance	3,279	22,062,156	11.3
School.....	165	498,308	0.3
Grace	<u>27</u>	<u>109,895</u>	<u>0.1</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Borrower Interest Rate	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
Fixed Rate	13,720	\$140,883,143	72.0%
91 Day Treasury	22,620	53,833,159	27.5
1 Year CMT	<u>341</u>	<u>988,081</u>	<u>0.5</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

SAP Interest Rate Index	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
3 Month Financial CP	26,653	\$161,841,479	82.7%
3 Month T-Bill	<u>10,028</u>	<u>33,862,903</u>	<u>17.3</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Current Borrower Rate	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
0.00% - 1.00%	743	\$ 623,442	0.3
1.01% - 1.50%	91	50,519	0.0
1.51% - 2.00%	2,437	10,735,819	5.5
2.01% - 2.50%	15,435	40,318,879	20.6
2.51% - 3.00%	1,597	16,501,138	8.4
3.01% - 3.50%	5,471	23,773,648	12.1
3.51% - 4.00%	1,257	12,193,706	6.2
4.01% - 4.50%	991	10,848,156	5.5
4.51% - 5.00%	1,475	15,612,142	8.0
5.01% - 5.50%	881	9,912,367	5.1
5.51% - 6.00%	259	3,483,159	1.8
6.01% - 6.50%	436	6,196,103	3.2
6.51% - 7.00%	2,808	13,499,661	6.9
7.01% - 7.50%	802	9,217,208	4.7
7.51% - 8.00%	998	9,009,665	4.6
8.01% - 8.50%	364	5,536,827	2.8
8.51% +	<u>636</u>	<u>8,191,942</u>	<u>4.2</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

**Distribution of the Student Loans by the Number of Days of Delinquency
as of the Statistical Cut-Off Date**

Days Delinquent	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
Current	20,776	\$137,747,916	70.4%
Less than 30 Days	2,231	12,264,495	6.3
30 to 59 Days	1,085	5,396,422	2.8
60 to 89 Days	2,365	7,565,423	3.9
90 to 119 Days	1,457	4,591,170	2.3
120 to 149 Days	1,108	3,864,411	2.0
150 to 179 Days	1,711	5,370,563	2.7
180 to 210 Days	1,244	4,117,965	2.1
211 to 269 Days	2,304	7,307,212	3.7
270 + Days	<u>2,400</u>	<u>7,478,804</u>	<u>3.8</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

**Distribution of Student Loans by School Type
as of the Statistical Cutoff Date**

School Type	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
4 Year College / Graduate	24,401	\$150,574,581	76.9%
2 Year College.....	4,740	14,425,048	7.4
Prop/Voc/Tech	6,841	24,941,286	12.7
Other Prop/VocTech	<u>699</u>	<u>5,763,468</u>	<u>2.9</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Remaining Pay Term (Months)	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
1 - 12	1,010	\$ 390,729	0.2%
13 - 24	1,442	1,097,864	0.6
25 - 36	1,658	1,915,774	1.0
37 - 48	2,009	3,101,744	1.6
49 - 60	2,046	3,717,086	1.9
61 - 72	1,846	4,294,797	2.2
73 - 84	2,257	6,291,436	3.2
85 - 96	3,736	10,972,044	5.6
97 - 108	5,839	20,661,320	10.6
109 - 120	6,625	23,860,688	12.2
121 - 132	668	5,399,503	2.8
133 - 144	1,101	9,414,950	4.8
145 - 156	918	8,659,392	4.4
157 - 168	717	7,637,721	3.9
169 - 180	671	7,138,994	3.6
181 - 192	377	5,399,392	2.8
193 - 204	786	12,019,393	6.1
205 - 216	783	12,461,005	6.4
217 - 228	556	9,341,424	4.8
229 - 240	668	11,951,166	6.1
241 - 252	138	3,526,666	1.8
253 - 264	201	4,782,375	2.4
265 - 276	120	3,121,817	1.6
277 - 288	128	3,075,328	1.6
289 - 300	139	3,551,028	1.8
301 - 312	43	1,808,821	0.9
313 - 324	47	2,085,489	1.1
325 +	<u>152</u>	<u>8,026,436</u>	<u>4.1</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Outstanding Borrower Balance	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
\$0.00 - \$4,999.99.....	26,294	\$ 52,458,861	26.8%
\$5,000.00 - \$9,999.99.....	5,028	34,730,069	17.7
\$10,000.00 - \$14,999.99.....	2,252	27,868,837	14.2
\$15,000.00 - \$19,999.99.....	1,300	22,629,259	11.6
\$20,000.00 - \$24,999.99.....	737	16,586,253	8.5
\$25,000.00 - \$29,999.99.....	410	11,308,134	5.8
\$30,000.00 - \$34,999.99.....	249	8,138,394	4.2
\$35,000.00 - \$39,999.99.....	159	5,981,865	3.1
\$40,000.00 - \$44,999.99.....	68	2,921,555	1.5
\$45,000.00 - \$49,999.99.....	53	2,513,044	1.3
\$50,000.00 - \$54,999.99.....	25	1,321,205	0.7
\$55,000.00 - \$59,999.99.....	22	1,273,417	0.7
\$60,000.00 - \$64,999.99.....	23	1,462,016	0.7
\$65,000.00 - \$69,999.99.....	8	559,126	0.3
\$70,000.00 - \$74,999.99.....	9	663,366	0.3
\$75,000.00 - \$79,999.99.....	8	613,188	0.3
\$80,000.00 - \$84,999.99.....	7	589,583	0.3
\$85,000.00 - \$89,999.99.....	2	174,635	0.1
\$90,000.00 - \$94,999.99.....	3	296,162	0.2
\$95,000.00 - \$99,999.99.....	2	205,410	0.1
\$100,000.00 +.....	<u>22</u>	<u>3,410,001</u>	<u>1.7</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Guarantor	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
PHEAA	35,922	\$188,370,947	96.3%
Virginia State Ed. Assistance Authority	424	5,077,148	2.6
Texas Guaranteed Student Loan.....	227	1,570,757	0.8
Educational Credit Management Corp. ..	69	529,496	0.3
National Student Loan Program	16	75,600	0.0
Office of Student Financial Assist.....	17	37,966	0.0
EdFund.....	2	22,466	0.0
Student Loan Guarantee Found.	2	19,892	0.0
Georgia Higher Ed. Asst. Corp.	<u>2</u>	<u>110</u>	<u>0.0</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Borrower State	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
Pennsylvania	24,826	\$118,237,963	60.4%
New York	1,780	12,188,749	6.2
New Jersey	1,284	6,841,885	3.5
Maryland	920	5,672,251	2.9
Ohio.....	771	5,202,281	2.7
California.....	625	4,844,597	2.5
Virginia	639	4,342,402	2.2
Florida	661	3,996,832	2.0
Texas	539	3,241,566	1.7
Massachusetts.....	373	3,079,876	1.6
North Carolina.....	424	2,671,822	1.4
Delaware	374	2,551,736	1.3
Georgia.....	313	2,553,900	1.3
Connecticut	199	1,746,221	0.9
Illinois	215	1,707,737	0.9
West Virginia	343	1,572,354	0.8
Arizona.....	187	1,231,249	0.6
Michigan	122	1,067,027	0.5
South Carolina.....	164	1,028,511	0.5
Other.....	150	984,252	0.5
Colorado.....	154	862,360	0.4
Washington	139	859,112	0.4
District of Columbia.....	169	806,340	0.4
Indiana.....	102	743,603	0.4
Tennessee	113	644,965	0.3
Minnesota.....	74	599,331	0.3
Missouri	77	580,520	0.3
Kentucky	81	581,918	0.3
Maine	49	519,192	0.3
New Hampshire.....	57	477,390	0.2
Nevada	88	445,362	0.2
Rhode Island.....	45	360,677	0.2
Alabama	61	351,502	0.2
Wisconsin.....	67	334,310	0.2
Iowa.....	29	310,531	0.2
Oregon.....	53	286,885	0.1
New Mexico.....	38	241,033	0.1
Oklahoma	44	240,550	0.1
Utah.....	33	218,688	0.1
Kansas	20	176,057	0.1
Mississippi.....	28	158,383	0.1
Alaska.....	38	138,655	0.1
Vermont	23	130,028	0.1

Montana	21	125,364	0.1
Hawaii	28	125,281	0.1
Louisiana	32	127,144	0.1
Arkansas	22	111,209	0.1
South Dakota	21	106,302	0.1
Nebraska	16	108,005	0.1
Idaho	23	73,554	0.0
Wyoming	16	66,601	0.0
North Dakota	<u>11</u>	<u>30,322</u>	<u>0.0</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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

Origination Date	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
Pre-10/1/1993	1,890	\$ 5,980,376	3.1%
10/1/1993 to 6/30/2006	28,927	140,852,797	72.0
7/1/2006+	<u>5,864</u>	<u>48,871,209</u>	<u>25.0</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

**Distribution of Student Loans by Servicer
as of the Statistical Cutoff Date**

Servicer	Number of Loans	Total Principal Plus Interest Balance	Percent of Total Principal Plus Interest Balance
PHEAA/AES	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>
Total	<u>36,681</u>	<u>\$195,704,382</u>	<u>100.0%</u>

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 Borrower Benefit Programs to borrowers of the Student Loans. One Borrower Benefit Program allows for a 0.25% interest rate reduction to borrowers who elect to have their installments deducted automatically from their bank accounts. The other Borrower Benefit Program provides a 1.00% interest rate reduction to borrowers who pay thirty-six consecutive installments on time, starting with their first installment. Under the Indenture, if any Borrower Benefit 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 Amount of the Notes exceeds the Adjusted Pool Balance, the Agency is required to either (a) contribute funds to the Collection Account on such third Business Day preceding the related 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 Borrower Benefit Programs or (ii) the amount by which the Outstanding Amount of the Notes exceeds the Adjusted Pool Balance, or (b) terminate such Borrower Benefit Programs.

Through the Servicer, the Agency makes payment terms available to borrowers of the Student Loans it holds that may result in the lengthening of the remaining term of the Student Loans. For example, not all of the Student Loans 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 Student 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 agreement with the Trustee for the benefit of the Noteholders (a "Continuing Disclosure Agreement") which will 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 will file through the Electronic Municipal Market Access system (EMMA) of the Municipal Securities Rulemaking Board (the "MSRB") or such other system as may be designated by the MSRB (the "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 the 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 Notice" below.

The on-going disclosure obligations of the Agency with respect to the Notes will 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 Closing Date, 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 will 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.

If the Agency fails to meet 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, or cause the dissemination agent to 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, 2010. Such Annual Financial Information shall consist of the following information:

(i) Annual audited financial statements for the Agency 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,” “THE AGENCY—Results of Operations and Financial Condition,” “THE AGENCY AS SERVICER—Servicing Operations” and “APPENDIX B—SUMMARY OF AGENCY OPERATIONS.”

If any information described above (other than the Agency’s audited financial statements) can no longer be generated because the operations to which such information relates have been materially changed or discontinued, a statement to that effect will satisfy the obligations of the Agency under the Continuing Disclosure Agreement, provided however that the Agency will, to the greatest extent feasible, provide in lieu thereof similar information with respect to any substitute or replacement operations.

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 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, Annual Financial Information and Event Notices will be available through EMMA at <http://emma.msrb.org>.

As of the date hereof, the Agency has complied in all respects with its reporting obligations under each prior agreement entered into by it as required by the Rule in connection with its prior outstanding debt obligations.

TAX MATTERS

The following is a summary of certain federal income tax consequences of the purchase, ownership and disposition of the Notes for the purchasers of the Notes as described below and is based on the advice of Stevens & Lee (with respect to the discussion contained under “Characterization of the Notes and the Issuer”) and Raffaele & Puppio, LLP and Stradley Ronon Stevens & Young, LLP (with respect to all other sections in this Tax Matters section). This summary is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change. The discussion does not deal with all federal tax consequences applicable to all categories of purchasers, some of whom may be subject to special rules. In addition, this summary is generally limited to purchasers who will hold the notes as “capital assets” (generally, property held for investment) within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”). This summary is based on the determination that the Notes will be treated as debt, and that the federal income tax obligor of the Notes (as described below) will not be treated as an association or publicly traded partnership that is taxable as a corporation. If either of such determinations were to be successfully challenged, the tax consequences to holders of the Notes could be different from those described herein.

Purchasers should consult their own tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of the Notes. Prospective purchasers should note that no rulings have been or will be sought from the Internal Revenue Service (the “Service”) with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

Characterization of the Notes and the Issuer

Based upon certain assumptions and certain representations, Stevens & Lee will deliver its opinion that, for federal income tax purposes: (i) the Notes will be treated as debt; and (ii) the federal income tax obligor of the Notes will not be treated as an association or publicly traded partnership that is taxable as a corporation. The Agency intends to take the position that the federal income tax obligor of the Notes is a partnership under federal tax law, consisting of the beneficial owners of the Class R Certificates. The Agency intends to file annually a Form 1065, Return of Partnership Income, on behalf of such partnership, and to comply with the requirements of subchapter K and the other provisions of the Code that apply to federal tax partnerships, including, if required by applicable law, to issue information returns to the Noteholders. Unlike a ruling from the Service, the

opinion of Stevens & Lee is not binding on the courts or the Service. Therefore, no assurance can be given that the Service will not take a contrary position.

Taxation of Interest Income of Registered Owners

Assuming the characterization of the Notes as “debt” and the treatment of the federal income tax obligor of the Notes as other than an association or publicly traded partnership that is taxable as a corporation, as stated above, payments of interest with regard to the Notes will be includable in gross income for federal income tax purposes when received or accrued by the registered owners in accordance with their respective methods of tax accounting and applicable provisions of the Code. Such income will be taxed as ordinary income and not as capital gain or return of capital.

If the Notes are deemed to be issued with original issue discount, Section 1272 of the Code requires the current ratable inclusion in income of original issue discount greater than a specified *de minimis* amount using a constant yield method of accounting. The Agency expects that the Notes will not be issued with original issue discount.

A purchaser who buys a Note at a discount from its principal amount (or its adjusted issue price if issued with original issue discount greater than a specified *de minimis* amount) will be subject to the market discount rules of the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of accrued market discount. Although the accrued market discount on debt instruments such as the Notes which are subject to prepayment based on the prepayment of other debt instruments is to be determined under regulations yet to be issued, the legislative history of these provisions of the Code indicates that the same prepayment assumption used by the parties to price the transaction should be utilized. Each potential purchaser should consult his tax advisor concerning the application of the market discount rules to the Notes.

A purchaser who buys a Note at a premium—that is, an amount in excess of the amount payable at maturity—will be considered to have purchased the Note with “amortizable bond premium” equal to the amount of such excess. The purchaser may elect to amortize such bond premium as an offset to interest income and not as a separate deduction item as it accrues under a constant yield method, or other allowable method, over the remaining term of the Note. The purchaser’s tax basis in the Note will be reduced by the amount of the amortized bond premium. Any such election shall apply to all debt instruments, other than instruments the interest on which is excludable from gross income, held by the purchaser at the beginning of the first taxable year for which the election applies or thereafter acquired and is irrevocable without the consent of the IRS. Bond premium on a Note held by a purchaser who does not elect to amortize the premium will decrease the gain or increase the loss otherwise recognized on the disposition of the Note. Prospective holders should consult their tax advisors regarding the amortization of bond premium.

Payments of interest received with respect to the Notes may also constitute “investment income” for purposes of certain limitations of the Code concerning the deductibility of investment interest expense. Potential purchasers should consult their own tax advisors concerning the treatment of interest payments with regard to the Notes.

Sale or Exchange of Notes

If a holder sells a Note, such person will recognize gain or loss equal to the difference between the amount realized on such sale and the holder’s basis in such Note. Ordinarily, such gain or loss will be treated as a capital gain or loss. At the present time, the maximum capital gain rate for certain assets held for more than twelve months is 15% for certain noncorporate holders (including individuals, estates, and trusts). However, if a Note was acquired subsequent to its initial issuance at a discount, a portion of such gain will be recharacterized as interest and therefore ordinary income.

If the term of a Note were materially modified, in certain circumstances a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those which relate to the redemption provisions and, in the case of a nonrecourse obligation such as the Notes, those which involve the substitution of collateral. Each potential holder of a Note should consult its own tax advisor concerning the circumstances in which the Notes would be deemed reissued and the likely effects, if any, of such reissuance.

Backup Withholding

Certain purchasers may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Notes if the purchasers, upon issuance, fail to supply the Trustee or their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other “reportable payments” (as defined in the Code) properly, or, under certain circumstances, fail to provide the Trustee with a certified statement, under penalty of perjury, that they are not subject to backup withholding. If a holder purchasing a Note through a brokerage account has executed a Form W-9 in connection with the account, as generally can be expected, there should be no backup withholding from the interest on the Note. Information returns will be sent annually to the Service and to each purchaser setting forth the amount of interest paid with respect to the Notes and the amount of tax withheld thereon, if any.

State, Local or Foreign Taxation

Except as described under “Pennsylvania Income Tax” below, the Agency makes no representations regarding the tax consequences of purchase, ownership or disposition of the Notes under the tax laws of any state, locality or foreign jurisdiction. Purchasers considering an investment in the Notes should consult their own tax advisors regarding such tax consequences.

Tax-Exempt Investors

In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose which forms the basis for such entity’s exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Except to the extent any owner incurs acquisition indebtedness with respect to a Note, interest paid or accrued with respect to such Note may be excluded by each owner from the calculation of unrelated business taxable income. Each potential tax-exempt owner is urged to consult its own tax advisor regarding the application of these provisions.

European Union Directive on the Taxation of Savings Income

The European Union has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from July 1, 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

The withholding tax provisions of the Directive could apply to payments on securities made through Clearstream Banking Societe Anonyme or Euroclear Bank, S.A./N.V. It is expected that holders will be able to take steps to keep payments from being subject to such withholding tax, for example, by receiving payments from a paying agent within the European Union but outside Luxembourg, Belgium and Austria (such as from the United Kingdom), although the possibility that withholding tax will eventually be levied in some situations cannot be precluded. In any event, details of payments made from a Member State on the Notes will likely have to be reported to the tax or other relevant authorities under the Directive or local law, including, for example, to Member States in cases where recipients are located in the jurisdiction where payments are actually made.

Foreign Investors

A holder which is not a U.S. person (“foreign holder”) will not be subject to U.S. federal income or withholding tax in respect of interest income or gain on the Notes if certain conditions are satisfied, including: (1) the foreign holder provides an appropriate statement, signed under penalties of perjury, identifying the foreign holder as the beneficial owner and stating, among other things, that the foreign holder is not a U.S. person, (2) the foreign holder is not a “10 percent shareholder” or “related controlled foreign corporation” with respect to the Trust, and (3) the interest income is not effectively connected with a United States trade or business of the foreign holder. The foregoing exemption does not apply to contingent interest. To the extent these conditions are not met, a 30% withholding tax will apply to interest income on the Notes, unless an income tax treaty reduces or eliminates such tax or the interest is effectively connected with the conduct of a trade or business within the United States by such foreign holder. In the latter case, such foreign holder will be subject to U.S. federal income tax with respect to all income from the Notes at regular rates applicable to U.S. taxpayers, and may be subject to the branch profits tax if it is a corporation. A “U.S. person” is: (i) a citizen or resident of the United States, (ii) a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions.

Generally, a foreign holder will not be subject to federal income tax on any amount which constitutes capital gain upon the sale, exchange, retirement or other disposition of a Note unless such foreign holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met, or unless the gain is effectively connected with the conduct of a trade or business in the United States by such foreign holder. If the gain is effectively connected with the conduct of a trade or business in the United States by such foreign holder, such holder will generally be subject to U.S. federal income tax with respect to such gain in the same manner as U.S. holders, as described above, and a foreign holder that is a corporation could be subject to a branch profits tax on such income as well.

Pennsylvania Income Tax

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.

IRS CIRCULAR 230 NOTICE

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

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 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 (“Similar 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 Note is treated as having substantial equity features under the Plan Asset Regulations, the purchaser of a Note 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 the 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”)); or there is some other basis on which the purchase and holding of the Notes is not prohibited, such as the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, or the “Service Provider Exemption,” for certain transactions with non-fiduciary service providers for transactions that are for adequate consideration. 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, 9560, 91-38, 90-1, OR 84-14, AS EACH PTCE MAY BE AMENDED OR OTHER EXEMPTION OR (iv) IS A GOVERNMENTAL PLAN OR CHURCH PLAN AND ITS INVESTMENT IN THE NOTES OR AN INTEREST IN THE NOTES DOES NOT VIOLATE ANY APPLICABLE SIMILAR LAW.

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 Raffaele & Puppio, LLP, Media, Pennsylvania, and Stradley Ronon Stevens & Young, LLP, Philadelphia, Pennsylvania, Co-Note Counsel. Certain legal matters are to be passed upon for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., Pepper Hamilton LLP, Philadelphia, Pennsylvania, and Buchanan Ingersoll & Rooney PC, Harrisburg, Pennsylvania, and for the Agency by its counsel, Stevens & Lee, A Professional Corporation, Reading and Harrisburg, Pennsylvania.

FINANCIAL ADVISOR

The Agency has retained Public Financial Management, Inc., Harrisburg, Pennsylvania, and Financial S&Lutions, LLC, Reading, 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. Public Financial Management, Inc. and Financial S&Lutions, LLC are independent advisory firms and will not participate in the underwriting of the Notes.

Financial S&Lutions, LLC, is an affiliated business of Stevens & Lee, a Professional Corporation, counsel to the Agency.

UNDERWRITING

Morgan Stanley & Co. Incorporated and Jefferies & Company, Inc. (collectively, the "Underwriters") pursuant to a note purchase agreement, have agreed to purchase all the Notes at a price of \$187,732,373, which represents the face amount of the Notes less an underwriting discount of \$1,067,627. 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.

Morgan Stanley & Co. Incorporated has previously performed certain advisory services for the Agency. These advisory services were performed pursuant to a restructuring advisory agreement that has been cancelled.

RATINGS

Fitch Ratings and Standard & Poor's Ratings Services are each expected to assign their rating of "AAA" to the Notes. These ratings reflect only the view of such rating agencies. An explanation of the significance of such credit ratings may be obtained from the applicable rating agency. A rating is not a recommendation to buy, sell or hold securities. 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. Neither the Agency nor the Underwriters have undertaken any responsibility to assure the maintenance of any rating. The Agency has agreed to report actual rating changes on the Notes. See "CONTINUING DISCLOSURE."

REPORTS TO NOTEHOLDERS

Under the Indenture, the Agency has agreed to provide quarterly reports to Noteholders as described below. Generally, you will receive those reports not from the Agency, but through Cede & Co., as nominee of DTC and registered owner of the Notes. See "BOOK ENTRY ONLY SYSTEM." These periodic reports will contain information concerning the Notes and the Student Loans pledged under the Indenture.

On or before the fifth Business Day following each Distribution Date, the Agency will forward to each Noteholder of record a quarterly report (with a copy to the Rating Agencies). These quarterly reports will include the following information:

- the amount of distribution allocable to principal of the Notes with respect to such Distribution Date;
- the amount of the distribution allocable to interest on the Notes with respect to such Distribution Date;
- the Pool Balance as of the close of business on the last day of the preceding Collection Period;
- the aggregate Outstanding Amount of the Notes and the note pool factor as of such Distribution Date, after giving effect to payments allocated to principal reported above;
- the interest rate for that period for the Notes;
- the amount of the Servicing Fee and any Carryover Servicing Fee paid to the Servicer on such Distribution Date and on the two preceding Monthly Expense Payment Dates, and the amount, if any, of the Carryover Servicing Fee remaining unpaid after giving effect to any such payments;
- the amount of the fees paid to the Trustee on such Distribution Date;
- the amount of the aggregate Realized Losses, if any, for the related Collection Period;
- the balance of Student Loans that are delinquent in each delinquency period as of the end of such Collection Period;
- the amount of any Class A Note Interest Shortfall, if any, as calculated with respect to such Distribution Date and the change in such amounts from the preceding statement;
- the aggregate Purchase Amounts for Student Loans, if any, that were purchased by the Servicer from the Issuer during such Collection Period;
- the balance of the Reserve Account and the Capitalized Interest Account on such Distribution Date, after giving effect to changes therein on such Distribution Date;
- the amounts required to be deposited in the Department Rebate Account, and to pay the Monthly Consolidation Loan Rebate Fee on such Distribution Date and on the two preceding Monthly Expense Payment Dates, and any other amounts required to be paid to the Department; and
- the Parity Ratio.

Quarterly reports are also anticipated to be available on the Agency's website at <http://www.pheaa.org>.

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, the Indenture and the Servicing Agreement 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/ James L. Preston
President and Chief Executive Officer

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture and is not to be considered as a full or final statement of the provisions of the Indenture. The summary is qualified by reference to and is subject to the complete Indenture, copies of which may be examined at the offices of the Agency and the Trustee.

Certain Definitions

“Accrual Period” means, with respect to a Distribution Date, the period from and including the immediately preceding Distribution Date to, but excluding, the then-current Distribution Date, or in the case of the initial such period, the period from and including the Closing Date to, and including, April 25, 2010.

“Adjusted Pool Balance” has the meaning described in this Official Statement under “SUMMARY—Information About the Notes—Principal Payments.”

“Available Funds” means, as to a Distribution Date or any related 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 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:

(i) any collections in respect of principal on the Student Loans applied to repurchase guaranteed loans from the Guarantors under the Guarantee Agreements, and

(ii) amounts required by the Higher Education Act to be paid to the Department, any Guarantor (other than as described in (i) above) 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, or on the Student Loans pursuant to certain terms of the of the Servicing Agreement, or following an optional purchase of the Student Loans as described in the Official Statement under “DESCRIPTION OF THE NOTES—Optional Purchase,” respectively,

(e) amounts received pursuant to certain terms 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 Distribution Date described in the Official Statement under “DESCRIPTION OF THE NOTES—Credit Enhancement—Capitalized Interest Account,” 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 Distribution Date;

(h) amounts transferred from the Reserve Account in excess of the Specified Reserve Account Balance as of that Distribution Date;

(i) amounts received from the Servicer or the Agency, as applicable, pursuant to the Indenture; and

(j) the proceeds following a mandatory auction of the Student Loans as described in this Official Statement under “DESCRIPTION OF THE NOTES—Optional Purchase” and “—Mandatory Auction.”

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 described in this Official Statement in clauses 1st through 4th under “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account,” 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.

“Borrower Benefit Program” means any policy or program that has been adopted by the Agency prior to the Closing Date pursuant to which certain benefits are granted to student loan borrowers with respect to the terms of their Student Loan.

“Business Day” means (i) with respect to calculating LIBOR with respect to the Notes as described herein 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 the Indenture.

“Carryover Servicing Fee” has the meaning described in this Official Statement under “THE AGENCY AS SERVICER—Compensation of the Servicer.”

“Certificateholder” means the registered owner of a Class R Certificate.

“Class A Note Interest Shortfall” means, for any Distribution Date, the excess of (i) the Class A Noteholders’ Interest Distribution Amount on the preceding Distribution Date, over (ii) the amount of interest actually distributed to the Noteholders on that preceding Distribution Date, plus interest on the amount of that excess, to the extent permitted by law, at the interest rate applicable for the Notes from that preceding Distribution Date to the current Distribution Date.

“Class A Noteholders’ Interest Distribution Amount” means, for any Distribution Date, the sum of: (1) the amount of interest accrued at the interest rate for the Notes for the related Accrual Period on the Outstanding Amount of all Notes on the immediately preceding Distribution Date(s) after giving effect to all principal distributions to Noteholders on that preceding Distribution Date or, in the case of the first Distribution Date, on the Closing Date, and (2) the Class A Note Interest Shortfall for that Distribution Date.

“Class A Noteholders’ Principal Distribution Amount” has the meaning described in this Official Statement under “SUMMARY—Information About the Notes—Principal Payments.”

“Class R Certificate” means any one of the certificates executed and authenticated by the Trustee, subordinated in right of payment to the Notes as provided in the Indenture, substantially in the form attached to the Indenture, issued on the Closing Date and designated as a residual interest.

“Collection Account” means the account designated as such, established and maintained pursuant to the Indenture.

“Collection Period” has the meaning described in this Official Statement under “SUMMARY—Information About the Notes—Principal Payments.”

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Department” or “Department of Education” means the United States Department of Education, an agency of the Federal government.

“Department Rebate Account” means the account by that name created under the Indenture and described in this Official Statement under “DESCRIPTION OF THE NOTES—Distributions—Department Rebate Account.”

“Department Rebate Interest Amount” has the meaning described in this Official Statement under DESCRIPTION OF THE NOTES—Distributions—Department Rebate Account.”

“Department Rebate Payment Date” means the quarterly date that (i) the Department Rebate Interest Amount is due and payable to the Department or (ii) the Department offsets the Department Rebate Interest Amount from Interest Subsidy Payments or Special Allowance Payments due to the Agency.

“Determination Date” means, with respect to any Distribution Date, the second Business Day preceding such Distribution Date.

“Distribution Date” has the meaning described in this Official Statement under “SUMMARY—Dates.”

“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, 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 will be deemed to be made again each time funds are reinvested following each 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 will 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 described 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 Agency, 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 will 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 will be addressed to the Agency 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 Agency and the Trustee and must, at the direction of the Agency 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 Agency 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 will 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 will 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 which has received "eligible lender" designation from the Secretary of Education.

"Event of Default" has the meaning specified in the Indenture and described in this Official Statement under APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Events of Default"

“Fitch” means Fitch, Inc., also known as Fitch Ratings, or any successor rating agency.

“Guarantee Agreement” means any agreement with a Guarantor 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 Agency, or other person in its capacity as guarantor of any Student Loan under a Guarantee Agreement. See “THE STUDENT LOAN POOL—Distribution of Student Loans by Guarantee Agency as of the Statistical Cutoff Date” in this Official Statement.

“Higher Education Act” means the Higher Education Act of 1965, as amended, together with any rules, regulations and interpretations thereunder.

“Holder” means, as applicable, a Noteholder or owner of a Class R Certificate, and “Holders” means the Noteholders and owners of Class R Certificates, collectively, unless the context specifies only the holders of Notes or only the owners of Class R Certificates, in which case the term will include only such holders.

“Initial Pool Balance” has the meaning described in this Official Statement under “SUMMARY—Information About the Notes—Principal Payments.”

“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 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 Distribution Date pursuant to the Indenture.

“Joint Sharing Agreement” has the meaning described in this Official Statement under “DESCRIPTION OF THE NOTES—Distributions—Department Rebate Account.”

“Liquidated Student Loan” means any defaulted Student Loan liquidated by the Servicer (which will 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 Distribution Date, a Liquidated Student Loan which became a Liquidated Student Loan during the related 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” has the meaning described in this Official Statement under “SUMMARY—Optional Purchase and Mandatory Auction.”

“Monthly Consolidation Loan Rebate Fee” means the aggregate monthly rebate fees due to the Secretary of Education with respect to the Student Loans consisting of Consolidation Loans.

“Monthly Expense Payment Date” has the meaning described in this Official Statement under “SUMMARY—Dates.”

“Moody’s” means Moody’s Investors Service, Inc.

“Noteholder” means a person in whose name a Note is registered in the note register.

“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.

“Opinion of Counsel” means (i) with respect to the Agency, one or more written opinions of counsel who may, except as otherwise expressly provided in the Indenture, be employees of or counsel to the Agency and who is satisfactory to the Trustee, and which opinion or opinions will be addressed to the Trustee, will comply with any applicable requirements of the Indenture and will 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 is acceptable to the Trustee.

“Outstanding” means, as of any date of determination, all Notes theretofore authenticated and delivered under the Indenture except:

- (i) Notes cancelled by the note registrar or delivered to the note registrar for cancellation;
- (ii) Notes or portions thereof, for which payment has been made to the applicable Noteholders in reduction of the outstanding principal balance thereof; and
- (iii) 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 thereunder or under any other Basic Document, Notes owned by Agency will be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee will 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 will 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 Agency.

“Outstanding Amount” means, as of any date of determination, the aggregate principal balance of all the 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 the Indenture and is authorized by the Agency 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 or Class R Certificates on behalf of the Agency.

“Pool Balance” has the meaning described in this Official Statement under “SUMMARY—Information About the Notes—Principal Payments.”

“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 the Servicing Agreement or sold to another eligible lender holding one or more serial loans with respect to such Student Loan pursuant to the Servicing Agreement. See APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT—Servicer Covenants” for a description of the Servicer obligation to purchase Student Loans under the Servicing Agreement.

“Rating Agency” means S&P and Fitch. If either such organization or any successor thereto is no longer in existence, “Rating Agency” with respect to such organization will be a nationally recognized statistical rating

organization or other comparable person designated by the Agency, notice of which designation will be given to the Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any intended action, that each Rating Agency then rating the Notes has been given 10 days’ prior written notice thereof and that each such Rating Agency has notified the Agency, 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 the 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” has the meaning described in this Official Statement under “SUMMARY—Dates.”

“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.

“Reserve Account” means the account designated as such, established and maintained pursuant to the Indenture.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Servicer Default” has the meaning described in this Official Statement in APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT—Servicer Default.”

“Servicing Agreement” means the Servicing Agreement, dated as of December 1, 2009, between the Trustee and the Servicer. See APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT.”

“Servicing Fee” has the meaning described in this Official Statement under “THE AGENCY AS SERVICER—Compensation of the Servicer.”

“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” has the meaning described in this Official Statement under “SUMMARY—Administration of the Trust Estate—Reserve Account.”

“Student Loan” means the FFEL Program loans that are pledged under the Indenture on the Closing Date plus any FFEL Program loan that is permissibly substituted for a Student Loan by the Servicer pursuant to the terms and conditions of the Servicing Agreement, but do not include any Purchased Student Loan following receipt by or on behalf of the Agency of the Purchase Amount with respect thereto or any Liquidated Student Loan following receipt by or on behalf of the Agency of Liquidation Proceeds with respect thereto or following such Liquidated Student Loan having otherwise been written off by the Servicer.

“Successor Servicer” has the meaning specified in the Indenture and described in this Official Statement under APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Covenants and Agreements of the Agency—Servicing of Student Loans.”

“Third-Party Financial Advisor” has the meaning set forth in the Indenture.

“Trust Accounts” collectively refers to the pledged accounts under the Indenture which include the Collection Account, the Reserve Account and the Capitalized Interest Account, which definition, for the avoidance of doubt, specifically excludes the Department Rebate Account.

“Trust Estate” has the meaning described in this Official Statement.

Priority of Lien

The provisions of the Indenture are made to secure the payment of principal of and interest on, and any other amounts owing in respect of, the Notes equally and ratably without prejudice, priority or distinction. The Indenture also establishes a subordinate pledge of the Trust Estate to secure, upon payment in full of the Notes, the residual interest of the holders of the Class R Certificates in any remaining assets held in the Trust Estate.

Under the Indenture, the Agency will make representations that the Indenture creates a valid and continuing security interest (as defined in the applicable Uniform Commercial Code 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 Agency.

Under the Indenture, the Agency will also agree that it will from time to time execute and deliver all such supplements and amendments thereto, all such financing statements and continuation statements and will take such other action necessary or advisable to:

- maintain or preserve the lien and security interest (and the priority thereof) of the Indenture or carry out more effectively the purposes thereof;
- perfect, publish notice of or protect the validity of any grant made or to be made by the Indenture;
- enforce any of the property comprising the Trust Estate; or
- preserve and defend title to the Trust Estate and the rights of the Trustee and the Holders in such Trust Estate against the claims of all persons and parties.

Representations of the Agency Regarding the Trustee’s Security Interest

The Agency will make the following representations and warranties in the Indenture for the benefit of the Trustee and the Holders:

- The Agency 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.
- Other than the security interest granted to the Trustee pursuant to the Indenture, and other than any such security interest that has been terminated and released on or before the Closing Date, the Agency has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Student Loans.
- The Agency has not authorized the filing of and is not aware of any financing statements against Agency that include a description of collateral covering the Student Loans other than any financing statement relating to the security interest granted to the Trustee under the Indenture or that have been previously terminated.

Covenants and Agreement of the Agency

Payments to Noteholders. Under the Indenture, the Agency will covenant and agree to duly and punctually pay the principal and interest, if any, with respect to the Notes, and remit such amounts as may at any time be

payable with respect to the Class R Certificates, in accordance with the terms of the Notes, Class R Certificates and the Indenture. Without limiting the foregoing, the Agency will cause to be distributed to the Holders that portion of the amounts on deposit in the Trust Accounts on a Distribution Date which the Holders are entitled to receive under the terms of the Indenture, the Notes and the Class R Certificates. See “DESCRIPTION OF THE NOTES—Distributions—Distributions from the Collection Account” in this Official Statement for a description of the payment priorities set forth in the Indenture.

Performance of Obligations. The Agency will agree in the Indenture that it 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 in connection with any applicable Borrower Benefit Program, or as expressly provided in the Indenture, any other Basic Document or such other instrument or agreement. The Agency has agreed to punctually perform and observe all of its obligations and agreements contained in the Indenture, the other Basic Documents and the instruments and agreements included in the Trust Estate, including filing or causing to be filed all Uniform Commercial Code financing statements and continuation statements prepared by the Agency and required to be filed by the terms of the Indenture in accordance with and within the time periods provided for therein.

Subject to the terms of the Indenture, the Agency is permitted to 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 the Indenture as described below in this Official Statement under “—Supplemental Indentures.”

Servicing of Student Loans. If a responsible officer of the Agency has knowledge of the occurrence of a Servicer Default under the Servicing Agreement, the Agency will promptly notify the Trustee and the Rating Agencies thereof, and will specify in such notice the action, if any, the Agency is taking with respect to such default. If a Servicer Default arises 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 Agency and the Trustee will take all reasonable steps available to it to enforce its rights under the Servicing Agreement and the Indenture in respect of such failure. See APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT” for a description of the Servicer’s obligations under the Servicing Agreement.

If the Servicer were to be terminated pursuant to the provisions of the Servicing Agreement described in this Official Statement under APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT—Rights Upon Servicer Default,” the Agency is required under the terms of the Indenture, as promptly as possible, to appoint a successor servicer (the “Successor Servicer”) and such Successor Servicer is required to accept its appointment by a written assumption of such servicing duties 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 will automatically be appointed the Successor Servicer, unless the Trustee has previously appointed a Successor Servicer and such Successor Servicer has accepted such appointment and succeeded to the duties of the Servicer under the Servicing Agreement and the Indenture.

In such a case, the Trustee may resign as the Successor Servicer by giving notice of resignation to the Agency and in such event will be released from such duties and obligations, provided that such release will not be effective until the date a new servicer enters into an agreement with the Agency pursuant to the requirements of the Indenture. However, nothing in the Indenture will require or permit the Trustee to act as Servicer, or otherwise service the Student Loans, if such performance would be in violation of the Higher Education Act.

Further Instruments and Acts. Upon request of the Trustee, the Agency has agreed under the terms of the Indenture to 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 the Indenture.

Negative Covenants. Under the Indenture, the Agency will agree that it will not:

- except as expressly permitted by the Indenture or in accordance with the Servicing Agreement, sell, transfer, exchange or otherwise dispose of any of the properties or assets comprising the Trust Estate;
- 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 Holder by reason of the payment of the taxes levied or assessed upon any part of the Trust Estate; or
- (A) permit the validity or effectiveness of the Indenture to be impaired, or permit the lien of the 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 or Class R Certificates under the Indenture except as may be expressly permitted thereby, (B) permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the lien of the 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 the 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.

Inspection. The Agency will agree in the Indenture that, on reasonable prior notice, it will permit any representative of the Trustee, during the Agency's normal business hours, to examine all the books of account, records, reports, and other papers of the Agency with respect to the Trust Estate, and to make copies and extracts therefrom. The Trustee will and will 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 thereunder.

Annual Statement as to Compliance. Under the Indenture, the Agency will deliver to the Trustee and each Rating Agency, within 90 days after the end of each fiscal year of the Agency, a written officers' certificate stating that:

- a review of the performance under the Indenture has been made under the supervision of an authorized officer of the Agency; and
- to the best of such authorized officer's knowledge, based on such review, the Agency has complied with all conditions and covenants under the 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.

Events of Default

Events of Default. An "Event of Default" under the Indenture 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 continues for a period of five days; or
- (ii) default in the payment of the principal of any Note when the same becomes due and payable on the final maturity date; or

(iii) default in the observance or performance of any covenant or agreement of the Agency made in the Indenture (other than a covenant or agreement, a default in the observance or performance of which is described in (i), (ii), (iv), (v) and (vi) under this caption), or any representation or warranty of the Agency made in the 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 will continue or not be cured, or the circumstance or condition in respect of which such misrepresentation or warranty was incorrect will not have been eliminated or otherwise cured, for a period of 30 days after there has been given, by registered or certified mail, to the Agency by the Trustee or to the Agency 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 thereunder; or

(iv) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of the Agency 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 Agency or for any substantial part of the Trust Estate, or ordering the winding-up or liquidation of the Agency's affairs, and such decree or order remains 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 Agency in furtherance of the foregoing; or

(vi) after payment in full of all of the Notes, default in the payment of amounts payable with respect to the Class R Certificates, if any, thereunder.

Acceleration of Maturity; Rescission and Annulment. If an Event of Default should occur and be continuing, then, in the case of an Event of Default described above in parts (i), (ii), (iv) and (v) under “—Events of Default,” the Trustee or the Noteholders representing 66-2/3% of the Outstanding Amount of the Notes or (b) in the case of an Event of Default described above in part (iii) under “—Events of Default,” the Noteholders representing 100% 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 Agency (and to the Trustee if given by Noteholders), and upon any such declaration (a) the unpaid principal amount of such Notes, together with accrued and unpaid interest thereon through the date of acceleration and payment, will immediately become due and payable as described below under “—Remedies; Priorities.”

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 provided in the Indenture, the Noteholders of Notes representing at least a majority of the Outstanding Amount of the Notes, by written notice to the Agency and the Trustee, may rescind and annul such declaration and its consequences if:

(i) the Agency has paid or deposited with the Trustee a sum sufficient to pay: (a) with respect to any payment-related Event of Default, all previously unpaid amounts to the extent such amount were due under the Indenture or upon such Notes and the failure to pay such amounts gave rise to such Event of Default; and (b) all sums paid or advanced by the Trustee thereunder 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 described below under “—Waiver of Past Defaults.”

No such rescission, however, will affect any subsequent default or impair any right consequent thereto.

Remedies; Priorities. Subject to the terms of the Indenture, if an Event of Default has occurred and is continuing, the Trustee may do one or more of the following:

- (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 the Indenture with respect thereto, or which may, after all Notes are paid in full, be payable with respect to the Class R Certificates, whether by declaration or otherwise, enforce any judgment obtained, and collect from the Trust Estate moneys adjudged due;
- (ii) institute Proceedings from time to time for the complete or partial foreclosure of the Indenture, with respect to the Trust Estate;
- (iii) exercise any remedies of a secured party under the Uniform Commercial Code 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 Holders;
- (iv) following a declaration of acceleration of maturity that has been made as described above, 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 only sell or otherwise liquidate the Trust Estate following an Event of Default described above in part (iii) under “—Events of Default,” if the Noteholders of 100% of the Outstanding Amount of the Notes consent thereto or the proceeds of such sale or liquidation distributable to the Noteholders are sufficient to discharge in full all amounts then due and unpaid upon the Notes for principal and interest.

Notwithstanding the provisions of described in this Official Statement under “DESCRIPTION OF THE NOTES—Distributions,” following the occurrence and during the continuation of an Event of Default which has resulted in an acceleration of the Notes, if the Trustee collects any money or property, it will pay out the money or property held as part of the Trust Estate for the benefit of the Holders, net of liquidation costs associated with the sale of the assets of the Trust, in the following order:

FIRST: to the Department Rebate Account, an amount that, when added to the amount therein, will equal an amount equal to the Department Rebate Interest Amount for the current month and to the Department, the amount necessary to pay any due and unpaid Monthly Consolidation Loan Rebate Fees and any other required payments to the Department in connection with the Student Loans;

SECOND: to the Trustee for amounts due under the Indenture 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;

THIRD: to the Servicer for due and unpaid Servicing Fees;

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

FIFTH: to the Noteholders for amounts due and unpaid on the Notes for principal, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, until such Notes are paid in full; and

SIXTH: to the Servicer, for any Carryover Servicing Fees,

SEVENTH: to the Certificateholders, in accordance with the terms specified in the applicable Class R Certificates setting forth the rights of such Certificateholders to payment, any remaining amounts after application of the preceding clauses.

Optional Preservation of the Student Loans. If the Notes have been declared to be due and payable under the Indenture as described herein 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 Holders that there be at all times sufficient funds for the payment of principal of and interest on the Notes, and, following payment in full of all Notes, to retain value for the Certificateholders, and the Trustee will take such desires 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.

Limitation of Suits. So long as any Notes remain Outstanding, no Certificateholder will have any right to institute any Proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder or available by law.

Subject to the limitation described above, however, no Noteholder will have any right to institute any Proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- (i) such Holder has previously given written notice to the Trustee of a continuing Event of Default;
- (ii) the Holders 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 thereunder;
- (iii) such Holder or Holders 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 Holders of at least a majority of the Outstanding Amount of the Notes.

Rights and Remedies Cumulative. No right or remedy conferred upon or reserved to the Trustee or to the Holders under the Indenture is intended to be exclusive of any other right or remedy, and every right and remedy will, to the extent permitted by law, be cumulative and in addition to every other right and remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Delay or Omission Not a Waiver. No delay or omission of the Trustee or any Holder to exercise any right or remedy accruing upon any Event of Default will impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein.

Control by Noteholders. The Noteholders of at least a majority of the Outstanding Amount of the Notes will 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 such direction does not conflict with any rule of law or with the Indenture and the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. However, subject to the duties of the Trustee set forth in the Indenture, the Trustee is not required to take any action that it determines may involve the Trustee in liability or might materially adversely affect the rights of any Noteholders not consenting to such action.

Waiver of Past Defaults. Prior to the time a judgment or decree for payment of money due has been obtained as provided in the Indenture, the Noteholders of at least a majority of the Outstanding Amount of the Notes may waive any past Event of Default and its consequences except an Event of 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 Agency, the Trustee and the Noteholders shall be restored to their former positions and rights thereunder, respectively. Under

the Indenture, no such waiver will extend to any subsequent or other Event of Default or impair any right consequent thereto.

Undertaking for Costs. All parties to the Indenture agree, and each Holder by such Holder's acceptance of any Note or Class R Certificate will 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 the 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. However, under the Indenture, these provisions will 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 the Indenture, or (d) any suit instituted by a Certificateholder for payment of moneys in respect of its Class R Certificate under the Indenture to the extent such funds are available for such payment after all Notes have been paid in full.

The Trustee

Acceptance of Trust. The Trustee will accept the trusts imposed upon it by the Indenture and will perform those trust, but only upon and subject to the terms and conditions set forth in the Indenture.

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

Except during the continuance of an Event of Default as described above, the Trustee will undertake to perform such duties and only such duties as are specifically set forth in the Indenture. There will be no implied covenants or obligations read into the Indenture against the Trustee.

Under the Indenture, the Trustee will not be relieved from liability for its own gross negligence or willful misconduct. However, this standard under the Indenture does not limit the effect of the previous two paragraph described above. The Trustee will 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. The Trustee will 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 pursuant to the provisions of the Indenture describe above under "—Events of Default—Control by Noteholders."

In the absence of bad faith on its part, the Trustee may conclusively rely upon certificates or opinions furnished to it and conforming to the requirements of the Indenture. However, under the Indenture, the Trustee will be required to review the certificates and opinions to determine whether or not they conform to the requirements of the Indenture.

No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties thereunder or in the exercise of any of its rights or powers, if it has 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.

The Trustee May Act Through Agents. Under the Indenture, the Trustee is permitted to execute any of the trusts or powers under the Indenture or perform any duties thereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Trustee will 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 thereunder. The Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to the Indenture and the Notes, and will be protected from liability in respect to any action taken,

omitted or suffered by it under the Indenture in good faith and in accordance with the advice or opinion of such counsel.

Compensation. The Trustee will be entitled to payment and/or reimbursement from the Trust Estate for reasonable fees for its services rendered thereunder 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 will 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. However, if any such extraordinary services or extraordinary expenses are occasioned by the Trustee's gross negligence or willful misconduct, the Trustee will not be entitled to payment and reimbursement for those extraordinary fees and expenses.

Replacement of Trustee. Under the Indenture, no resignation or removal of the Trustee and no appointment of a successor Trustee will become effective until the acceptance of appointment by a successor Trustee.

The Trustee may resign at any time by so notifying the Agency 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. In addition, the Agency will remove the Trustee (and provide notice to each Rating Agency) if:

- (i) the Trustee fails to comply with the trustee eligibility criteria described below under “— Eligibility; Disqualification;”
- (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 Agency will promptly appoint a successor Trustee.

Eligibility; Disqualification. Under the Indenture, the Trustee is required to 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 thereunder, will represent and warrants that it is an Eligible Lender under the Higher Education Act and agrees to remain an Eligible Lender for so long as it is the Trustee under the Indenture.

Supplemental Indentures

Supplemental Indentures without Consent of Noteholders. Without the consent of any Holders but with prior notice to the Rating Agencies, the Agency and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental the Indenture, 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 the Indenture, or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of the Indenture, or to subject to the lien of the Indenture additional property;
- (ii) to evidence the succession, in compliance with the applicable provisions of the Indenture, of another person to the Agency, and the assumption by any such successor of the covenants of the Agency in the Indenture and in the Notes or Certificate;
- (iii) to add to the covenants of the Agency, for the benefit of the Noteholders, or to surrender any right or power therein conferred upon the Agency;
- (iv) to convey, transfer, assign, mortgage or pledge any property to the Trustee;

(v) to cure any ambiguity, to correct or supplement any provision in the Indenture or in any supplemental indenture which may be inconsistent with any other provision therein or in any supplemental indenture or to make any other provisions with respect to matters or questions arising under the Indenture or in any supplemental indenture; provided that such action does not materially adversely affect the interests of the Noteholders;

(vi) to evidence and provide for the acceptance of the appointment thereunder by a successor trustee with respect to the Notes and to add to or change any of the provisions of the Indenture as is necessary to facilitate the administration of the trusts thereunder by more than one trustee, pursuant to the requirements of the Indenture;

(vii) to modify, eliminate or add to the provisions of the Indenture to such extent as is necessary to maintain the applicable ratings on the Notes; or

(viii) If SAFRA or similar legislation permitting the conversion of the special allowance support level on FFEL Program loans originated on or after January 1, 2000 (or such other applicable date as may be in any final legislation) to be based on the one-month LIBOR rate versus the current calculation based on the three-month Commercial Paper rate, becomes law, the Indenture may be amended to permit the Agency, upon satisfaction of the Rating Agency Condition, to convert the special allowance support level on the Student Loans held under the Indenture that were originated on or after January 1, 2000 (or such other applicable date as may be in any final legislation) to be based on the one-month LIBOR rate. See “SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Special Allowance Payments on FFEL Program Loans” herein.

Supplemental Indentures with Consent of Noteholders. The Agency and the Trustee 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, enter into an indenture or indentures supplemental to the Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of the Noteholders under the Indenture; provided, however, that no such supplemental indenture is permitted, without the consent of the Noteholder of each Outstanding Note that would:

(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 the 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 the Indenture requiring the application of funds available therefore, as described above under “—Events of Default,” 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 Holders of which is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences provided for in the 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 (or the required amount of the Class R Certificates, if and when applicable) required to direct the Trustee to direct the Agency to sell or liquidate the Trust Estate pursuant to the requirements of the Indenture described herein under “—Events of Default”;

(v) modify any provision of the Indenture described under “—Supplemental Indentures—Supplemental Indentures with Consent of Noteholders,” except to increase any percentage specified or to provide that certain additional provisions of the 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 the 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 in the Indenture; or

(vii) permit the creation of any lien ranking prior to or on a parity with the lien of the Indenture with respect to any part of the Trust Estate or, except as otherwise permitted or contemplated therein, terminate the lien of the Indenture on any property at any time subject hereto or deprive any Holder of the security provided by the lien of the Indenture.

Execution of Supplemental Indentures. In executing, or permitting the additional trusts created by, any supplemental indenture permitted by under the Indenture and described above or the modifications thereby of the trusts created by the Indenture, the Trustee will be entitled to receive, and subject to the Trustee's duties under the Indenture, will 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 the Indenture."

Limited Recourse Under Indenture

All covenants, stipulations, promises, agreements and obligations of the Agency contained in the Indenture will be deemed to be the covenants, stipulations, promises, agreements and obligations of the Agency payable solely from the Trust Estate, and not of any member, officer or employee of the Agency in his individual capacity, and no recourse will be had for the payment of the principal of or interest on the Notes, the Class R Certificates or for any claim based thereon or on the Indenture against any member, officer or employee of the Agency or against any natural person executing the Notes or Class R Certificates, or against any assets or moneys of the Agency which are not part of the Trust Estate.

The Indenture will further provide that no agreements or provisions contained therein nor any agreement, covenant or undertaking by the Agency in connection with the Student Loans or the issuance, sale and delivery of the Notes or the issuance of the Class R Certificates, will give rise to any pecuniary liability of the Agency or a charge against its general credit, or will obligate the Agency financially in any way, except as may be payable from the Trust Estate pledged by the Indenture for the payment of the Notes and the Class R Certificates and their application as provided therein.

No failure of the Agency to comply with any term, covenant or agreement contained in the Indenture, or in any document executed by the Agency in connection with the Student Loans or the issuance and sale of the Notes, or the issuance of the Class R Certificates, will subject the Agency 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 the Indenture for the payment of the Notes and the Class R Certificates.

However, nothing in the Indenture will preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Agency for any failure to comply with any term, condition, covenant or agreement therein, provided that no costs, expenses or other monetary relief will be recoverable from the Agency, except as may be from the Trust Estate pledged by the Indenture for the payment of the Notes and the Class R Certificates.

No provision, covenant or agreement contained in the Indenture, or any obligation therein imposed upon the Agency, or the breach thereof, will constitute an indebtedness of the Agency within the meaning of any Commonwealth of Pennsylvania constitutional or statutory limitation or will constitute or give rise to a charge against its general credit; and in making the agreements, provisions and covenants set forth in the Indenture, the Agency has not obligated itself, except with respect to the application of the Trust Estate pledged by the Indenture.

Satisfaction and Discharge of Indenture

The Indenture will cease to be of further effect with respect to the Notes and Class R Certificates except as to certain rights that will survive, including the rights, obligations and immunities of the Trustee thereunder, when:

- (i) all Notes have been delivered to the Trustee for cancellation;
- (ii) the Agency has paid or caused to be paid all other sums payable under the Indenture by the Agency; and
- (iii) the Agency has delivered to the Trustee an written officers' certificate and an Opinion of Counsel, each meeting the applicable requirements of the Indenture, each stating that all conditions precedent in the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Purchase of Notes by the Authority

The Authority may, at its discretion, purchase Notes from Noteholders in the secondary market from time to time, at a price which may be at a discount or a premium to par. No such purchase shall constitute a redemption of Notes for purposes of the Indenture.

APPENDIX B

SUMMARY OF AGENCY OPERATIONS

Loan Operations

The Agency's loan operations are divided into three types of activity: Guaranty, Servicing and Origination and Purchase. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto elsewhere in this Official Statement.

Guaranty Operations - Federal Programs

The Agency has been guaranteeing student loans since 1964. As of June 30, 2009, the Agency had guaranteed a total of approximately \$46.1 billion principal amount of Stafford Loans, approximately \$7.3 billion principal amount of PLUS and SLS Loans and approximately \$52.0 billion of Consolidation Loans. See the discussion of such Loans in APPENDIX C—"DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS" for a description of the types of student loans that can be made under the Act. Of the total amount of all student loans, the Agency estimates that approximately \$51.3 billion original principal amount of such loans are outstanding. The Agency initially guaranteed loans only to residents of the Commonwealth or persons who planned to attend or were attending eligible educational institutions in the Commonwealth. In May, 1986, the Agency began guaranteeing loans to borrowers that did not meet these residency requirements pursuant to its national guarantee program. Under the Pennsylvania Act of Assembly of August 7, 1963, P.L. 549, as amended (the "Act"), guarantee payments on loans under the Agency's national guarantee program may not be paid from funds appropriated by the Commonwealth.

The Agency currently guarantees 98% (97% on loans first distributed on or after July 1, 2006) of the principal of and accrued interest on Stafford, PLUS, SLS and Consolidation Loans made by any lender which is a party to a guarantee agreement with the Agency. The Agency has entered into a federal reinsurance agreement and a supplemental guarantee agreement (the "Reinsurance Agreements") with the United States Department of Education (the "Department of Education") under which the Department of Education will reimburse the Agency for at least 75%, and as much as 100%, of amounts expended resulting from defaults on loans, depending on the default rate for that fiscal year and the year that the loans were guaranteed. The Agency has entered into additional agreements with the Department of Education pursuant to which the Department of Education will reimburse the Agency for 100% of the amounts expended by the Agency resulting from the bankruptcy, death or disability of the borrower. See APPENDIX C—"DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS" for a description of the program of federal reimbursement.

The Agency has adopted a default prevention program consisting of (i) informing new borrowers of the serious financial obligation incurred by them and stressing the financial and legal consequences of failure to meet all terms of the loan, (ii) working with institutions to make certain that student borrowers are enrolled in sound educational programs and that proper individual enrollment records are being maintained, (iii) assisting lenders with operational programs to ensure sound lending policies and procedures, (iv) maintaining up-to-date student status and address records of all borrowers in the guaranty program, (v) initiating prompt collection actions with borrowers who become delinquent on their loans, do not establish repayment schedules or "skip," (vi) taking prompt action, including legal action and garnishment of wages, to collect on all defaulted loans, and (vii) adopting a general policy that no loan will be automatically "written off." Since the loan servicing program was initiated in 1974, the Agency has never exceeded an annual default claims percentage of five percent and, as a result, federal reimbursement for default claims has thus far been at the maximum federal reimbursement level. For the last five years the annual default claims percentages have been as follows:

Annual Default Claims

<u>Year</u>	<u>Percentage</u>
2004	1.09%
2005	1.30%
2006	1.42%
2007	1.96%
2008	1.98%

See APPENDIX C—"DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS."

The 1992 Amendments included provisions regarding the relationship between the Secretary of Education and the various Guaranty Agencies. These include, but are not limited to, a requirement that the Secretary of Education promulgate regulations to standardize forms and practices used by Guaranty Agencies; a requirement that Guaranty Agencies assign to the Secretary of Education every loan with respect to which the Secretary of Education has paid a reinsurance claim unless certain criteria developed by the Secretary of Education have been satisfied and the loan has been converted to repayment status within 36 months; a requirement for annual submission to, and evaluation by, the Secretary of Education of financial information concerning each Guaranty Agency; provision for the establishment by the Secretary of Education of standards pursuant to which

certain Guaranty Agencies would be required to submit management plans to the Secretary of Education; the authority of the Secretary of Education to, among other things, revoke a Guaranty Agency's reinsurance contract if it does not submit a satisfactory management plan or if the Secretary of Education determines the Guaranty Agency to be financially nonviable; and a provision that makes the Secretary of Education responsible for the payment of obligations of insolvent Guaranty Agencies. The Agency has not been required to submit a management plan to the Secretary of Education. The 1992 Amendments also made officers and employees of Guaranty Agencies and other participants in the FFEL Program (such as lenders, secondary markets and servicers) subject to regulations to be promulgated by the Secretary of Education regarding conflicts of interest.

Federal Student Loan Reserve Fund

Under current law, the Agency is required to manage the Federal Student Loan Reserve Fund so net assets are greater than 0.25% of the original principal balance of outstanding guarantees.

Guaranty Operations - Other Programs

In addition to guaranteeing loans under the Higher Education Act, the Agency also operates certain guarantee programs for which it receives no federal reinsurance. The Agency has outstanding a guarantee obligation on all or a portion of certain loans in the amount of approximately \$412,000 as of June 30, 2009.

Law Access Loans Program. The Law Access Loans Program administered by the Law School Admission Services, Inc. offers a national loan program designed specifically for law students attending American Bar Association approved institutions. Four loan programs are made available to the borrower: Stafford and SLS (discussed in APPENDIX C—"DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS"), which are federally guaranteed, and Law Access Loan ("LAL") and Bar Examination Loan ("BEL"), which were privately insured through the Agency for the 1988-89 program year. The Agency is responsible for defaults up to a total of 8% of LAL and BEL loans it guaranteed and 50% of any defaults above that level. At July 1, 1991, when the Agency ceased to privately guarantee these loans, the Agency had privately guaranteed LAL and BEL loans of approximately \$105.4 million through the Law Access Loans Program. As of June 30, 2009, approximately \$80,000 of principal and interest related to LAL and BEL loans was outstanding, of which approximately \$4,900 was more than 90 days delinquent. Loans privately guaranteed by the Agency are not reinsured by the federal government.

Guaranty Operations - FDSL Program

The Agency's guaranty operations have not been materially affected by the FDSL Program. Future implementation of the FDSL Program could reduce the total amount of Student Loans that could be guaranteed by the Agency under the program discussed in this section. This could result in a corresponding reduction in the Agency's general operating revenue.

Servicing

In 1973 the Agency created a fully automated loan servicing function to ensure that loan defaults were held to a minimum by appropriate, timely and economical contact with borrowers, and, if necessary, through pre-claim assistance to banks and other private sector lenders. Persistent collection efforts, including legislative authorization to garnish wages in the case of defaulted loans, were also implemented to increase collection results and reduce losses due to loan defaults.

When lenders started to sell their student loans to the federally created Sallie Mae, the Agency contracted with Sallie Mae to service loans Sallie Mae purchased from Pennsylvania banks and other lenders. In 1974, the Agency received legislative authority to market the Agency's servicing system to other states and lenders. As a result, in addition to continuing to service student loans made by Pennsylvania banks and other private lenders, the Agency now has contracts with Sallie Mae, state agencies and commercial lenders throughout the United States. The computer network supporting loan servicing operations extends from Massachusetts to California. The Agency currently services all Student Loans held under the Indenture. Fees payable to the Agency under the Servicing Agreement and fees paid to other servicers in respect of servicing the Student Loans under this program may not exceed the levels approved by the rating agencies.

The Agency's two principal servicing products are its full-servicing operation and its remote servicing operation. As of June 30, 2009, the Agency was servicing under its full-servicing program approximately \$59.5 billion outstanding principal amount for more than 475 customers and, under its remote servicing operation, approximately \$33.7 billion outstanding principal amount for six clients.

Under the Agency's servicing agreements, the Agency generally has agreed to reimburse customers for any claims, losses, liabilities or expenses which arise out of or relate to the Agency's acts or omissions with respect to services provided under such agreements. The Agency must rely on moneys in the Education Loan Assistance Fund (described below under "Education Loan Assistance Fund") to cover expenditures necessary to meet its contractual obligations under its servicing agreements, including any potential liabilities.

The Higher Education Act requires that the Trustee, the Agency, the lenders and their agents and employees exercise "due diligence" in the making, servicing, and collection of student loans eligible for reinsurance. The Higher Education Act defines "due diligence" to require the holder of such a loan to utilize making, servicing and collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans and requires that certain specified collection actions be taken within certain specified time periods with respect to a delinquent loan or defaulted loan. See

APPENDIX C—“DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS” for a description of those time periods. If the Agency fails to meet such standards, the Agency’s ability to realize the benefits of federal reinsurance payments may be adversely affected.

Implementation of the FDSL Program has not materially impacted the Agency’s servicing operations. Future implementation of the FDSL Program could reduce the total amount of student loans that could be serviced by the Agency. This could result in a corresponding reduction in the Agency’s general operating revenue. The Agency has over 85% of its contracted servicing volume on life of loan servicing agreements.

Origination and Purchase – General

For academic years beginning July 1, 1984 through July 1, 2009, the Agency made approximately \$7.6 billion of student loans. These student loans have been originated under seven programs: (i) the Family Partnership Loan Program; (ii) the HEAL Program; (iii) the Higher Education Loan Plan (“HELP”); (iv) the Keystone Loan Program; (v) the Keystone Direct Loan Program; (vi) the Keystone Rewards Program and (vii) Keystone BEST Program. The amounts used to make these loans have been derived in part from the proceeds of revenue bonds issued by the Agency from 1983 to the present. The Agency also purchases student loans from banks and other lenders from time to time. Student loans held at June 30, 2009, financed with the bond and other indebtedness described herein (see “Indebtedness and Other Obligations - Indebtedness”) consisted of the following (amounts expressed in millions):

HEAL Loans	\$	160.90
Stafford Loans		2,333.70
PLUS Loans/SLS Loans		337.60
Consolidation Loans		7,306.70
Privately Insured Loans ¹		<u>25.50</u>
Total		\$ 10,164.40

The Agency has also used funds in the Education Loan Assistance Fund to finance student loans. See “Education Loan Assistance Fund” below. As of June 30, 2009, the Education Loan Assistance Fund contained the following approximate outstanding principal amounts of student loans: \$6.0 million of student loans which are not insured or reinsured; \$15.0 million of student loans guaranteed by Guaranty Agencies under the Higher Education Act which are reinsured (approximately \$8.5 million of which were Consolidation Loans); and \$405,000 of HEAL Loans which are federally insured. Of the student loans guaranteed by the Agency under the Higher Education Act which are federally reinsured, \$33,500 are not eligible for federal interest subsidy payments. As of June 30, 2009 the Education Loan Assistance Fund also held approximately \$86.7 million in cash which has been deposited with and invested by the State Treasurer, including assets held for the Department of Education.

Indebtedness and Other Obligations

In addition to its guaranty obligations described above, the Agency has certain continuing financial obligations.

Bonded Indebtedness

The Agency currently has outstanding debt in the amount (including amounts drawn or available under such lines of credit) of approximately \$11.6 Billion. As of June 30, 2009, the outstanding indebtedness and credit facilities consist of:

- \$99,900,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series A, dated January 28, 1988 and due January 1, 2018.
- \$104,300,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series B, dated July 28, 1988 and due July 1, 2018.
- \$70,400,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series C, dated July 29, 1988 and due July 1, 2018.
- \$33,400,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series E, dated December 30, 1988 and due July 1, 2018.
- \$10,000,000 (\$ 2,471,169 available for draw) M&T Bank Tax Exempt Capital Loan, dated April 15, 2003, amended on October 3, 2006 and due on demand.
- \$26,547,737 Key Bank Line of Credit, dated January 28, 1998 and due August 29, 2010
- \$125,000,000 Student Loan Adjustable Rate Revenue Bonds, 1994 Series A, dated December 15, 1994 and due December 1, 2024.

¹ These include Agency self-insured loans and loans not guaranteed by HHS or any Guaranty Agency.

\$117,500,000 Student Loan Adjustable Rate Revenue Bonds, 1997 Series A, dated March 20, 1997 and due March 1, 2027.

\$34,750,000 Student Loan Revenue Bonds, Senior Series A (Taxable Auction Rate Certificates), dated August 7, 1997 and due August 1, 2027; \$15,000,000 Student Loan Revenue Bonds, Subordinate Series B (Taxable Auction Rate Certificates), dated August 7, 1997 and due August 1, 2027.

\$49,650,000 Student Revenue Bonds, Senior Series C (Taxable Auction Rate Certificates), dated March 26, 1998 and due March 1, 2028.

\$44,700,000 Student Loan Revenue Bonds, Senior Series D, and \$5,000,000 Student Loan Revenue Bonds, Subordinate Series E (Taxable Auction Rate Certificates), dated November 19, 1998 and due November 1, 2028.

\$62,585,000 Capital Acquisition Bonds, Series of 2000, dated February 15, 2000 and due December 15, 2003 to December 15, 2010 in various increments.

\$21,261,000 National City Bank of Pennsylvania Line of Credit, dated April 14, 2000 and due December 31, 2009.

\$94,200,000 Student Loan Adjustable Rate Revenue Bonds, 2000 Series A, dated June 21, 2000 and due June 1, 2030.

\$162,600,000 Student Loan Revenue Bonds, Senior Series F-1 through F-3 and \$10,000,000 Subordinate Series G, dated October 19, 2000 and due October 1, 2040.

\$ 163,800,000 Student Loan Revenue Bonds, Senior Series H and \$10,000,000 Subordinate Series I, dated October 24, 2000 and due October 1, 2040.

\$212,800,000 Student Loan Revenue Bonds, Senior Series J-1 through J-4, and \$25,000,000 Subordinate Series K, dated December 15, 2000 and due December 1, 2040.

\$74,600,000 Student Loan Adjustable Rate Revenue Bonds, Series 2001 A, dated June 28, 2001, and due June 1, 2031.

\$187,950,000 Student Loan Revenue Bonds, Senior Series L-1 and L-2, and \$10,000,000 Student Loan Revenue Bonds, Subordinate Series M, dated August 17, 2001 and due August 1, 2041.

\$140,000,000 Pennsylvania Local Government Investment Trust Adjustable Rate Note 2009 Series A, dated August 1, 2009 and due August 6, 2010.

\$66,410,000 Capital Acquisition Refunding Bonds, Series of 2001, dated October 15, 2001 and due December 15, 2001 to December 15, 2030 in various increments.

\$90,400,000 Student Loan Adjustable Rate Revenue Refunding Bonds, 2001 Series B, dated December 15, 2001 and due March 1, 2017.

\$165,900,000 Student Loan Adjustable Rate Revenue Refunding Bonds, 2002 Series A, dated February 15, 2002 and due June 1, 2025.

\$50,000,000 Student Loan Adjustable Rate Revenue Refunding Bonds, 2002 Series B, dated April 1, 2002 and due October 1, 2016.

\$138,000,000 Student Loan Revenue Bonds, Senior Series N-1 and N-2, and \$10,000,000 Student Loan Revenue Bonds, Subordinate Series O, each dated June 27, 2002 and due June 1, 2037.

\$138,500,000 Student Loan Revenue Bonds, Senior Series P-1 and P-2, and \$10,000,000 Student Loan Revenue Bonds, Subordinate Series Q, each dated July 25, 2002 and due March 1, 2022.

\$148,400,000 Student Loan Revenue Bonds, Senior Series R-1 and R-2, and \$10,000,000 Student Loan Revenue Bonds, Subordinate Series S, each dated August 15, 2002 and due August 1, 2042.

\$466,550,000 Student Loan Revenue Bonds, Senior Series T-1 through T-5; and \$29,500,000 Student Loan Revenue Bonds, Subordinate Series U, each dated September 10, 2002 and due September 1, 2042.

\$296,900,000 Student Loan Revenue Bonds, Senior Series V-1 through V-4, dated October 24, 2002 and due October 1, 2042 (Federally Taxable Reset Auction Mode Securities – RAMS™).

\$72,600,000 Student Loan Revenue Bonds, 2003 Series A-1, dated April 17, 2003 and due January 1, 2019; \$72,600,000 Student Loan Adjustable Rate Revenue Bonds, 2003 Series A-2, dated April 17, 2003 and due January 1, 2033.

\$139,050,000 Student Loan Revenue Bonds, Senior Series W-1 and W-2, and \$10,000,000 Student Loan Revenue Bonds, Subordinate Series X, each dated June 25, 2003 and due June 1, 2038.

\$297,500,000 Student Loan Revenue Bonds, Senior Series Y-1 through Y-4, dated September 1, 2003 and due September 1, 2043.

\$234,410,000 Pennsylvania State Treasury Higher Education Loan Program Notes, Series 1998, dated December 20, 2007 and due July 31, 2010.

\$168,550,000 Student Loan Revenue Bonds, Senior Series Z-1 through Z-4, dated June 23, 2004 and due June 1, 2039.

\$169,400,000 Student Loan Revenue Bonds, Senior Series AA-1 through AA-3, dated July 27, 2004 and due June 1, 2039.

\$297,500,000 Student Loan Revenue Bonds, Senior Series BB-1 through BB-4, dated November 17, 2004 and due November 1, 2044 (Federally Taxable Reset Auction Mode Securities – RAMSTM).

\$303,327,684 Floating Rate Student Loan Revenue Notes, Series 2005; \$5,327,684 Senior Class A-1, dated July 13, 2005 and due October 15, 2018; \$278,000,000 Senior Class A-2, dated July 13, 2005 and due March 16, 2037; \$20,000,000 Subordinate Class B, Dated July 13, 2005 and due March 16, 2037.

\$198,550,000 Student Loan Revenue Bonds (Taxable Auction Rate Certificates - ARCs®); Senior Subseries CC-1 through CC-3, dated August 31, 2005 and due August 1, 2045.

\$197,850,000 Student Loan Revenue Bonds (Taxable Auction Rate Securities); Senior Subseries DD-1 through DD-2; dated September 13, 2005, and due September 1, 2045.

\$376,550,000 Student Loan Revenue Bonds (Taxable Auction Rate Securities); Senior Subseries EE-1 through EE-4; and \$20,000,000 Subordinate Subseries FF; dated December 8, 2005 and due December 1, 2045.

\$495,200,000 Student Loan Revenue Bonds Senior Subseries GG-1 through GG-6; dated December 20, 2005 and due December 1, 2045.

\$960,900,000 Student Loan Revenue Bonds, Senior Series HH-1 through HH-10; and \$30,000,000 Student Loan Revenue Bonds, Subordinate Series II, each dated May 17, 2006 and due May 1, 2046.

\$720,250,000 Student Loan Revenue Bonds, Senior Series JJ-1 through JJ-10; and \$22,500,000 Student Loan Revenue Bonds, Subordinate Series KK, each dated June 22, 2006 and due June 1, 2046.

\$389,730,280 Floating Rate Student Loan Revenue Notes, Series 2006, \$63,730,280 Senior Class A-1, dated August 10, 2007 and due July 25, 2019; \$129,500,000 Senior Class A-2, dated August 10, 2006 and due July 25, 2024; \$171,500,000 Senior Class A-3 dated August 10, 2006 and due October 25, 2035; \$25,000,000 Subordinate Class B, dated August 10, 2006 and due April 26, 2038.

\$607,391,019 Floating Rate Student Loan Revenue Notes, Series 2006-2; \$126,516,019 Senior Class A-1, dated November 15, 2006 and due October 25, 2016; \$158,390,000 Senior Class A-2; dated November 15, 2006 and due October 25, 2020; \$299,985,000 Senior Class A-3, dated November 15, 2006 and due October 25, 2036; \$22,500,000 Subordinate Class B, dated November 15, 2006 and due October 25, 2042.

\$72,000,000 (\$0 available for draw) PNC Bank Line of Credit dated February 23, 2007 and due on demand.

\$743,700,000 Student Loan Revenue Bonds (Taxable Auction Rate Securities), Senior Subseries LL-1 through LL10; dated April 25, 2007 and due April 1, 2047.

\$6,170,636.92 IBM Corporation Complementary Financing, addendum to Installment Payment Master Agreement, dated April 24, 2007 and due on demand.

\$336,350,000 Student Loan Revenue Bonds (Taxable Auction Rate Securities), Senior Subseries MM-1 through MM-6 and \$10,500,000 Student Loan Revenue Bonds Subordinate Series NN, dated June 21, 2007 due June 1, 2047.

\$303,800,000 2007 Student Loan Line of Credit Facility, dated December 5, 2007 and due March 5, 2010.

\$799,960,462 Straight-A Conduit Financing dated June 17, 2009 and due June 17, 2014.

\$60,680,000 Morgan Stanley and Ambac Note Purchase Agreement, dated June 17, 2009, due June 17, 2029.

Due to an inability to access the credit markets or financing markets necessary to fund student loans, effective March 7, 2008, the Agency suspended its activities as a lender for any new loans first disbursed on or after that date. The Agency also suspended making purchases under its forward purchase contracts with other lending institutions. As of June 30, 2009, the Agency has student loan purchase commitments of \$573.3 million that the Agency has been unable to fund or settle, and an additional \$278.5 million of student loans through June 30, 2010 and thereafter. Subsequent to June 30, 2009, the Agency is in the process of settling \$360.5 million of student loan purchase commitments that will result in \$3.3 million of additional liabilities. Most of the purchase commitments are with financial institutions and the Agency continues to work with those institutions to renegotiate the terms and timing of these commitments.

Education Loan Assistance Fund

The Act created an educational loan assistance fund within the State Treasury (the "Education Loan Assistance Fund" or "Fund"). The Act provides that the Fund is a continuing fund in which may be deposited moneys received from repayment of principal on loans from the Fund and payments of interest and other fees and charges with respect to loans made pursuant to the Act, insurance premiums and charges assessed and collected by the Agency on loans made by the Fund, appropriations made to the Fund by the legislature, proceeds of the sale of notes, bonds or other indebtedness to the extent and in the manner provided by a Board resolution, other moneys received from any other source for the purpose of the Fund and moneys received from the federal government for the purpose of the Fund or the Higher Education Act. The Act further provides that, except as otherwise provided in any contract with bondholders, all appropriations and payments made into the Education Loan Assistance Fund are appropriated to the Board of Directors of the Agency and may be applied and reapplied as the Board shall direct and shall not be subject to lapsing.

For accounting purposes, the Agency has divided the Education Loan Assistance Fund into a Higher Education Assistance Fund (the "Assistance Fund") and a Revenue Bond Fund (the "Agency Bond Fund"). Appropriations, revenues and expenditures allocable to all of the Agency's programs, other than assets and expenditures relating to specific revenue bond financing, are allocated to the Education Loan Assistance Fund. All assets in the Agency Bond Fund are held by the trustees under various indentures and are pledged to particular revenue bond and note financings and are not available to meet guarantee or other obligations of the Agency related to its other programs. As noted above under "Loan Operations - Origination and Purchase," several obligations of the Agency under certain revenue bond and note financings, though secured and collateralized by specified assets in the Agency Bond Fund, are obligations not limited to such assets. Under those financings, certain persons may seek recourse against the Education Loan Assistance Fund. The Bonds are secured solely as described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and are not secured by the Agency Bond Fund or the Education Loan Assistance Fund.

Substantially all of the Agency's expenditures relating to the various grant programs that it administers (other than administrative expenses) are derived from appropriations from the Commonwealth. In recent years, the Agency has not received any appropriations to cover its administrative expenses. To meet the Agency's obligations under its servicing and guarantee programs, the Agency has in the past relied, and expects to continue to rely, principally on servicing fee revenues, income on investments in the Education Loan Assistance Fund, and income generated by the Agency's activity as a guaranty agency under the Higher Education Act, including federal reimbursement payments, administrative cost allowances, student loan insurance premiums and retentions from collections on defaulted loans. If the current authorization date for federal reinsurance of loans under the Higher Education Act is not extended by federal legislation (as described in APPENDIX C—"DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS") or legislation is enacted that makes modifications to existing Federal Education Loan Programs, by expanding the direct-lending program or otherwise (as described in APPENDIX C—"DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS"), the Agency may no longer realize certain servicing fee revenues or income generated by the Agency's activity as a Guaranty Agency.

APPENDIX C

DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS

The Federal Higher Education Act of 1965, as amended (the “Higher Education Act” or “HEA”), 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 HEA, formerly known as the “Guaranteed Student Loan Program”, is referred to as the Federal Family Education Loan Program (the “FFEL Program” or “FFELP”).

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 HEA and the regulations thereunder. There can be no assurance that the provisions of the HEA will continue in their present forms. See “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 HEA will continue in their present form.

1986 HEA Reauthorization

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).

1992 HEA Reauthorization

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 Act”)

The 1993 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.

1998 HEA Reauthorization

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, \$8.7 million was paid on September 1, 2006 and \$8.7 million was paid on September 1, 2007. 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.

The Ticket to Work and Work Incentives Improvement Act of 1999 (the “1999 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 FFELP loans disbursed on or after January 1, 2000 and before July 1, 2003. For these FFELP 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 FFELP loans.

The Consolidated Appropriations Act of 2001 (the “2001 Act”)

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

Public Law 107-139 amended the HEA 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.

The Higher Education Reconciliation Act of 2005

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 (the “HERA”), which extends the Department of Education’s authority to provide interest subsidies and federal insurance for loans originated under the HEA through September 30, 2012. Several provisions of the HEA 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 through September 30, 2012, the authority under the HEA to provide federal insurance on loans, make subsidized loans and make Consolidation Loans.
- 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 \$5,000 to \$7000 for coursework necessary for a state teacher certification or preparatory coursework necessary for enrollment in a graduate program and 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 on or 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 on or 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.
- 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 of 2005 (February 8, 2006).
 - Financed by a tax-exempt obligation that after September 30, 2004 has matured, or been refunded, retired or defused.
 - Sold or transferred to or purchased by any other holder after September 30, 2004.

The College Cost Reduction and Access Act (CCRAA) – P.L. 110-84

On September 27, 2007, President Bush signed into law H.R. 2669, the College Cost Reduction and Access Act (the “CCRAA”). The CCRAA included numerous provisions that reduced the yield on loans under the FFEL Program. The provisions of the CCRAA include:

- Reduced Special Allowance payments on Stafford and Consolidation Loans by 40 basis points (bp) and by 70 basis points for PLUS loans for non-profit entities (such as the Agency) that hold such loans (the cuts are 15 bp higher for loan holders who are not eligible non-profit entities). This change is applicable to loans first disbursed on or after October 1, 2007.
- Increased the lender paid origination fee on all loans under the FFEL Program from .50% of the loan principal amount to 1.00% of loan principal. This change is applicable to loans first disbursed on or after October 1, 2007.
- Eliminated the “Exceptional Performer” provision of the law, which allowed lenders and servicers who met certain criteria to have default claims paid at a rate of 99% of the outstanding principal and interest. Based on the disbursement date of the loan, default claims submitted on or after October 1, 2007 will be paid at the rates described below, although that percentage will be further reduced to 95% for loans made on or after July 1, 2012. These reimbursement rates could be further reduced as a result of a variety of factors, including changes in the law governing the FFEL Program. Regardless of disbursement date, claims paid due to Bankruptcy, Death, Total and Permanent Disability, Closed School, and False Certification and claims paid on loans made by the Agency in its capacity as a Lender-of-Last-Resort are paid at a rate of 100%. Ineligible Borrower claims are paid at 100% on loans disbursed prior to October 1, 1993; 98% on loans disbursed on or after October 1, 1993 and prior to July 1, 2006; and 100% on loans disbursed on or after July 1, 2006. Default claims are paid at 100% on loans disbursed prior to October 1, 1993; at 98% on loans disbursed on or after October 1, 1993 and prior to July 1, 2006; at 97% on loans disbursed on or after July 1, 2006.
- Authorized the Secretary of Education to conduct an “auction” to determine the ability of lenders to participate in the parent PLUS Loan Program beginning as of July 1, 2009. The Secretary will solicit bids from lenders and will select two lenders to make parent loans in each state for a two-year period. Bids will be based on criteria to be determined by the Secretary, but must result in a Special Allowance Payment that is no greater than the amount provided for in statute.
- Created a new loan repayment option, Income Based Repayment (IBR), effective July 1, 2009 that limits loan payments for certain borrowers to no more than 15% of their discretionary income, which may be an alternative to loan consolidation for some borrowers.

The Ensuring Continued Access to Student Loans Act of 2008 – P.L. 110-227

The Ensuring Continued Access to Student Loans Act of 2008 (“ECASLA”), H.R. 5715, was signed by the President on May 7, 2008. The provisions of ECASLA include:

1. Increased Annual and Aggregate Stafford Loan Limits

ECASLA increases the following loan amounts for loans first disbursed on or after July 1, 2008:

- Increases the additional unsubsidized Stafford annual limits by \$2,000 for independent undergraduate students, and for dependent undergraduate students whose parents cannot borrow PLUS
- Increases unsubsidized Stafford limits for dependent students by introducing additional unsubsidized amounts of \$2,000
- Increases aggregate loan amounts for undergraduate dependent students from \$23,000 to \$31,000 (of which no more than \$23,000 may be subsidized borrowing)
- Increases aggregate loan amounts for undergraduate independent students from \$46,000 to \$57,500 (of which no more than \$23,000 may be subsidized borrowing).

2. Changes to ACG & SMART Grants

ECASLA made the following changes to the ACG & SMART Grant Programs effective January 1, 2009. The Higher Education Opportunity Act (HEOA) of 2008, referenced later in this document, revised the effective date of the ECASLA amendments from January 1, 2009 to July 1, 2009:

- Directs all savings generated by the bill into the ACG and SMART Grant programs
- Adds a fifth year to SMART Grant eligibility for programs that require five years
- Allows students attending at least half time to qualify for ACG and SMART Grants and requires proration based on Pell Grant methodology for less than full-time attendance
- Allows eligible non-citizens (e.g. permanent residents) to qualify for ACG and SMART Grants
- Changes “academic year” to simply “year” for purposes of progression through grant levels, but does not include a companion amendment recommended by NASFAA that would have allowed students who are

classified as second year based solely on AP or IB coursework to be considered to have met the second year 3.0 GPA requirement

- Allows students who are enrolled in an institution that offers a single baccalaureate-level liberal arts curriculum that permits no subject area major, but who are taking coursework in an area equivalent to a SMART-eligible major at other bachelor degree-granting institutions, to qualify for SMART Grant eligibility
- Extends first-year ACG eligibility to students enrolled in at least a one-year certificate program and extends second-year ACG to students enrolled in at least a two-year certificate program. In both cases the certificate must be offered by a degree-granting institution
- Appears to remove some of the Secretary's authority to define "rigorous secondary school program of study," permitting only states to designate such programs. This amendment may further restrict what is currently considered a rigorous program

3. Grace Period and Deferment For Parent PLUS Borrowers

Effective for parent PLUS loans disbursed on or after July 1, 2008, ECASLA allows parents to choose to defer payments on a PLUS loan until six months after the date the student ceases to be enrolled at least half time. Accruing interest can either be paid by the parent borrower monthly or quarterly, or be capitalized quarterly.

4. Special Provision for Parents Delinquent on Mortgage Payments

ECASLA allows lenders to consider parents eligible for PLUS loans even if, during the period January 1, 2007, through December 31, 2009, the parents are or were:

- No more than 180 days delinquent on a mortgage payment on their primary residence
- No more than 180 days delinquent on any medical bill payments
- No more than 89 days delinquency on the repayment of "any other debt"

5. LLR Provisions

ECASLA permits the Department of Education to designate an entire institution as eligible for lender of last resort ("LLR") loans; the guaranty agency for the school's state would be required to make loans to all of a designated institution's otherwise eligible students and parents under the LLR program regardless of an individual borrower's ability to obtain loans otherwise. This is effective on the date of enactment (May 7, 2008). ECASLA also specifies that the Secretary of Education shall determine whether institutions qualify to participate in the LLR program. Institutions must meet a "minimum threshold" of students who are unable to obtain a conventional FFELP loan - determined by the Secretary - before qualifying for institution-wide LLR participation.

ECASLA also prohibits lenders from offering any borrower benefits while operating under LLR. It also includes a termination date of June 30, 2009, for institutional-wide certification. On that date, schools would lose their LLR eligibility and students would once again need to qualify on a student-by-student basis for LLR loans.

Additionally ECASLA requires the Secretary of Education to do the following while operating under LLR provisions.

- Disseminate information regarding availability of LLR loans
- Provide Congress and the public with copies of new or revised agreements made between the Department and guarantors
- Provide Congress and the public with quarterly reports on the number and amounts of loans originated or approved under LLR
- Provide budget estimates of the costs of loans made under LLR compared to loans made in the Direct Loan program
- Provide an annual report of all amounts and numbers of loans issued on LLR beginning on July 1, 2010

6. Department of Education as a Secondary Market

ECASLA temporarily authorizes the Department to purchase FFELP loans originated on or after October 1, 2003, provided those purchases do not result in any cost to the federal government. The Department's authority to purchase loans under this provision expires on July 1, 2010, (including a one year extension affected by H.R. 6889 recently enacted by Congress and signed by the President on October 7, 2008).

ECASLA stipulates that if the Department acts as a secondary market lender, it must ensure that any proceeds paid to a lender are used in a "manner consistent with ensuring continued participation of such lender in the Federal Education

Loan Programs.” In other words, it prohibits lenders from using those proceeds in any other way than ensuring they continue participating in FFELP.

ECASLA also specifies that forward purchasing agreements from the Department should be used “to ensure continued participation” in the FFEL Program loans. It allows lenders to continue servicing loans purchased by the Secretary as long as the cost does not exceed the cost the Department would otherwise incur for servicing those loans.

The price the Department pays is established by the Secretary of Education in consultation with the Secretary of Treasury based on what is in the best interest of the U.S. without cost to the federal government. ECASLA requires the Secretaries of Education and Treasury, as well as the Director of OMB, to post a notice in the Federal Register that establishes the terms and conditions governing loans purchased by the Department, including the methodologies used to determine purchase prices.

ECASLA also authorizes funding through the Direct Loan program general funding authority to carry out the secondary market provisions of ECASLA.

7. Prohibited Inducements

ECASLA bars guaranty agencies from using prohibited inducements to expand their loan volume while using the LLR program. This prohibition would not permit a guaranty agency to advertise, market, or promote loans under LLR.

8. Suspension of Master Calendar and Negotiated Rulemaking

The Department is allowed to implement all the provisions of ECASLA with the exception of the changes made to the ACG and SMART Grant programs without conforming to the master calendar deadline dates and without negotiated rulemaking. Thus, the Department is able to move quickly to prevent student loan disruptions, although it also means that the loan amendments can be implemented without input from the community. The ACG/SMART Grant program regulations will be subject to negotiated rulemaking.

9. Impact Study on College Costs

ECASLA requires the General Accountability Office (GAO) to conduct a study of the impact of raising loan limits on (1) tuition, fees, and room and board at institutions of higher education; and (2) private loan borrowing for attendance at institutions of higher education. The report is due the House and Senate education committees within one year after the date of enactment which was May 7, 2008.

10. Federal Coordination

ECASLA urges the Federal Financing Bank, the Federal Reserve, and other federal-chartered private entities such as the Federal Home Loan Banks to work with the Departments of Treasury and Education to ensure that students and families have access to federal student loans in the 2008-2009 academic year.

2008 HEA Reauthorization/Higher Education Opportunity Act – P.L. 110-315

The HEA expired on September 30, 2003 and its program authority was continued by 14 extensions to the HEA between 2003 and 2008. On August 14, 2008, the President signed into law H.R. 4137, the Higher Education Opportunity Act (the “HEOA”), which reauthorizes and makes changes to many of the federal student aid programs. Some of the changes made by HEOA which may be material to the Agency’s student loan programs include:

- Allows proprietary institutions and postsecondary vocational institutions to admit students who are dually or concurrently enrolled in the institution and a secondary school as regular students.
- Changes the definition of an institution of higher education to explicitly include home schooled students.
- Institutes requirements, including extensive disclosure requirements, for lenders and institutions of higher education participating in “educational loan arrangements.”
- Requires a covered institution that enters into an educational lender arrangement to disclose the name of the lender in documentation related to the loan.

- Requires FFEL lenders that participate in one or more “preferred lender arrangements” to annually certify compliance with requirements of the Act and to report on and attest to such compliance in its annual compliance audit.
- Requires lenders participating in educational loan arrangements, prior to providing a Title IV education loan to a student, to disclose to the student certain information about the terms and conditions of such loans.
- Requires lenders participating in education loan arrangements to annually report to the Secretary any reasonable expenses paid or given to an individual employed in the financial aid office of a covered institution, or who has responsibilities with respect to educational loans or other types of financial aid.
- Requires lenders to provide information to borrowers who receive deferments on unsubsidized Stafford Loans, at the time deferment is granted, on the impact that the capitalization of interest will have on the loan.
- When a loan is transferred from one lender to another, both lenders must notify borrowers of: the effective date of the transfer; the date the current servicer will stop accepting payments; and the date on which the new servicer will begin accepting payments.
- Requires lenders to provide information to borrowers at the time a forbearance is granted on the impact that the capitalization of interest will have on the loan and to contact the borrower at least once every 180 days during the forbearance and to provide the borrower with information on the amount of principal and interest that has accrued since the last statement, the amount of interest that will be capitalized and the dates of such capitalization, and notice that the borrower may pay the interest before it is capitalized and discontinue the forbearance at any time.
- Specifies several disclosures that must be made by lenders to borrowers at specified times including:
 - Before disbursement.
 - Before repayment.
 - During repayment.
 - To a borrower who notifies the lender that he or she is having difficulty making payments and to borrowers who are 60 days delinquent.
- Requires guarantors that receive a default claim to notify the borrower on at least two occasions of the options available to remove the loan from default and the fees and conditions involved.
- Prohibits guarantors from offering premiums, payments, stock or other securities, prizes, travel, entertainment expenses, tuition payment or reimbursement or other inducements to schools to obtain loans. They also cannot provide unsolicited loan applications to borrowers by mail or by electronic means.
- Clarifies that borrower interest rates are not intended to override Section 207 of the Servicemembers Civil Relief Act (SCRA), which caps interest rates on all types of debt at six percent for active duty service members.
- Clarifies that the applicable interest rate used when calculating special allowance on new loans subject to the SCRA and disbursed after July 1, 2008 is 6 percent, not the statutorily set interest rate.
- Specifies that for parent PLUS borrowers the repayment period begins on the date of the final disbursement and the first payment is due within 60 days. However, the law also includes provisions from ECASLA that allow parents to choose to defer payments on a PLUS loan first disbursed on or after July 1, 2008 while the student is enrolled at least half time and for six months after the date the student ceases to be enrolled at least half time.
- Specifies that for Grad PLUS borrowers the repayment period begins on the date of the final disbursement and the first payment is due within 60 days. However, these borrowers are entitled to an automatic school deferment while they are enrolled at least half time, and the law provides for an automatic deferment on a Grad PLUS loan first disbursed on or after July 1, 2008 for six months after the borrower ceases to be enrolled at least half time.
- Requires lenders to disclose information to prospective borrowers, in a clear and conspicuous manner, at the time it provides an application for a Consolidation Loan. That disclosure must include: whether consolidation would result in a loss of loan benefits, including benefits in the Direct Loan program such as loan forgiveness, cancellation or deferment, including benefit losses on Federal Perkins Loans.
- Requires lenders and guaranty agencies to ask consumer reporting agencies to which the default of the loan has been reported, to remove the record of default from the borrower’s credit history after a loan has been rehabilitated. Limits a borrower’s ability to rehabilitate a defaulted loan to one time per loan.

- Beginning on October 1, 2011, institutions with cohort default rates of less than 15 percent for the previous three fiscal years may disburse loans in a single installment for any period of enrollment that is not more than 1 semester, 1 trimester, 1 quarter, or 4 months. Previously the threshold was set at 10 percent.
- The cohort default rate threshold for early disbursements for first-time borrowers is also increased to 15 percent for the previous three fiscal years.
- Requires guaranty agencies to work with institutions of higher education to develop and make available high-quality educational programs and materials to provide training for students in budgeting and financial management, debt management, and financial literacy.
- Increases the cohort default rate (CDR) threshold to 30 percent beginning in fiscal year 2012. The CDR will now include two years worth of borrower repayment history. Schools with a cohort default rate of more than 30 percent for two consecutive fiscal years may have their eligibility for financial aid revoked.
- Specifies new appeal processes for schools that don't meet the new cohort default rate threshold due to mitigating circumstances. The law also sets forth steps schools must take to maintain eligibility in such circumstances. Some of those steps include: creating a default prevention task force, developing a default prevention plan that must be submitted to the Department, and reviewing the plan with the Secretary who may insert measurable goals into the plan.
- Allows institutions to determine that a student has the ability to benefit from postsecondary education if the student satisfactorily completes six credit hours or the equivalent coursework applicable toward a degree or certificate offered by the institution of higher education.
- Reduces aid eligibility for distance education students if the financial aid administrator uses discretionary authority to determine that distance education results in substantially reduced cost of attendance.
- Allows a student who has lost aid eligibility due to a drug conviction to regain eligibility for Title IV aid if the student successfully passes two unannounced drug tests conducted by a drug rehabilitation program.
- Clarifies that a borrower may elect to participate in the income-base repayment plan if their loan had been in default in the past but was subsequently rehabilitated.

The 2009 HEA Technical Corrections Bill S.P.L. 111-039

On July 1, 2009, the President signed into law H.R. 1777, The HEOA Technical Corrections package. Changes made by the Technical Corrections Package include:

- Clarifies that lenders and guaranty agencies may provide both entrance and exit counseling.
- Expands the Department's temporary authority to purchase loans to include rehabilitated loans and requires lenders to use proceeds of such sales to make additional FFELP loans.
- Updated the list of programs included in the definition of VA education benefits, and changed the effective date for the exclusion of all of those VA education benefits from estimated financial assistance to July 1, 2009.
- Set the EFC at zero for children of soldiers killed in Iraq or Afghanistan after 9/11/01, if the student was under 24 years old at the time or enrolled in an institution of higher education at the time, and is Pell-eligible. This provision was effective 7/1/09.
- Changed the subjects to whom guaranty agencies and lenders are prohibited from offering inducements from "any institution of higher education or the employees of an institution of higher education" to "any institution of higher education, any employee of an institution of higher education, or any individual or entity".
- Reinstates the prohibition against duplicative teacher loan forgiveness under both FFEL and DL .

Extension of Student Loan Purchase Authority S.P.L. 110-350

This legislation extended the Secretary of Education's authority to purchase and buy participation interests in guaranteed student loans under ECASLA for an additional year (through June 30, 2010). This bill was signed into law by the president on October 7, 2008.

FEDERAL FAMILY EDUCATION LOAN PROGRAM

As described above, the Higher Education Act currently authorizes certain student loans to be made under the FFEL Program.

Eligible Borrowers and Institutions

Loans under the FFEL Program may only be made to “Eligible Students” and parents of dependent Eligible Students or to consolidate obligations under various federally authorized student loan programs. An “Eligible 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) for the subsidized Stafford loan program, meets the application “need” requirements.

“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 state; (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 state 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. The HEOA increases the Cohort Default Rate (CDR) threshold to 30% beginning in fiscal year 2012. The CDR will now include two years worth of borrower repayment history. A school with a cohort default rate of more than 30% for two consecutive fiscal years may have its eligibility for financial aid revoked.

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 student 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.

Types of Loans

Currently, five types of loans can be made by the Agency under the HEA: (i) Subsidized Stafford Loans for which the federal government makes certain Interest Subsidy Payments during certain periods; (ii) Unsubsidized Stafford Loans for student borrowers who do not qualify for Interest Subsidy Payments; (iii) PLUS Loans to parents of eligible dependent undergraduate students; (iv) Grad PLUS loans to a graduate or professional student borrowers; and (v) Consolidation Loans to borrowers to fund payment and consolidation of the borrower’s obligations under FFELP Loans and certain other loans authorized pursuant to other federal programs.

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.

Financial Need Analysis

FFELP loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated cost 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 the Free Application for Federal Student Aid (FAFSA) 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 toward 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, scholarships, subsidized Stafford loans, and work assistance. The differences between the estimated cost of attendance and the amount of grants, scholarships, work assistance, and Subsidized Stafford Loans for which the borrower is eligible may be borrowed through Unsubsidized Stafford Loans, subject to certain loan limits. Parents of dependent, undergraduate students may finance the difference between the estimated cost of attendance and other financial assistance through their own resources or through PLUS Loans. Graduate or professional school students may finance the estimated cost of attendance minus the student's estimated financial assistance, including Subsidized and Unsubsidized Stafford loans, through Grad 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 HEA requires all Stafford and PLUS Loans to be disbursed in at least two separate disbursements unless the loan is certified for a single term and the school has a cohort default rate of less than 10% for each of the three most recent fiscal years for which cohort default rate data is available. Beginning October 1, 2011, the school may disburse a single term loan in a single installment if it has a cohort default rate of not less than 15% for each of the three most recent fiscal years. 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.

Annual Loan Limits

Undergraduate Stafford Annual Loan Limits: Currently, dependent undergraduate students may borrow a base Stafford loan of up to \$3,500 in each academic year through the completion of their freshman year and \$4,500 in each academic year through the completion of their sophomore year; and a base Stafford loan of up to \$5,500 in each subsequent academic year for the remainder of their undergraduate program. In addition to the base Stafford Loan amounts, independent undergraduate students, and dependent undergraduate students whose parent(s) are not eligible to borrow PLUS loan funds, may receive additional Unsubsidized Stafford Loans of up to \$4,000 per academic year through the completion of their Sophomore year and \$5,000 per academic year thereafter for the remainder of the undergraduate program. Also, effective for loan periods that include July 1, 2008 both dependent and independent undergraduate students may borrow an additional \$2,000 unsubsidized Stafford loan during each academic year.

Graduate Stafford Annual Loan Limits: Graduate and professional students may borrow up to \$20,500 combined Subsidized and Unsubsidized Stafford Loans, of which no more than \$8,500 may be Subsidized, in each academic year of the graduate program.

Increased Stafford Annual Loan Limits for Certain Health Profession Students: 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. Students enrolled in certain health care programs are eligible for increased annual unsubsidized Stafford loan limits of between \$12,500 and \$16,667 or between \$20,000 and \$26,667 depending on the program of study in which the student is enrolled. These amounts are in addition to the \$20,500 combined Subsidized and Unsubsidized annual Stafford loan limits available to graduate and professional students.

PLUS Loans: The annual loan limit for a Parent PLUS borrower and Grad PLUS borrower is cost of attendance minus other financial aid.

Aggregate Loan Limits

Undergraduate Students: ECASLA increased the maximum aggregate amount of Stafford Loans which a dependent undergraduate student may have outstanding from \$23,000 to \$31,000, of which no more than \$23,000 may be subsidized Stafford loans (this includes the total of outstanding Stafford Loans, SLS Loans, and loans under the Federal Direct Student Loan Program, as well as any portion of an outstanding Consolidation loan that repaid such loan). The maximum aggregate amount of Stafford Loans which an independent undergraduate student, or a dependent undergraduate student whose parent does not qualify for a PLUS loan, may have outstanding was increased from \$46,000 to \$57,500, of which no more than \$23,000 may be subsidized Stafford loans (this includes the total of outstanding Stafford Loans, SLS Loans, loans under the Federal Direct Student Loan Program, as well as any portion of an outstanding Consolidation loan that repaid such loan).

Graduate Students: The aggregate loan limit for a graduate or professional student is \$138,500, of which no more than \$65,500 may be subsidized Stafford loans, (this includes the total of outstanding Stafford Loans, SLS Loans, and loans under the Federal Direct Student Loan Program, as well as any portion of an outstanding Consolidation loan that repaid such loan).

Eligible Health Profession Students: On April 18, 2008 the Department issued *Dear Colleague Letter* FP-08-04/GEN-08-04 announcing an increase to the aggregate loan limit for students enrolled in certain health profession programs from \$189,125 to \$224,000, of which no more than \$65,500 may be subsidized Stafford loans (this includes the total of outstanding Stafford loans, SLS loans, and loans under the Federal Direct Student Loan Program, as well as any portion of a Consolidation loan that repaid such loan. The increase was effective April 18, 2008.

Parent PLUS and Grad PLUS: There is no aggregate loan limit for parent PLUS or Grad PLUS borrowers.

Consolidation Loans

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. Under this program, a lender may make a Consolidation Loan to an eligible borrower at the request of the borrower regardless of whether the lender holds an outstanding loan of the borrower.

Congress repealed the ability of borrowers to consolidate while still in school in the HERA.

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 FFELP 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 undergraduate students and graduate and professional students; however, independent undergraduate students and dependent undergraduate students whose parents are unable to obtain a PLUS Loan have higher Unsubsidized Stafford loan limits than dependent undergraduate students whose parents are able to obtain a PLUS Loan

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 HEA (“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 HEA) 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 HEA, 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 HERA, interest rates for loans first disbursed on or after July 1, 2006 were fixed at 6.8% per annum.

Under the CCRAA, the fixed interest rate for undergraduate subsidized Stafford loans will be reduced each year between July 1, 2008 and July 1, 2012 as follows:

- 6% for loans first disbursed on or after July 1, 2008 and before July 1, 2009.
- 5.6% for loans first disbursed on or after July 1, 2009 and before July 1, 2010
- 4.5% for loans first disbursed on or after July 1, 2010 and before July 1, 2011
- 3.4% for loans first disbursed on or after July 1, 2011 and before July 1, 2012

After June 30, 2012, the fixed interest rates for undergraduate subsidized Stafford loans will return to 6.8%.

The HEOA clarifies that borrower interest rates are not intended to override Section 207 of the Servicemembers Civil Relief Act, which caps interest rates on all types of debt at 6 percent for active duty service members.

PLUS/SLS Loans

PLUS/SLS Loans disbursed to or refinanced by borrowers who are parents or guardians of dependent students, graduate or professional 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 provide that interest on PLUS Loans first disbursed on or after October 1, 1998 and prior to July 1, 2003 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 Deficit Reduction Act of 2005, 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 the 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 on or after October 1, 1998 is the weighted average of loans being consolidated, rounded to the nearest 1/8 of one percent and capped at 8.25%. Consolidation Loans may be eligible for interest subsidy and/or 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 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 parent PLUS Loans generally begins 60 days after the loan is fully disbursed. Effective for loans disbursed on or after July 1, 2008, the ESCALA provided parent borrowers with the option of delaying repayment until 6 months after their dependent student ceased to be enrolled at least half time. The HEOA authorized a period of deferment for parent PLUS loan borrowers until 6 months after their dependent student ceased to be enrolled at least half time. In addition, the HEOA provides a Grad PLUS loan borrower with a 6 month grace period. Grad PLUS borrowers repayment will begin 6 months after the borrower ceases half time attendance. 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; or accruing interest may be paid by the student or parent borrower monthly or quarterly. SLS borrowers have the option to defer commencement of repayment of principal until the commencement of repayment of their 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 the Consolidation Loan is disbursed. Deferment of principal repayment is authorized under certain circumstances defined in the Higher Education Act. On Subsidized Stafford Loans, certain Consolidation Loans made from applications received on or after January 1, 1993, and portions of certain Consolidation Loans made from applications received on or after November 13, 1997 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 HEA 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 HEA 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 FFELP 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.

Effective July 1, 2009 a new income based repayment (IBR) schedule will be available that limits loan payments for certain borrowers to no more than 15% of their discretionary income.

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, and certain Consolidation Loans or portions of Consolidation 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, PLUS 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. For Subsidized and Unsubsidized Stafford Loans first disbursed on or after July 1, 2000, accrued interest for deferment periods may only be capitalized 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 at least 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. 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, or in some cases verbal 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 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 HEA 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 or SLS Loans.

The Secretary of Education makes Interest Subsidy Payments during periods of deferment on certain Consolidation Loans, as follows:

- Consolidation Loans made from applications received between January 1, 1993, and August 9, 1993, inclusive, excluding any portions derived from underlying HEAL Loans;
- Consolidation Loans made from applications received between August 10, 1993, and November 12, 1997, inclusive, where all loans consolidated were Subsidized Stafford Loans;
- Consolidation Loans made from applications received on or after November 13, 1997, for any portion of the Consolidation Loan that paid a subsidized FFELP loan or a subsidized Direct Loan.

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. 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 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 FFELP Loans for which the first disbursement occurs prior to October 1, 1993, is summarized below:

<u>Claims Rate</u>	<u>Federal Reimbursement</u>
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 Act reduced the required maximum guaranty level for guarantees of FFELP 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 Act reduced the minimum guaranty level from 80% to 78%. Under the 1993 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 FFELP Loans for which the first disbursement occurs on or after October 1, 1993, is summarized below:

<u>Claims Rate</u>	<u>Federal Reimbursement</u>
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:

<u>Claims Rate</u>	<u>Federal Reimbursement</u>
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, 16% beginning October 1, 2007, or 18.5% in the case of a payment from the proceeds of a rehabilitated 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 HEA 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 HEA. 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 HEA 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 FFELP 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 Section 409 of Public Law 106-170, the 1999 Act, signed into law on December 17, 1999. 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").

The CCRAA reduced Special Allowance Payments on Stafford and Consolidation Loans by 40 basis points and by 70 basis points for PLUS loans held by non-profit entities such as the Agency.

Except as described below under "Legislative and Administrative Matters - Enforcement of Spending Limits," the HEA 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 HEA 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.

On January 23, 2007, the Agency received a Dear Colleague Letter (FP-07-01) (the "Letter") from the U.S. Department of Education (the "Department") which restated the requirements of the statute and regulations that control whether FFELP Loans made or acquired with funds derived from pre-October 1, 1993 tax-exempt financing sources are eligible for Special Allowance Payments at the 9.5 percent minimum return rate. The Letter included, as an attachment, a copy of a more detailed letter dated January 24, 2007 (the "Lender Letter") that was sent to any lender that was claiming, at that time, Special Allowance Payments at the 9.5 percent minimum return rate.

The Lender Letter stated that as of January 24, 2007, the Department would pay Special Allowance Payments at the standard rate on any loans that were included in Special Allowance Payment billings submitted at the 9.5 percent minimum rate until the Department received the results of an audit or review of the loans included in the lender's December 31, 2006 request for Special Allowance Payments at the 9.5 percent rate, and accepted the results as proving that the loans met the 9.5 percent billing requirements restated in the Letter. Such audits must be conducted either by an accounting firm engaged by the Department or, at the lender's option, by an independent accounting firm of the lender's choosing, using the audit methodology established by the Department. A lender's internal auditor may not be used for this purpose.

On April 27, 2007, the Department issued another Dear Colleague letter (FP-07-06) which included the Department's Office of the Inspector General's special Auditor's Guide and methodology to identify loans eligible for Special Allowance Payments at the 9.5 percent minimum return rate. The Auditor's Guide must be used for this audit. The Auditor's Guide defines the methodology to identify loans included on the lender's December 31, 2006 Special Allowance Payment billing that the Department will consider to be eligible for the 9.5 percent Special Allowance Payment rate.

The Agency has reviewed its loan portfolio and has made a determination to proceed with the Department of Education audit in accordance with the Department's Office of the Inspector General's special Auditor's Guide and methodology which regulates the 9.5 percent special allowance payment rate. It is the Agency's opinion that there will be no material impact on the Indenture regarding its decision to pursue billing Special Allowance Payments at the 9.5 percent minimum return rate.

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 HEA, while bearing interest at 10%) effectively provide an overall minimum return of 9.5% on such loans. The 1993 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 Act 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 HERA modified the provisions addressing Special Allowance Payments, applicable to FFELP 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 FFELP Loans in the amount by which interest accruing or payable upon such FFELP 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 CP Rate plus: (i) 1.74 percent, with respect to Stafford Loans during in-school, grace and deferment periods; (ii) 2.34 percent, with respect to Stafford Loans otherwise; and (iii) 2.64 percent, with respect to PLUS and FFEL Consolidation Loans. 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.

The CCRAA reduced Special Allowance payments on Stafford loans first disbursed on or after October 1, 2007 to the CP Rate plus: (i) 1.34 percent during in-school, in-grace and deferment periods; (ii) 1.94 percent with respect to Stafford loans otherwise for not-for-profit holders (such as the Agency). Special Allowance Payments are further reduced by .15 percent for holders who are not eligible not-for-profit entities.

The HEOA clarifies that the applicable interest rate used when calculating special allowance on new loans subject to the Servicemembers Civil Relief Act and disbursed after July 1, 2008 is 6 percent, not the statutorily set interest rate

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.

After July 1, 2006, owners of PLUS/SLS Loans will receive Special Allowance Payments under circumstances similar to owners of Stafford Loans.

PLUS Loans are eligible for Special Allowance Payments determined by the same formulas as Subsidized Federal Stafford Loans, except that in the case of PLUS Loans made on or after July 1, 1998 but before October 1, 1998, the Special Allowance Payment is the equivalent of the 91-Day T-Bill Rate minus the Applicable Loan Rate plus 3.1%. For PLUS Loans first disbursed on or after July 1, 1998, the statutory cap is 9%.

The formula for determining Special Allowance Payments changed for PLUS Loans originated on or after January 1, 2000 such that the Special Allowance Payments will be based on the 3 Month CP Rate minus the applicable interest rates on the loans, plus 2.64%. The statutory cap for these loans remains at 9% per annum.

The CCRAA reduced Special Allowance payments on Plus loans first disbursed on or after October 1, 2007 to the CP Rate plus: 1.94 percent for not-for-profit holders (such as the Agency). Special Allowance Payments are further reduced by .15 percent for holders who are not eligible not-for-profit entities.

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%.

The CCRAA reduced Special Allowance payments on Consolidation loans first disbursed on or after October 1, 2007 to the CP Rate plus: 1.94 percent for not-for-profit holders (such as the Agency). Special Allowance Payments are further reduced by .15 percent for holders who are not eligible not-for-profit entities.

Floor Income

The HERA 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.

Federal Default Fee. 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 of 2005, 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. A Lender Origination Fee is paid to the Secretary of Education on the amount disbursed by the Lender for all FFELP Loans. For loans first disbursed between October 1, 1993 and September 30, 2007 the fee was .50% of the amount disbursed. The fee increased to 1% for FFELP Loans first disbursed on or after October 1, 2007.

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 FFEL 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 FFELP 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 2005 Amendments provide 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. The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 [PL 109-234] provide 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 acceptable to the borrower 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 FFELP 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 was 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 HEA 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 (MPN) for new Stafford Loans. Initially, the multi-year feature of the MPN was only available to schools located in the United States that offered a Bachelor's Degree, Professional Certification, Professional Degree or Master or Doctorate Program. Effective for any Stafford loan certified on or after March 1, 2003, the multi-year feature of the MPN could be used by any school located in the United States.

Beginning in July 2004, all lenders are required to use the PLUS Loan Application and Master Promissory Note ("PLUS MPN") for loan periods beginning on or after July 1, 2004, or for any loan certified on or after July 1, 2004, regardless of the loan period. The multi-year feature of the PLUS MPN is available to a parent whose dependent student is attending a school located in the United States.

The MPN permits a borrower to obtain future loans without the necessity of executing a new promissory note unless the school chooses or is required to use the MPN as an annual note. A parent PLUS loan borrower must complete a new PLUS MPN for each dependent student. Borrowers are not required to obtain all of their future loans from their original lender. However, 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. 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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EXHIBIT D

SUMMARY OF CERTAIN PROVISIONS OF THE SERVICING AGREEMENT

The Servicing Agreement

The Trustee has entered into a Servicing Agreement with the Pennsylvania Higher Education Assistance Agency for the servicing of the Student Loans under the Indenture that continues until the earlier of

- termination of the Indenture;
- early termination after a Servicer default as provided for in the Servicing Agreement; or
- payment in full of the Student Loans being serviced under the Servicing Agreement.

With respect to the Student Loans, the Servicer is responsible under the Servicing Agreement for performing all services and duties customary to the servicing of the Student Loans, including collection practices, in the same manner as the Servicer has serviced student loans for parties other than the Trust Estate. The Servicer is obligated to service the Student Loans in compliance with, and to otherwise comply with, all standards and procedures provided for in the Higher Education Act, the guarantee agreements and all other applicable federal and state laws. The Servicer is required to maintain its eligibility as a third-party servicer under the Higher Education Act. The Servicer may perform its servicing obligations under the Servicing Agreement through one or more subservicing agreements if the Rating Agency Condition is satisfied.

Without limiting the foregoing, the duties of the Servicer with respect to the Student Loans under the Servicing Agreement include, but are not limited to, the following:

- collecting and depositing into the Collection Account all payments with respect to the Student Loans, including claiming and obtaining any guarantee payments, any interest subsidy payments and special allowance payments with respect to the Student Loans,
- responding to inquiries of borrowers on the Student Loans,
- investigating delinquencies,
- pursuing, filing and collecting any program payments,
- accounting for collections,
- furnishing monthly and annual statements to the Trustee and the Agency, and
- paying taxes, accounting fees, outside auditor fees, data processing costs and other costs incurred in administering the Student Loans.

The Servicer may claim and collect Interest Subsidy Payments and Special Allowance Payments from the Department with respect to the Student Loans pledged to the Trust Estate and with respect to those student loans owned by the Agency or held in other trusts using a common lender identification number. The Servicing Agreement for your Notes, as well as other servicing agreements entered into by the Agency, contain provisions for cross-indemnification concerning those payments and offsets. Even with such cross-indemnification provisions, however, the amount of funds available to the Trust Estate from indemnification in any given period may not necessarily be adequate to compensate the Trust Estate and investors in the Notes for any previous reduction in the Available Funds.

The Servicing Agreement may be amended, supplemented or modified only by written instrument duly executed by the Servicer and the Trustee, with the prior consent of the Agency. So long as any Notes remain Outstanding under the Indenture, the Rating Agency Condition must be satisfied with respect to any amendment, supplement or modification to the Servicing Agreement, provided that the Servicing Agreement may be amended at any time upon the mutual written consent of the parties to cure any ambiguity, defect or omission in the Servicing Agreement without satisfaction of the Rating Agency Condition upon receipt of an opinion of counsel that any such amendment or modification will not materially adversely affect the rights or security of the Noteholders.

Servicer Covenants

The Servicer will agree that:

- it will satisfy all of its obligations relating to the Student Loans, maintain in effect all qualifications required in order to service the Student Loans and comply with all applicable legal requirements;
- it will not permit any rescission or cancellation of a Student Loan except as ordered by a court or other government authority or as consented to by the Trustee, except that it may write off any delinquent loan if the remaining balance of the borrower's account is less than \$50;
- it will do nothing to impair the rights of the Noteholders; and
- it will not reschedule, revise, defer or otherwise compromise payments due on any Student Loan except during any applicable interest only, deferral or forbearance periods or otherwise in accordance with all applicable standards, guidelines and requirements for servicing of the Student Loans.

Upon the discovery of a breach of any covenant that has a materially adverse effect on the Trust Estate, the Servicer will be obligated to purchase or provide a substantially similar substitute for that Student Loan unless the breach is cured within the applicable cure period specified in the Servicing Agreement. Any breach that relates to compliance with the requirements of the Higher Education Act or the applicable guarantor but that does not affect that guarantor's obligation to guarantee payment of a Student Loan will not be considered to have a material adverse effect.

The purchase or substitution of Student Loans and reimbursement obligations of the Servicer will constitute the sole remedy available for any uncured breach. The Servicer's purchase or substitution and reimbursement obligations are contractual obligations, but the breach of these obligations will not constitute an event of default under the Indenture.

Servicing Compensation

The Servicer will receive a Servicing Fee for each Collection Period equal to one-twelfth of 0.70% of the outstanding principal amount of the Student Loans as of the last day of the preceding calendar month. In addition, the Servicer shall be entitled to any related amounts previously due to the Servicer that remain unpaid. The Servicing Fee will be payable out of Available Funds and, if necessary, from amounts on deposit in the Capitalized Interest Account and 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 January 25, 2010. The Servicing Fee, including any unpaid amounts from prior payment dates, will have a payment priority over the Notes. The Servicer will also be entitled to receive a Carryover Servicing Fee for certain administrative fees, expenses and similar charges to the extent incurred and for specified amounts payable to the Servicer for tasks it performs. The Carryover Servicing Fee, including unpaid amounts from prior payment dates, will generally have a payment priority below the payment of interest on the Notes and below principal payable on the Notes to the extent of the Class A Noteholders' Principal Distribution Amount.

Matters Regarding the Servicer.

The Servicing Agreement provides that the Servicer may not resign from its obligations and duties as Servicer thereunder, except upon determination that the Servicer's performance of the duties is no longer permissible under applicable law. No resignation will become effective until the Trustee or a successor servicer has assumed the Servicer's servicing obligations and duties under the Servicing Agreement.

It is expressly stated in the Servicing Agreement that no provision of the Servicing Agreement may be interpreted, read or construed as a waiver of the sovereign immunity of the Commonwealth of Pennsylvania. The Notes are not guaranteed or insured by the Commonwealth of Pennsylvania or any governmental entity, agency or instrumentality of the Commonwealth of Pennsylvania.

The Servicing Agreement further provides that neither the Servicer nor any of its directors, officers, employees or agents will be under any liability to the Agency, the Trustee or the Noteholders for taking any action or for refraining from taking any action pursuant to the Servicing Agreement, or for errors in judgment; provided, however, that, unless otherwise limited in the Indenture, neither the Servicer nor any person will be protected against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of the Servicer's duties thereunder or by reason of reckless disregard of its obligations and duties thereunder. In addition, the Servicing Agreement will provide that the Servicer is under no obligation to appear in, prosecute, or defend any legal action where it is not named as a party. Each Servicing Agreement will, however, provide that the Servicer may undertake any reasonable action that it deems necessary or desirable in respect of the Servicing Agreement and the interests of the Noteholders.

Under the circumstances specified in the Servicing Agreement, any entity into which the Servicer is merged or consolidated, or any entity resulting from any merger or consolidation to which the Servicer is a party, or any entity succeeding to the business of the Servicer, which corporation or other entity in each of the foregoing cases assumes the obligations of the Servicer, will be the successor of the Servicer under the Servicing Agreement.

Servicer Default

A Servicer default under the Servicing Agreement will consist of:

- any failure by the Servicer to deliver to the Trustee for deposit in any of the Trust Accounts any required payment, which failure continues unremedied for five business days after written notice of such failure is received by the Servicer from the Trustee or after discovery of such failure by an officer of the Servicer; or
- any failure by the Servicer to observe or to perform in any material respect any term, covenant or agreement set forth in the Servicing Agreement, which breach or failure shall:
 - materially and adversely affect the rights of the Noteholders; and
 - continue unremedied for a period of 60 days after the date of discovery of such failure by an officer of the Servicer or on which written notice of such breach or failure, requiring the same to be remedied, shall have been given:
 - to the Servicer, by the Trustee; or
 - to the Servicer and the Trustee by holders of at least a majority of the outstanding amount of the Notes;
- the occurrence of an Insolvency Event involving the Servicer; or
- 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.

A Servicer default does not include any failure of the Servicer to service a Student Loan in accordance with the Higher Education Act so long as the Servicer is in compliance with its obligations under the Servicing Agreement to purchase any adversely affected Student Loans and to pay to the Trust the amount of any program payments lost as a result of the Servicer's actions.

Rights Upon Servicer Default

As long as a Servicer default remains unremedied, the Trustee or holders of not less than a majority of the outstanding amount of the Notes, by notice then given in writing to the Servicer may terminate the rights and obligations of the Servicer. Only the Trustee or the Noteholders, will have the ability to remove the Servicer if a default occurs while the Notes are outstanding. Following a termination, a successor servicer appointed by the Agency or the Trustee itself will succeed to all the responsibilities, duties and liabilities of the Servicer under the Servicing Agreement and will be entitled to similar compensation arrangements.

The predecessor Servicer will cooperate with the successor servicer and the Trustee in effecting the termination of the responsibilities and rights of the Servicer under the Servicing Agreement, including the transfer to the successor servicer for administration by it of all cash amounts held by the Servicer for deposit at the time of transfer. All reasonable costs and expenses incurred in connection with transferring the Student Loans to the successor servicer shall be paid by the predecessor Servicer upon presentation of reasonable documentation of such costs and expenses.

If the Trustee is unwilling or unable to act as Servicer, it may appoint, or petition a court for the appointment of, a successor whose regular business includes the servicing of student loans.

Evidence as to Compliance

The Servicing Agreement and the Indenture will require the Servicer to deliver to the Trustee will also deliver a certificate signed by an officer of the Servicer stating that, to the officer's knowledge, the Servicer has fulfilled its obligations under the Servicing Agreement. If there has been a material default, the officer's certificate will describe the default. The Servicer has agreed to give the Trustee notice of Servicer defaults under the Servicing Agreement.

Waiver of Past Defaults

The Trustee, in the case of any Servicer default may, waive any default by the Servicer, except a default in making any required deposits to or payments from any of the Trust Accounts in accordance with the Servicing 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 the Servicing Agreement and the Indenture. No waiver will impair the Noteholders' rights as to, or otherwise extend to, subsequent defaults.

APPENDIX E

PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE NOTES

Prepayments on pools of student loans can be calculated based on a variety of prepayment models. The model used to calculate prepayments in this Official Statement is based on prepayments assumed to occur at a constant prepayment rate (“CPR”). CPR is stated as an annualized rate and is calculated as the percentage of the loan amount outstanding at the beginning of a period (including accrued interest to be capitalized), after applying scheduled payments, that is prepaid during that period. The CPR model assumes that student loans will prepay in each month according to the following formula:

$$\text{Monthly Prepayments} = \text{Balance after scheduled payments} \times (1 - (1 - \text{CPR})^{1/12})$$

The CPR model does not purport to describe historical prepayment experience or to predict the prepayment rate of any actual student loan pool. The student loans will not prepay at any constant level of CPR, nor will all of the student loans prepay at the same rate. You must make an independent decision regarding the appropriate principal prepayment scenarios to use in making any investment decision.

For purposes of calculating the information presented in the tables below, it is assumed, among other things, that:

- the Statistical Cutoff Date for the Student Loans is November 30, 2009;
- the closing date will be December 29, 2009;
- all Student Loans (as grouped within the “rep lines” described below) remain in their current status until their status end date and then move to repayment, with the exception of school status loans which are assumed to have a 6-month grace period before moving to repayment, and no Student Loan moves from repayment to any other status;
- the Student Loans that are (i) unsubsidized Stafford or Consolidation loans not in repayment status, (ii) subsidized Stafford or Consolidation loans in forbearance status or (iii) SLS or PLUS loans, have interest accrued and capitalized upon entering repayment;
- the Student Loans that are (i) subsidized Stafford loans in school, grace or deferment status, or (ii) subsidized Consolidation loans in deferment status, have interest paid (interest subsidy payments) by the Department of Education quarterly, based on a quarterly calendar accrual period;
- there are government payment delays of 60 days for interest subsidy and special allowance payments;
- no delinquencies or defaults occur on any of the Student Loans, no repurchases for breaches of representations, warranties or covenants occur, and all borrower payments are collected in full;
- Index levels for calculation of borrower and government payments are:
 - a 91-day Treasury bill rate of 0.048%;
 - a three-month commercial paper rate of 0.23%; and
 - a 1-year Treasury bill rate that equals the 91-day Treasury bill rate;
- quarterly distributions begin on April 25, 2010, and payments are made quarterly on the 25th day of every January, April, July and October thereafter, whether or not the 25th is a business day;
- the interest rate for the Notes at all times will be equal to 1.1725%;
- a Servicing Fee equal to 1/12th of the then outstanding principal amount of the Student Loans as of the last day of the preceding month times 0.70% is paid monthly under the Indenture to the Servicer, beginning in January 2010;

- the Reserve Account has an initial balance equal to the deposit specified in this Official Statement under “USE OF PROCEEDS,” and thereafter with respect to any 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) 0.15% of the Initial Pool Balance, provided that in no event will such balance exceed the outstanding amount of the Notes.
- the Capitalized Interest Account has an initial balance equal to the deposit specified in this Official Statement under “USE OF PROCEEDS,” and on the October 2010 Distribution Date, the remaining amount in the Capitalized Interest Account will be included in Available Funds;
- all payments are assumed to be made at the end of the month and amounts on deposit in the Collection Account, Reserve Account and Capitalized Interest Account, including reinvestment income earned in the previous month, net of Monthly Consolidation Loan Rebate Fees, are reinvested in Eligible Investments at the assumed reinvestment rate of 0.048% per annum through the end of the Collection Period and reinvestment earnings are available for distribution from the prior Collection Period;
- the Servicer makes no other purchases of Student Loans; and
- the pool of Student Loans consists of 3,110 representative loans (“rep lines”), which have been created for modeling purposes from individual Student Loans based on combinations of similar individual student loan characteristics, which include, but are not limited to, loan status, interest rate, loan type, index, margin, rate cap and remaining term.

The following tables have been prepared based on the assumptions described above (including the assumptions regarding the characteristics and performance of the rep lines, which will differ from the characteristics and performance of the actual pool of Student Loans) and should be read in conjunction therewith. In addition, the diverse characteristics, remaining terms and loan ages of the Student Loans could produce slower or faster principal payments than indicated in the following tables, even if the dispersions of weighted average characteristics, remaining terms and loan ages are the same as the assumed characteristics, remaining terms and loan ages.

The following tables show the weighted average remaining lives, expected maturity dates and percentages of original principal of the Notes at various levels of CPR from the closing date until the maturity date.

**Weighted Average Lives and Expected Maturities of the Notes
at Various CPR Percentages⁽¹⁾**

Weighted Average Life (years)⁽²⁾	0%	1%	2%	3%	4%
A-1 Notes.....	6.52	6.18	5.86	5.57	5.30
Expected Maturity Date	0%	1%	2%	3%	4%
A-1 Notes.....	July 2024	January 2024	October 2023	April 2023	January 2023

⁽¹⁾ Assuming for purposes of this table that, among other things, the optional redemption by the Servicer or a mandatory auction of the Student Loans does not occur.

⁽²⁾ The weighted average life of the Notes (assuming a 360-day year consisting of twelve 30-day months) is determined by: (1) multiplying the amount of each principal payment on the Notes by the number of years from the closing date to the related Distribution Date, (2) adding the results, and (3) dividing that sum by the aggregate principal amount of the Notes as of the closing date.

Notes
Percentages Of Original Principal Of The Notes Remaining At Certain Distribution
Dates At Various CPR Percentages⁽¹⁾

Distribution Date	0%	1%	2%	3%	4%
Closing Date	100%	100%	100%	100%	100%
April 2010	98%	98%	98%	98%	98%
April 2011	90%	89%	88%	87%	86%
April 2012	82%	80%	78%	76%	75%
April 2013	73%	71%	68%	66%	64%
April 2014	65%	62%	59%	56%	54%
April 2015	56%	53%	50%	47%	44%
April 2016	47%	44%	41%	38%	35%
April 2017	39%	36%	32%	30%	27%
April 2018	31%	28%	25%	23%	20%
April 2019	25%	22%	20%	17%	15%
April 2020	20%	17%	15%	12%	10%
April 2021	15%	12%	10%	8%	6%
April 2022	10%	8%	6%	4%	2%
April 2023	5%	3%	2%	0%	0%
April 2024	1%	0%	0%	0%	0%
April 2025	0%	0%	0%	0%	0%
April 2026	0%	0%	0%	0%	0%
April 2027	0%	0%	0%	0%	0%
April 2028	0%	0%	0%	0%	0%
April 2029	0%	0%	0%	0%	0%
April 2030	0%	0%	0%	0%	0%
April 2031	0%	0%	0%	0%	0%
April 2032	0%	0%	0%	0%	0%
April 2033	0%	0%	0%	0%	0%
April 2034	0%	0%	0%	0%	0%

⁽¹⁾ Assuming for purposes of this table that, among other things, the optional redemption by the Servicer or a mandatory auction of the Student Loans does not occur.

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