

REMARKETING CIRCULAR

REMARKETING – Book-Entry Only

Ratings (See “Ratings” herein)

On June 30, 1999, Co-Bond Counsel, Saul Ewing LLP and Pepper Hamilton LLP delivered an approving bond counsel opinion that under then existing laws, interest on the Bonds is excludable from gross income for federal income tax purposes, subject to the condition that the Agency complies with certain covenants in the Indenture. Co-Bond Counsel also opined that interest on the Bonds is treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes. Co-Bond Counsel also opined that under the laws of the Commonwealth of Pennsylvania, as then enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and interest on the Bonds is exempt from the Pennsylvania personal income and corporate net income tax.

In the opinion of Bond Counsel to the Agency, Saul Ewing LLP, the proposed amendments to the existing liquidity facility and the proposed amendments to the Existing Indenture will not, in and of themselves, adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for purposes of federal income taxation. See “TAX MATTERS” herein.

\$100,000,000

Pennsylvania Higher Education Assistance Agency Student Loan Adjustable Rate Revenue Bonds, 1999 Series A

Remarketing Date: May 9, 2008

Due: June 1, 2029

The Bonds were issued by the Pennsylvania Higher Education Assistance Agency pursuant to a Trust Indenture dated as of June 1, 1999 with Allfirst Bank, as original Trustee, as amended to date, for the purpose of providing the Agency with funds to make specified types of loans to students and parents. The Bonds are being remarketed on May 9, 2008 (the “Effective Date”) in connection with the delivery on the Effective Date of an amendment to the existing a standby bond purchase agreement with Morgan Stanley Bank, the delivery of a Third Amendment to Trust Indenture dated as of May 1, 2008 and the receipt of underlying ratings on the Bonds based on the trust estate.

The Bonds are issuable in fully registered form, and are registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC acts as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their beneficial ownership interests in the Bonds. Purchases of beneficial interests in the Bonds will be made in book entry form, in denominations of \$100,000 or any integral multiple thereof. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of principal, redemption price, if any, and interest with respect to the Bonds are to be made directly to DTC by the Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC and the disbursement of such payments to the beneficial owners is the responsibility of DTC Participants. See “THE BONDS — Book-Entry-Only System” herein.

The Bonds will bear interest at the Weekly Rate on and after the Effective Date until the interest rate on the Bonds is converted to another interest rate mode under the Indenture. The Weekly Rate will be determined by the Remarketing Agent, and will be effective on Wednesday of each week, as the lowest rate of interest which, in the judgment of the Remarketing Agent, would permit the sale of the Bonds at a price equal to 100% of the principal amount thereof, plus accrued interest on the date of such determination. While the Bonds bear interest at the Weekly Rate, interest is payable on the first Business Day of each June and December.

While the Bonds bear interest at the Weekly Rate, each Bond is required to be purchased upon the demand of the owner on any Business Day upon not less than seven days prior written notice. Once such notice is given, the Bondowner will be required to tender his Bond on the date established for purchase, and any Bond not so tendered will be deemed to have been purchased on such date and the owner will cease being entitled to interest which accrues on the Bond on and after the purchase date.

The Bonds are subject to mandatory tender at certain times and under certain conditions as described herein. In addition, the Bonds are subject to optional and mandatory redemption prior to maturity under certain circumstances as described herein.

The Bonds are limited obligations of the Agency and are payable solely out of the trust estate pledged under the Indenture. Payment of the principal of and interest on the Bonds when due is insured by an existing municipal bond insurance policy issued by Ambac Assurance Corporation.

Ambac

Payment of the purchase price of Bonds tendered or deemed tendered for purchase and not remarketed will be made from funds available under a standby bond purchase agreement provided by Morgan Stanley Bank.

Morgan Stanley Bank

The standby bond purchase agreement will expire on October 1, 2011, or upon the earlier occurrence of certain events, unless extended or renewed, and in certain circumstances may be replaced by an alternate liquidity facility. The standby bond purchase agreement may terminate immediately without notice and without mandatory tender upon the occurrence of certain events relating to Ambac Assurance Corporation or the Municipal Bond Insurance Policy, the Agency, the ratings on the Bonds or the Indenture. See “THE STANDBY AGREEMENT”.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR WILL BE OBLIGATED TO PAY THE PRINCIPAL, PURCHASE PRICE, REDEMPTION PRICE, IF ANY, OR INTEREST ON THE BONDS 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 AGENCY HAS NO TAXING POWER.

The Bonds are reoffered subject to the opinion of Saul Ewing LLP, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Agency by Stevens & Lee, a Professional Corporation, Reading and Harrisburg, Pennsylvania and by its special disclosure counsel Obermayer Rebmann Maxwell & Hippel LLP, Philadelphia and Harrisburg, Pennsylvania, and for the Bank by Cadwalader, Wickersham & Taft LLP, New York, New York. Public Financial Management, Inc., Harrisburg, Pennsylvania, serves as financial advisor to the Agency with respect to the remarketing of the Bonds.

Morgan Stanley

May 9, 2008

No dealer, broker, salesman or other person has been authorized by the Pennsylvania Higher Education Assistance Agency or the Remarketing Agent to give any information or to make any representation with respect to the Bonds, other than those contained in this Remarketing Circular, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. Certain information set forth herein has been obtained from the Agency, Ambac Assurance Corporation, Morgan Stanley Bank and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Remarketing Agent. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Remarketing Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

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REMARKETING CIRCULAR
\$100,000,000

PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY
Student Loan Adjustable Rate Revenue Bonds, 1999 Series A

INTRODUCTION

This Remarketing Circular is provided to furnish information in connection with the remarketing on May 9, 2008 (the "Effective Date") of all of the \$100,000,000 Student Loan Adjustable Rate Revenue Bonds, 1999 Series A (the "Bonds") of the Pennsylvania Higher Education Assistance Agency (the "Agency"). The Agency is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Pennsylvania Act of Assembly of August 7, 1963, P.L. 549, as amended (the "Act"). See "THE AGENCY."

The Bonds were issued on June 30, 1999 in accordance with the provisions of the Act and under a Trust Indenture dated as of June 1, 1999 (the "Original Indenture") between the Agency and Allfirst Bank, Harrisburg, Pennsylvania, as Trustee. The Original Indenture was amended by a First Amendment to Trust Indenture dated as of June 1, 2002 between the same parties (the "First Amendment") and by an Amendment to the Trust Indenture dated as of December 1, 2004 between the Agency and Manufacturers and Traders Trust Company as successor Trustee (the "Second Amendment", and together with the Original Indenture and First Amendment, the "Existing Indenture"). On the Effective Date, the Existing Indenture will be further amended and supplemented by a Third Amendment to Trust Indenture dated as of May 1, 2008 (the "Third Amendment", and together with the Existing Indenture, hereinafter referred to as the "Indenture"). For a summary of the Indenture, see APPENDIX A.

The Third Amendment is being entered into by the Agency principally to facilitate the obtaining of underlying ratings on the Bonds independent of the Bond Insurance Policy. See "Third Amendment" in APPENDIX A.

The Bonds are being remarketed by Morgan Stanley & Co. Incorporated, as Remarketing Agent (the "Remarketing Agent") pursuant to a Remarketing Agent Agreement dated as of April 15, 2008 (the "Remarketing Agent Agreement") between the Agency and the Remarketing Agent. The Bonds will be remarketed at par and initially will bear interest at a Weekly Rate determined by the Remarketing Agent until interest on the Bonds is converted to another mode permitted under the Indenture, or until the Bonds are redeemed or mature by their terms. Interest on the Bonds is payable on the first Business Day of each December and June, commencing June 2, 2008 for holders who purchase on or after the Effective Date. See "THE BONDS".

While the Bonds bear interest at the Weekly Rate, the Bonds are subject to mandatory and optional tender for purchase (as described herein) in accordance with the terms of the Indenture. The Remarketing Agent has agreed to use its best efforts to remarket Bonds which are tendered on any tender date, except Bonds purchased pursuant to a Mandatory Standby Tender.

The proceeds of the Bonds were used to establish certain reserves under the Indenture, to make or finance certain loans to students and parents for education purposes and to pay costs of issuance. All loans made or financed with the proceeds of the Bonds are referred to herein collectively as "Education Loans." All or a portion of Education Loans may be insured by the

Agency and federally reinsured or insured directly by the federal government (“Federally Insured Loans”). The obligations to repay all Education Loans are evidenced by notes obligating the borrowers and, when required, any co-signers.

The Bonds are limited obligations of the Agency payable solely from and equally and ratably secured under and as provided in the Indenture by the Education Loans, certain reserves and Revenues (including Recoveries of Principal) received by the Agency and held by the Trustee from the operation of the Agency’s Education Loan Program (the “Program”). Payment of the principal of and interest on the Bonds when due is insured by a Municipal Bond Insurance Policy (“Bond Insurance Policy” or “Municipal Bond Insurance Policy”) previously issued by Ambac Assurance Corporation (“Ambac Assurance” or the “Bond Insurer”). See “MUNICIPAL BOND INSURANCE POLICY”.

While the Bonds bear interest at the Weekly Rate, Bonds not remarketed upon an optional or mandatory tender will be purchased pursuant to a Standby Bond Purchase Agreement dated as of July 15, 2006 as amended by an Amendment to Standby Bond Purchase Agreement (the “Amendment”) dated as of May 9, 2008 (collectively, the “Standby Agreement”), among the Agency, the Trustee and Morgan Stanley Bank (the “Bank” or the “Liquidity Provider”) except under circumstances described in the Standby Agreement or the Indenture. See “THE STANDBY AGREEMENT.” As of the Effective Date the Standby Agreement will have a stated expiration date of October 1, 2011, subject to termination or extension prior to such date as described therein and herein.

As of the Effective Date, a principal element of the Amendment is the expansion of the definition of “Immediate Termination Event” to require the occurrence of an action or event involving the underlying rating on the Bonds, the Agency, payments on the Bonds or the invalidity of the Indenture in addition to one involving the insolvency of the Bond Insurer, the invalidity of the Bond Insurance Policy, a Bond Payment by the Bond Insurer and the rating of the Bond Insurer, as well as to eliminate several other events involving solely the Bond Insurer or the Bond Insurance Policy. These changes are intended to decrease the likelihood that an action or event involving solely the Bond Insurer or the Bond Insurance Policy will result in an immediate termination of the Standby Agreement without purchase of outstanding Bonds by the Bank. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Amendment of Standby Agreement”.

All capitalized terms used in this Remarketing Circular that are defined in the Indenture and are not otherwise defined herein shall have the meanings set forth in the Indenture. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

THE BONDS

General

The Bonds were issued in the aggregate principal amount of \$100,000,000. The Bonds are dated as of the date of their initial delivery and mature by their terms on June 1, 2029. The Bonds will bear interest at a Weekly Rate until they are converted to a different interest rate mode, redeemed or mature by their terms.

Interest on the Bonds will be payable from the date of authentication, if authenticated on an Interest Payment Date to which interest has been paid or duly provided for, or from the last preceding Interest Payment Date to which interest has been paid in full or duly provided for.

The Bonds have been issued in authorized denominations of \$100,000 or any whole multiple of \$100,000.

The Bonds originally will be solely in book-entry form, registered to The Depository Trust Company (“DTC”) or its nominee, Cede & Co., to be held in DTC’s book-entry only system. So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Remarketing Circular. For purposes of this Remarketing Circular, DTC or its nominee, and its successors and assigns, are referred to as the Securities Depository. See “BOOK-ENTRY ONLY SYSTEM” below.

The Trustee will also act as bond registrar, paying agent and tender agent for the Bonds. The corporate trust office of the Trustee is 213 Market Street, Harrisburg, Pennsylvania 17101, Attention: Corporate Trust Services (telephone 717-255-2387; facsimile 717-231-2608).

Morgan Stanley & Co. Incorporated has been appointed to serve as Remarketing Agent for the Bonds. The Remarketing Agent may resign or be removed upon 10 days’ notice and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agent Agreement between the Remarketing Agent and the Agency. The Remarketing Agent shall have a capitalization of at least \$100,000,000 and be authorized by law to perform all the duties imposed upon it by the Indenture. The Remarketing Agent may be removed by the Agency at any time by an instrument filed with the Remarketing Agent, the Bond Insurer, the Bank and the Trustee.

Interest on the Bonds

The Bonds may bear interest at a Commercial Paper, Daily, Weekly or Term Rate as designated by the Agency. Any change to a different interest rate mode requires, among other things, written approval of the Bond Insurer and a mandatory tender. The interest rate, in any mode, is to be determined by the Remarketing Agent in accordance with the Indenture as described therein.

The Bonds initially will bear interest at a Weekly Rate.

Interest on the Bonds will be calculated on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed while Bonds bear interest at a Weekly Rate.

Payment of interest shall be made to the Bondholders of record on the registration books of the Trustee as of the Record Date as it appears on the registration books.

Registered Owners of Bonds may elect to receive payment of principal or interest in immediately available funds by wire transfer to a bank account in a bank within the continental United States designated by such holder at least five Business Days prior to the date such payment is due, in lieu of receiving payment by check.

Interest due at the maturity or redemption of the Bonds shall be paid only upon presentation and surrender of Bonds. So long as any Bond is registered in the name of Cede & Co., as nominee of DTC, interest will be paid pursuant to DTC’s rules and procedures.

Payment of defaulted interest will be paid on a special interest payment date to owners of record on a special record date to be fixed by the Trustee. Notice of such special record date shall

be mailed by the Trustee to each registered owner promptly after determination of such special record date, but no more than 30 days prior to the special interest payment date.

“Business Day” means any day other than a Saturday or Sunday; or a day on which banks located in Harrisburg, Pennsylvania, New York, New York, or any other city in which the Principal Office of the Trustee or the office of the Bank at which requests are required to be presented under the Liquidity Facility, is located are required or authorized to close; or on which the New York Stock Exchange is closed.

“Interest Payment Date” means when used with respect to Bonds accruing interest at a Weekly Rate, the first Business Day of each June and December. Notwithstanding the foregoing, the Agency may, by written notice to the Trustee, the Remarketing Agent and the Bond Insurer, direct that the Interest Payment Date for Bonds bearing interest at Weekly Rates shall be the first Business Day of each calendar month following a month in which interest at such rate has accrued, which notice shall be effective from the date specified therein until such notice is rescinded by the Agency.

“Regular Record Date” means the close of business on the day (whether or not a Business Day) immediately preceding an Interest Payment Date in the case of Bonds accruing interest at a Weekly Rate.

Determination of Interest Rate. The interest rate on the Bonds shall be determined by the Remarketing Agent as the minimum rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value, as of the date of determination, equal to the principal amount thereof, taking into account prevailing market conditions; provided, that so long as a Liquidity Facility is in place, the interest rate shall not exceed the maximum interest rate with respect to the Bonds specified therein. The Maximum Interest Rate while the Standby Agreement is in effect (except with respect to Purchased Bonds (i.e., Liquidity Provider Bonds)) is 12%.

Weekly Rate. While interest on the Bonds is payable at a Weekly Rate (the “Weekly Rate Period”) the Remarketing Agent will set a Weekly Rate no later than 10:00 A.M., New York City time, each Wednesday and such rate shall be available to Owners on such day. The Weekly Rate will be effective from each Wednesday through the immediately succeeding Tuesday or, if earlier, the day before the effective date of a new method of determining the interest rate on the Bonds.

The determination of the rates on the Bonds in accordance with the Indenture will be conclusive and binding on the owners of the Bonds, the Agency and the Trustee.

If the Remarketing Agent fails to determine the Weekly Rate for any Weekly Period, the Weekly Rate will be deemed to be the Weekly Rate for the immediately preceding Weekly Period.

Transfer and Exchange

Any Bond may be transferred if duly endorsed for such transfer or accompanied by an instrument of transfer in form satisfactory to the Trustee, duly executed by the Registered Owner or his attorney, whereupon the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds in the same denominations as the Bond delivered for transfer or in different authorized denominations equal in the aggregate to the principal amount of the delivered Bond.

Any Bond or Bonds may be exchanged for one or more Bonds in the same aggregate principal amount and accruing interest at the same Interest Rate, but in a different authorized denomination or denominations if duly endorsed or accompanied by an instrument of transfer in form satisfactory to the Trustee, duly executed by the Registered Owner or his or her duly appointed attorney. Each Bond so exchanged shall be delivered by the Registered Owner thereof or his duly appointed attorney to the Trustee, whereupon a new Bond or Bonds shall be authenticated and delivered to the Registered Owner. In the case of any Bond properly delivered for partial redemption, the Trustee is required to authenticate and deliver a new Bond in exchange therefor, such new Bond to be in a denomination equal to the unredeemed principal amount of the delivered Bond.

Except for any Bond properly delivered for partial redemption, the Trustee shall not be required to effect any transfer or exchange during the 15 days immediately preceding the date of mailing of any notice of redemption or at any time following the mailing of any such notice in the case of Bonds selected for such redemption. No charge shall be imposed upon Registered Owners in connection with any transfer or exchange, except for taxes or governmental charges related thereto.

Conversion Between Rate Periods

The Agency may elect to convert from one interest rate mode to another for the Bonds by notifying the Trustee, the Bank, the Bond Insurer and the Remarketing Agent. Such notice must be given not fewer than 25 days (or such lesser number of days as may be acceptable to the Trustee) prior to the proposed conversion.

When a conversion from the Weekly Rate is to be made, the Trustee is required to give notice by first class mail of the proposed conversion to the registered owners of Bonds, at least 15 days before the proposed conversion date. Among other requirements set forth in the Indenture, such notice must state that the Bonds will be subject to mandatory tender for purchase on the date of conversion and must state the conditions to the conversion.

Liquidity Provider Bonds

Liquidity Provider Bonds (i.e., Purchased Bonds) shall bear interest calculated at the rate (and on the basis) applicable from time to time under the Standby Agreement or any Alternate Liquidity Facility (the "Liquidity Provider Rate"). To the extent that the Liquidity Provider Rate exceeds the Maximum Interest Rate, the Bank is entitled to receive from the Agency, Deferred Bond Interest pursuant to the Standby Agreement.

Optional Tender

The owner of any Bond bearing interest at a Weekly Rate may elect to have its Bond (or portion thereof in an authorized denomination) purchased at a purchase price (the "Purchase Price") equal to 100% of the principal amount thereof plus accrued interest (up to, but not including, the tender date), as described below.

Bonds bearing interest at Weekly Rates may be tendered for purchase on any Business Day prior to conversion upon written or electronic notice of tender to the Trustee, directly or through the owner's DTC Participant, by 5:00 p.m. on a Business Day not fewer than seven days prior to the date of purchase.

When a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion thereof in an authorized denomination) by delivering the notice described above at the applicable time, and by delivering the Bond to the Trustee on the purchase date by 12:00 noon, New York City time, on the purchase date. Delivery of a Beneficial Owner's Bond while Cede & Co is the sole registered owner of the Bonds shall occur when the ownership rights in such Bond are transferred by a Direct Participant (as hereinafter defined) on DTC's records.

Payment of the Purchase Price of Bonds to be purchased upon optional tender as described herein will be made by the Trustee by 4:30 p.m., New York City time, on the date of purchase in immediately available funds.

Mandatory Tender

Under the circumstances described below, the Bonds are subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount of such Bond (or portion thereof in an authorized denomination) plus accrued interest, if any, to the purchase date (the "Purchase Price").

Mandatory Tender upon a Conversion to another Interest Rate Mode. Bonds to be converted from one interest rate mode to a different interest rate mode are subject to mandatory tender for purchase on the date of conversion.

Conversion of interest rates on the Bonds such that the Bonds bear interest at a rate other than the Weekly Rate, the Commercial Paper Rate or the Daily Rate would result in a termination of the Standby Agreement. See "THE STANDBY AGREEMENT - Remedies".

Mandatory Tender for Purchase in Connection with Certain Events Concerning the Standby Agreement. If at any time the Trustee gives notice that any Bonds tendered for purchase will cease to be subject to purchase pursuant to the Standby Agreement or any Alternate Liquidity Facility then in effect as a result of (i) the termination or expiration of the term, as extended, of the Standby Agreement or any Alternate Liquidity Facility then in effect (including but not limited to termination at the option of the Agency in accordance with the terms of the Standby Agreement but not including certain terminations by the Bank as described below which would result in immediate termination without mandatory tender), (ii) the occurrence of an event of default under the Standby Agreement which gives the Bank the option to terminate the Standby Agreement upon providing notice as described under the caption "THE STANDBY AGREEMENT," and which requires purchase by the Bank of all outstanding Bonds at the Purchase Price (a "Mandatory Standby Tender"), or (iii) the Standby Agreement or any Alternate Liquidity Facility then in effect is being replaced; then, on the fifth Business Day preceding any such termination, expiration or replacement of the Standby Agreement or any Alternate Liquidity Facility then in effect, each such Bond is to be purchased or deemed to be purchased at the Purchase Price thereof. The tender date is to be the date on which any such Bond is required to be purchased or deemed purchased.

The Standby Agreement may be terminated immediately without notice, without mandatory tender and without purchase of the outstanding Bonds by the Bank in connection with certain events involving the Bond Insurer and the Agency, the Bond Insurance Policy, the ratings on the Bonds or the Indenture, including commencement of any proceedings in bankruptcy or insolvency against both the Bond Insurer and the Agency, invalidity or illegality of both the Bond Insurance Policy and the Indenture, substantial downgrade to below investment grade of all ratings on the Bonds (both insured

and underlying ratings), failure to pay under the Bond Insurance Policy, declaration of a moratorium by the Bond Insurer of payments under the Bond Insurance Policy and by the Agency on payment of debt service on the Bonds, or upon substitution or termination, amendment or modification of the Bond Insurance Policy with respect to the Bonds without the prior written consent of the Bank. For a description of events of default under the Standby Agreement which cause the automatic suspension or termination of the Standby Agreement immediately without notice or purchase of any outstanding Bonds, see “THE STANDBY AGREEMENT – Termination Events”. The Bonds will not be subject to mandatory tender for purchase upon delivery of any alternate municipal bond insurance policy replacing the Bond Insurance Policy which substitution occurs as a result of a rating downgrade of the Bond Insurer so long as the Bank has consented to such substitution.

When a book-entry system is not in effect, a holder of a Bond must deliver the Bond to the Trustee by 12:00 noon, New York City time on the purchase date. Delivery of a Beneficial Owner’s Bond while Cede & Co is the sole registered owner of the Bonds shall occur when the Ownership rights in such Bond are transferred by a Direct Participant on DTC’s records.

Payment of the Purchase Price of tendered Bonds to be purchased upon mandatory tender as described herein will be made by the Trustee by 4:30 p.m., New York City time, on the date of purchase upon receipt by the Trustee of 100% of the Purchase Price of tendered Bonds, in immediately available funds.

Irrevocability; Undelivered Bonds

The giving of notice by a Beneficial Owner or a registered owner of a Bond as described above constitutes the irrevocable tender for purchase of such Bond with respect to which such notice was given. The determination of the Trustee as to whether a notice of tender has been properly delivered will be conclusive and binding upon the Beneficial Owner or registered owner.

Remarketing and Purchase

Unless otherwise instructed by the Agency, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof for which notice of optional tender has been received or which are subject to mandatory tender; except Bonds purchased in a Mandatory Standby Tender pursuant to the Indenture, which Bonds shall not be remarketed in a Weekly Rate mode unless an alternate liquidity facility is delivered. The Remarketing Agent will not sell any Bond as to which a notice of conversion from one interest rate mode to another has been given by the Trustee unless the Remarketing Agent has advised the person to whom the sale is made of the conversion.

The Purchase Price of the Bonds tendered for purchase will be paid by the Trustee from the proceeds of the remarketing of such Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys paid by the Bank under the Standby Agreement.

Redemption

The Bonds are subject to redemption at the option of the Agency, in whole or in part, and if in part, at the lowest authorized denomination or any whole multiple thereof, as described below with respect to Bonds bearing interest at the Weekly Rate, and as described with respect to

Bonds bearing interest in other rate modes in APPENDIX A, “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Redemption”.

Optional Redemption. While bearing interest at the Weekly Rate the Bonds are subject to optional redemption on any Business Day after proper notice is given as set forth in the Indenture at an optional redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the redemption date.

Mandatory Redemption. If the Agency determines and certifies to the Trustee (i) the money originally intended to be used to make student loans cannot be used for such purpose, (ii) that the Agency will suffer unreasonable burdens or excessive liabilities from making certain amounts of further Education Loans, or (iii) that Recycling has stopped and redemption is required pursuant to the Indenture, then to the extent that excess Revenues (including Recoveries of Principal) are available for such purpose, the Bonds are subject to mandatory redemption solely from Available Moneys (and, if the Agency so elects, to the extent of the amount on deposit in the Debt Service Reserve Fund that will exceed the Debt Service Reserve Fund Requirement as a result of such redemption), in whole or in part, on any Interest Payment Date, at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the redemption date.

Liquidity Provider Bonds (i.e., Purchased Bonds). Amounts applied for optional redemption of Bonds shall be used first to redeem Liquidity Provider Bonds.

Notice of Redemption. In the event any of the Bonds are called for redemption, the Trustee is required to give notice of the redemption of such Bonds stating that on the redemption date, the Bonds (or portions thereof) to be redeemed shall cease to bear interest. Such notice shall be given not less than 15 days prior to the date fixed for redemption to the holders of the Bonds to be redeemed by mailing such notice by first class mail, postage prepaid, to all registered owners of the Bonds to be redeemed at their addresses as they appear in the registration books kept by the Bond Registrar.

Partial Redemption. If less than all the Bonds are to be redeemed, the particular Bonds to be called for redemption will be selected for redemption (i) by DTC, in accordance with its rules and procedures, so long as DTC or its nominee is the sole registered owner of the Bonds, or (ii) by the Trustee, first from Liquidity Provider Bonds subject to such redemption, second, by lot from other Bonds subject to redemption (other than Bonds owned of record by the Agency), and third, from Bonds subject to such redemption owned of record by the Agency.

Bond Insurer Deemed Bondholder for Certain Purposes

The Bond Insurer has been designated as the holder of the Bonds for purposes of granting consents, directing remedies, waiving rights, and approving actions under and pursuant to the Indenture, except for any consent required to be executed by the holders of 100% of the Bonds.

BOOK-ENTRY-ONLY SYSTEM

DTC acts as Securities Depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One global bond registered in the name of Cede & Co., as partnership nominee of DTC or such other name as may be requested by an authorized representative of DTC, in the aggregate principal amount of the

Bonds is deposited with DTC. Ownership interests in the Bonds are available in book-entry form only. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased and will not be registered owners or Holders under the Indenture, except as described below.

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, as amended. 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 National Securities Clearing Corporation and Fixed Income Clearing Corporation, both 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" and, together with Direct Participants, "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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations 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 Owners entered into the transaction. Transfers of ownership interests in Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or 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 Participants and not of DTC, not its nominee, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any and interest on the Bonds to Cede & Co. (or to 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Bond by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records, to the Tender or Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO MAKE ARRANGEMENTS WITH THE APPLICABLE DIRECT DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT TO RECEIVE FROM SUCH PARTICIPANT NOTICES OF PAYMENTS OF PRINCIPAL OR PURCHASE PRICE, PREMIUM (IF ANY) AND INTEREST, AND ALL OTHER PAYMENTS AND COMMUNICATIONS WHICH THE DIRECT PARTICIPANT RECEIVES FROM DTC. NEITHER THE AGENCY NOR THE TRUSTEE HAS ANY

DIRECT OBLIGATION OR RESPONSIBILITY TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

For every transfer and exchange of a beneficial ownership interests in the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Agency and the Trustee. Under such circumstances in the event that a successor securities depository is not obtained, or if the Agency determines to discontinue the use of a system of book-entry transfers through DTC (or a successor securities depository), the Agency is obligated to print and deliver Bond certificates at the expense of the Beneficial Owners as described in the Indenture.

The preceding information in this section “BOOK-ENTRY-ONLY SYSTEM” was provided by DTC for inclusion herein, and has not been independently verified by the Agency or the Remarketing Agent. No representation is made by the Agency or the Remarketing Agent as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AGENCY NOR THE TRUSTEE SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR OTHER PERSONS CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT WITH RESPECT TO THE BENEFICIAL OWNERSHIP INTEREST IN THE BONDS; (II) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF AND PREMIUM, IF ANY, OR INTEREST ON THE BONDS TO ANY BENEFICIAL OWNER OR OTHER PERSON FOR THE BONDS; OR (III) THE DELIVERY TO ANY BENEFICIAL OWNER OF THE BONDS, OR ANY OTHER PERSON OF ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS UNDER THE INDENTURE. NEITHER THE AGENCY NOR THE TRUSTEE SHALL HAVE ANY RESPONSIBILITY WITH RESPECT TO OBTAINING CONSENTS FROM ANYONE OTHER THAN THE REGISTERED OWNERS.

No assurance can be given by the Agency or the Trustee that DTC will distribute to the DTC Participants or the DTC Participants will distribute to the Beneficial Owners (i) payment of debt service on the Bonds paid to DTC or its nominee, as the registered owner, or (ii) any redemption or other notices, or that DTC or the DTC Participants will serve or act on a timely basis or in a manner described in this Remarketing Circular.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

Limited Liability

The Bonds are limited obligations of the Agency, secured by and payable solely from the Trust Estate, without recourse to any other assets of the Agency. Neither the Commonwealth of Pennsylvania (the “Commonwealth”) nor any political subdivision thereof, is or shall be obligated to pay the principal, redemption price, or interest on the Bonds 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 Agency has pledged and assigned unto the Trustee and granted the Trustee a first security interest in and to the following: (i) the Education Loans, (ii) all of the Revenues under the Indenture (other than Rebatable Arbitrage and Excess Earnings), (iii) amounts on deposit in the various Funds established under the Indenture (other than the Rebate Fund, the Yield Reduction Payment Fund and the Purchase Fund), and (iv) any and all other property granted, pledged or assigned to the Trustee under the Indenture (collectively, the “Trust Estate”).

Principal and Interest Payments on Education Loans

Payments of the principal of and interest on the Education Loans, including Interest Subsidy Payments, if any, with respect to FFEL Program loans, are expected to be received by the Agency in amounts sufficient, together with other Revenues and amounts held under the Indenture, to pay the principal of and interest on the Bonds when due. The Agency is entitled to receive Interest Subsidy Payments from the Secretary of Education with respect to each subsidized Stafford Loan for the entire amount of interest due on such loan during the period the student is in school, during grace periods, and during periods of deferment. During all other periods, interest on subsidized Stafford Loans is collected from the borrower. On PLUS/SLS, Unsubsidized Stafford Loans, and Consolidation Loans, the Agency collects interest payments from the borrower from the date of loan disbursement. Repayment of Consolidation Loans commences within 60 days of the discharge of the lenders of the Consolidation Loans. For additional information on the FFEL Program loans, see APPENDIX E – “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS”.

Special Allowance Payments on FFEL Program Loans

The Agency is also 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.

The amount of Special Allowance Payments depends, among other things, upon the interest rate on the FFEL Program loan to which it relates, the date on which such FFEL Program loan was originated, whether the beneficial owner of such FFEL Program loan qualifies as an “eligible not-for-profit holder” under the Higher Education Act, and, under certain circumstances, whether such FFEL Program loan is financed on a taxable or tax-exempt basis, and, if on a tax-exempt basis, whether the tax-exempt obligations were issued prior to October 1, 1993. For further information on Special Allowance Payments, see APPENDIX E – “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS”.

Student Loan Reports

The Agency will provide quarterly servicer reports for the Trust Estate on its website at www.pheaa.org/aboutus/.

Debt Service Reserve Fund

The Indenture requires that the Debt Service Reserve Fund be established and maintained at an amount equal to the greater of (i) 2% of the principal amount of Bonds (and any Additional Bonds) Outstanding at any given time, or (ii) \$500,000 (the “Debt Service Reserve Fund

Requirement”). The Indenture provides that amounts on deposit in the Debt Service Reserve Fund are to be transferred to the Debt Service Fund on or before any Interest Payment Date or Principal Payment Date for the Bonds (and any Additional Bonds) to the extent necessary to meet scheduled debt service. If funds are withdrawn from the Debt Service Reserve Fund, moneys available in the Revenue Fund (after giving effect to required payments of certain costs and debt service) are required to be transferred to the Debt Service Reserve Fund until the amount on deposit therein is equal to the Debt Service Reserve Fund Requirement. **The Debt Service Reserve Fund may be eliminated or reduced at the election of the Agency with the approval of the Bond Insurer if certain amendments contained in the Third Amendment are of no further force or effect.** See “-Third Amendment – Designated Rating Service Covenants” below.

The Indenture permits the Agency, with the consent of the Bond Insurer, to provide for a letter of credit, surety bond or other similar instrument (a “Reserve Fund Credit Facility”) assuring the availability of all or a portion of funds for the purposes for which the Debt Service Reserve Fund has been established.

Withdrawal of Excess Funds.

The Indenture provides that the Trustee may, at the request of the Agency, pay to the Agency monies retained in the Revenue Fund which are in excess of those amounts required to be deposited with the Trustee pursuant to the Indenture, upon compliance with certain parity ratios, receipt of the prior written consent of each Designated Rating Service, (Moody’s is currently the only rating agency rating the Bonds that is a Designated Rating Service) and proof that minimum cash balances will be maintained and with the prior written consent of the Bond Insurer; provided, however, that if there is no longer a Designated Rating Service, receipt of consent from each Designated Rating Service will not be required. Any funds so paid would be free and clear of the pledge of the Indenture. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts – Revenue Fund” and “Third Amendment”.

Certain Considerations Affecting the Trust Estate

The availability under the Indenture of adequate amounts to fund the timely payment of debt service on the Bonds and other expenses required to be paid thereunder is dependent upon the performance of the Education Loans acquired as part of the Trust Estate. The Agency currently expects that Revenues to be received with respect to the Education Loan portfolio will be sufficient to fund Indenture requirements. The Agency believes such expectation to be reasonable based upon its historic and current FFEL Program experience. There can be no assurance, however, that actual Education Loan portfolio results will conform to such expectation. See “CERTAIN RISK FACTORS”.

Revenues actually received with respect to the Education Loans may vary greatly in both timing and amount as a result of a variety of economic, social and other factors, including both individual factors, such as additional periods of deferral or forbearance prior to or after a borrower’s commencement of repayment, loan consolidations or refundings, and general factors, such as a general economic downturn which could increase the amount of defaulted FFEL Program loans. Failures by borrowers, guaranty agencies and the Secretary of Education to make payments with respect to Education Loans on a timely basis, and the incidence of borrower defaults and prepayments, will affect the amount of Revenues received by the Agency. See “CERTAIN RISK FACTORS” and APPENDIX E – “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS”.

The provisions of the Higher Education Act applicable to FFEL Program loans, and the implementing regulations thereunder, constitute a comprehensive federal program controlling the terms and conditions of FFEL Program loans, including certain fees and other amounts payable by the holders thereof, the administrative requirements applicable thereto and the related duties and permitted activities of FFEL Program participants. The Secretary of Education has broad powers under the Higher Education Act to assure the compliance of FFEL Program participants with program requirements and a failure by a participant to so comply may result in substantial penalties, including the withholding of federal payments otherwise due to such participant under the program. The Secretary of Education has additional powers under the Higher Education Act with respect to guaranty agencies and their reserves, including the ability, subject to certain requirements, to terminate the activities and to transfer the reserve fund assets of such entities. There can be no assurance that the exercise by the Secretary of Education of such powers will not adversely affect the interests of Bondholders. See “CERTAIN RISK FACTORS” and APPENDIX E – “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS”.

If an event of default occurs under the Indenture which causes Bondholders to fail to receive interest or principal payments when due, the Trustee is authorized, subject to certain conditions, to sell the Education Loans pledged thereunder. There can be no assurance, however, that the Trustee would be able to find a purchaser for such Education Loans in a timely manner or that the proceeds of any such sale, together with amounts then available under the Indenture, would be sufficient to fund payment of the Outstanding Bonds and accrued interest thereon. See “CERTAIN RISK FACTORS” and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE”.

Certain Rights of the Bond Insurer

The Indenture provides that the Bond Insurer may approve any action, determination or election under the Indenture in lieu of obtaining the consent of Owners of the Bonds, including in connection with amendments to the Indenture, direction of remedies upon the occurrence of any Event of Default or otherwise. In addition, the Indenture provides that the Agency and the Trustee may take, or refrain from taking, various actions based in whole or in part upon the consent, approval or direction of the Bond Insurer, including determinations of the types of Educational Loans to be financed pursuant to the Indenture, extension of any Recycling Period, an increase in the amount of Program Expenses or Supplemental Costs to be paid pursuant to the Indenture, any material change in any Borrower Benefit Program and the initiation of any loan forgiveness program.

Substitution or Termination of Municipal Bond Insurance Policy

The Agency may substitute or terminate the Municipal Bond Insurance Policy under the Indenture in the event of any downgrade of the rating on the Bond Insurer by any rating agency then rating any Bonds under the Indenture to a rating below “A3” by Moody’s or below “A-” by S&P. Any such substitution or termination of the Municipal Bond Insurance Policy without the prior written consent of the Bank could result in immediate termination of the Standby Agreement without notice or mandatory tender of the Bonds. However, pursuant to Section 17.10 of the Indenture, the Agency shall not effect such substitution of Municipal Bond Insurance Policy without the Bank’s prior written consent and written confirmation from Moody’s that such action will not, in and of itself, result in a lowering, suspension or withdrawal of the ratings then applicable to any Bonds. See “THE STANDBY AGREEMENT – Termination Events”.

Third Amendment: Designated Rating Service Covenants

The Agency is entering into the Third Amendment principally to facilitate the obtaining of underlying ratings on the Bonds independent of the Bond Insurance Policy. While a Designated Rating Service is in place, the Third Amendment will provide for certain amendments to the Indenture as described in “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Third Amendment.” If at any time there is no longer any Designated Rating Service in place, certain amendments contained in the Third Amendment shall be of no further force and effect.

Amendment of Standby Agreement

The Agency is entering into the amendment to the Standby Agreement principally to reduce the circumstances under which the Bank is not obligated to purchase unremarketed Bonds. This is accomplished by amending the definition of “Immediate Termination Event” (“ITE”) in the Standby Agreement as follows:

- (1) a default by the Bond Insurer on other municipal bond or financial guaranty insurance policies issued by it is not an ITE;
- (2) a declaration in writing by the Bond Insurer and the Agency (rather than just the Bond Insurer) of a moratorium on the payment of principal and interest under the Bond Insurance Policy or on the Bonds, respectively, constitutes an ITE;
- (3) a bankruptcy or insolvency event must occur with respect to both the Bond Insurer and the Agency (rather than just the Bond Insurer) to constitute an ITE;
- (4) an invalidity or illegality with respect to both the Bond Insurance Policy and the Indenture (rather than just the Bond Insurance Policy) must occur in order to constitute an ITE;
- (5) a repudiation or contest of the Bond Insurance Policy by the Bond Insurer is not, by itself, an ITE;
- (6) a downgrade of all of the publicly available credit ratings on the Bonds below BBB- by Standard & Poors, below Baa3 by Moody’s and below BBB- by Fitch (taking into account all publicly available credit ratings, whether issued with or without regard to the rating of the Bond Insurer, rather than a rating based solely on the financial strength of the Bond Insurer) must occur in order to constitute an ITE.

These changes are intended to decrease the likelihood that events or occurrences involving solely the Bond Insurer or the Bond Insurance Policy will result in an immediate termination of the Standby Agreement without purchase of outstanding Bonds by the Bank. See “THE STANDBY AGREEMENT”.

MUNICIPAL BOND INSURANCE POLICY

The following information concerning the Municipal Bond Insurance Policy, Debt Service Reserve Fund Surety Bond and Ambac Assurance has been obtained from Ambac Assurance for inclusion herein and has not been verified independently by the Agency or its counsel. The information is not guaranteed as to accuracy or completeness by the Agency and is not to be construed as a representation by the Agency. Reference is made to APPENDIX C for a specimen of the Municipal Bond Insurance Policy.

Payment Pursuant to Municipal Bond Insurance Policy

Ambac Assurance issued the Municipal Bond Insurance Policy relating to the Bonds effective as of June 1, 1999. Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance will pay to United States Trust Company of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Municipal Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor, (i.e., the Agency)). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Municipal Bond Insurance Policy shall be fully discharged.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Agency has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; or
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy.

Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

The Municipal Bond Insurance Policy does not insure against loss relating to payments of the purchase price of Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Bonds upon tender by a registered owner thereof.

Debt Service Reserve Fund - Ambac Assurance Surety Bond

The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Issuer is required to reimburse Ambac Assurance for any draws under the Surety Bond and the Issuer is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Agency is subordinate to the Agency's obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,792,000,000 (unaudited) and statutory capital of approximately \$6,409,000,000 (unaudited) as of December 31, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve.

Ambac Assurance has been assigned the following financial strength ratings by the following rating agencies: Aaa, with negative outlook, by Moody's Investors Service, Inc.; AAA, with negative outlook, by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.; and AA, with negative outlook, by Fitch Ratings.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Municipal Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Remarketing Circular other than the information supplied by Ambac Assurance and presented under the heading "MUNICIPAL BOND INSURANCE POLICY".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at Ambac Assurance's internet website at www.ambac.com and at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared on the basis of accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance are available without charge from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Remarketing Circular:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed on February 29, 2008;
2. The Company's Current Report on Form 8-K dated and filed on March 7, 2008;
3. The Company's Current Reports on Form 8-K dated and filed on March 12, 2008; and
4. The Company's Current Report on Form 8-K dated and filed on April 23, 2008.

Ambac Assurance's consolidated financial statements and all other information relating to Ambac Assurance and subsidiaries included in the Company's periodic reports filed with the SEC subsequent to the date of this Remarketing Circular and prior to the date of closing of the remarketing of the Bonds shall, to the extent filed (rather than furnished pursuant to Item 9 of Form 8-K), be deemed to be incorporated by reference into this Remarketing Circular and to be a part hereof from the respective dates of filing of such reports.

Any statement contained in a document incorporated in this Remarketing Circular by reference shall be modified or superseded for the purposes of this Remarketing Circular to the extent that a statement contained in a subsequently filed document incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Remarketing Circular.

Copies of all information regarding Ambac Assurance that is incorporated by reference in this Remarketing Circular are available for inspection in the same manner as described above in "Available Information".

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Remarketing Circular will be available for inspection in the same manner as described above in "**Available Information**".

THE BANK

The information included under this caption has been obtained from the Bank for inclusion herein. Such information is not guaranteed as to accuracy or completeness by the Agency and is not to be construed as a representation by the Agency. The Agency has not independently verified this information. No representation is made by the Agency as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date thereof.

The Liquidity Provider

Morgan Stanley Bank (the "Bank") is a Utah industrial bank with its principal offices in West Valley City, Utah, and an indirect, wholly owned subsidiary of Morgan Stanley, a Delaware corporation ("Morgan Stanley"). The Bank's obligations are not guaranteed by Morgan Stanley. As a state chartered nonmember of the Federal Reserve System, the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation (the "FDIC") and the Utah Department of Financial Institutions.

The Bank's long term ratings are "Aa3", "AA-" and "AA-" by Moody's, S&P and Fitch, respectively. The Bank's short term ratings are "P-1", "A-1+" and "F1+" by Moody's, S&P and Fitch, respectively. On May 8, 2006, Moody's revised the Bank's outlook from negative to stable and then back to negative on November 8, 2007. S&P upgraded the Bank to "AA-/A-1+" on July 30, 2007 and currently maintains a negative outlook. On January 30, 2006, Fitch removed the rating watch negative and affirmed the Bank's ratings as stable and then revised the outlook to negative on December 19, 2006 in response to the firm's announcement to spin-off Discover Financial Services.

The Bank files call reports each quarter with the FDIC, which include income statement and balance sheet information. The call reports are publicly available on the FDIC's website at

<https://cdr.ffiec.gov/public/SearchFacsimiles.aspx>. The availability of the Bank's past financial information at this website shall not create any implication that the information contained or referred to herein or therein is correct as of any time subsequent to its date.

The Liquidity Provider has supplied the information relating to it in the previous three paragraphs. The Liquidity Provider does not accept, and shall have no responsibility for, any information contained in this Remarketing Circular other than under the subcaption "The Liquidity Provider".

THE STANDBY AGREEMENT

The following is a summary of certain provisions of the Standby Agreement. See also "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Amendment of the Standby Agreement". The following summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Standby Agreement, to which reference is made hereby for a complete recital of its terms and provisions. Capitalized terms not otherwise defined under this caption shall have the meanings given such terms in the Standby Agreement.

Term

The Standby Agreement will expire by its terms on the later of (i) October 1, 2011 or (ii) the last day of any extension of such date as discussed in "Extension of Stated Expiration Date" below (the "Stated Expiration Date"); provided, however, that if the applicable date is not a Business Day (as defined in the Standby Agreement), the Stated Expiration Date will be the next succeeding Business Day. The Standby Agreement may also be terminated prior to its Stated Expiration Date upon the occurrence of certain events as described in "Termination Events" and "Remedies" below.

General

The Standby Agreement will provide for the Liquidity Provider to purchase at the Purchase Price Bonds bearing interest at the Weekly Rate that have been tendered or deemed tendered for purchase and not remarketed. The aggregate amount payable for the Bonds that are purchased by the Liquidity Provider on any purchase date may not exceed the Available Commitment (as hereinafter defined).

The Standby Agreement provides, among other things, that if any tendered Bonds are purchased by the Liquidity Provider in accordance with the provisions thereof (such purchased tendered Bonds being hereinafter referred to as "Purchased Bonds"), then in addition to its rights under the Standby Agreement, the Liquidity Provider shall be entitled to exercise all of the rights (except the right to optionally tender Bonds for purchase under the Indenture) of, and shall be secured to the same extent as, any other owner of Bonds under the Indenture. These rights include, without limitation, the right to receive payments of principal and interest (including interest at a specified "Bank Rate"), all rights with respect to payments under the Bond Insurance Policy, the right to have such Purchased Bonds remarketed pursuant to the Indenture and the Remarketing Agreement and all rights under the Indenture upon the occurrence and continuation beyond any applicable grace period of any "event of default" thereunder.

The Liquidity Provider is required to purchase tendered Bonds bearing interest at the Weekly Rate, and that have not been remarketed on the relevant date, only if (i) no Immediate Termination Event or Suspension Event (each as hereinafter defined) shall have occurred and (ii)

it receives timely written notice from the Trustee stating the aggregate Purchase Price of such unremarketed tendered Bonds required to be purchased and the portion of such Purchase Price comprising principal and the portion of such Purchase Price comprising accrued and unpaid interest. The obligation of the Liquidity Provider under the Standby Agreement to purchase the tendered Bonds terminate on the earliest of (i) 5:00 p.m. on the Stated Expiration Date, which is initially October 1, 2011, (ii) 5:00 p.m. on the date on which any additional Alternate Liquidity Facility has been provided and has become effective under the Indenture, (iii) the time at which all of the Bonds have ceased to be outstanding and/or have been defeased, (iv) the time at which all of the Bonds are bearing interest in an interest rate mode other than the Weekly Rate, (v) the effectiveness of any termination of the Standby Agreement by the Agency pursuant to the terms thereof, or (vi) the effectiveness of any termination of the Liquidity Provider's obligation to purchase Bonds pursuant to the Standby Agreement, including those described below under "Termination" and "Remedies" (such period from the effective date to and including such termination date being the "Purchase Period").

With reference to the Standby Agreement, the following terms have the meanings specified below:

"Available Commitment" means, on any day, the sum of the Available Principal Commitment and the Available Interest Commitment on such day.

"Available Principal Commitment" initially means \$100,000,000 and thereafter means such amount as adjusted from time to time as follows: (i) downward by the amount of any reduction of the Available Principal Commitment pursuant to the Standby Agreement, (ii) downward by the principal amount of any Bonds purchased by the Liquidity Provider pursuant to the Standby Agreement, and (iii) upward by the principal amount of any Bonds theretofore purchased by the Liquidity Provider pursuant to the Standby Agreement that cease to bear interest at the Bank Rate pursuant to of the Standby Agreement; provided that after giving effect to such adjustment the Available Principal Commitment will never exceed \$100,000,000. Any adjustment pursuant to clause (i), (ii) or (iii) above is to occur simultaneously with the event requiring such adjustment.

"Available Interest Commitment" initially means \$6,049,316 (an amount equal to 184 days' interest on the Bonds, computed as if the Bonds bore interest at the Maximum Interest Rate (i.e. 12% per annum) calculated on the basis of a 365-day year) and thereafter means such amount as adjusted from time to time as follows: (i) downward by an amount that bears the same proportion to the Available Interest Commitment prior to such reduction as the proportion that the amount of any reduction in the Available Principal Commitment pursuant to clause (i) or clause (ii) of the definition of "Available Principal Commitment" bears to the Available Principal Commitment prior to such reduction; and (ii) upward by an amount that bears the same proportion to the Available Interest Commitment prior to such increase as the proportion that the amount of any increase in the Available Principal Commitment pursuant to clause (iii) of the definition of "Available Principal Commitment" bears to the Available Principal Commitment prior to such increase. Any adjustment pursuant to clause (i) or (ii) above is to occur simultaneously with the event requiring such adjustment.

"Governmental Authority" means any national, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, tribunal, agency, bureau, central bank or comparable authority.

“Non-Investment Grade Shadow Rating” means a shadow rating on the Bonds (without bond insurance) in the case of Fitch, a rating of BB+ or lower, in the case of Moody’s, a rating of Ba1 or lower, or in the case of S&P, a rating of BB+ or lower.

“Purchase Price” means, with respect to any tendered Bond, an amount equal to 100% of the unpaid principal amount thereof plus accrued and unpaid interest thereon from and including the Interest Payment Date next preceding the purchase date thereof to such purchase date.

“Related Documents” means the Indenture, the Bonds, the Remarketing Agreement and all other operative documents (other than the Standby Agreement) relating to the issuance, sale and securing of the Bonds.

Under the Standby Agreement, the Agency is obligated to pay interest at a specified Bank Rate or Default Rate (each as defined in the Standby Agreement), as applicable, with respect to any Purchased Bonds. The principal of and interest on the Purchased Bonds is to be paid as provided in the Standby Agreement and the Indenture. The Agency also agrees to pay to the Liquidity Provider a periodic fee for delivering or maintaining the Standby Agreement which is subject to increase in various amounts if a rating on the Bonds is decreased below various levels by any rating agency. The Standby Agreement contains certain additional covenants and agreements of the Agency that are different than those summarized in APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE,” the breach of which could constitute events of default under the Standby Agreement. The covenants and agreements contained in the Standby Agreement are for the benefit only of the Liquidity Provider, and may be waived at any time in the sole discretion of the Liquidity Provider or amended at any time in accordance with the amendment provisions of the Standby Agreement. Owners of the Bonds are not entitled to and should not rely upon any of the covenants and agreements in the Standby Agreement.

THE STANDBY AGREEMENT WILL FUND PURCHASES OF TENDERED BONDS FOR WHICH REMARKETING PROCEEDS ARE NOT AVAILABLE, AND DOES NOT SUPPORT THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AS THE SAME BECOME DUE AND PAYABLE. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, PURCHASES WILL NOT BE MADE UNDER THE STANDBY AGREEMENT AND, THEREFORE, FUNDS MAY NOT BE AVAILABLE TO PURCHASE TENDERED BONDS THAT ARE NOT REMARKETED BY THE REMARKETING AGENT. See “Remedies” below.

Termination Events

The Standby Agreement specifies “Termination Events” thereunder, including both “Immediate Termination Events” and “Notice Termination Events.”

“Immediate Termination Events” means each of the following events:

- *Non-Payment of Insured Amounts.* Non-payment by the Agency of any principal of or interest on the Bonds when due and such principal or interest is not paid by the Bond Insurer when, as and in the amounts required to be paid pursuant to the terms of the Insurance Policy; or
- *Moratorium.* A declaration in writing by the Bond Insurer of a moratorium on the payment of principal and interest on the Bond Insurance Policy and a declaration in

writing by the Agency of a moratorium on the payment of principal and interest on the Bonds; or

- Insolvency. The occurrence of one or more of the following events with respect to both the Agency and the Bond Insurer: (A) the issuance of an order of rehabilitation, liquidation or dissolution of such Person; (B) the commencement by such Person of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its Debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (C) the commencement against such Person of any involuntary case or other proceeding seeking any relief referred to in the preceding clause (B), which case or proceeding will not have been dismissed within sixty (60) days following the commencement thereof; (D) an assignment by such Person for the benefit of creditors; (E) the inability or failure of such Person generally, or any admission by such Person in writing of its inability to, pay its Debts or claims when due; or (F) any action by such Person authorizing, in furtherance of or indicating its consent to, approval of or acquiescence in any of the foregoing; or

- Invalidity or Illegality. (A) The occurrence of any final and non-appealable determination by a court having competent jurisdiction that any material provision of the Bond Insurance Policy, at any time for any reason, is not valid and binding on the Bond Insurer in accordance with the terms of the Bond Insurance Policy, or any announcement, finding or ruling by any court, arbitrator or Governmental Authority with jurisdiction to rule on the validity of the Bond Insurance Policy that the Bond Insurance Policy is not valid and binding on the Bond Insurer; and (B) the occurrence of any final and non-appealable determination by a court having competent jurisdiction that any material provision of the Indenture affecting the Agency's obligation to timely pay the principal or interest on, or with respect to the Bonds, at any time for any reason, is not valid and binding on the Agency, in accordance with the terms of the Indenture, or any announcement, finding or ruling by any court, arbitrator or Governmental Authority with jurisdiction to rule on the validity of the Indenture that the Indenture is not valid and binding on the Agency; or

- Cancellation or Modification of Insurance Policy. Without the Liquidity Provider's prior written consent, which consent will not be unreasonably withheld, conditioned or delayed (A) any substitution of the Bond Insurer as insurer of the Bonds, or (B) any surrender, cancellation, termination, amendment or modification of the Bond Insurance Policy then in effect; or

- Downgrade. Any downgrade of all of the publicly available credit ratings on the Bonds (taking into account all publicly available credit ratings, whether issued with or without regard to the rating of the Bond Insurer) below BBB- by S&P, below Baa3 by Moody's and below BBB- by Fitch.

"Notice Termination Event" means each of the following events:

- Bond Insurer Downgrade. Any failure of the Bond Insurer to maintain a financial strength rating by any two of the following three rating agencies equal to A (or its equivalent) or higher by S&P, or A2 (or its equivalent) or higher by Moody's or A (or its equivalent) or higher by Fitch; or

- Shadow Rating. There is in effect a Non-Investment Grade Shadow Rating; or
- Misrepresentation. Any representation or warranty made by or on behalf of the Agency or any of its Affiliates under or in connection with the Standby Agreement or any Related Document is to be untrue in any material respect on the date as of which it was made or deemed to have been made; or
- Non-Payments. Non-payment when due of any fees or other amounts payable under the Standby Agreement (together with interest thereon at the Default Rate) within ten (10) Business Days after the Liquidity Provider has delivered written notice to the Agency, the Trustee and the Bond Insurer that the same were not paid when due; or
- Breaches. Breach by the Agency of certain covenants in the Standby Agreement; or
- Other Breaches. Breach by the Agency of any terms or provisions of the Standby Agreement (other than any breach that constitutes an Immediate Termination Event or any other Notice Termination Event) that is not remedied within thirty (30) days after the Liquidity Provider has delivered written notice thereof to the Agency, the Trustee and the Bond Insurer; or
- Cross-Default. The occurrence of any “event of default” under any of the Related Documents (which is not waived pursuant to the terms thereof) that is not otherwise a Termination Event, other than the failure of the Liquidity Provider to purchase tendered Bonds when required by the terms and conditions of the Standby Agreement; or
- Termination or Invalidity of Indenture. The Indenture terminates or ceases to be in full force and effect, other than as a result of any redemption in full of the Bonds or provision for such redemption in full in accordance with the Indenture; or
- Purchased Bonds. Any Bond remains a Purchased Bond for more than one hundred twenty (120) consecutive days; or
- Invalidity of Agreement. Any determination that a material provision of the Standby Agreement or any Related Document (other than the Bond Insurance Policy) at any time for any reason ceases to be valid and binding on the Agency or any of its Affiliates, or any declaration that any material provision is null and void, or any contest by the Agency or by any Governmental Authority having jurisdiction of the validity or enforceability thereof, or any denial by the Agency or any of its Affiliates that it has any further liability or obligation under any such document, or any cancellation or termination of any such document without the Liquidity Provider’s prior written consent.

“Potential Immediate Termination Event” means the event described in clause (C) of “Termination Events – Insolvency” under the definition of “Immediate Termination Event” prior to the expiration of the grace period provided therein (i.e., before such an event becomes an Immediate Termination Event under the applicable agreement).

“Potential Termination Event” means the occurrence of any event that with the passage of time, the delivery of notice or both would become a Termination Event.

“Suspension Event” as used with respect to the Standby Agreement means any Potential Immediate Termination Event.

Remedies

The following remedies are available to the Liquidity Provider under the Standby Agreement upon the occurrence and continuation of any Termination Event thereunder:

Immediate Termination. Subject to the provisions of “*Suspension*” below, upon the occurrence of an Immediate Termination Event, the Available Commitment and Purchase Period and the obligation of the Liquidity Provider to purchase Bonds will terminate immediately without notice or demand, and thereafter the Liquidity Provider will be under no obligation to purchase Bonds. Promptly upon the Liquidity Provider’s obtaining knowledge of any such Immediate Termination Event, the Liquidity Provider is to deliver written notice of the same to the Trustee, the Agency, the Remarketing Agent and the Bond Insurer; provided that the Liquidity Provider will incur no liability or responsibility whatsoever by reason of its failure to deliver such notice and such failure will in no manner affect the immediate termination of the Available Commitment and Purchase Period and the Liquidity Provider’s obligation to purchase Bonds pursuant to the Standby Agreement.

Termination with Notice. Upon the occurrence of a Notice Termination Event, the Liquidity Provider may terminate the Available Commitment and Purchase Period and its obligation to purchase Bonds by delivering a Notice of Termination to the Trustee, the Agency, the Remarketing Agent and the Bond Insurer, specifying the date on which the Available Commitment and Purchase Period and its obligation to purchase Bonds will terminate, which is to be not less than thirty (30) days from the date such notice is delivered to the Trustee, and on and after the effective date of such termination, the Liquidity Provider will be under no obligation to purchase Bonds.

Suspension. Upon the occurrence of a Suspension Event, the Liquidity Provider in its sole discretion may suspend its obligation to purchase Bonds immediately without notice or demand, whereupon the Available Commitment will terminate automatically, and thereafter the Liquidity Provider will be under no obligation to purchase Bonds unless and until the Available Commitment is reinstated as provided hereafter. Promptly upon the Liquidity Provider’s obtaining knowledge of any such Suspension Event, the Liquidity Provider is to deliver written notice of the same to the Agency, the Trustee, the Remarketing Agent and the Bond Insurer; provided that the Liquidity Provider will incur no liability or responsibility whatsoever by reason of its failure to deliver such notice and such failure will in no way affect the suspension of the Liquidity Provider’s obligation to purchase Bonds. The Liquidity Provider’s obligation to purchase Bonds will terminate immediately and permanently if a Potential Immediate Termination Event becomes an Immediate Termination Event. After any suspension under the Standby Agreement, the Available Commitment and the Liquidity Provider’s obligation to purchase Bonds shall be reinstated automatically and the terms of the Standby Agreement shall continue in full force and effect (unless the Standby Agreement shall otherwise have been terminated or been suspended by its terms) in the case of a Suspension Event that is a Potential Immediate Termination Event, if such Potential Immediate Termination Event is cured prior to becoming an Immediate Termination Event.

Other Remedies. In addition to the rights and remedies discussed above, upon the occurrence of any Termination Event, upon the election of the Liquidity Provider: (i) all amounts payable under the Standby Agreement (other than payments of principal and redemption price of

and interest on the Bonds or payments of Deferred Bond Interest) will upon notice delivered to the Agency become immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Agency; and (ii) the Liquidity Provider will have all rights and remedies available to it under the Standby Agreement, the Related Documents, the Bond Insurance Policy or otherwise at law or in equity.

Cure. The Liquidity Provider has the right, but not the obligation, to advance amounts to the extent required to cure any breach of an obligation of the Agency or any “event of default” under any of the Related Documents. In the event that the Liquidity Provider exercises such right, the Agency is to reimburse the Liquidity Provider therefor pursuant to and in accordance with the Standby Agreement.

Extension of Stated Expiration Date

The Stated Expiration Date may be extended from time to time for one or more extension periods by agreement in writing between the Liquidity Provider and the Agency. Any such extension is to be requested by the Agency in the form provided in the Standby Agreement (the “Extension Request”) at least sixty (60) days prior to the Stated Expiration Date then in effect. Within thirty (30) days of its receipt of an Extension Request, the Liquidity Provider is to provide to the Agency, the Trustee, the Bond Insurer and the Remarketing Agent a notice indicating its decision to extend or not extend the Stated Expiration Date (a “Notice of Extension Decision”). The Liquidity Provider has no obligation to agree to any extension of the Stated Expiration Date, and its decision to extend or not to extend such date will be in its sole and absolute discretion. At the time of any extension, the Liquidity Provider may, in its sole and absolute discretion, renegotiate terms and conditions of the Standby Agreement, including the commitment fees and the Bank Rate. If, under the terms of the Standby Agreement, an extension (giving effect to any such changes in the terms and conditions of the Standby Agreement) requires the consent of the Bond Insurer, such extension will not become effective unless the Bond Insurer consents thereto. Any failure by the Liquidity Provider to deliver a Notice of Extension Decision within thirty (30) days of its receipt of an Extension Request will constitute a decision not to extend the Stated Expiration Date then in effect.

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 to make student or parent 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 D -- “SUMMARY OF AGENCY OPERATIONS”.

The Agency has approximately 2,500 employees and the Agency’s principal offices are located in Harrisburg, Pennsylvania, with six 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 secured by Education Loans and investments other than that comprising the Trust Estate. See APPENDIX D - “SUMMARY OF AGENCY OPERATIONS - Indebtedness And Other Obligations”.

Members of the Agency Board of Directors

The Board of Directors 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:

<u>Expires</u>	<u>Term</u>
Representative William F. Adolph, Jr.– Chairman	6/30/09
Senator Sean Logan- Vice Chairman	6/30/13
Gerald L. Zahorchak, Secretary of Education*	
Representative Ronald I. Buxton	6/30/11
Senator Jake Corman	6/30/11
Representative Craig A. Dally	6/30/11
Senator Andrew E. Dinniman	6/30/11
Senator Jane M. Earll	6/30/11
Senator Edwin B. Erickson	6/30/09
Representative Dan Frankel	6/30/09
Senator Vincent J. Fumo	6/30/13
Senator Vincent J. Hughes	6/30/11
Representative Sandra J. Major	6/30/13
Representative Jennifer L. Mann	6/30/09
Honorable Roy Reinard	6/30/13
Representative James R. Roebuck, Jr.	6/30/13
Mr. A. William Schenk, III	6/30/09
Representative Jess M. Stairs	6/30/11
Senator Robert M. Tomlinson	6/30/11

* Serving until reappointed or replaced

Information concerning the Agency’s operations and programs is included as APPENDIX D – “SUMMARY OF AGENCY OPERATIONS”.

Senior Management

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

James L. Preston is President and Chief Executive Officer as well as Executive Vice President, Client Relations and Loan Operations. In addition to his duties as President and Chief Executive Officer, he is directly responsible for the Agency's Student Loan Servicing Center and directs the contract marketing responsible for the generation of the Agency's loan financing income. 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 internal auditing. 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 Peat Marwick. In addition to managing traditional accounting and auditing services while at KPMG Peat Marwick, he also provided activity based costing and business process reengineering consulting services.

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.

CERTAIN RISK FACTORS

The Agency believes, based on its analyses of multiple cash flow projections which have been based on various assumptions and scenarios required by the rating agencies and the Bond Insurer, that (i) Revenues to be received pursuant to the Indenture will be sufficient to pay principal of and interest on the Bonds when due and also to pay when due all Trustee fees, servicing costs and other expenses related to the Bonds and the Trust Estate until the final maturity of such Bonds, (ii) the liquidity of the Trust Estate is sufficient under the circumstances as projected, and (iii) growth of balances in Funds and Accounts will be adequate under the circumstances as projected. Many factors could affect the sufficiency of the Trust Estate to meet debt service payments on the Bonds, some of which are discussed below.

Factors Affecting Sufficiency and Timing of Receipt of Revenues in the Trust Estate

The Agency expects that the Revenues to be received pursuant to the Indenture will be sufficient to pay principal of and interest on the Bonds when due and also to pay the annual cost of all Trustee fees, servicing costs and other expenses related thereto until the final maturity thereof. This expectation is based upon an analysis of projections of cash flow assumptions, which the Agency believes are reasonable, regarding the timing of the financing of Education Loans to be held pursuant to the Indenture, the future composition of and yield on the portfolio of such Education Loans to be held by the Agency, the rate of return on moneys to be invested in various Accounts under the Indenture, and the occurrence of future events and conditions. There can be no assurance, however, that the Education Loans will be financed as anticipated, that interest and principal payments from the Education Loans will be received as anticipated, that the future composition of and yield on the portfolio of such Education Loans will be as anticipated, that the reinvestment rates assumed on the amounts in various Funds will be realized, or that Special Allowance Payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Agency has no control may adversely affect the Agency's actual receipt of Revenues pursuant to the Indenture.

Receipt of principal of and interest on Education Loans may be accelerated, causing an unanticipated redemption of Bonds, due to various factors, including, without limitation: (i) default claims or claims due to the disability, death or bankruptcy of the borrowers; (ii) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Agency's Education Loan portfolio expected to be held pursuant to the Indenture; (iii) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Agency's Education Loan portfolio expected to be held pursuant to the Indenture; and (iv) economic conditions that induce borrowers to refinance or repay their loans prior to maturity.

Delay in the receipt of principal of and interest on Education Loans may adversely affect payment of the principal of and interest on the Bonds when due. Principal of and interest on Education Loans may be delayed due to numerous factors, including, without limitation: (i) borrowers entering deferment periods due to a return to school or other eligible purposes; (ii) forbearance being granted to borrowers; (iii) loans in delinquency for periods longer than assumed; (iv) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Agency's Education Loan portfolio expected to be held pursuant to the Indenture; and (v) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Education Loan portfolio expected to be held pursuant to the Indenture.

Borrowers may be able to benefit from various incentive programs currently offered by the Agency. One incentive program allows for a 0.25% interest rate reduction to borrowers who elect to have their installments deducted automatically from their bank accounts. Another incentive program provides for various interest rate reductions (depending on the loan program and first disbursement date) to borrowers who, starting with their first installment, pay a specified number of installments on time and in succession. This benefit is lost if a borrower is delinquent during the qualification period. If these benefits are made available to borrowers with Education Loans, the principal of the affected Education Loans may amortize faster than anticipated.

If actual receipt of Revenues under the Indenture or actual expenditures vary greatly from those projected, amounts in the Funds may be insufficient to pay the principal of and interest on the Bonds when due. In the event that Revenues to be received under the Indenture are insufficient to pay the principal of and interest on the Bonds when due, the Indenture authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of the Bonds, and sell the Education Loans and all other assets comprising the Trust Estate. It is possible, however, that the Trustee would not be able to sell the Education Loans and the other assets comprising the Trust Estate in a timely manner or for an amount sufficient to permit payment of the principal of and accrued interest on all outstanding Bonds when due.

No insurance or guarantee of the Bonds will be provided by any government agency or instrumentality, including the Agency or any of its affiliates. The receipt of payments on the Bonds will depend on the amount and timing of payments and collections on the Education Loans and interest paid or earnings on the Funds and Accounts established pursuant to the Indenture in accordance with its terms and conditions. If those sources of funds are insufficient to repay the Bonds, Beneficial Owners will have no additional recourse against the Agency or any of its affiliates.

Basis Risk

The interest rate for the Bonds initially will be a Weekly Rate determined in accordance with the Indenture and will change periodically. The interest rate for the Bonds may be converted to one of the other Interest Rate modes under which the interest rate is determined on the basis of other indices, formulas or methods of determination. The Education Loans, however, generally bear interest at an effective rate (taking into account Special Allowance Payments authorized to be made under the Higher Education Act, or similar allowances, if any, authorized from time to time by federal law or regulations (the “Special Allowance Payments”)) equal to the 91-Day T-Bill Rate for Special Allowance Payments plus margins specified for such Education Loans, or in the case of Education Loans disbursed after January 1, 2000, based upon the 3 Month CP Rates plus specified margins (collectively, the “Loan Rates”). See APPENDIX E – “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS - Special Allowance Payments.” As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on the Bonds, there could be periods of time when the Loan Rates applicable to some or all Education Loans may be inadequate to cover the interest on the Bonds and Program Expenses. Further, if there is a decline in the Loan Rates, the amount of funds representing interest deposited in the Trust Estate may be reduced.

Changes in the Higher Education Act or other Relevant Law

No assurance can be given that the Higher Education Act (“HEA”) or other relevant federal or state laws, rules and regulations and the programs implemented thereunder will not be amended or modified in the future in a manner that might adversely impact the programs

described in this Remarketing Circular and the Education Loans made thereunder or that might adversely affect the Agency.

The Congress has retained the right to amend the HEA and is presently undergoing the process of reauthorization to approve those provisions not covered in the Deficit Reduction Act (described below under “*DEFICIT REDUCTION ACT OF 2005*”). The current authorization for programs other than FFEL Program (which was reauthorized by the 2005 Amendments) was to expire on March 31, 2008, with major amendatory bills still pending. President Bush signed into law S. 2733, the *Higher Education Extension Act of 2008* (S. 2733), which temporarily extended programs authorized under the HEA through April 30, 2008 (Public Law Number 110-198). The Senate and the House have enacted Senate Bill 2929, to temporarily extend programs authorized under the HEA through May 31, 2008 and such bill is awaiting the President’s signature. Pending such, the HEA has expired. The Agency believes that the U.S. Department of Education will continue to operate under the federal fiscal year 2008 appropriations bill and that the President will shortly sign the additional extension bill. However, such a result cannot be guaranteed.

Such further amendatory legislation may also affect elements of the FFEL Program. During the reauthorization process, proposed amendments to the Higher Education Act are commonplace and more than 50 such bills have been introduced in Congress relating to the current reauthorization process. These bills propose myriad changes to the Higher Education Act, including changing loan limits, decreasing origination fees and changing interest rate provisions. These changes could affect the Education Loans expected to be held under the Indenture in the Trust Estate securing the Bonds. It is not possible to predict whether or when any of such proposals may be adopted, in what form they may be adopted, or the final content of any such proposals and their effect upon the Agency’s student loan programs.

DEFICIT REDUCTION 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, which extends the Department of Education’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act through September 30, 2012. Several provisions of the Higher Education Act governing the FFELP were also amended. Listed below is a brief summary of some of these amendments which could be material to the Agency’s student loan program:

- Extend until October 1, 2012, the authority under the Higher Education Act to provide federal insurance on loans, make subsidized loans and make consolidation loans;
- 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 \$7,000 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 after July 1, 2006;
- Reduce the reimbursement available for student loans serviced by servicers designated for Exceptional Performance from 100% to 99% for all claims filed after July 1, 2006;

- Require payment by lenders to the Department of Education of any interest paid by borrowers on student loans first disbursed on or after April 1, 2006, that exceeds the special allowance support level applicable to such loans;
- For loans with a first disbursement made on or after July 1, 2001, provide new deferral eligibility for up to three years for a borrower who is serving on active duty during a war or other military operation or national emergency, or performing qualifying National Guard duty during a war or other military operation or national emergency;
- Make math, science and special education teachers, with loans disbursed on or after October 1, 1998, eligible for increased forgiveness amounts of up to \$17,500; and
- Standard special allowance will be paid on loans that were:
 - Not earning a quarterly rate of 9.5% as of the date of enactment of the Higher Education Reconciliation Act of 2005 (September 30, 2004);
 - Financed by a tax-exempt obligation that after September 30, 2004 has matured, or been refunded, retired or defeased;
 - Sold or transferred to or purchased by any other holder after September 30, 2004;
- Interest rates for FFEL Program Loans changed to:
 - a fixed rate of 6.8%, with respect to Stafford Loans disbursed on or after July 1, 2006;
 - a fixed rate of 8.5%, with respect to PLUS Loans disbursed on or after July 1, 2006;
 - a fixed rate equal to the lesser of (A) the weighted average of the interest rates on the loans consolidated, rounded up to the nearest higher one-eighth of one percent or (B) 8.25%, with respect to FFEL Consolidation Loans for which an application is received by an eligible lender on or after July 1, 2006.

On September 27, 2007, President Bush signed into law the College Cost Reduction and Access Act (the “CCRAA”). The CCRAA included numerous provisions that reduced the yield on loans under the FFEL Program. Specifically, the CCRAA reduced Special Allowance payments on Stafford and consolidation loans by 0.40% and by 0.70% for PLUS loans for non-profit entities (such as the Agency) that hold such loans (the reductions were 0.15% more for loan holders who are not eligible non-profit entities). In addition, the CCRAA increased the lender paid origination fee on all loans under the FFEL Program from 0.50% of the loan principal amount to 1.00% of loan principal. These two changes are applicable to loans first disbursed on or after October 1, 2007.

The CCRAA also 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 in Appendix E 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.

The CCRAA authorized the Secretary of Education to conduct an “auction” to determine the ability of lenders to participate in the 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.

The CCRAA also created a new loan repayment option that would limit 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.

HR5715 “Ensuring Continued Access to Student Loans Act of 2008” was passed by the House of Representatives on May 1, 2008 and the Senate on April 30, 2008, and signed by the President on May 7, 2008. The following is a comprehensive summary of the provisions in the law (the “2008 Act”).

Increase Annual and Aggregate Stafford Loan Limits

The 2008 Act 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 unsubsidized loan amounts for undergraduate independent students from \$46,000 to \$57,500 (of which no more than \$23,000 may be subsidized borrowing).

Changes to ACG & SMART Grants

As amended by the Senate, the 2008 Act:

- 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

Grace Period and Deferment For Parent PLUS Borrowers

Beginning July 1, 2008, the 2008 Act 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.

Special Provision for Parents Delinquent on Mortgage Payments

The 2008 Act 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 delinquent on the repayment of “any other debt”

LLR Provisions

The 2008 Act 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 the 2008 Act becomes law. The 2008 Act 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.

The 2008 Act 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 the 2008 Act 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

Department of Education as a Secondary Market

The 2008 Act temporarily authorizes the Department to purchase FFEL 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, 2009.

The 2008 Act 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 student loan programs." In other words, it prohibits lenders from using those proceeds in any other way than ensuring they continue participating in FFELP.

The 2008 Act also specifies that forward purchasing agreements from the Department should be used "to ensure continued participation" in the FFEL Program. 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. The 2008 Act 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.

The 2008 Act also authorizes funding through the Direct Loan program general funding authority to carry out the secondary market provisions of the 2008 Act.

Prohibited Inducements

The 2008 Act 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.

Suspension of Master Calendar and Negreg

The Department is allowed to implement all the provisions of the 2008 Act 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.

Impact Study on College Costs

The 2008 Act 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 2008 Act became law.

Federal Coordination

The 2008 Act 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.

Reauthorization and Future Legislation

The FFEL Program and the FDSL Program, as authorized by Title IV of the Higher Education Act, are subject to periodic reauthorization by Congress. Origination of the new FFELP Loans is currently authorized to September 30, 2012 or, with respect to additional FFELP Loans to existing borrowers for purposes other than consolidation, to September 30, 2016. No assurance can be given that relevant federal laws, including the Higher Education Act, or regulations, will not be changed in the future in a manner that might adversely affect the Trust Assets. The Agency currently expects, however, that the development of federal policy will not have a material adverse effect upon its ability to pay debt service on the Bonds or to discharge its other payment obligations under the Resolution in a timely fashion. See “APPENDIX E – DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS”.

It cannot be predicted whether further changes will be made to the Higher Education Act in future legislation or the effect of such additional legislation on the Agency’s Education Loan Program or the Education Loans held pursuant to the Indenture. The Higher Education Act has been frequently changed in the past, including with respect to significant changes in interest rates, annual and aggregate borrowing limits, circumstances allowing deferment, Special Allowance Payments and repayment provisions, all as related to Education Loans, and changes to administrative and eligibility provisions relating to Guaranty Agencies and lenders. There can be no assurance that any future law will not prospectively or retroactively materially and adversely affect the terms and conditions under which Education Loans are made and under which lenders are provided interest subsidies or Special Allowance Payments in a manner that might adversely affect the ability of the Agency to pay the principal of and interest on Bonds when due. In addition, existing legislation and future measures to reduce the federal budget deficit or for other purposes may adversely affect the amount and nature of federal financial assistance available with respect to these programs. In recent years, federal budget legislation has provided for the recovery by the Secretary of Education of certain funds held by Guaranty Agencies in order to achieve reductions in federal spending. No assurance can be made that future budget legislation or administrative actions will not adversely affect expenditures by the Secretary of Education or the financial condition of the Agency. See “THE PROGRAM - Direct Lending and Current Dates of Expiration of Federal Authority to Insure Loans” and APPENDIX E – “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS.”

Heroes Act of 2003 and Special Rights to Members of the Military and Others

The Higher Education Relief Opportunities for Students Act of 2003 (“HEROES Act of 2003”) was signed into law on August 18, 2003. The HEROES Act of 2003 authorizes the Secretary of Education to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: (i) are serving on active military duty during a war or other military operation or national emergency; (ii) are serving on National Guard duty during a war or other military operation or national emergency; (iii) reside or are employed in an area that is declared by any federal, state or local official to be a disaster in connection with a national emergency; or (iv) suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, are not placed in a worse financial position in relation to that assistance, and to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency, may be temporarily relieved from requirements that are rendered infeasible or unreasonable.

In addition, the 2005 Amendments provided FFEL Program payment deferments of up to three years during which the borrower is serving on active duty as a member of the United States armed services or National Guard during a war, certain military operations or certain national emergencies. Congress has periodically adopted similar legislation, and may consider additional legislation, that provides for, among other things, interest rate caps and additional periods of deferment with respect to Education Loans made to members of the military, including reservists. There can be no assurance that additional legislation of this type will not be adopted in the future. Accordingly, payments received by the Agency on a Education Loan to a borrower who qualifies for such relief may be subject to limitations during the borrower’s period of qualifying military or other public service.

The number and aggregate principal balance of Education Loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, the payments received on Education Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers under the Education Loans become eligible for the relief provided under the HEROES Act of 2003, there could be an adverse effect on the total collections on the Education Loans which in the event that there are insufficient funds in the Debt Service Reserve Fund, could adversely affect the Agency’s ability to make payments on the Bonds.

The Servicemembers’ Civil Relief Act of 2003 (the “Servicemembers’ Civil Relief Act”) may provide 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. This relief comes, principally, in the form of reduced interest rates and payments on the student loans of those borrowers in military service. Due to the response by the United States to terrorist attacks, domestically and abroad, and issues in the Middle East and other parts of the world, the number of citizens who are in active military service, including persons in reserve status who have been called or will be called to active duty, is expected to either remain at a high level, or increase, for the foreseeable future. The limitations on the interest rates charged to eligible military borrowers

under the Servicemembers' Civil Relief Act, and the resulting reductions in those military borrowers' student loan payments may result in a material decrease in revenues collected, and, if there are insufficient funds in the Debt Service Reserve Fund, could adversely affect the Agency's ability to make payments on the Bonds.

The Servicemembers' Civil Relief Act also limits the ability of a lender in the Federal Family Education Loan 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. As a result, there may be delays in payment and increased losses on the Education Loans, which, in the event that there are insufficient funds in the Debt Service Reserve Fund, could adversely affect the Agency's ability to make payments on the Bonds.

In the past, the United States Department of Education has issued guidelines that extended the in-school status, in-school deferment status, grace period status or forbearance status of certain borrowers ordered to active duty. Further, if a borrower is in default on a FFEL Program Loan, the applicable Guaranty Agency may be required to cease all collection activities for the expected period of the borrower's military service, or some other period determined by the United States Department of Education.

The Agency does not currently know how many Education Loans may be affected by the application of the Servicemembers' Civil Relief Act or any related guidelines that the Department of Education may adopt.

Changes in State Law May Affect the Agency and its Operations

Two bills have been introduced in the Pennsylvania General Assembly that propose restricting certain powers of the Agency and, if enacted, could create increased competition in the Commonwealth with respect to student loans. The likelihood that the proposed legislation will become law and whether other similar legislation will be introduced is uncertain. Without further action by the General Assembly these bills will expire on November 30, 2008. Similarly, the impact of any such legislation on the financial status of the Agency cannot be predicted. If the Agency were to become financially distressed, delays in payments on the Bonds could occur. In addition, reductions in the amounts of these payments could result. The Bonds are, however, limited obligations of the Agency secured by and payable from the Trust Estate, which includes a discrete pool of Education Loans. The Bonds are not a general obligation of the Agency.

Risk Management and Contingencies

Federal programs in which the Agency will participate are subject to audit in accordance with the provisions of the U.S. Office of Management and budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organization*. The provisions of this circular do not limit the authority of the U.S. Department of Education or other federal audit officials to perform, or contract for, audits and evaluations of federal financial assistance programs. Therefore, the Agency's operations in current and prior years are subject to audit. The Agency believes that it is in substantial compliance with applicable federal regulations and that any adjustment because of future audits will not be material. The Agency has appealed one finding in a Program Review conducted by the Secretary of Education related to the Agency's processing of 9.5% floor loans. On November 19, 2007, the Office of Inspector General of the U.S. Department of Education issued its final audit report title *Special Allowance Payments to the Pennsylvania Higher Education Assistance Agency for Loans Funded by Tax-Exempt Obligations*. Finding No. 1 of the report questions payment of \$14.1 million and duplicates the Program Review finding already

under appeal. Finding No. 2 of the report questions payments of \$21.3 million. On January 25, 2008, the U.S. Department of Education closed Finding No. 2 by concluding that this finding did not rest on an accurate characterization of DCL 96-L-186 and the statutory and regulatory provisions it interpreted. Finding No. 1 remains open and the amount of the questioned payment has not been resolved as of May 8, 2008.

Additionally, see “APPENDIX E – DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS -- Special Allowance Payments” for a discussion of the additional audit requirements by the U.S. Department of Education with respect to the 9.5% floor loans in connection with the Dear Colleague letters dated January 23, 2007 and April 27, 2007.

The Use of Master Promissory Notes May Compromise the Indenture Trustee’s Security Interest in Certain Student Loans

Beginning with loans disbursed on or after July 1, 1999, a master promissory note may evidence any Federal Stafford student loan made to a borrower under the FFEL Program. The master promissory note may be used for Federal PLUS Loans disbursed beginning on or after July 1, 2003, and must be used for all Federal PLUS Loans disbursed beginning on or after July 1, 2004, or for any Federal PLUS Loan certified on or after July 1, 2004, regardless of the loan period. If a master promissory note is used, a borrower executes only one promissory note with each lender. Subsequent student loans from that lender are evidenced by a confirmation sent to the student. Therefore, if a lender originates multiple student loans to the same student, all the student loans are evidenced by a single promissory note. Under the Higher Education Act, each student loan made under a master promissory note may be sold independently of any other student loan made under that same master promissory note. Each student loan is separately enforceable on the basis of an original or copy of the master promissory note. Also, a security interest in these student loans may be perfected through filing of a financing statement. Prior to the master promissory note, each student loan made under FFEL Program was evidenced by a separate note. Assignment of the original note was required to effect a transfer and possession of a copy did not perfect a security interest in the loan. Federal consolidation loans are not originated with master promissory notes. Each of those loans are made under standard loan applications and promissory notes required by the Department of Education.

It is possible that Education Loans in the Trust Estate may be originated under a master promissory note. If the servicer were to deliver a copy of the master promissory note, in exchange for value, to a third party that did not have knowledge of the Trustee’s lien, that third party may also claim an interest in the Education Loan. It is possible that the third party’s interest could be prior to or on a parity with the interest of the Trustee.

The Bonds Will Be Issued Only in Book-Entry Form

The Bonds will be initially 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 Beneficial Owners’ name or the name of the Beneficial Owners nominee. Unless and until definitive securities are issued, holders of the Bonds will not be recognized by the Trustee as Registered Owners as that term is used in the Indenture. Unless and until definitive securities are issued, holders of the Bonds 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.

Withdrawal or Downgrade of Initial Ratings May Decrease the Prices of Your Securities

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. Potential Beneficial Owners should analyze the significance of each rating independently from any other rating. A rating agency may revise or withdraw its rating at any time if it believes circumstances have changed. A subsequent downward change in rating is likely to decrease the price a subsequent purchaser will be willing to pay for the securities.

Secondary Market May Not Develop

The Remarketing Agent may assist in resales of the Bonds but is not required to do so. A secondary market for the Bonds may not develop. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow the resale of any of the Bonds. Furthermore, the transfer requirements described herein may limit the liquidity and marketability of Bonds and therefore may not yield an owner the best possible price for a Bond. The ratings of the Bonds by the Rating Agencies will not address the market liquidity of the Bonds.

Increased Competition

The Agency faces competition from other Eligible Lenders that could decrease the volume of Eligible Loans that could be acquired by the Agency. Additionally, the Higher Education Act provides for a Federal Direct Student Loan Program. This program could result in reductions in the volume of loans made under the Federal Family Education Loan Program. Reduced volume in the Agency's Program in particular and in the Federal Family Education Loan Program in general may cause increased costs due to reduced economies of scale. These cost increases could reduce the ability to service the Education Loans. This could also reduce revenues received by the Guarantee Agencies available to pay claims on defaulted Education Loans.

A Servicer Default May Have an Adverse Effect on the Bonds

If the Agency defaults or is unable to perform under its Servicing Agreement for the Education Loans, the Agency cannot predict the cost of the transfer of servicing to a successor, the ability of the successor servicer to perform the obligations and duties of the Servicer under the servicing agreement, or the servicing fees charged by the successor servicer.

Consolidation of Federal Benefit Billings and Receipts With Other Trust Estates

Due to the Department of Education's policy with respect to the granting of new lender identification numbers, the availability of such numbers has become restricted. It is expected that the Trustee will permit other trust estates established by the Agency to use the Department of Education lender identification number applicable to the Trust Estate. In that event, the billings submitted to the Department of Education for Interest Subsidy and Special Allowance Payments on the Financed Eligible Loans held in the Trust Estate would be consolidated with the billings for such payments for student loans in other trust estates using the same lender identification number, and payments on such billings would be made by the Department of Education in lump sum form. Such lump sum payments would then be allocated among the various trust estates using the same lender identification number.

In addition, the sharing of the lender identification number by the Trust Estate with other trust estates established by the Agency may result in the receipt of claim payments by Guarantee Agencies in lump sum form. In that event, such payments would be allocated among the trust estates in a manner similar to the allocation process for Interest Subsidy Payments and Special Allowance Payments.

The Department of Education regards the Agency in loan programs secured by other trust estates established by the Agency as the party primarily responsible to the Department of Education for any liabilities owed to the Department of Education or Guarantee Agencies resulting from the Agency's activities in the Federal Family Education Loan Program. As a result, if the Department of Education or a Guaranty Agency were to determine that the Agency owes a liability to the Department of Education or a Guaranty Agency on any student loan for which the Agency is or was legal titleholder, including loans held in the Trust Estate or other trust estates established by the Agency, the Department of Education or Guaranty Agency may seek to collect that liability by offset against payments due the Agency relating to the Trust Estate. In such a situation, Revenues expected to accrue to the Trust Estate may be reduced because of liabilities attributable to another trust estate.

Financial Status of the Guarantee Agencies

A deterioration in the financial status of a Guaranty Agency could result in the inability of such Guaranty Agency to make guarantee claim payments. Among the possible causes of a deterioration in a Guaranty Agency's financial status are: (i) the amount and percentage of defaulting FFEL Program loans guaranteed by such Guaranty Agency; (ii) an increase in the costs incurred by such Guaranty Agency in connection with FFEL Program loans guaranteed; and (iii) a reduction in revenues received in connection with FFEL Program loans guaranteed. The Higher Education Act grants the Secretary of Education broad powers over guarantee agencies and their reserves. These provisions create a risk that the resources available to the guarantee agencies to meet their 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 guarantee agencies. Under Section 432(o) of the Higher Education Act, if the Secretary of Education has determined 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 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 APPENDIX D - "SUMMARY OF AGENCY OPERATIONS" herein for further discussion of risks related to revenues from guarantee activities of the Agency.

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act may adversely affect payment of principal of and interest on the Bonds 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 Remarketing Circular 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 the Guaranty Agency's refusal to honor its guarantee on such student loans to the Agency. Such action by the Secretary of Education could adversely affect a Guaranty Agency's ability to honor guarantee claims made by the Agency, and loss of guarantee payments to the Agency by a Guaranty Agency could adversely affect payment of principal of and interest on the Bonds.

Uncertainty as to Available Remedies

The remedies available to owners of the Bonds 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 delivered concurrently with the issuance of the Bonds were 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.

Reliance on Rating Confirmations

The Indenture provides that the Agency and the Trustee may undertake various actions based upon receipt by the Trustee of an affirmation from the Rating Services that the outstanding respective ratings assigned to the Bonds by each such Rating Service will not be reduced or suspended. Such actions include the execution and delivery of Additional Bonds. No assurance can be given that such actions will not have an adverse impact on the credit quality of such Bonds or adversely affect payment of principal and interest on the Bonds.

Certain Rights of the Bond Insurer

The Indenture provides that the Bond Insurer may approve any action, determination or election under the Indenture in lieu of obtaining the consent of Owners of the Bonds, including in connection with amendments to the Indenture, direction of remedies upon the occurrence of any Event of Default or otherwise. In addition, the Indenture provides that the Agency and the Trustee may take, or refrain from taking, various actions based in whole or in part upon the consent, approval or direction of the Bond Insurer, including determinations of the types of Educational Loans to be financed pursuant to the Indenture, extension of any Recycling Period, an increase in the amount of Program Expenses or Supplemental Costs to be paid pursuant to the Indenture, any material change in any Borrower Benefit Program and the initiation of any loan forgiveness program.

THE PROGRAM

General

The Agency's loan program (the "Program") is designed to combine the maximum benefits of state and federal student aid loan programs through a unified application process.

Residents of Pennsylvania are eligible to apply for loans under the Program to finance costs of education for themselves or their children. In addition, certain other loans to finance education may be made to eligible individuals or institutions as permitted by the Act and the Indenture or the other indentures and loan documents to which the Agency's funds are subject.

The Agency initially used the funds deposited to the Loan Fund from the proceeds of the Bonds to make or finance Education Loans pursuant to the Program described below. Since the initial use of the proceeds of the sale of the Bonds, the Agency has made such sales, purchases and originations of Education Loans as it has deemed necessary and appropriate for the security of the Bonds and the maintenance of its overall Program.

Effective March 7, 2008 the Agency has temporarily suspended its loan-making activities under the FFELP program, because of its inability to access funds at reasonable rates in the credit markets. The Agency continues to provide its federal guaranty, loan processing and loan servicing functions for other lenders, including with respect to the Agency's low-cost Keystone BEST program described below. The Agency cannot predict when it will be able to resume its lending program in whole or in part.

The Agency services the Education Loans. See APPENDIX D – "SUMMARY OF AGENCY OPERATIONS" herein for a description of the Agency's Loan Servicing function.

Types of Education Loans

The Federal Higher Education Act of 1965, as amended (the "Higher Education Act"), provides for, among other things, (i) direct federal insurance of Education 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. This program established by the Higher Education Act is referred to as the Federal Family Education Loan Program (the "FFEL Program"). 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.

The Agency may, during the Recycling Period, make such sales, purchases and originations of Education Loans under the FFEL Program as it deems necessary and appropriate for the security of the Bonds and the maintenance of its overall Education Loan program. Subject to the terminable provisions of the Third Amendment, the Indenture permits the Agency to use recycled proceeds to make or purchase Education Loans other than those under the FFEL Program upon obtaining the Bond Insurer's consent. The types of Education Loans actually made or acquired in the future will be determined by the Agency (with the Bond Insurer's consent) on the basis of anticipated demand and other financial considerations and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). 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. Thus, there can be no assurance that the Education Loans actually made or purchased with the proceeds of the Bonds will correspond with the descriptions of the various types of Education Loans furnished herein and in the Appendices hereto.

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 on or after November 1, 2007 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.

The Agency anticipates that during the Recycling Period, it will acquire a significant amount of Education Loans originated under the Keystone and Keystone Best programs.

In addition to the foregoing, the Agency also has acquired the following types of loans.

HEAL Loans. Loans insured under Title VII, Part C, Subpart 1, of the Public Health Service Act, as amended, made to eligible students enrolled in eligible health care institutions ("HEAL Loans") are made or financed by the Agency. Eligible HEAL Loans are insured by the Secretary of the United States Department of Health and Human Services against the borrower's default, bankruptcy, death or total and permanent disability. The permissible amount on an

annual basis of HEAL Loans to an eligible student is currently limited to either \$12,500 or \$20,000 depending on the student's course of study.

Interest on HEAL Loans will be computed at a variable rate for any calendar quarter equal to the bond equivalent rates for 91-day Treasury Bills auctioned during the preceding quarter plus 3%. HEAL Loans of the Agency may however have an interest rate discount in effect from the date the loan is made through such date as the Agency may establish. The amount of such discount shall be adjusted in accordance with the terms of the applicable indenture, depending on the interest rates on the financing bonds and certain administrative costs.

The borrower's repayment period begins nine months after the month he or she ceases to be a student at an eligible school. If the borrower becomes an intern or resident in an accredited program within nine months after leaving school, the repayment period must begin nine months after he or she ceases to be an intern or resident. HEAL Loans must allow a borrower at least 10 years, but not more than 25 years, to repay, calculated from the beginning of the repayment period. A borrower is required to fully repay a loan within 33 years after it is made.

Recycling

As discussed above, the Agency may at any time during the Recycling Period sell any or all of the Education Loans it holds under the Indenture (subject to certain restrictions) and use the proceeds from such sale to make or acquire additional Education Loans of the same or other types. In addition, the Agency may use excess Revenues (including principal repayments and prepayments on Education Loans) to make or acquire additional Education Loans. "Recycling" refers to the application of recoveries of principal, and other Revenues not required by the Indenture to be applied to other purposes, to the making, acquisition or financing by the Agency of Education Loans. The Agency may engage in Recycling so long as it is in compliance with the financial tests set forth in the Indenture after giving effect to the proposed Recycling. Such tests allowing Recycling are expected to be met under present circumstances so that the Recycling Period will continue until July 1, 2009, unless the financial tests demonstrate that Recycling can continue until a later date and the Bond Insurer so consents. In order for Recycling to be permitted, the Agency may make additional contributions of cash or Education Loans to the funds established under the Indenture, or provide acceptable financial instruments to allow Recycling to continue with the approval of the Bond Insurer. Under certain circumstances described in the Indenture (each a "Recycling Suspension Event"), at the Bond Insurer's request, the Agency must stop or restrict Recycling. If the Agency stops Recycling due to the occurrence of a Recycling Suspension Event, it cannot resume Recycling without first receiving the consent of the Bond Insurer. If after 90 days (or such longer period as may be approved by the Bond Insurer) after such a cessation of Recycling, the Bond Insurer has not approved the resumption of Recycling, the Agency shall direct the Trustee to use amounts available for such purpose under the Indenture to redeem or purchase the Bonds as soon as possible in accordance with the Indenture at a price not in excess of the principal amount of such Bonds plus accrued interest. If, however, the Recycling Suspension Event consists of (i) an Event of Default under the Indenture; (ii) a material deterioration in the financial condition or a change in the legal status of the Agency (in the reasonable determination of the Bond Insurer), which could have a material adverse impact on the Agency's ability to pay principal and interest on the Bonds or otherwise perform its duties under the Indenture; or (iii) Bonds being held by the Bank, or an alternative Bank, under the terms of the Standby Agreement, or any alternate liquidity facility, for 30 consecutive days, the Trustee must take immediate steps to redeem the Bonds without regard to the 90-day period.

The Indenture permits the Agency to discontinue Recycling at any time, in its discretion. In addition, changes in federal law or the failure to reauthorize the Higher Education Act may make it difficult or impracticable to continue Recycling. If Recycling cannot continue or is significantly reduced, a substantial number of the Bonds may be redeemed prior to maturity of the Bonds. See “Direct Lending and Current Dates of Expiration of Federal Authority to Insure Loans” below and “DESCRIPTION OF THE BONDS – Redemption.”

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

The foregoing description of various Education Loans and the description of the Higher Education Act set forth in APPENDIX E 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 recently announced that it will transition to the FDSL Program for the 2008/2009 academic school year. This University accounted for approximately 10% of PHEAA guarantee volume per year and 31% of origination volume for PHEAA as a lender per year.

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 “CERTAIN RISK FACTORS – Changes in the Higher Education Act or other Relevant Law.”

NO CONTINUING DISCLOSURE

The Agency is not required to provide continuing financial or other information for the benefit of the owners of the Bonds so long as the Bonds bear interest at a Weekly Rate. While the Agency accordingly has not entered into any continuing disclosure undertaking, it has been voluntarily making continuing disclosure filings; however, it could determine to discontinue such practice.

Notwithstanding the foregoing if the interest rate on the Bonds is converted to a Term Rate or to another interest rate mode for which the Rate Period is longer than nine months, the Agency must either provide the Trustee, Bank, Bond Insurer and Remarketing Agent with an opinion of Bond Counsel stating that Rule 15c2-12 provides an exemption from continuing disclosure with respect to the Bonds or enter into a written continuing disclosure undertaking at the time of such conversion covenanting to provide continuing information with respect to the Bonds required by Rule 15c2-12.

TAX MATTERS

Tax Exemption: Opinion of 1999 Co-Bond Counsel

Saul Ewing LLP and Pepper Hamilton LLP, bond counsel in connection with the original issuance of the Bonds, issued their opinion on June 30, 1999 that (1) subject to compliance by the Agency with certain requirements of the Code, interest on the Bonds is excludable from gross income for federal income tax purposes under the Code, and (2) under the laws of the Commonwealth of Pennsylvania as then enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax. Interest on the Bonds is an item of tax preference within the meaning of Section 57 of the Code for purposes of the federal alternative minimum tax imposed by Section 55 of the Code on individuals and corporations. In addition, Bond Counsel's opinion stated that the interest on the Bonds could become subject to Federal income taxation as of the date of original issuance thereof if the Agency does not comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. Bond Counsel expressed no opinion regarding other federal tax consequences arising with respect to the 1999 Series A Bonds.

The complete text of the aforementioned opinion is included as APPENDIX B-1 hereto. Such opinion has not been reissued or updated.

Under amendatory legislation enacted by the Commonwealth of Pennsylvania after the issuance of the 1999 Co-Bond Counsel opinion, profits, gains or income derived from the sale, exchange, or other disposition of the Bonds are now subject to state and local taxation within the Commonwealth of Pennsylvania.

Opinion of 2002 Bond Counsel in connection with First Amendment

Saul Ewing LLP, Bond Counsel, in connection with the First Amendment, issued their opinion on August 15, 2002 that the execution of the First Amendment and delivery of a surety bond for the debt service reserve fund would not, in and of itself, adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for purposes of federal income taxation.

The complete text of the aforementioned opinion is included in APPENDIX B-2 hereto. Such opinion has not been reissued or updated.

Opinion of Bond Counsel in connection with 2008 Remarketing

Saul Ewing LLP, Bond Counsel, will deliver an opinion that the execution and delivery of the amendment to the Liquidity Facility and to the Indenture, will not, in and of themselves

adversely affect the excludability from gross income of interest on the Bonds for federal income tax purposes.

The complete text of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX B-3.

Currently, litigation in various jurisdictions (including *Davis v. Kentucky Dept of Revenue of The Finance and Admin. Cabinet*, 197 S.W.3d 557 (2006), in which the U.S. Supreme Court has heard arguments pursuant to a writ of certiorari granted on May 21, 2007) has called into question the permissibility under the U.S. Constitution of disparate state tax treatment of interest on bonds issued by a state and its political subdivisions and on obligations issued by other states and their political subdivisions. Pennsylvania statutes currently result in such disparate treatment. The outcome of such review, and its impact, if any, on the exemption of the Bonds and interest thereon from state and local taxes in Pennsylvania, or on the market value or marketability of the Bonds, cannot be predicted, and prospective purchasers of the Bonds should consult their own tax advisers regarding the foregoing matters.

Ownership of tax-exempt obligations, including the Bonds, may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income” and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. **BOND COUNSEL OFFERS NO OPINIONS AS TO SUCH TAX CONSEQUENCES. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO SUCH CONSEQUENCES.**

LEGALITY FOR INVESTMENT

Subject to any applicable federal requirements or limitations, the Bonds 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 the remarketing of the Bonds or in any way contesting or affecting the validity of the Bonds, or any proceedings of the Agency taken with respect to the issuance or delivery 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 moneys or security provided for the payment of the Bonds or the powers of the Agency.

LEGAL MATTERS

Certain legal matters in connection with the amendment of the Liquidity Facility and of the Indenture and the remarketing of the Bonds, and with regard to the effect on the tax-exempt status of the interest thereon, are subject to the opinion of Saul Ewing LLP, Philadelphia, Pennsylvania, Bond Counsel. The proposed form of the opinion of Bond Counsel is included in APPENDIX B-2 hereto.

Certain legal matters will be passed upon for the Bank by its counsel, Cadwalader, Wickersham & Taft LLP, New York, New York, and for the Agency by Stevens & Lee, a Professional Corporation, Reading and Harrisburg, Pennsylvania, and by its special disclosure counsel, Obermayer Rebmann Maxwell & Hippel LLP, Philadelphia and Harrisburg, Pennsylvania.

FINANCIAL ADVISOR

The Agency has retained Public Financial Management, Inc., of Harrisburg, Pennsylvania, as Financial Advisor with respect to the remarketing of the Bonds. The Financial Advisor is obligated neither to undertake nor to assume responsibility for, nor has it undertaken or assumed responsibility for, an independent verification of the accuracy, completeness or fairness of the information contained in this Remarketing Circular. Public Financial Management, Inc., is an independent advisory firm and is not engaged in the business of underwriting, holding or distributing municipal or other public securities.

REMARKETING

Morgan Stanley & Co. Incorporated as Remarketing Agent is remarketing the Bonds on May 9, 2008 pursuant to the Indenture and the Remarketing Agent Agreement, at a price equal to 100% of the principal amount thereof.

Pursuant to that agreement the Remarketing Agent is paid a fee quarterly in arrears for its services. No separate fee is being charged for the May 9 remarketing.

RATINGS

Moody's has assigned its long-term underlying rating of "Aaa" and Fitch has assigned its long-term underlying rating of "AAA" to the Bonds without regard to the provisions of bond insurance. Moody's has also affirmed its short-term rating of "VMIG-1" and Fitch has assigned its short-term rating of "F1+" with the understanding that, upon delivery of the remarketed Bonds, the Standby Agreement provided by the Bank will continue in effect.

The Bonds will continue to maintain ratings of "Aaa" and "AAA" from Moody's and Standard & Poor's with the understanding that, upon delivery of the remarketed Bonds, the Municipal Bond Insurance Policy issued by Ambac Assurance will continue in effect. Standard & Poor's previously assigned short-term rating of "A-1" will remain in effect.

Each such rating reflects only the respective view of such organization. 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 either or both 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 Bonds.

AGENCY FINANCIAL STATEMENTS AND INFORMATION

The Agency's financial statements for the fiscal years ended June 30, 2007 and 2006 were audited by KPMG LLP, as set forth in their report dated September 26, 2007. Such financial statements and auditor's report, as of the date of this Remarketing Circular, may be found on the Agency's website: www.pheaa.org.

As of the date of this Remarketing Circular, the Agency also makes available, on its website, its unaudited quarterly financial reports. This information can be accessed at www.pheaa.org. The Agency is not, however, required to provide this information and may discontinue doing so in the future.

Subsequent to the date of this Remarketing Circular, the Agency plans to make available, on its website, unaudited quarterly loan servicing reports regarding the Education Loans held under the Indenture. When posted, this information will be posted at www.pheaa.org. The Agency is not, however, required to provide this information and may discontinue doing so at any time.

Since the Bonds are limited obligations of the Agency, payable solely from the Trust Estate pledged under the Indenture, the overall financial status of the Agency does not indicate, and does not necessarily affect, whether such revenues and other amounts will be available under the Indenture to pay the principal of and interest on the Bonds. The Agency is not obligated to pay any amounts in respect of principal and/or interest on the Bonds from any moneys legally available to the Agency for its general purposes other than those expressly pledged.

MISCELLANEOUS

The information set forth in this Remarketing Circular 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 Remarketing Circular. Copies of the Act and the Indenture may be obtained upon written request directed to the Agency, 1200 North Seventh Street, 6th Floor, Harrisburg, Pennsylvania.

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

This Remarketing Circular is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any Bonds.

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 summary of certain provisions of the Indenture is not to be regarded as a full statement thereof, and reference should be made to the Indenture for all of the terms and provisions thereof.

The provisions of the Indenture summarized below have been amended and supplemented by the Third Amendment. See “Third Amendment” below for a summary of such amendments and supplements.

Certain Definitions

The following defined terms are used in the forepart of this Remarketing Circular and in the following summary of the Indenture. Capitalized terms used in this Appendix A but not defined below shall have the meanings given to them in the Remarketing Circular.

“Account” or “Fund” shall mean one of the funds, accounts or subaccounts created and established pursuant to Article VI of the Indenture.

“Accountant” shall mean such reputable and experienced independent certified public accountant or firm of independent certified public accountants as may be selected by the Issuer and not unsatisfactory to the Trustee and the Bond Insurer, and may be the accountant or firm of accountants who regularly audit the books and accounts of the Issuer.

“Accrued Assets” shall mean, as of any date of computation, the sum of (i) the outstanding principal amount of all Financed Education Loans pledged under the Indenture, (ii) the aggregate Value of all other amounts on deposit in all the Funds and Accounts (other than the Rebate Fund, the Excess Earnings deposited or required to be deposited in the Yield Reduction Payment Fund) (for this purpose the Reserve Fund Credit Facility shall be deemed not to be an amount on deposit), (iii) the amount of accrued but unpaid borrower interest on Financed Education Loans, (iv) all accrued but unpaid Interest Subsidy Payments and Special Allowance Payments on Financed Education Loans, and (v) all accrued but unpaid interest and income on Investment Securities.

“Accrued Liabilities” shall mean, as of any date of computation, the sum of (i) the unpaid principal of and unpaid interest on all Outstanding Bonds, (ii) unreimbursed draws on the Reserve Fund Credit Facility together with unpaid interest thereon (iii) any accrued but unpaid Program Expenses and (iv) any accrued but unpaid Supplemental Costs.

“Act” shall mean the Act creating the Pennsylvania Higher Education Assistance Agency, Act of August 7, 1963, P.L. 549, as amended.

“Additional Bonds” shall mean any Bonds issued pursuant to Section 2.13 of the Indenture.

“Additional Liquidity Facility” shall mean an irrevocable letter of credit or other credit enhancement or support facility or liquidity facility, acceptable in form and substance to the Bond Insurer, delivered to the Trustee pursuant to Section 2.13 and Article VII of the Indenture.

“Affiliate” shall mean any Person directly or indirectly controlling, controlled by or under common control with the Issuer as certified to the Trustee and the Remarketing Agent by an Authorized Issuer Representative.

“Alternate Liquidity Facility” shall mean a standby bond purchase agreement or other Liquidity Facility delivered to replace the initial Standby Agreement (i) pursuant to which the provider or providers agree to purchase Bonds tendered for purchase in accordance with Article IV of the Indenture, and (ii) which is acceptable to the Bond Insurer.

“Alternate Municipal Bond Insurance Policy” shall mean a Municipal Bond Insurance Policy issued to replace the initial Municipal Bond Insurance Policy pursuant to Section 17.10 of the Indenture.

“Authorized Issuer Representative” shall mean the Chairman, Vice Chairman or President and Chief Executive Officer of the Issuer, or such other person or persons at the time designated to act on behalf of the Issuer by certificate filed with the Trustee containing the specimen signature of such person and signed by the Chairman, Vice Chairman or President and Chief Executive Officer of the Issuer. Such certificate may designate an alternate or alternates.

“Bank” currently means Morgan Stanley Bank, and its successors and assigns in that capacity under the Standby Agreement and, in the event an Alternate Liquidity Facility is outstanding or an Additional Liquidity Facility is issued or otherwise available to secure Additional Bonds issued pursuant to Section 2.13 of the Indenture, the issuer of the Alternate Liquidity Facility or Additional Liquidity Facility and their successors and assigns. If a Liquidity Facility is issued by more than one bank or financial institution, notices required to be given to the Bank may be given to the bank or financial institution under such Liquidity Facility appointed to act as agent for all such banks or financial institutions.

“Beneficial Owner” shall mean any person who acquires beneficial ownership interest in a Bond held by the Securities Depository. In determining the Beneficial Owner of any Bond, the Trustee and the Remarketing Agent may rely upon representations made and information given to the Trustee or the Remarketing Agent by the Securities Depository or its Depository Participants with respect to any Bond held by the Securities Depository in which a beneficial ownership is claimed.

“Bond” or “Bonds” shall mean any or all of the Bonds issued by the Issuer pursuant to the Indenture and from and after the date of issuance of any Additional Bonds, shall include such Additional Bonds.

“Bond Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, as issuer of a Municipal Bond Insurance Policy with respect to the Insured Bonds, and any provider of an Alternate Municipal Bond Insurance Policy as provided in Section 17.10.

“Bond Year” shall mean, with respect to each series of Bonds (or, in the case of multiple series of Bonds which are treated under Section 148 of the Code as a single issue, with respect to such issue), (a) the period commencing on the Date of Issue and ending at the close of business on a date selected by the Issuer, which period shall coincide with an accrual period (within the meaning of Section 1272 of the Code) ending not later than one year following the Date of Issue, and (b) each one-year period ending at the close of business on each successive anniversary of the previous period.

“Borrower Benefit Program” means the program of the Issuer under which, (i) the interest rate on Education Loans is reduced as a reward for timely payment or (ii) the origination fee charged to the borrower is reduced or (iii) other benefits are provided to borrowers that have the effect of reducing the yield on Education Loans.

“Business Day” shall mean any day other than a Saturday or Sunday or a day on which banks located in Harrisburg, Pennsylvania, New York, New York or any other city in which the Principal Office of the Trustee or the office of the Bank at which Requests are required to be presented under the Liquidity Facility is located are required or authorized to close; or, on which the New York Stock Exchange is closed.

“Cash Flow Certificate” shall mean a certificate prepared by or on behalf of the Issuer and acceptable to the Bond Insurer, with respect to Cash Flows setting forth, for the period extending from the date of such certificate to the latest maturity of the Bonds then Outstanding: (i) all Revenues expected to be received during such period; (ii) the application of all such Revenues in accordance with the Indenture; (iii) the resulting balances on each Interest Payment Date; and (iv) establishing under all scenarios included in the Cash Flows, that anticipated Revenues will be at least sufficient to pay the principal of and interest on the Bonds when due and all Program Expenses and Supplemental Costs payable under the Indenture when due.

“Cash Flows” shall mean cash flow schedules prepared by or on behalf of the Issuer, presented in sufficient detail acceptable to the Bond Insurer (or, if no Insured Bonds are Outstanding, the Rating Services) and including a listing of all assumptions and scenarios used in the preparation of such cash flow schedules. The assumptions used and scenarios included shall be acceptable to the Bond Insurer (or, if no Insured Bonds are Outstanding, the Rating Services).

“Certificate and Agreement” means the certificate of the Issuer and agreement with the Bond Insurer with respect to the Bonds, as amended and supplemented from time to time, relating to the assumptions and scenarios used in preparing Cash Flows, any limitations on Program Expenses, Supplemental Costs and any constraints or limitations on the portfolio of Education Loans. The Certificate and Agreement may be amended from time to time by the Issuer and the Bond Insurer without notice to or consent of any other person.

“Code” shall mean the Internal Revenue Code of 1986, as amended. References to the Code include the relevant regulations, temporary regulations and proposed regulations thereunder.

“Commercial Paper Rate” shall mean, when used with respect to any particular Bond, the interest rate determined for each Commercial Paper Rate Period applicable thereto pursuant to Section 3.2(b) of the Indenture.

“Commercial Paper Rate Period” shall mean each period during which a Bond accrues interest at a Commercial Paper Rate.

“Commonwealth” shall mean the Commonwealth of Pennsylvania.

“Computation Date” shall mean the last day of each fifth Bond Year (or such other date or dates which are the subject of an available and properly made election pursuant to the Code) and the date that the last Bond of a series (or, in the case of multiple series which are treated as one issue under Section 148 of the Code, such issue) is redeemed.

“Confirmation” means (i) so long as any Insured Bonds are Outstanding, a letter from the Bond Insurer confirming that the Bond Insurer approves the action proposed to be taken by the Issuer, provided that if the proposed action is specifically provided for in the latest applicable Certificate and Agreement, such Certificate and Agreement shall constitute a Confirmation; or (ii) if no Insured Bonds are Outstanding, a letter from each Rating Service then rating Bonds confirming that the action proposed to be taken by the Issuer will not, in and of itself result in a lowering, suspension or withdrawal of the ratings then applicable to any Bonds. The Issuer shall promptly provide a copy of any Confirmation received pursuant to clause (i) above to each Rating Service.

“Consolidation Loans” shall mean loans authorized under Section 428C of the Higher Education Act of 1965, as amended by the Higher Education Reauthorization Amendments of 1986.

“Conversion Date” shall mean the day on which a particular type of interest rate becomes effective for the Bonds which is not immediately preceded by a day on which the Bonds accrued interest at the same type of rate (and, when used with respect to any Term Rate Period, a date which is not preceded by a Term Rate Period of the same duration). Each Conversion Date shall be an Interest Payment Date for the Rate Period from which the Bonds are converted.

“Costs of Issuance” shall mean all items of expense, directly or indirectly payable by or reimbursable by or to the Issuer and relating to the authorization, sale and issuance of the Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, Trustees’ initial fees and expenses, fees and expenses of the Bank with respect to the Standby Agreement, the initial premium for the Municipal Bond Insurance Policy, legal fees and expenses, fees and expenses of consultants and professionals, rating agency fees, fees for transporting and safeguarding Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds (including the Underwriters’ spread, whether realized directly or derived through purchase of Bonds at a discount below the price at which they are expected to be sold to the public).

“Counsel” shall mean an attorney duly admitted to practice law before the highest court of any state in the United States of America or the District of Columbia, or a firm of such attorneys.

“Date of Issue” (a) with respect to the Bonds shall mean June 30, 1999 and (b) with respect to any Additional Bonds, shall mean the date on which such Additional Bonds are initially delivered to the original purchasers thereof.

“Debt Service Reserve Fund Requirement” shall be 2% of the principal amount of Bonds Outstanding, or such other amount as shall be approved by the Bond Insurer, provided that the Debt Service Reserve Fund Requirement for all Bonds shall at no time be less than \$500,000.

“Default” shall mean an event or condition, the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“Delivery” or “deliver,” when used with respect to Bonds held in the book-entry system pursuant to Section 2.11 of the Indenture, shall mean the making of or the irrevocable authorization to make appropriate entries on the books of DTC or any Participant.

“DTC” shall mean The Depository Trust Company, New York, New York.

“Differential Interest Amount” shall have the meaning ascribed to such term in the Standby Agreement.

“Education Loans” shall mean loans which the Issuer Finances under the Program which meet the requirements of Sections 144(b)(1)(A) or (B) of the Code and which are not the subject of any failure of any requirement of due diligence on the part of the Issuer, as Servicer; provided, however, that any loans in the Issuer Contribution Fund pursuant to paragraph (b) of the Investment Securities definition or acquired or made with funds transferred to the Loan Fund from the Issuer Contribution Fund shall be deemed not to be Education Loans.

“Electronic” notice shall mean notice through electronic mail, a time sharing terminal or any other readily accessible electronic means.

“Eligible Lender” shall mean any “eligible lender,” as defined in the Higher Education Act or the Health Service Act, as the case may be, which has received “eligible lender” designation from the Secretary of Education or the Secretary of Health and Human Services, as the case may be.

“Event of Default” shall mean any of the events described in Section 11.1 of the Indenture.

“Excess Earnings” shall mean, with respect to any series of Bonds (or, if multiple series are treated as one issue under Section 148 of the Code, such issue), as of any Excess Earnings Calculation Date, the amount of earnings on the Education Loans which would be required to be paid to the United States Treasury to reduce the yield on the Education Loans to the maximum permitted yield if such Excess Earnings Calculation Date were the Final Computation Date, all as computed under the Code.

“Excess Earnings Calculation Date” shall mean, with respect to any series (or, if multiple series are treated as one issue under Section 148 of the Code, such issue) of Bonds, the date chosen by the Issuer which is no later than the date that is ten years from the date of delivery, and the dates corresponding to the dates which are each fifth anniversary thereafter, or the date that the last Bond of a series (or the issue) is redeemed, if earlier than any of the foregoing dates.

“Expiration Date” shall mean the stated expiration date, or termination date, of the Standby Agreement or any Alternate Liquidity Facility or Additional Liquidity Facility, as such date may be extended from time to time by the Bank. Each Expiration Date shall be a day which is not fewer than five days after the first Business Day of the month in which the Expiration Date shall occur.

“Favorable Opinion of Bond Counsel” shall mean an opinion of Nationally Recognized Bond Counsel addressed to the Issuer, the Remarketing Agent, the Bank, the Bond Insurer and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the Commonwealth and the Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income of the beneficial owners thereof for Federal income tax purposes.

“Final Computation Date” shall mean the date that the last Bond of a series (or, if multiple series are treated as one issue under Section 148 of the Code, such issue) is redeemed.

“Financed” or other forms of the verb “to finance,” whether or not the term is capitalized herein, shall mean, when used with respect to Education Loans, those made, acquired or financed by the Issuer in accordance with the Indenture and within the meaning of Section 144(b)(1) of the Code.

“Guarantee Agency” shall mean the Issuer acting on behalf of the Commonwealth, or such other persons entering into Guarantee Agreements as may be acceptable to the Bond Insurer.

“Guarantee Agreements” shall mean the agreements of the Guarantee Agency with respect to the payment of Education Loans guaranteed under the guaranteed student loan programs included in the Program and any supplement thereto or amendment thereof and entered into in accordance with the provisions thereof.

“HEAL Combined Payment Plan Loans” shall mean loans authorized under Section 485A of the Higher Education Act as amended by the Higher Education Amendments of 1986.

“HEAL Loans” shall mean loans to students and certain former students of eligible health education institutions which are insured under Title VII, Part C, Subpart 1, of the Health Service Act.

“Health Education Supplemental Loans” shall mean loans to students and certain former students in eligible health education institutions made in accordance with the Program Manual.

“Higher Education Act” shall mean the Higher Education Act of 1965, as amended.

“Indenture” shall mean the Trust Indenture as amended or supplemented at the time in question.

“Insured Bonds” shall mean any Bond that is insured by a Municipal Bond Insurance Policy issued by the Bond Insurer.

“Interest Payment Date” shall mean (a) when used with respect to any particular Bond accruing interest at a Commercial Paper Rate, the day after the last day of each Commercial Paper Rate Period applicable thereto; (b) when used with respect to Bonds accruing interest at Daily Rates, the first Business Day of each calendar month following a month in which interest at such rate has accrued; (c) when used with respect to Bonds accruing interest at Weekly Rates, the first Business Day of the June or December following the Date of Issue or the Weekly Rate Conversion Date, as the case may be, and the first Business Day of each June and December thereafter to which interest at the Weekly Rate has accrued, and the Conversion Date from the Weekly Rate; and (d) when used with respect to Bonds accruing interest at a Term Rate, the June 1 or the December 1 following the month in which the Term Rate Conversion Date occurs and each June 1 and December 1 thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a Commercial Paper, Daily or Weekly Rate Period shall be the first Business Day of the sixth month following the preceding Interest Payment Date; provided that in the event of a conversion from a Term Rate Period on a date on which the Bonds are subject to redemption pursuant to Section 9.1(a) of the Indenture, such date shall be an Interest Payment Date and (e) when used with respect to Liquidity Provider Bonds, the days on which interest is due pursuant to Section 3.01(d) of the Standby Agreement. Notwithstanding the foregoing, the Issuer may, by written notice to the Trustee, the Remarketing Agent, the Rating Services and the Bond Insurer, direct that the Interest Payment Date for Bonds accruing interest at Weekly Rates shall be the first Business Day of each calendar month following a month in which interest at such rate has accrued, which notice shall be effective from the date specified therein until such notice is rescinded by the Issuer. The Trustee shall deliver written notice of such change in the Interest Payment Date by first class mail to the Registered Owners of the Bonds prior to the effective date thereof.

“Interest Period” or “Interest Rate Period” shall mean the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date.

“Interest Rate” shall mean a Commercial Paper, Daily, Weekly or Term Rate.

“Interest Subsidy Payments” shall mean interest subsidy payments payable in respect of any Financed Education Loans by the Secretary of Education under Section 428 of the Higher Education Act.

“Investment Securities” shall mean, to the extent permitted by the Act for investment of moneys of the Issuer:

(i) Direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America.

(ii) Direct obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: (a) Farm Credit System Financial Assistance Corporation; (b) Certificates of beneficial interest of Rural Economic Community Development Administration (formerly, the Farmers Home Administration); (c) General Services Administration; (d) U.S. Maritime Administration (guaranteed Title XI financings); (e) Small Business Administration; (f) U.S. Department of Housing & Urban Development PHA’s, (local authority bonds); and (g) Federal Housing Administration;

(iii) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (a) senior debt obligations rated “Aaa” by Moody’s and “AAA” by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); (b) debt obligations of the Resolution Funding Corporation (REFCORP); (c) consolidated obligations of the Federal Home

Loan Bank System; and (d) senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer;

(iv) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1 or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase; provided, however, that ratings on holding companies are not considered as the rating of the bank;

(v) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's, and which matures not more than 270 days after the date of purchase;

(vi) Investments in a money market fund rated "AAAm " or "AAAm-G " or better by S&P and Aaa by Moody's;

(vii) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto;

(viii) General obligations of any state of the United States of America with a rating of at least "A2/A" by Moody's and "A" or "A-1" by S&P, respectively;

(ix) Investment agreements approved by the Bond Insurer with notice to the Rating Services or, if no Insured Bonds are then Outstanding, by the Rating Services; and

(x) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer with notice to the Rating Services, or, if no Insured Bonds are then Outstanding, by the Rating Services.

"Issuer" shall mean the Pennsylvania Higher Education Assistance Agency.

"Issuer Bonds" shall mean (i) Bonds owned or held (or beneficially owned) by the Issuer or any Affiliate or held (or beneficially owned) by the Trustee, or its agent, for the account of the Issuer or any Affiliate, or (ii) Bonds which the Issuer has notified the Trustee, or which the Trustee knows, were purchased by another Person for the account of the Issuer or any Affiliate with money furnished by the Issuer or any Affiliate.

"Liquidity Advance" shall have the meaning ascribed to such term in the Liquidity Facility.

"Liquidity Facility" shall mean a standby bond purchase agreement (including the Standby Agreement), letter of credit or other agreement providing liquidity with respect to Bonds satisfying the requirements of Article VII of the Indenture.

"Liquidity Provider Bonds" shall mean Bonds purchased by the Bank pursuant to the Standby Agreement and held by the Bank or its permitted assigns.

"Mandatory Standby Tender" shall mean the mandatory tender of Bonds pursuant to Section 4.2(c) of the Indenture, upon receipt by the Trustee of a written notice from the Bank that an event of default under the Standby Agreement has occurred which required or gives the Bank the option to terminate the Standby Agreement and requires that all Outstanding Bonds be tendered for purchase.

"Material Adverse Change in the Program" shall mean, with respect to Bonds, any material adverse change subsequent to the Effective Date enacted by the United States Congress or

implemented by the Secretary of Education or, if applicable, the legislature of the Commonwealth, or any material adverse change resulting from the actions of the Issuer with respect to (i) the guarantee obligations or guarantee percentage of any Guarantee Agency, (ii) federal insurance provisions with respect to Education Loans, or (iii) any other characteristics to the extent applicable, including but not limited to (a) Special Allowance Payments formulae, (b) the loan interest rate or yield formulae, (c) Interest Subsidy Payments, or (d) rebate provisions to either the borrower or to any other party, other than the Issuer or the Trustee; provided that so long as any Insured Bonds are Outstanding, such change is determined by the Bond Insurer in its sole discretion to be material and adverse (any such change in one of the characteristics set forth in (iii) above resulting in a change of five basis points or less to the yield to maturity of an Education Loan or any such change that does not adversely affect any assumption, constraint or parameter contained in the Certificate and Agreement then in effect, as reasonably determined by the Bond Insurer, shall not be deemed material), and the Bond Insurer so notifies the Issuer and the Trustee in writing.

“Moody’s” shall mean Moody’s Investors Service, or its successors.

“Municipal Bond Insurance Policy” shall mean any municipal bond insurance policy insuring the payment when due of the principal of and interest on Bonds (without regard to acceleration or redemption prior to maturity, other than mandatory sinking fund redemption).

“Nationally Recognized Bond Counsel” shall mean nationally recognized bond counsel selected by the Issuer and acceptable to the Trustee, the Bank and the Bond Insurer.

“Non-subsidized Stafford Loans” shall mean loans to undergraduate and graduate students guaranteed and eligible for reinsurance under Section 428(c)(1)(A) of the Higher Education Act, but not eligible for special allowance payments or for interest subsidies from the Secretary of Education.

“Outstanding” when used with reference to Bonds shall mean all Bonds authenticated and delivered under the Indenture as of the time in question, except: (a) all Bonds theretofore canceled or required to be canceled under Section 2.9 of the Indenture; (b) on or after any Purchase Date for Bonds pursuant to Article IV of the Indenture, all Bonds (or portions of Bonds) which are tendered or deemed to have been tendered for purchase on such date, provided that funds sufficient for such purchase are on deposit with the Trustee; (c) Bonds for the payment or redemption of which provision has been made in accordance with Section 9.4 or Article XVI of the Indenture; provided that, if such Bonds are being redeemed, the required notice of redemption shall have been given or irrevocable instructions therefor shall have been given to the Trustee; and (d) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to Article II of the Indenture. Notwithstanding the above, in the event that the principal and/or interest due on any Bonds shall be paid by the Bond Insurer pursuant to the Municipal Bond Insurance Policy, such Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer.

In determining whether the Registered Owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions hereof, Bonds which are held by or on behalf of the Issuer (unless all of the Outstanding Bonds are then owned by or on behalf of the Issuer) shall be disregarded for the purpose of any such determination and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Notwithstanding the foregoing, Bonds so owned which have been pledged in good faith shall not be disregarded as aforesaid and shall be deemed Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Bonds and that the pledgee is not the Issuer. Bonds held by the

Remarketing Agent shall not be deemed to be held on behalf of the Issuer for the purpose of this paragraph unless held by the Remarketing Agent as agent for the Issuer.

“Owner” when all Bonds are held by a securities depository, shall mean the Beneficial Owner of the Bond in question determined under the rules of that securities depository; otherwise “Owner” shall mean “Registered Owner.”

“Parity Ratio” shall mean as of the date of computation, the ratio (expressed as a percentage) of (i) Accrued Assets to (ii) Accrued Liabilities, as calculated by the Trustee at the request of the Issuer or at the direction of the Bond Insurer.

“Participant” shall mean (i) any person for which, from time to time, DTC effectuates book-entry transfers and pledges of securities pursuant to the book-entry system referred to in Section 2.11 of the Indenture or (ii) any securities broker or dealer, bank, trust company or other person that clears through or maintains a custodial relationship with a person referred to in (i).

“Paying Agent” shall mean the Trustee or a commercial bank with trust powers or a trust company which is appointed by the Issuer and serving in such capacity pursuant to the Indenture.

“Payment Obligations” shall mean the payment obligations of the Issuer pursuant to any Liquidity Facility, including interest, fees, costs and other similar amounts required to be paid by the Issuer pursuant to any such obligation.

“Person” shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, an unincorporated organization, a governmental body or a political subdivision, a municipal corporation, a public corporation or any other group or organization of individuals.

“PHEAA Supplemental Loans” shall mean loans to eligible students or their parents, made in accordance with the Program Manual.

“PLUS Loans” shall mean loans made under the Higher Education Act to parents of dependent undergraduate students.

“Program” shall mean: (1) the Financing by the Issuer with funds on deposit in the Loan Fund of Education Loans of the following types: (a) Consolidation Loans; (b) HEAL Loans; (c) HEAL Combined Payment Plan Loans; (d) Health Education Supplemental Loans; (e) Non-subsidized Stafford Loans; (f) PHEAA Supplemental Loans; (g) PLUS Loans; (h) Subsidized Stafford Loans; (i) Supplemental Loans for Students (SLS Loans); (j) Unsubsidized Stafford Loans; and (k) such other loans (including Proprietary School Loans) that are approved by the Issuer, the Bond Insurer and Nationally Recognized Bond Counsel; and (2) the sale of Education Loans.

“Program Expenses” shall mean all of the Issuer’s expenses in carrying out and administering the Program under the Indenture, and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment (including computers and software), machinery and apparatus, telephone, insurance premiums, commitment fees for commitments to purchase Education Loans from the Issuer (including fees required to be paid by the Issuer under any commitment agreement), legal, accounting, management, consulting and banking services and expenses, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, all to the extent properly allocable to the Program.

“Program Manual” shall mean each of the manuals of the Issuer, approved by the Bond Insurer setting forth all provisions and procedures for the administration of the Program, the Program specifications, origination procedures, servicing, collections and other relevant matters.

“Proprietary School Loans” shall mean any Education Loan made for post secondary education in a privately owned school operating on a for-profit basis as described in the Higher Education Act.

“Purchase Date” shall mean a date on which the Bank is required to purchase Bonds tendered or deemed tendered pursuant to Article IV of the Indenture.

“Purchase Price” for any Bond shall equal 100% of the principal amount of such Bond plus accrued interest, if any, plus in the case of a Bond converted from a Term Rate Period on a date when such Bond is also subject to optional redemption at a premium, an amount equal to the premium that would be payable on such Bond if redeemed on such date.

“Rate Period” shall mean the period during which a particular rate of interest determined for the Bonds is to remain in effect pursuant to Article III of the Indenture.

“Rating Service” shall mean Moody’s, if the Bonds are rated by such at the time, and S&P, if the Bonds are rated by such at the time, and their successors and assigns, or any other nationally recognized entity assigning credit ratings to long term debt designated by the Issuer and satisfactory to the Bond Insurer, the Bank and the Trustee.

“Rebatable Arbitrage” shall mean, as of any date, the amount which would be required to be paid to the United States Treasury pursuant to Section 148(f) of the Code with respect to the Bonds of a series (or, in the case of multiple series which are treated as one issue under Section 148 of the Code, an issue) if the date of calculation of such amount were the Final Calculation Date.

“Recoveries of Principal” shall mean all amounts received by the Issuer from or on account of any Education Loan as a scheduled or unscheduled payment of or with respect to the principal amount thereof, including delinquent and advance payments, pay-outs and prepayments, payments received from Guarantee Agencies, and proceeds from the insurance or reinsurance or from the sale, assignment or other disposition of any Education Loan.

“Recycling” shall mean the application of Revenues not required by the Indenture to be applied to other purposes, to the making or other Financing of Education Loans.

“Recycling Suspension Event” shall mean the occurrence and uncured continuation of any of the events described in Section 17.6(d) of the Indenture.

“Registered Owner” shall mean the Person in whose name any Bond is registered pursuant to Article II of the Indenture.

“Request” means a request by the Trustee under the Standby Agreement or an Alternate Liquidity Facility for the payment of the Purchase Price of Bonds in accordance with the terms of the Indenture.

“Reserve Fund Credit Facility” shall mean a letter of credit, surety bond or other similar instrument which (a) is issued in favor of the Trustee, (b) is deposited in the Debt Service Reserve Fund and (c) satisfies the requirements set forth in Section 6.9 of the Indenture, satisfactory in each case to the Bond Insurer.

“Revenues” shall mean (i) all payments, proceeds, charges and other income received by the Issuer from or on account of any Education Loan (including origination fees, servicing fees, application fees, Recoveries of Principal, scheduled, delinquent and advance payments of interest, Special Allowance Payments, interest and Interest Subsidy Payments, and any insurance or guarantee proceeds received by the Issuer with respect to any Education Loan), and (ii) all interest earned or gain realized from the investment of amounts in any Fund or Account other than the Rebate Fund and the Yield Reduction Payment Fund. The term “Revenues” shall not include any amounts on deposit in the Rebate

Fund, the Yield Reduction Payment Fund or the Bond Purchase Fund. For purposes of redemption, Revenues shall include amounts on deposit in the Debt Service Reserve Fund that are transferred to the Redemption Fund.

“S&P” shall mean Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc., or its successors.

“Secretary of Education” shall mean the Secretary of Education of the United States Department of Education, or any successor to the pertinent functions thereof under the Higher Education Act.

“Secretary of Health and Human Services” shall mean the Secretary of Health and Human Services of the United States Department of Health and Human Services, or any successor to the pertinent functions thereof under the Health Service Act.

“Securities Depository” shall mean initially The Depository Trust Company and its successors and assigns or if (i) the then Securities Depository resigns from its functions as depository of the Bonds or (ii) the Issuer discontinues use of the Securities Depository pursuant to Section 2.11 of the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Issuer.

“Servicer” shall mean the Issuer acting pursuant to the Servicing Agreement, or any other Person appointed to service Education Loans pursuant to the Indenture, if such other Person is acceptable to the Bond Insurer.

“Servicing Agreement” shall mean the Agreement dated as of June 1, 1999 between the Issuer and the Trustee with respect to the servicing of Education Loans, as it may be amended or supplemented from time to time, and any similar agreements with other Servicers, if such agreements with other Servicers are acceptable to the Bond Insurer.

“Servicing Review” shall mean a due diligence compliance review of the Servicer relating to the Program prepared by an Accountant knowledgeable in the area of student loan servicing and acceptable to the Bond Insurer. Such review shall include a review of a representative sample of Education Loans for compliance with both Federal and Guarantee Agency due diligence requirements and timely filing requirements. Such review shall include a report setting forth (i) an explanation of the procedure used by such Accountant and the scope of the review and (ii) a detailed presentation of the findings of such review. Such procedures will be developed in consultation with the Bond Insurer.

“Special Allowance Payments” shall mean special allowance payments authorized to be made by the Secretary of Education in respect of Student Loans pursuant to Section 438 of the Higher Education Act or similar allowances authorized from time to time by federal law or regulation.

“Stafford Loans” shall mean Subsidized Stafford Loans, Unsubsidized Stafford Loans and Non-subsidized Stafford Loans, collectively.

“Standby Agreement” means the Standby Bond Purchase Agreement described in the forepart of this Remarketing Circular.

“Subsidized Stafford Loans” shall mean loans to undergraduate and graduate students guaranteed and eligible for reinsurance and the Special Allowance Payments under Section 428(c)(1)(A) of the Higher Education Act.

“Supplemental Costs” shall mean the fees and expenses of the Trustee, payable quarterly in arrears, fees payable under the Servicing Agreement, any payments pursuant to the indemnification provisions of the Indenture, fees and premiums payable to the Bond Insurer and the issuer of the Reserve Fund Credit Facility, fees payable to the Bank, fees payable to the Remarketing Agent, any application

fees and any other fees required to administer the Program or to carry the Bonds (other than Program Expenses).

“Supplemental Indenture” or “indenture supplemental hereto” shall mean any indenture amending or supplementing the Indenture which may be entered into in accordance with the provisions of the Indenture.

“Supplemental Loans for Students” or “SLS Loans” shall mean loans to eligible (i) professional and graduate students, and (ii) independent undergraduate students made in accordance with Section 428A of the Higher Education Act.

“Term Rate” shall mean the interest rate to be determined for the Bonds for a term of one or more years pursuant to Section 3.2(e) of the Indenture.

“Term Rate Conversion Date” shall mean each day on which the Bonds accrue interest at a Term Rate pursuant to Section 3.3 of the Indenture which is immediately preceded by a day on which the Bonds did not accrue interest at a Term Rate or accrued interest at a Term Rate for a Term Rate Period of different duration.

“Term Rate Period” shall mean each period during which the Bonds accrue interest at a particular Term Rate.

“Trust Estate” shall mean the property described in and pledged or assigned in paragraphs I, II, III and IV of the granting clauses of the Indenture.

“Trustee” shall mean Manufacturers and Traders Trust Company (as successor to Allfirst Bank and Dauphin Deposit Bank and Trust Company), a Maryland corporation, and its successors and any co-trustee or separate trustee under the Indenture. “Principal Office” of the Trustee shall mean the corporate trust office of the Trustee in Harrisburg, Pennsylvania, which office, at the date of acceptance by the Trustee of the duties and obligations imposed on the Trustee by the Indenture, is located at the address specified in Section 18.1 of the Indenture.

“Unsubsidized Stafford Loans” shall mean loans to undergraduate and graduate students guaranteed and eligible for reinsurance and Special Allowance Payments under Section 428H of the Higher Education Act as amended by Section 422 of the Higher Education Amendments of 1992.

“Value” shall mean, as of any date of computation, the value of the Trust Estate calculated by or on behalf of the Bond Insurer as to (i) below and otherwise by the Trustee, as follows:

(i) with respect to any Education Loan, the unpaid principal thereof plus any accrued but unpaid interest, Interest Subsidy Payments and Special Allowance Payments;

(ii) with respect to any funds of the Issuer held under the Indenture and on deposit in any commercial bank or as to any certificates of deposit or banker’s acceptances, the face amount thereof plus accrued but unpaid interest;

(iii) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, in *The New York Times*), the average of the bid and asked prices for such investments so published on such date of calculation or most recently prior to such date of calculation;

(iv) as to investments (other than investment agreements and repurchase agreements) the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*, (a) the lower of the bid prices at such date of calculation for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute

discretion) at the time making a market in such investments, or (b) the bid price published by a nationally recognized pricing service;

(v) as to an investment agreement, an amount equal to the principal amount plus any accrued interest required to be remitted to the Trustee (without regard to notice requirements of seven days or less) pursuant to the terms of such investment agreement if all Bonds were accelerated on such date following the occurrence and during the continuance of an Event of Default under the Indenture;

(vi) as to a repurchase agreement, an amount equal to the unpaid repurchase price thereof plus any accrued interest thereon as of such date; and

(vii) with respect to any investment not specified above, (A) if Insured Bonds are then Outstanding, the value thereof established by prior agreement by the Issuer, the Trustee and the Bond Insurer or (B) if no Insured Bonds are then Outstanding, the value thereof established by prior agreement by the Issuer, the Trustee and the Rating Services.

“Weekly Rate” shall mean the interest rate to be determined for the Bonds on a weekly basis pursuant to Section 3.2(d) of the Indenture.

“Weekly Rate Conversion Date” shall mean each day on which the Bonds accrue interest at a Weekly Rate pursuant to Section 3.3 of the Indenture which is immediately preceded by a day on which the Bonds did not accrue interest at a Weekly Rate.

“Weekly Rate Period” shall mean the period during which the Bonds accrue interest at a particular Weekly Rate.

“Yield Reduction Payments” shall have the meaning set forth in Section 6.13.

Additional Bonds

From time to time, but only with the consent of the Bond Insurer, the Issuer may issue Bonds on a parity with or subordinated to the Bonds for the purpose of refunding all or any portion of the Bonds or any Additional Bonds then Outstanding, or for any other purpose for which the Issuer may issue bonds.

Interest Rate

Determination by Remarketing Agent

The Interest Rate shall be determined by the Remarketing Agent as the minimum rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value as of the date of determination equal to the principal amount thereof, taking into account prevailing market conditions; provided that the interest rate borne by the Bonds shall not exceed the Maximum Interest Rate. In the event the Remarketing Agent fails for any reason to determine or notify the Trustee of the Interest Rate for any Interest Rate Period, the Interest Rate then in effect for Bonds that accrue interest at Weekly Rates will remain in effect from week to week until the Trustee is notified of a new Weekly Rate determined by the Remarketing Agent.

All determinations of Interest Rates pursuant to the Indenture shall be conclusive and binding upon the Issuer, the Trustee and the Owners of the Bonds to which such rates are applicable.

Weekly Rates

A Weekly Rate shall be determined for each Weekly Rate Period. Weekly Rate Periods shall commence on a Wednesday and end on Tuesday of the following week, and each Weekly Rate Period shall be followed by another Weekly Rate Period until the Rate Period of the Bonds is converted to another Rate Period. Each such Weekly Rate shall be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Weekly Rate Period to which it relates and provided to the Trustee by the Remarketing Agent by written, telephonic or Electronic notice delivered on such Business Day.

Conversions Between Rate Periods

The Issuer may elect to convert the Bonds from one Rate Period to another. The Trustee shall give notice by first class mail of proposed conversion to the Registered Owners of Bonds accruing interest at Weekly Rates not less than 15 days before the proposed Conversion Date. Such notice shall state: (a) the proposed Conversion Date; (b) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date; (c) the conditions, if any, to the conversion; and (d) if the Bonds are in certificated form, information with respect to required delivery of Bond certificates and payment of the Purchase Price. The Issuer shall obtain the prior written consent of the Bond Insurer prior to any election to convert the interest rate on the Bonds.

Optional and Mandatory Tenders for Purchase

Purchase Dates

The Bonds are subject to optional and mandatory tender for purchase as described in the forepart of this Remarketing Circular.

Notice of Tender

Each notice of tender with respect to an optional tender for purchase:

(a) shall, in the case of a written notice, be delivered to the Trustee at its Principal Office and be in form satisfactory to the Trustee;

(b) shall state, whether delivered personally, in writing, Electronically or by telephone (A) the principal amount of the Bond to which the notice relates, (B) that the Owner or Registered Owner irrevocably demands purchase of such Bond or a specified portion thereof in an amount equal to the lowest denomination then authorized pursuant to Section 2.2 of the Indenture or a whole multiple of such lowest denomination, (C) the date on which such Bond or portion is to be purchased, (D) and payment instructions with respect to the Purchase Price; and

(c) shall automatically constitute, whether delivered personally, in writing, Electronically or by telephone (A) an irrevocable offer to sell the Bond (or portion thereof) to which the notice relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Trustee to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Trustee on the Purchase Date, (C) an irrevocable authorization and instruction to the Trustee to effect the exchange of the Bond to be purchased in whole or in part for other

Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof to be purchased), and (D) an acknowledgment that such Owner or Registered Owner will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Trustee on the Purchase Date, except for the right of such Owner or Registered Owner to receive such Purchase Price upon delivery of such Bond to the Trustee and that after the Purchase Date such Owner or Registered Owner will hold any undelivered certificate as agent for the Trustee. The determination of the Trustee as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the Owner or Registered Owner.

Remarketing of Tendered Bonds

Unless otherwise instructed by the Issuer, the Remarketing Agent shall offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof for which notice of tender has been received pursuant to the Indenture or which are subject to mandatory tender, except Bonds purchased pursuant to a Mandatory Standby Tender, which shall not be remarketed unless an Alternate Liquidity Facility is delivered in accordance with the Indenture.

Payments by the Trustee

At or before 4:30 p.m., New York City time, on the date set for purchase of tendered Bonds and upon receipt by the Trustee of 100% of the aggregate Purchase Price of the tendered Bonds, the Trustee shall pay the Purchase Price of such Bonds to the Registered Owners thereof. Such payments shall be made in immediately available funds (or by wire transfer), unless the Bonds to be purchased accrue interest at Term Rates, in which event such payments shall be made in clearinghouse funds. The Trustee shall apply in order (A) moneys paid to it by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent to any Person other than the Issuer or an Affiliate, (B) moneys constituting Available Moneys held in the Debt Service Fund and/or the Redemption Fund and available to make such payment pursuant to Section 16.1 of the Indenture (provided such moneys satisfy the requirement of clause (iv) of subsection 16.1(b)) of the Indenture, (C) proceeds of a Request under the Liquidity Facility deposited directly into the Liquidity Facility Purchase Account of the Bond Purchase Fund (provided that such proceeds shall not be applied to purchase Bonds which are Liquidity Provider Bonds or Issuer Bonds or Bonds owned by or on behalf of the Bond Insurer immediately prior to such purchase) and (D) other moneys made available by the Issuer. If sufficient funds are not available for the purchase of all tendered Bonds, no purchases shall be consummated, all as further set forth in Section 4.4 of the Indenture.

Liquidity Provider Bonds

Bonds purchased with proceeds of a drawing on the Liquidity Facility pursuant to the Indenture shall constitute "Liquidity Provider Bonds" and may be held by the Trustee as agent for the Bank (and in such case, shall be shown as such on the registration books maintained by the Trustee) unless and until such Bonds have either been (1) remarketed and sold and the Trustee has received written confirmation from the Bank that the Liquidity Facility has been reinstated with respect to such draw and (2) the Bank has notified the Trustee that such Bonds are no longer Liquidity Provider Bonds. Pending the occurrence of "(1)" or "(2)" above, and release of such Liquidity Provider Bonds as aforesaid, the Bank shall be entitled to receive all payments of principal of and interest on Liquidity Provider Bonds. The Remarketing Agent shall, continue to use its best efforts to arrange for the sale of any Liquidity Provider Bonds, other than Bonds purchased pursuant to a Mandatory Standby Tender, at a price equal to the principal amount thereof, plus accrued interest.

Delivery of Tendered Bonds; Effect of Failure to Surrender Bonds

All Bonds to be purchased on any date shall be required to be delivered to the Trustee at or before (A) 12:00 noon, New York City time, on the Purchase Date in the case of Bonds accruing interest at the Weekly Rate. If the Registered Owner of any Bond (or portion thereof) in certificated form that is subject to optional or mandatory purchase pursuant to the Indenture fails to deliver such Bond to the Trustee for purchase on the Purchase Date, and if the Trustee is in receipt of the Purchase Price therefor, such Bond (or portion thereof) shall nevertheless be deemed purchased on the day fixed for purchase thereof and ownership of such Bond (or portion thereof) shall be transferred to the purchaser thereof as provided in the Indenture. Any Registered Owner who fails to deliver such Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Bond to the Trustee.

Inadequate Funds for Tenders

If the funds available for purchases of Bonds pursuant to Article IV of the Indenture are inadequate for the purchase of all Bonds tendered on any Purchase Date, the Trustee shall, after any applicable grace period: (a) return all tendered Bonds to the Registered Owners thereof; (b) return all moneys received for the purchase of such Bonds to the Persons providing such monies; and (c) notify the Issuer and the Remarketing Agent of the return of such Bonds and moneys and the failure to make payment for tendered Bonds.

Funds and Accounts

The Issuer has established with the Trustee the following special trust funds and accounts:

- (1) Loan Fund;
 - (A) Bond Proceeds Account;
 - (B) Recoveries of Principal Revolving Account;
- (2) Revenue Fund;
- (3) Operating Fund;
- (4) Supplemental Costs Fund;
- (5) Debt Service Fund;
 - (A) Interest Account;
 - (B) Principal Account;
- (6) Debt Service Reserve Fund;
- (7) Redemption Fund;
- (8) Capitalized Bond Interest Fund;
- (9) Rebate Fund;
- (10) Yield Reduction Payment Fund; and

The Trustee is permitted from time to time, upon notice to the Issuer, create such accounts and subaccounts as it deems necessary and appropriate to the proper administration of its duties under the Indenture, or close any Fund or Account which the Trustee deems no longer necessary or appropriate to

the proper administration of such duties. All moneys or securities held by the Trustee pursuant to the Indenture shall be held in trust and applied only in accordance with the provisions of the Indenture.

Loan Fund

There shall be deposited in the Loan Fund from time to time all amounts required to be deposited therein pursuant to the Indenture and any other amounts that the Issuer, in its sole discretion, shall elect to deposit therein.

Bond Proceeds Account

Moneys in the Bond Proceeds Account shall be used only (i) to Finance Education Loans permitted by subsection (e) of Section 6.2 of the Indenture, (ii) to pay any premium in connection with the origination by or transfer to the Issuer of such Education Loans, (iii) to make up any deficiencies in the Interest Account of the Debt Service Fund pursuant to Section 6.6 of the Indenture, (iv) to make up any deficiencies in the Principal Account of the Debt Service Fund pursuant to Section 6.7 of the Indenture, (v) for transfer to the Redemption Fund pursuant to Section 6.10 of the Indenture or (vi) for transfer to the Rebate Fund pursuant to Section 6.12 of the Indenture.

Recoveries of Principal Revolving Account

Moneys received by the Trustee which are transferred to the Recoveries of Principal Revolving Account pursuant to Clause SEVENTH of Section 6.3 of the Indenture shall be deposited in the Recoveries of Principal Revolving Account, and shall be used only for the purposes set forth under “Bond Proceeds Account” above.

Transfer of Certain Funds to the Redemption Fund

To the extent that: (i) the Issuer makes a final determination (A) not to expend moneys in the Recoveries of Principal Revolving Account or Bond Proceeds Account, or (B) to stop Recycling, or (ii) if (A) a Recycling Suspension Event occurs, or (B) the Recycling Period terminates; then in each such case moneys on deposit in the Recoveries of Principal Revolving Account and the Bond Proceeds Account shall be transferred to the Redemption Fund.

Education Loans

On or before the Effective Date, the Issuer will deliver to the Trustee and the Bond Insurer a Certificate and Agreement setting forth the loan types, school type concentration, and Borrower Benefit Program, if any, and, if required, the other characteristics, of Education Loans which may be Financed pursuant to the Indenture. Such Certificate and Agreement may be amended or supplemented in order to permit other types of Education Loans to be Financed. No Education Loans may be Financed pursuant to the Indenture except those conforming to the Certificate and Agreement.

Revenue Fund

There shall be deposited from time to time in the Revenue Fund (except as otherwise provided in Sections 6.2, 17.3 and 17.6 of the Indenture) all amounts required to be deposited therein pursuant to Section 5.2 of the Indenture and all Revenues as and when received by the Issuer, except that if Recycling has stopped and has not resumed, all Recoveries of Principal shall be deposited in the Redemption Fund.

Moneys in the Revenue Fund shall be disbursed by the Trustee (after transferring any Rebatable Arbitrage to the Rebate Fund as required by Section 6.12 and Excess Earnings to the Yield Reduction Payment Fund as required by Section 6.13 of the Indenture) as follows and in the following order of priority:

FIRST: On or before the due date of (i) premiums and fees due under the Municipal Bond Insurance Policy, and (ii) commitment fees due under the Liquidity Facility the amount of such premiums and fees shall be deposited in the Supplemental Costs Fund to pay such sums when due.

SECOND: After making the deposits provided for above, on or before each Interest Payment Date, an amount shall be deposited into the Interest Account equal to the (i) accrued and unpaid interest, as of such Interest Payment Date, on the Bonds (including Liquidity Provider Bonds), less any amount then on deposit.

THIRD: After making the deposits provided for above, on or before each date on which any portion of the principal of, and premium, if any, on the Bonds is due at maturity or upon redemption or acceleration, an amount shall be deposited into the Principal Account (in the case of maturity or acceleration) or the Redemption Fund (in the case of redemption) equal to such portion of principal and premium, if any, plus all amounts previously withdrawn from the Principal Account pursuant to Section 6.6(b) of the Indenture and not replenished as of the date in question.

FOURTH: After making the deposits described above, an amount specified by the Issuer shall be deposited quarterly in the Supplemental Costs Fund to pay accrued Supplemental Costs then unpaid, as set forth in the last annual budget for the Issuer delivered to the Trustee and limited to amounts reflected in the Certificate and Agreement, less the amounts then on deposit and available therefor in the Supplemental Costs Fund, plus all amounts previously withdrawn from the Supplemental Costs Fund pursuant to Section 6.6(b) or 6.7(b) of the Indenture and not replenished as of the date in question.

FIFTH: After making the deposits described above, on or before each Interest Payment Date, an amount shall be deposited into the Debt Service Reserve Fund (or, if applicable and subject to Section 6.9(e)(vi) of the Indenture applied to reimburse the issuer of the Reserve Fund Credit Facility, if any, then held by the Trustee for amounts drawn under the Reserve Fund Credit Facility and any interest accrued on such draws, but only to the extent the amount available to be drawn thereunder will be reinstated by the amount of such reimbursement) equal to the amount, if any, by which the amount then on deposit in the Debt Service Reserve Fund is less than the amount of the Debt Service Reserve Fund Requirement.

SIXTH: After making the deposits described above, an amount specified by the Issuer shall be deposited quarterly in the Operating Fund to pay accrued Program Expenses then unpaid for the quarterly period next beginning after the date of such specification, as set forth in the last annual budget for the Issuer delivered to the Trustee, and limited to amounts reflected in the Certificate and Agreement, less the amounts then on deposit and available therefor in the Operating Fund, plus all amounts previously withdrawn from the Operating Fund pursuant to Section 6.6(b) or 6.7(b) of the Indenture and not replenished as of the date in question.

SEVENTH: After making the deposits described above, and after reserving sufficient funds (which includes amounts deposited pursuant to clauses FIRST to SIXTH above not yet expended) to make the payments and deposits described in clauses FIRST to SIXTH above due in the next three months, on or before each Interest Payment Date, amounts remaining in the Revenue Fund shall: (1) be transferred to the Redemption Fund and/or the Recoveries of Principal Revolving Account, in that order, to the extent of amounts previously withdrawn from such Fund or Account pursuant to Sections 6.6(b) and 6.7(b) of the Indenture, and (2) either (A) be transferred to the Recoveries of Principal Revolving Account (to the extent that Recycling is

permitted under the Indenture, at the time in question) or, to the Redemption Fund (to the extent that Recycling is not permitted under the Indenture at the time in question), or (B) remain in the Revenue Fund to the extent the Issuer intends and is permitted to withdraw monies from the Revenue Fund pursuant to paragraph EIGHTH below.

EIGHTH: The Trustee shall pay to the Issuer, as directed by an Authorized Issuer Representative, moneys retained in the Revenue Fund pursuant to SEVENTH above, but only if (1) the conditions described in Section 17.3(d) of the Indenture have been met; and (2) a Favorable Opinion of Bond Counsel has been delivered to the Trustee.

Operating Fund

There shall be deposited from time to time in the Operating Fund all amounts required to be deposited therein pursuant to Section 6.3 of the Indenture and any other amounts that the Issuer, in its sole discretion, shall elect to deposit therein. Except as provided in Sections 6.6 and 6.7 of the Indenture, moneys in the Operating Fund shall be used only to pay Program Expenses. The Issuer shall not pay Program Expenses in excess of the amounts permitted under the Indenture and under the Certificate and Agreement.

Supplemental Costs Fund

Moneys in the Supplemental Costs Fund shall be used only to pay Supplemental Costs.

Debt Service Fund; Interest Account

There shall be deposited from time to time in the Interest Account of the Debt Service Fund all amounts required to be deposited therein pursuant to Section 6.3 of the Indenture and any other amounts that the Issuer, in its sole discretion, shall elect to deposit therein. Interest on the Bonds and interest on Liquidity Advances shall be paid from amounts on deposit in the Interest Account of the Debt Service Fund.

If on any date when moneys are to be paid from the Interest Account pursuant to subsection (a) of Section 6.6 of the Indenture, there are not sufficient moneys available in the Interest Account to make such payment, the amount of such deficiency shall be made up from the following Funds and Accounts in the following order of priority: (1) Revenue Fund; (2) Capitalized Bond Interest Fund; (3) Operating Fund; (4) Redemption Fund; (5) Principal Account; (6) Loan Fund; (7) Debt Service Reserve Fund; and (8) Supplemental Costs Fund.

Debt Service Fund; Principal Account

Principal of the Bonds shall be paid from amounts on deposit in the Principal Account of the Debt Service Fund. If on any date when moneys are to be paid from the Principal Account pursuant to subsection (a) of Section 6.7 of the Indenture there are not sufficient moneys available in the Principal Account to make such payment, the amount of such deficiency shall be made up (but only after making up any deficiency in the Interest Account pursuant to Section 6.6(b) of the Indenture) from the following Funds and Accounts in the following order of priority: (1) Revenue Fund; (2) Operating Fund (3) Redemption Fund; (4) Loan Fund; (5) Debt Service Reserve Fund; and (6) Supplemental Costs Fund.

Debt Service Reserve Fund

There shall be deposited from time to time in the Debt Service Reserve Fund all amounts required in order to maintain therein at all times an amount equal to the Debt Service Reserve Fund Requirement, and any other amounts that the Issuer, in its sole discretion, shall elect to deposit therein. Moneys in the Debt Service Reserve Fund shall be used only to restore deficiencies in the Interest Account of the Debt Service Fund pursuant to Section 6.6(b) of the Indenture or in the Principal Account of the Debt Service Fund pursuant to Section 6.7(b) of the Indenture, in accordance with the respective orders of priority set forth in said Sections.

If at any time the moneys in the Debt Service Reserve Fund exceed the Debt Service Reserve Fund Requirement, the excess or any portion thereof shall be transferred to the Interest Account of the Debt Service Fund or the Redemption Fund at the written direction of an Authorized Issuer Representative delivered to the Trustee.

In the event that Bonds are to be redeemed pursuant to mandatory redemption, a pro rata amount may, at the direction of the Issuer, be withdrawn from the Debt Service Reserve Fund and transferred to the Redemption Fund for application to such redemption.

The Issuer may elect, by written notice to the Trustee, and with the written consent of the Bond Insurer, to transfer funds on deposit in the Debt Service Reserve Fund or scheduled to be deposited therein, at any time, to the Recoveries of Principal Revolving Account of the Loan Fund (or with a Favorable Opinion of Bond Counsel, to any other Fund) and in connection with such election the Issuer may eliminate the Debt Service Reserve Fund or reduce the Debt Service Reserve Fund Requirement or may provide, in its sole discretion, any of the following: (i) a Reserve Fund Credit Facility or contract of suretyship for the benefit of the Debt Service Reserve Fund, (ii) a guaranty of the Issuer, assuring the availability of all or any specified portion of funds for the purposes for which the Debt Service Reserve Fund has been established, or (iii) collateral or security of any other type specified in such election, assuring the availability of all or any specified portion of funds for the purposes for which the Debt Service Reserve Fund has been established.

The initial Reserve Fund Credit Facility shall be issued by Ambac Assurance Corporation and delivered to the Trustee on the Effective Date. Any replacement or additional Reserve Fund Credit Facility (other than the Reserve Fund Credit Facility issued by Ambac Assurance Corporation) shall be subject to certain requirements set forth in the Indenture

Redemption Fund

The redemption price of Bonds (including premium, if any, on) shall be paid from amounts on deposit in the Redemption Fund; provided that amounts contained in the Redemption Fund shall not be used to pay premium without the prior written consent of the Bond Insurer. If moneys are on deposit in the Redemption Fund, the Trustee shall redeem as soon as is permissible under the Indenture, and to the extent permitted by Article IX of the Indenture, the aggregate principal amount of Bonds which will exhaust the amount of such moneys on deposit in the Redemption Fund. Amounts in the Redemption Fund may be applied to cure any deficiency in the Interest Account or Principal Account of the Debt Service Fund in accordance with Sections 6.6(b) and 6.7(b) of the Indenture.

Capitalized Bond Interest Fund

There shall be deposited from time to time in the Capitalized Bond Interest Fund all amounts required to be deposited therein pursuant to Section 5.2(d) of the Indenture. Amounts in the Capitalized Bond Interest Fund shall be applied (i) to remedy any deficiency in the Interest Account of the Debt Service Fund in accordance with Section 6.6(b) of the Indenture and (ii) to the payment of such other amounts payable under the Indenture for the payment of which there are not sufficient funds therefor in the appropriate Fund or Account, with the prior written consent of the Bond Insurer.

Surrender of Liquidity Facility

If an Alternate Liquidity Facility is delivered to the Trustee pursuant to Section 7.2 of the Indenture, then the Trustee shall accept the Alternate Liquidity Facility and surrender the Liquidity Facility previously held for cancellation, provided that the Bank has honored all Requests thereunder that it was or is required to honor by the terms thereof. The Trustee shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof and shall deliver any certificates reducing the stated amount of the Liquidity Facility in accordance with the provisions thereof.

Alternate Liquidity Facility

Delivery by Issuer

At least 120 days prior to the expiration or termination of the Standby Agreement then in effect, in accordance with the terms of the Standby Agreement and upon the written consent of the Bond Insurer, the Issuer may obtain a commitment for the delivery to the Trustee of an Alternate Liquidity Facility which has a term of at least 360 days and which becomes effective no later than the date the previous Standby Agreement expires or terminates. Any Alternate Liquidity Facility delivered to the Trustee pursuant to this subparagraph shall contain administrative provisions reasonably acceptable to the Trustee and the Bond Insurer. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Trustee, the Issuer shall furnish to the Trustee (A) an opinion of Counsel satisfactory to the Trustee and the Bond Insurer to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer thereof and (B) a certificate of the Bank to the effect that all obligations owed to the Bank pursuant to the Standby Agreement being replaced have been paid or provision therefor satisfactory to the Bank has been made. Upon receipt of the Alternate Liquidity Facility and the other items specified in this subparagraph and after notice of delivery of the Alternate Liquidity Facility has been given as provided in Section 7.4 of the Indenture, the Trustee shall surrender the Standby Agreement being replaced to the issuer thereof for cancellation in accordance with its terms.

Delivery upon Rating Downgrade

In event that the Bank is downgraded below “P-1” by Moody’s or “A-1” by S&P, the Issuer with the consent of the Bond Insurer may, and at the direction of the Bond Insurer shall, provide for delivery of an Alternate Liquidity Facility acceptable to the Bond Insurer. Any Alternate Liquidity Facility delivered to the Trustee pursuant to the Indenture shall satisfy the requirements of Section 7.1(a) of the Indenture and shall contain administrative provisions reasonably acceptable to the Trustee.

Acceptance by Trustee

If at any time there is delivered to the Trustee (i) an Alternate Liquidity Facility, (ii) the opinion and certificate described under “Delivery by Issuer” above, and (iii) all information required to give the notice of mandatory tender for purchase of the Bonds if required by Section 4.2(c), then the Trustee shall accept such Alternate Liquidity Facility and, after the date of the mandatory tender for purchase, if any, established pursuant to Section 4.2(c) of the Indenture, promptly surrender the Standby Agreement then in effect to the issuer thereof for cancellation in accordance with its terms or deliver any document necessary to terminate the Standby Agreement due to the delivery of such Alternate Liquidity Facility.

Notice of Termination, Event of Default or Other Change in Standby Agreement

The Trustee shall give notice by mail to the Owners of the Bonds of any termination, replacement or expiration of the Standby Agreement at least 15 days prior to the mandatory tender date in accordance with the Indenture. The notice shall (A) describe generally the Standby Agreement in effect prior to such termination, expiration, or replacement, (B) state the date of such termination, expiration or replacement, the date of the proposed substitution of an Alternate Liquidity Facility (if any) and the mandatory tender date, (C) state that the Bonds will be purchased pursuant to Section 4.2(c) of the Indenture preceding such termination, expiration or replacement, including any termination as a result of a Mandatory Standby Tender, and (D) include any other information deemed necessary or appropriate by the Issuer or the Trustee. The Issuer shall provide the Trustee with written notice of any information required to enable the Trustee to give the foregoing notice.

If a Bond Insurer Event of Default (as defined in the Standby Agreement) occurs resulting in the termination or suspension of the Bank’s obligation to purchase Bonds under the terms of the Standby Agreement, then the Trustee shall as soon as practicable thereafter notify Owners of all the Bonds then Outstanding that: (i) the Standby Agreement has been terminated or suspended, as the case may be; (ii) the Trustee will no longer be able to purchase Bonds with moneys available under the Standby Agreement; and (iii) the Bank is under no obligation to purchase Bonds or to otherwise advance moneys to fund the purchase of the Bonds.

Other Liquidity; No Liquidity

After a mandatory purchase of the Bonds pursuant to clause (c) of Section 4.2, nothing in Article VII of the Indenture shall limit the Issuer’s right to provide other liquidity (such as a liquidity facility not meeting the requirement of Article VII of the Indenture) or no liquidity for the Bonds; provided that any such liquidity facility shall have administrative provisions reasonably satisfactory to the Trustee and the Bond Insurer, and the Issuer shall have furnished to the Trustee and the Bond Insurer with respect thereto a Favorable Opinion of Bond Counsel.

Investment of Certain Funds

Subject to the right of the Issuer to direct the Trustee to invest all or any portion of the moneys held in any Fund or Account at a yield equal to or below the yield on the Bonds and otherwise to direct the investment or deposit of funds under the Indenture, moneys in any Fund or Account shall, subject to the Federal Tax Certificate, be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Security that is then reasonably known to the Trustee, with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds.

Investment Securities purchased as an investment of moneys in any Fund or Account held by the Trustee under the Indenture shall be deemed at all times to be a part of such Fund or Account but, the income or interest earned and gains realized in excess of losses suffered by a Fund or Account due to the investment thereof shall be deposited in the Revenue Fund or shall be immediately credited upon receipt by the Trustee to the Revenue Fund; provided however that interest earned and gains realized on amounts maintained in the Capitalized Bond Interest Fund shall be retained in such Capitalized Bond Interest Fund.

The Trustee may act as principal or agent in the acquisition or disposition of any Investment Security. Investments in any and all Funds and Accounts (except the Bond Purchase Fund and any Account containing proceeds of a drawing on the Liquidity Facility, which shall not be invested) may be commingled, only with moneys in other Funds and Accounts, in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular Funds or Accounts of amounts received or held by the Trustee, provided that the Trustee shall at all times account for such investments strictly in accordance with the Funds and Accounts to which they are credited and otherwise as provided in the Indenture.

Amounts received by the Trustee pursuant to a draw on the Liquidity Facility, and amounts on deposit in the Bond Purchase Fund, shall be held uninvested and without liability for interest thereon.

Defaults; Events of Default

The following events shall constitute Events of Default:

- (a) default by the Issuer in the due and punctual payment of any installment of interest on any Bond; or
- (b) default by the Issuer in the due and punctual payment of the principal of any Bond, whether at maturity or upon redemption or acceleration; or
- (c) default by the Issuer in the due and punctual payment of the Purchase Price of any Bond required to be purchased pursuant to Section 4.1 or 4.2 of the Indenture from remarketing proceeds or amounts received from a drawing under the Liquidity Facility; or
- (d) the institution of any proceeding with the consent or acquiescence of the Issuer for the purpose of effecting a composition between the Issuer and its creditors, or for the purpose of adjusting the claims of such creditors pursuant to any Federal or State statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable out of Revenues or the Trust Estate, or, if such proceeding shall have been instituted without the consent or acquiescence of the Issuer, the failure of the Issuer to have such proceeding withdrawn, or any order entered therein vacated or discharged, within sixty days after the institution of such proceeding or the entry of such order; or
- (e) the entry of a final judgment against the Issuer, which judgment constitutes or could result in a lien or charge upon the Revenues or the Trust Estate, or which materially and adversely affects the ownership, control or operation of the Program, if such judgment shall not be discharged within sixty days from the entry thereof, or if an appeal shall not be taken therefrom, or from the order, decree or process upon which or pursuant to which such judgment was granted or entered, in such manner as to conclusively set aside the execution or levy under such judgment, order, decree or process, or the enforcement thereof; or

(f) the failure or refusal of the Issuer to comply with any provision of the Act, as amended or supplemented, or the rendering of the Issuer, for any reason, incapable of fulfilling its obligations under the Indenture or thereunder; or

(g) the failure of the Issuer to observe any other covenant, condition or agreement of the Issuer contained in the Bonds, in the Indenture, and the continuation of such failure for a period of forty-five days after written notice of such failure from the Bond Insurer or from the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Bond Insurer or the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Acceleration

Upon the occurrence of any Event of Default, the Trustee may, with the written consent of the Bond Insurer, and if so directed by the Bond Insurer or by the Registered Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding (with the written consent of the Bond Insurer) the Trustee shall, by notice delivered to the Issuer, the Bank and the Bond Insurer, declare the principal of all Bonds and the interest accrued thereon to be immediately due and payable, whereupon such principal and the interest thereon accrued to the date of payment by the Bank to the Trustee shall, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding.

Other Remedies

Upon the occurrence of an Event of Default, the Trustee shall have the power to proceed with any right or remedy granted by the Constitution and laws of the Commonwealth, including any suit, action or special proceeding in equity or at law for the specific performance of any covenant or agreement contained in the Indenture or for the enforcement of any legal or equitable remedy as the Trustee shall deem most effectual or as the Bond Insurer may direct to protect the rights aforesaid, insofar as such may be authorized by law. The rights specified in the Indenture are to be cumulative to all other available rights, remedies or powers and shall not exclude any such rights, remedies or powers.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Registered Owners of Bonds or the Trustee for the benefit of the Registered Owners under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in the Indenture, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

No delay or omission to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein, and every such right and remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under the Indenture, whether by the Trustee or Registered Owners, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Rights of Registered Owners

Upon the occurrence and continuance of an Event of Default, and if requested so to do by the Bond Insurer or by the Registered Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (and with the written consent of the Bond Insurer) and if indemnified as provided in Section 12.1(1) of the Indenture, the Trustee shall be obliged to exercise such one or more of the rights and remedies conferred by the Indenture as the Bond Insurer or the Registered Owners shall direct in their or its interests.

Application of Moneys

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of Article XI of the Indenture shall first be used to pay the costs and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or made by the Trustee in connection with such proceedings and the outstanding fees and expenses of the Trustee incurred under the Indenture, and thereafter shall be deposited in the Interest Account or Principal Account of the Debt Service Fund. Notwithstanding the foregoing, amounts on deposit in the Bond Purchase Fund shall be retained therein and shall be applied solely to pay the Purchase Price of the Bonds for which such amounts are held. Subject to the foregoing, moneys deposited in the Interest Account and Principal Account shall be applied as follows:

Unless the principal of all the Bonds shall have become or shall have been declared due and payable:

FIRST: To the payment of the costs and expenses of the proceedings, the expenses and liabilities and advances incurred or made by the Trustee in connection with such proceedings and outstanding fees and expenses of the Trustee incurred under the Indenture;

SECOND: From the Interest Account sufficient moneys to pay: (i) interest due on the Bonds, to be applied to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

THIRD: From the Principal Account sufficient moneys to pay the principal of the Bonds, to be applied to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege.

If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond except as otherwise provided in the Indenture, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled pursuant to Article XI of the Indenture, then, subject to subsection (b) of Section 11.5 of the Indenture, in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) of Section 11.5 of the Indenture.

Whenever moneys are to be applied pursuant to the provisions of Section 11.5 of the Indenture such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be a date when interest is payable on Bonds unless the Trustee shall deem another date more suitable) upon which such application is to be made. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Registered Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid. Notwithstanding the foregoing, in the event of an acceleration as described in Section 11.2 of the Indenture, the Bonds shall become immediately due and payable.

Rights and Remedies Vested in Trustee

All rights and remedies (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Registered Owner of Bonds, and any recovery of judgment shall be for the ratable benefit of the Registered Owners of the Bonds and the Bond Insurer.

Rights and Remedies of Registered Owners

No Registered Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture, for the execution of any trust hereof or to enforce any other right or remedy under the Indenture, unless an Event of Default has occurred and unless the Registered Owners of a majority in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its own name and shall have offered to the Trustee indemnity as provided in the Indenture, or unless the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, in which case the Registered Owners of a majority in aggregate principal amount of the Bonds Outstanding may do so. Such notification, request and offer of indemnity are, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other right or remedy under the Indenture, it being understood and intended that no Registered Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by its, his, her or their action or to enforce any right or remedy under the Indenture except in the manner provided therein and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the ratable benefit of the Registered Owners of all Bonds and the Bond Insurer. Nothing in the Indenture shall, however, affect or impair the right of any Owner to enforce the payment of the principal of and interest on any Bond at and after the maturity thereof at the time, place, from the source and in the manner provided in the Indenture.

In case the Trustee shall have proceeded to enforce any right or remedy under the Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Issuer and the Trustee shall be restored to their former positions and rights under the Indenture with respect to the Trust Estate (subject, however, to such determination), and all rights, remedies and powers of the Trustee shall continue as if no such proceedings have been taken.

Waivers of Events of Default

The Trustee shall waive any Event of Default and its consequences and rescind any declaration of maturity of principal upon the written request of the Bond Insurer or, with the prior written consent of the Bond Insurer, (1) if such Event of Default is one specified in subsections (a) or (b) of Section 11.1 of the Indenture, the written request of the Registered Owners of a majority in aggregate principal amount of all Bonds then Outstanding in respect of which such Default exists, or (2) if such Event of Default is not one specified in subsections (a) or (b) of Section 11.1 of the Indenture, the written request of Registered Owners of a majority in principal amount of all Bonds then Outstanding; provided that a Default specified in subsections (a) or (b) of Section 11.1 of the Indenture shall not be waived unless prior to such waiver all arrears of interest on the Bonds, with interest (to the extent permitted by law) at the rates borne by the Bonds, and all arrears of payments of principal on the Bonds (due at their stated maturity or upon redemption, but not by declaration of acceleration), and all fees and expenses of the Trustee then due, shall have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case, the Issuer, the Trustee, the Bond Insurer, and the Registered Owners shall be restored to their former positions and rights under the Indenture respectively (subject, however, to such determination), but no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

Fees, Charges and Expenses of Trustee

The Trustee shall be entitled to payment and/or reimbursement from the Trust Estate for reasonable fees for its services rendered under the Indenture and all advances, Counsel fees and other expenses reasonably made or incurred by the Trustee in connection with such services and, if the Trustee performs extraordinary services, it shall be entitled to reasonable extra compensation from the Trust Estate therefor and to reimbursement from the Trust Estate for reasonable extraordinary expenses in connection therewith; provided that if such extraordinary services or extraordinary expenses are occasioned by its gross negligence or willful misconduct, it shall not be entitled to payment and reimbursement for the extraordinary fees and expenses as hereinabove provided. Upon the occurrence of an Event of Default, but only upon such occurrence, the Trustee shall have a first lien on the Trust Estate (except to the extent of moneys held in the Bond Purchase Fund or moneys received pursuant to the Liquidity Facility) with right of payment prior to payment of the principal of and interest on any Bond for the foregoing advances, fees, costs and expenses incurred.

Notice to Registered Owners If Default Occurs

If a Default occurs of which the Trustee has knowledge or notice pursuant to Section 12.1(h) of the Indenture, then the Trustee shall immediately give written notice thereof by first class mail to the Registered Owners of the Bonds, the Bank and to the Bond Insurer.

Intervention by Trustee

In any judicial proceeding to which the Issuer is a party which, in the opinion of the Trustee and its Counsel, has a substantial bearing on the interest of the Registered Owners, the Trustee may intervene on behalf of the Registered Owners and shall do so if requested in writing by the Bond Insurer or the Registered Owners of at least 25% in aggregate principal amount of the Bonds Outstanding and indemnified as provided in the Indenture. The rights and obligations of the Trustee under Section 12.4 of the Indenture are subject to the approval of a court of competent jurisdiction.

Notwithstanding any other provision of the Indenture, in determining whether the rights of Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee or Paying Agent shall consider the effect on Bondholders as if there were no Municipal Bond Insurance Policy.

Successor Trustee

Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer to which it is a party, which (i) shall have combined capital stock, surplus and undivided profits of at least \$100,000,000, (ii) shall be an Eligible Lender, (iii) shall be a trust company or bank in good standing located in or incorporated under the laws of the Commonwealth, duly authorized to exercise trust powers and subject to examination by federal or state authority, and (iv) shall be acceptable to the Bank and the Bond Insurer, shall thereby become successor Trustee and be vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything in the Indenture to the contrary notwithstanding.

Resignation by the Trustee

The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving sixty days' written notice to the Issuer, the Bank, the Bond Insurer, the Paying Agent, the Remarketing Agent and by first class mail to each Registered Owner of Bonds. Such notice to the Issuer may be served personally or sent by registered or certified mail. Such resignation shall not take effect until there has been appointed a successor Trustee (satisfying the requirements of Section 12.5 of the Indenture) and there has been a transfer of the Trust Estate and the Liquidity Facility, if any, in accordance with its terms to such successor. The successor Trustee shall promptly send written notice of its appointment to the Registered Owners by first class mail.

Removal of the Trustee

The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Trustee and to the Issuer, the Bank, the Paying Agent and the Remarketing Agent signed by (i) the Bond Insurer, if and only if the Trustee has breached its fiduciary duties under the Indenture or, (ii) the Registered Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time such instrument or instruments are so delivered. Such removal shall not take effect until there has been appointed a successor Trustee (satisfying the requirements of Section 12.5 of

the Indenture) and there has been a transfer of the Trust Estate and the Liquidity Facility, if any, in accordance with its terms to such successor.

Appointment of Successor Trustee; Temporary Trustee

If the Trustee shall resign, be removed, be dissolved, be in course of dissolution or liquidation, or shall otherwise become incapable of acting under the Indenture or in case it shall be taken under the control of any public officer, officers or a receiver appointed by a court, a successor Trustee shall be appointed by the Issuer. Every such Trustee appointed pursuant to the provisions of Section 12.8 (i) of the Indenture shall have combined capital stock, surplus and undivided profits of at least \$100,000,000, (ii) shall be an Eligible Lender, (iii) shall be a trust company or bank in good standing located in or incorporated under the laws of the Commonwealth, duly authorized to exercise trust powers and subject to examination by Federal or State authority, and (iv) shall be acceptable to the Bond Insurer and the Bank.

Concerning Any Successor Trustee

Every successor Trustee shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor; and every predecessor Trustee shall deliver the Liquidity Facility, if any and all securities and moneys held by it as Trustee to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee in order to more fully and certainly vest in such successor the estates, properties, rights, powers and trusts hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered but need not be prepared by the Issuer.

Judicial Appointment of Successor Trustee

In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the provisions of Article XII of the Indenture prior to the date when such resignation is to take effect, the retiring Trustee may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee, which shall have capital surplus and undivided profits of not less than \$100,000,000 and shall be an Eligible Lender. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of Article XII of the Indenture within one month after a vacancy shall have occurred in the office of Trustee, the Bank or any Registered Owner may apply to any court of competent jurisdiction for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper, appoint a successor Trustee.

Amendments and Supplements Without Registered Owners' Consent

The Indenture may be amended or supplemented from time to time, without the consent of the Registered Owners, by a Supplemental Indenture authorized by a certified resolution of the Issuer filed with the Trustee, for one or more of the following purposes:

(a) to add additional covenants of the Issuer or to surrender any right or power conferred upon the Issuer or to subject to the pledge of the Indenture additional revenues, properties or collateral; or

(b) to cure any ambiguity or to cure, correct or supplement any defective (whether because of any inconsistency with any other provision hereof or otherwise) provision of the Indenture in such manner as shall not be inconsistent with the Indenture or to make any other provisions with respect to matters or questions arising under the Indenture, provided such action shall not materially impair the security hereof or materially adversely affect the interests of the Registered Owners; or

(c) to provide or modify procedures permitting Registered Owners to utilize an uncertificated system of registration for Bonds; or

(d) to modify, alter, amend, supplement or restate the Indenture in any and all respects necessary, desirable or appropriate in connection with the delivery to the Trustee of a letter of credit, liquidity facility, standby bond purchase agreement or other security arrangement obtained or provided by the Issuer; or

(e) to modify the provisions for optional redemption at the commencement of a Term Rate; or

(f) to modify, alter, amend, supplement or restate the Indenture in any and all respects necessary, desirable or appropriate in order to satisfy the requirements of any rating agency which may from time to time provide a rating on the Bonds, or in order to obtain, retain or improve such rating on the Bonds as is deemed necessary by the Issuer and the Remarketing Agent; or

(g) to provide for an Alternate Liquidity Facility or any other credit enhancement permitted by the terms of the Indenture; or

(h) to provide for Additional Bonds pursuant to Section 2.13 of the Indenture; or

(i) to evidence the appointment of a separate Trustee or Co-Trustee or Paying Agent.

Amendments With Registered Owners' Consent

The Indenture may be amended from time to time by a Supplemental Indenture approved by the Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding; provided, that (a) no amendment shall be made which affects the rights of some but less than all of the Registered Owners of the Outstanding Bonds without the consent of the Registered Owners of a majority in aggregate principal amount of the Bonds so affected, and (b) except as expressly authorized under the Indenture, no amendment which alters the interest rates on any Bonds, the maturity date, Interest Payment Dates, purchase upon tender or redemption provisions of any Bonds or Article XV of the Indenture may be made without the consent of the Registered Owners of all Outstanding Bonds affected thereby.

Amendment of Liquidity Facility

The Trustee shall notify the Registered Owners and the Bond Insurer of a proposed amendment of the Liquidity Facility which would adversely affect the interests of the Registered Owners and may consent thereto with the consent of the Registered Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding which would be affected by the action proposed to be taken; provided, that the Trustee shall not, without the unanimous consent of the Registered Owners of all Bonds then Outstanding, consent to any amendment which would (i) decrease the amount payable under the Liquidity Facility or (ii) reduce the term of the Liquidity Facility. Before the Trustee and the Bond Insurer shall consent to any amendment to the Liquidity Facility, there shall have been delivered to the Trustee and the Bond Insurer a Favorable Opinion of Bond Counsel.

Other Matters Relating to Amendments and Supplements

The Trustee shall not be obligated to enter into or consent to any Supplemental Indenture or any amendment to the Liquidity Facility which affects the rights, duties, liabilities and immunities of the Trustee under the Indenture or otherwise. Before the Issuer and the Trustee shall enter into any Supplemental Indenture or before the Trustee shall consent to any amendment to the Liquidity Facility pursuant to Article XV of the Indenture, there shall have been delivered to the Trustee an opinion or opinions of Counsel stating that such Supplemental Indenture or amendment is authorized or permitted by the Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer, or the Bank, as the case may be, in accordance with its terms and will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds. Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of Article XV of the Indenture, the Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuer, the Trustee and all Registered Owners of the Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments. In addition, no amendment or supplement to the Indenture shall become effective until signed by an Authorized Issuer Representative.

Consent of Bond Insurer and the Bank

So long as a Liquidity Facility is in full force and effect held by the Trustee, no supplement or amendment shall be made to the Indenture without the prior written consent of the Bank. So long as the Municipal Bond Insurance Policy is in full force and effect, no supplement or amendment shall be made to the Indenture or the Liquidity Facility (if any) without the prior written consent of the Bond Insurer.

Defeasance

Discharge of Lien

If the Issuer shall cause to be paid or provide for the payment of the principal of, and premium, if any, and interest on, and purchase price payable pursuant to Section 4.1 and 4.2 of the Indenture with respect to the Bonds at the times and in the manner stipulated therein and in the Indenture, and shall further cause to be paid or provide for the payment of all amounts payable to the issuer of any Reserve Fund Credit Facility, all fees and expenses of the Bond Insurer, the Trustee and the Paying Agent due or to become due in connection with the payment of the Bonds and all other amounts due or to become due under the Indenture, including but not limited to any liability to the United States referred to in Section 6.12 or Section 6.13 of the Indenture and if the Trustee covenants that it shall keep, perform and observe all and singular the covenants and agreements in the Bonds and in the Indenture to be kept, performed and observed by it or on its part, then the lien of the Indenture, these presents and the Trust Estate shall cease, determine and be void, and thereupon the Trustee shall execute and deliver to the Issuer such instruments in writing as shall be required to cancel and discharge the Indenture and assign and deliver to the Issuer so much of the Trust Estate as may be in its possession or subject to its control and shall surrender the Liquidity Facility to the Bank; provided that, (a) any proceeds of the Liquidity Facility not required for payment of the Bonds shall be turned over to the Bank and (b) in the event there has been a drawing under the Liquidity Facility for which the Bank has not been fully reimbursed pursuant to the Standby Agreement, the Trustee shall assign and turn over to the Bank, as successor, subrogee or otherwise all of the Trustee's rights title and interest under the Indenture, all balances held thereunder (excluding the Rebate Fund and Yield Reduction Payment Fund) not required for the payment of the

Bonds and such other sums and the Trustee's right, title and interest in, to and under any other property comprising the Trust Estate and (c) in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Municipal Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to the Registered Owners shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Registered Owners.

Provision for the payment of Bonds shall be deemed to have been made when the Trustee holds in the Debt Service Fund and/or in the Redemption Fund (1) cash in an amount sufficient to make all payments (including principal, premium, if any, and interest and purchase price payments, if any and all supplemental costs and program expenses) specified in Section 16.1(a) of the Indenture with respect to such Bonds, or (2) noncallable, direct obligations issued by the United States of America, maturing on or before the date or dates when the payments specified above shall become due, the principal amount of which and the interest thereon, when due, is or will be, in the aggregate, sufficient without reinvestment to make all such payments, or (3) any combination of cash and such obligations the amounts of which and interest thereon, when due, are or will be, in the aggregate, sufficient without reinvestment to make all such payments; provided that (i) such amount on deposit shall be deemed sufficient only if (A) while the Bonds bear interest at Commercial Paper, Daily or Weekly Rates, it provides for payment of interest at the maximum interest rate permitted to be borne by the Bonds or (B) while the Bonds bear interest at a Term Rate, it provides for payment of interest at such Term Rate and the Bonds have been irrevocably called or designated for redemption in accordance with subsection 16.1(d) of the Indenture on or before the first day of the next Term Rate Period, if any, immediately succeeding the Rate Period for which such Term Rate has been set, (ii) the Trustee shall have received a Favorable Opinion of Bond Counsel, (iii) provision for payment of Bonds shall be deemed to be made only if the Trustee holds in the Debt Service Fund and/or the Redemption Fund cash and/or such obligations for payment of such Bonds in amounts sufficient to make all payments specified above with respect to such Bonds, as verified by an Accountant's certification in form and by an Accountant acceptable to the Trustee, and the Rating Services, and (B) in the case of Bonds bearing interest at Commercial Paper, Daily or Weekly Rates, in determining the sufficiency of amounts held to make payments with respect to the Bonds, there shall be excluded any and all interest expected to be earned on obligations held by the Trustee, (iv) if the Trustee then holds a Liquidity Facility, provision for payment of Bonds shall be deemed to be made only if the funds held by the Trustee pursuant to clause (iii) above consist of (A) cash constituting and/or obligations purchased with proceeds of a drawing on the Liquidity Facility or (B) cash and/or obligations derived from sources other than a drawing on the Liquidity Facility provided that the Trustee shall have received an opinion of Counsel, experienced in matters pertaining to the United States Bankruptcy Code, acceptable to each Rating Service, to the effect that the contemplated application of such amounts to the payments specified above with respect to such Bonds will not be considered to be a transfer of property voidable under Section 547 of the United States Bankruptcy Code should the Issuer or an Affiliate of the Issuer become a debtor under the United States Bankruptcy Code and (v) while the Bonds bear interest at Commercial Paper, Daily or Weekly Rates, provision for payment of the Bonds shall be deemed to be made only if the Trustee shall have received written confirmation from the Rating Service that such deposit will not result in a reduction or withdrawal of any rating of the Bonds by the Rating Service.

Neither the moneys nor the obligations deposited with the Trustee pursuant to the Indenture shall be withdrawn or used for any purpose other than, and such obligations and moneys shall be segregated and held in trust for, the payment of the principal or redemption price of, premium, if any, on and interest on, the Bonds (or portions thereof), or for the payment of the Purchase Price of such Bonds in accordance with Section 4.1 or Section 4.2 of the Indenture. While the Bonds bear interest at

Commercial Paper, Daily or Weekly Rates, such moneys, if not then needed for such purpose, shall, but only to the extent practicable, be invested and reinvested in direct obligations issued by the United States of America maturing on or prior to the earlier of (i) the date moneys may be required for the purchase of Bonds pursuant to Section 4.1 or Section 4.2 of the Indenture and (ii) the Interest Payment Date next succeeding the date of investment or reinvestment.

Whenever moneys or obligations shall be deposited with the Trustee for the payment or redemption of Bonds more than 60 days prior to the date that such Bonds are to mature or be redeemed, the Trustee shall mail a notice to the Registered Owners of Bonds for the payment of which such moneys or obligations are being held at their registered addresses stating that such moneys or obligations have been deposited. Such notice shall also be sent by the Trustee to the Rating Services. Notwithstanding the foregoing, no delivery to the Trustee under this Section shall be deemed a payment of any Bonds which are to be redeemed prior to their stated maturity until such Bonds shall have been irrevocably called or designated for redemption on a date thereafter on which such Bonds may be redeemed in accordance with the provisions of the Indenture and proper notice of such redemption shall have been given in accordance with Article IX of the Indenture or the Issuer shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to give, in the manner and at the times prescribed by Article IX of the Indenture, notice of redemption.

Following the deposit of moneys as provided in this Section the current Rate Period may not be converted to another Rate Period and the Remarketing Agent shall not remarket any Bonds tendered for purchase.

Deposit of Funds for Payment of Bonds

If the principal or Purchase Price of any Bonds becoming due, either at maturity or by call for redemption or tender or otherwise, together with the premium (if any) thereon and all interest accruing thereon to the due date, has been paid or provision therefor made in accordance with Section 16.1 of the Indenture, all interest on such Bonds shall cease to accrue on the due date and all liability of the Issuer with respect to such Bonds shall likewise cease, except as hereinafter provided. Thereafter, (a) any surplus balance held by the Trustee with respect to such Bonds over the principal of, premium (if any) on and actual interest accrued on such Bonds shall be paid to the Bank as a return of excess funds drawn under the Liquidity Facility (or, if the Rating Services shall have confirmed their rating of the Bonds in connection with the provision or payment of the Bonds, such surplus shall be paid as may otherwise be approved by the Rating Services in connection with such confirmation) and (b) the Registered Owners of such Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bonds, and the Trustee shall hold such funds in trust for such Registered Owners uninvested and without liability for interest thereon. Moneys so deposited with the Trustee which remain unclaimed five years after the date payment thereof becomes due shall, at the request of the Issuer (or the Bank) and if the Issuer is not at the time, to the knowledge of the Trustee, in default with respect to any covenant contained in this Indenture or the Bonds, be paid to the Issuer (or to the Bank as provided in Section 16.1 of the Indenture with respect to surplus balances), and the Registered Owners of the Bonds for which the deposit was made shall thereafter be limited to a claim against the Issuer; provided that (i) such moneys shall not be remitted to the Issuer unless the Trustee shall have received an opinion of Counsel experienced in matters pertaining to the United States Bankruptcy Code to the effect that the contemplated delivery of such moneys to the Issuer will not cause any other moneys paid to the Registered Owners to be transfers of property voidable under Section 547 of the United States Bankruptcy Code should the Issuer or an Affiliate of the Issuer become a debtor under the United States Bankruptcy Code, and (ii) the Trustee, before making payment to the Issuer, may, at the expense of the Issuer, cause a notice to be given to the

Registered Owners at their registered addresses, stating that the moneys remaining unclaimed will be returned to the Issuer after a specified date.

Provisions Relating To The Municipal Bond Insurance Policy

Third Party Beneficiaries

The Bond Insurer and the Bank are explicitly recognized as third party beneficiaries of the Indenture and each may enforce such provisions of the Indenture as inure to its benefit in accordance with the terms hereof. Notwithstanding anything to the contrary in the Indenture, any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer or the Bank may not be amended in any manner which affects the rights of the Bond Insurer or the Bank without the prior written consent of the Bond Insurer or the Bank, as the case may be.

Covenants and Notice

The provisions of Article XVII of the Indenture with respect to the Bond Insurer shall be for the benefit of the Bond Insurer, which may direct the Trustee to enforce or waive one or more of these covenants in its sole discretion; and any breach of the covenants contained in Article XVII of the Indenture shall constitute a Default under the Indenture. The provisions of Article XVII of the Indenture shall apply for so long as the Bond Insurer shall insure any Bonds, such Insured Bonds shall be Outstanding and the Bond Insurer shall not be in default under the Municipal Bond Insurance Policy.

In addition to any consents of the Bond Insurer required elsewhere in the Indenture, the following actions under the Indenture shall require the prior written consent of the Bond Insurer:

- (a) the removal of the Trustee and the appointment of a successor thereto;
- (b) the addition or replacement of a Servicer or the Bank;
- (c) any conversion of any of the Bonds to a different interest mode;
- (d) the extension of any Recycling Period pursuant to the provisions of the Indenture;
- (e) an increase in the maximum percentage of any type of loan that is restricted or limited as described in the most recent Certificate and Agreement;
- (f) an increase in the amount of Program Expenses or Supplemental Costs to be paid pursuant to the Indenture;
- (g) any material change in any Borrower Benefit Program not described in the most recent Certificate and Agreement;
- (f) the initiation of any loan forgiveness program; provided that such consent shall not be necessary if such loan forgiveness program is necessary to preserve the exclusion from gross income of interest on Bonds, the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes, as determined by an opinion of Nationally Recognized Bond Counsel; and
- (g) the execution and delivery of any Supplemental Indenture.

Limitations Subject to Discretion of Bond Insurer and Issuer

For so long as any Insured Bonds shall be Outstanding and the Bond Insurer shall not be in default under the Municipal Bond Insurance Policy, certain additional limitations may apply including:

Release of Funds.

Amounts on deposit in the Revenue Fund may be transferred to the Issuer free and clear of the lien and pledge of the Indenture pursuant to clause EIGHTH of Section 6.3, upon written request of the Issuer, provided that prior to giving effect to such transfer the Issuer shall have provided (i) to the Bond Insurer (A) evidence satisfactory to it that the Parity Ratio is at least 103%, and that there exists a minimum aggregate surplus of Accrued Assets minus Accrued Liabilities of at least \$1,000,000 in all Funds and Accounts (excluding the Rebate Fund and the Excess Earnings) at such time and for the remainder of the life of the Bonds, and (B) Cash Flows showing that after giving effect to such transfer the resulting Parity Ratio will be at least 103% for the remainder of the life of the Bonds and that there will be a minimum aggregate surplus of Accrued Assets minus Accrued Liabilities of at least \$1,000,000 for the remainder of the life of the Bonds, and (ii) to the Trustee evidence reasonably satisfactory to it of the Bond Insurer's approval of such transfer.

Recycling.

Recycling may continue until June 1, 2002, or such later date as may be approved by the Bond Insurer, in accordance with Section 17.2(d)(iv) of the Indenture. In order for Recycling to be extended, the Issuer may make additional contributions of cash or Education Loans to the Loan Fund or Revenue Fund if necessary to obtain the approval of the Bond Insurer.

If there occurs and is continuing any of the following events or conditions (each, a "Recycling Suspension Event"), the Trustee (to the extent it has actual knowledge or specific notice in writing thereof) or the Issuer shall promptly notify the Bond Insurer thereof and, if the Bond Insurer so requests, the Issuer shall stop or restrict Recycling, provided that if there occurs and is continuing a Recycling Suspension Event described in "(v)" below, the Issuer shall immediately stop or restrict Recycling:

- (i) an Event of Default;
- (ii) a material and continuing servicing problem (in the reasonable determination of the Bond Insurer) that has not been cured for 60 consecutive days following written notice of such determination from the Bond Insurer to the Issuer;
- (iii) the Parity Ratio declines for two consecutive calendar quarters, unless the Parity percentage is at least 102%;
- (iv) a material deterioration in the financial condition or a change in the legal status of the Issuer with respect to the Program (in the reasonable determination of the Bond Insurer) which could have a material adverse impact on the Issuer's ability to pay principal of and interest on any Insured Bonds or upon the Issuer's ability to perform its duties under the Indenture that has not been cured for 60 consecutive days following written notice of such determination from the Bond Insurer to the Issuer;

- (v) Bonds are held by the Bank under the terms of any Liquidity Facility for 30 consecutive days.

If the Issuer stops Recycling as a result of the occurrence of a Recycling Suspension Event, it will not resume Recycling without delivering a Cash Flow Certificate to the Bond Insurer giving effect to such resumption of Recycling and receiving the consent of the Bond Insurer.

Notwithstanding anything to the contrary in Section 17.3(a) of the Indenture, no Education Loans will be Financed upon the notice to the Issuer and the Trustee by the Bond Insurer of the occurrence of a Recycling Suspension Event. In the event that a Recycling Suspension Event is cured (such cure to be evidenced by the written approval of the Bond Insurer), the Financing of Education Loans may resume.

Upon the expiration of the 90-day period following the date on which the Financing of Education Loans is no longer permitted (or such longer period as may be approved in writing by the Bond Insurer), the Issuer shall direct the Trustee to use amounts in the Loan Fund representing proceeds of the sale of Bonds or Recoveries of Principal to redeem or purchase for cancellation Bonds as soon as possible in accordance with the Indenture at a price not in excess of the principal amount of such Bonds plus accrued interest thereon; provided, however, that in the event of an occurrence of a Recycling Suspension Event as described in sections (i), (iv) or (v) of the definition thereof, the Trustee shall immediately take steps to redeem Bonds, notwithstanding the 90-day period described in this subsection. Notwithstanding anything to the contrary, the Issuer may purchase Bonds for cancellation, at a price in excess of the principal amount of such Bonds using amounts available that are not part of the Trust Estate.

If the Issuer obtains the approval of the Bond Insurer during the period referenced in the immediately preceding paragraph to resume the Financing of Education Loans, the Issuer shall not be required to redeem Bonds in accordance with such paragraph.

The Issuer may Recycle Education Loans into other Education Loans which have characteristics different from those described in the most recent Certificate and Agreement furnished to the Bond Insurer, if prior to such Recycling the Issuer furnishes to the Bond Insurer a new Cash Flow Certificate giving effect to such Recycling and showing that all principal of, and interest on, all Bonds then Outstanding will be paid when due. If the Bond Insurer approves the new Cash Flows, an amended Certificate and Agreement shall be delivered.

All Recycling shall be carried out within the parameters (which shall, under certain circumstances, permit concurrent use of Recoveries of Principal for Recycling and for redemption) of the most recent Certificate and Agreement delivered to the Bond Insurer.

Default by the Bond Insurer

All rights of the Bond Insurer under the Indenture, including without limitation the right of the Bond Insurer to direct proceedings under the Indenture but excluding the Bond Insurer's right to subrogation for claims paid under the Municipal Bond Insurance Policy, shall cease if the Bond Insurer shall be in default under the Municipal Bond Insurance Policy.

Alternate Municipal Bond Insurance Policy

In the event that the Bond Insurer is downgraded by any Rating Service then rating any Insured Bonds to a rating below “A3” by Moody’s or below “A-” by S&P, the Issuer may provide for delivery to the Trustee of an Alternate Municipal Bond Insurance Policy with respect to all Insured Bonds, subject to the prior written consent of the Bank. The Issuer shall direct the Trustee to cancel the Municipal Bond Insurance Policy upon delivery of such Alternate Municipal Bond Insurance Policy. The Issuer shall not surrender, cancel, terminate, or amend or modify in any material respect, the Municipal Bond Insurance Policy or the Fee Surety Bond, without the Bank’s prior written consent. The Issuer may, without the consent of or notice to any Registered Owner, enter into such indentures supplemental hereto amending the provisions of Article XVII of the Indenture as shall be necessary in connection with the delivery of any Alternate Municipal Bond Insurance Policy pursuant to Section 17.10 of the Indenture. The Issuer shall give immediate written notice to the Owners upon delivery of any such Alternate Municipal Bond Insurance Policy. Upon receipt of the Alternate Municipal Bond Insurance Policy satisfying the provisions of the Indenture, the Trustee shall surrender to the Bond Insurer the Municipal Bond Insurance Policy being canceled and replaced.

No Pecuniary Liability of the Issuer

No agreements or provisions contained in the Indenture nor any agreement, covenant or undertaking by the Issuer in connection with the Program or the issuance, sale and delivery of the Bonds shall give rise to any pecuniary liability of the Issuer or a charge against its general credit, or shall obligate the Issuer financially in any way, except as may be payable from the Revenues pledged by the Indenture for the payment of the Bonds and their application as provided in the Indenture; no failure of the Issuer to comply with any term, covenant or agreement in the Indenture, or in any document executed by the Issuer in connection with the Program or the issuance and sale of the Bonds, shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charge, except to the extent that the same can be paid or recovered from the Revenues pledged by the Indenture for the payment of the Bonds; nothing in the Indenture shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement in the Indenture, provided that no costs, expenses or other monetary relief shall be recoverable from the Issuer, except as may be from the Revenues pledged by the Indenture for the payment of the Bonds; no provision, covenant or agreement contained in the Indenture, or any obligation imposed upon the Issuer, or the breach thereof, shall constitute an indebtedness of the Issuer within the meaning of any Commonwealth of Pennsylvania constitutional or statutory limitation or shall constitute or give rise to a charge against its general credit; and in making the agreements, provisions and covenants set forth in the Indenture, the Issuer has not obligated itself, except with respect to the application of the Revenues pledged by the Indenture.

Third Amendment

Additional Definitions.

“Derivative Agreement” shall mean: (a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (b) any contract providing for payments based on levels of, or charges or differences in, interest rates, currency exchange rates, or stock or other indices; (c) any contract to exchange cash flows or payments or series of payments; and (d) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or

minimize any type of financial risk, including, without limitation, payment, currency, interest rate or other financial risk.

“Designated Rating Service” means, each of Moody’s and any other rating agency designated by the Issuer, in its sole discretion, in a written notice to the Trustee as a Designated Rating Service, to the extent such rating agency is providing a public underlying rating on the Bonds; provided, that if the Issuer sends written notice to a Designated Rating Service and the Trustee requesting that such Designated Rating Service no longer provide a public underlying rating on the Bonds, such Designated Rating Service shall no longer be considered a Designated Rating Service hereunder on the date which is thirty (30) days after the date of such written notice, whether or not such Designated Rating Service continues to maintain a public underlying rating on the Bonds.

Amendments While Designated Rating Service Exists. So long as there is a Designated Rating Service, the Indenture shall be amended and supplemented as follows; **provided, that if at any time there is no longer any Designated Rating Service, such amendments and supplements shall be of no further force and effect.**

- (i) The Issuer shall not Finance with moneys in the Loan Fund Education Loans (or capitalized interest with respect to Education Loans) which are non-Federal Family Education Loan Program loans other than HEAL Loans and HEAL Consolidation Loans.
- (ii) The Issuer shall not increase any of its own servicing fees or administrative fees and expenses which are paid as Supplemental Costs.
- (iii) The definition of “Debt Service Reserve Fund Requirement” as set forth in the Indenture shall not be amended to reduce the amount required to be deposited and held in the Debt Service Reserve Fund.
- (iv) The Issuer shall not enter into any Derivative Agreement with respect to the Bonds which is secured by the Trust Estate.
- (v) There shall be no payment of moneys to the Issuer pursuant to paragraph EIGHTH of Section 6.3 of the Indenture without the prior written consent of the Designated Rating Service.
- (vi) The Issuer shall not sell more than 10% of the Education Loans (excluding Education Loans which are submitted to a Guaranty Agency for payment of claims) set forth in the cash flow schedules last provided to the Designated Rating Service prior to each such sale other than in connection with a redemption or refunding of any Bonds.
- (vii) The Issuer shall not sell any Education Loan at a price in cash which is less than the principal amount thereof plus accrued interest to the date of sale (excluding Education Loans which are submitted to a Guaranty Agency for payment of claims) other than in connection with a redemption or refunding of all Bonds.
- (viii) The Issuer shall not pay a premium to redeem any Bonds.
- (ix) The Issuer shall not direct the investment of any moneys held under the Indenture in a manner which does not comply both with the definition of “Investment Securities” set forth in the Indenture and with Moody’s investment guidelines.

Rating confirmation for Alternate Municipal Bond Insurance Policy or Modification of Municipal Bond Insurance Policy or Fee Surety Bond. In addition to the

consent of the Bank required by the Indenture, prior to (i) delivery to the Trustee of an Alternate Municipal Bond Insurance Policy or (ii) the surrender, cancellation, termination or amendment or modification in any material respect of the Municipal Bond Insurance Policy or the Fee Surety Bond, the Issuer shall in each case obtain written confirmation from Moody's that such action will not in and of itself, result in a lowering suspension or withdrawal of the ratings then applicable to any Bonds.

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APPENDIX B-1

FORM OF 1999 BOND COUNSEL OPINION

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Pepper Hamilton LLP

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June 30, 1999

\$100,000,000
Pennsylvania Higher Education Assistance Agency
Student Loan Adjustable Rate Revenue Bonds,
1999 Series A

Pennsylvania Higher Education
Assistance Agency
1200 North Seventh Street
Harrisburg, PA 17102-1444

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the authorization and issuance of \$100,000,000 aggregate principal amount of Student Loan Adjustable Rate Revenue Bonds, 1999 Series A (the "Bonds"), by the Pennsylvania Higher Education Assistance Agency (the "Issuer"), a public corporation organized and existing under the laws of the Commonwealth of Pennsylvania.

The Bonds are being issued pursuant to the Pennsylvania Higher Education Assistance Agency Act, Act of August 7, 1963, P.L. 549, as amended (the "Act"), the Bond Resolution adopted by the Issuer on February 12, 1998 (the "Resolution"), and a Trust Indenture, dated as of June 1, 1999 (the "Trust Indenture") between the Issuer and Allfirst Bank, as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Trust Indenture.

The Bonds are dated as of the date of delivery, and will mature by their terms on June 1, 2029. The Bonds will initially bear interest at a Weekly Rate payable on the first Business Day of each June and December, commencing on December 1, 1999. The Bonds are issuable only in the form of fully registered bonds. Upon satisfaction of certain conditions specified in the Trust Indenture, the interest rate on the Bonds may be converted to and from Daily, Weekly, Commercial Paper and Term Rates.

The Bonds are subject to optional and mandatory tender, and optional and mandatory redemption prior to maturity as a whole or in part at such time or times, and under such circumstances, as are provided therein and in the Indenture.

Proceeds of the Bonds, together with other amounts available therefor will be used: (a) to make or finance student loans which meet the requirements of Sections 144(b)(1)(A) or (B) of the Code (the "Education Loans") as part of a program (the "Program"); (b) to fund certain reserves for the Bonds; (c) to fund payment of interest on the Bonds during any period when Revenues are insufficient due to the inclusion of capitalized interest in the Education Loans being made or financed and (d) to pay the costs of issuance of the Bonds.

The Bonds are payable solely from and secured by Education Loans and Revenues (including Recoveries of Principal) pledged under the Trust Indenture, and moneys on deposit in funds and accounts under the Trust Indenture. The Issuer, the Trustee and Credit Suisse First Boston, acting by and through its New York Branch (the "Bank") have entered into a Standby Bond Purchase Agreement dated as of June 30, 1999 (the "Standby Agreement"), providing for the purchase by the Bank of Bonds which have been tendered or deemed tendered for purchase and not remarketed, subject to the conditions set forth in the Indenture and Standby Agreement.

Applicable federal tax law establishes restrictions concerning the permitted uses and investment of proceeds of tax-exempt obligations such as the Bonds. These and other federal tax law requirements must be met by the Issuer subsequent to the issuance and delivery of the Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The Issuer has covenanted at all times to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Issuer on the Bonds shall be and remain excludable from gross income for purposes of federal income taxation. Failure by the Issuer to comply with such restrictions may cause interest on the Bonds to be included in the gross income of the owners of the Bonds for purposes of federal income taxation, retroactive to the date of issuance of the Bonds. We have assumed continuing compliance by the Issuer with the above-mentioned covenants in rendering our opinion with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes.

As Co-Bond Counsel, we have examined: (a) the Act, (b) certified copies of the Resolution, (c) the forms of the Bonds, (d) an executed copy of the Trust Indenture, (e) certificates of the Issuer and the Trustee as to material factual matters, including the execution and authentication of the Bonds, the reasonable expectations of the Issuer and compliance with the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (the "Code"), (f) an information return filed by the Issuer with the Internal Revenue Service (Form 8038), (g) certificates of officers of the Issuer and the Trustee as to the execution and authentication of the Bonds, and (h) such other certificates, instruments and documents as we deemed necessary to enable us to give the opinions set forth below.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid certificates.

Based on the foregoing, we are of the opinion that:

1. The Issuer is a body corporate and politic constituting a public corporation and government instrumentality of the Commonwealth of Pennsylvania, duly organized and existing under the Act, and has the right and lawful authority to undertake the Program.
2. The Resolution has been duly adopted by the Issuer and is in full force and effect on the date hereof, valid and binding upon the Issuer.
3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is enforceable against the Issuer in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally from time to time in effect and by applicable law which may affect the availability of remedies.
4. The Bonds have been duly and validly authorized, executed and delivered, and when duly authenticated by the Trustee and delivered to the purchasers, will constitute valid and binding obligations of the Issuer, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally from time to time in effect and by applicable law which may affect the availability of remedies.
5. Interest on the Bonds is not includable in gross income of the owners of the Bonds for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the Issuer complies with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. Failure to comply with certain of such requirements could cause the interest on the Bonds to be includable in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Interest on the Bonds is treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes. We express no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon.

6. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. We express no opinion as to such collateral income tax consequences.

The Commonwealth of Pennsylvania is not obligated to pay the principal of the Bonds or the interest thereon, nor are the faith and credit of the Commonwealth of Pennsylvania pledged to the payment of the principal of or interest on the Bonds.

We express no opinion herein with regard to, and we assume no responsibility for the accuracy or completeness of, the Official Statement prepared in connection with the offer and sale of the Bonds.

Very truly yours,

Saul, Ewing, Pernick & Saul LLP
Pepper Hamilton LLP

APPENDIX B-2
FORM OF 2002 BOND COUNSEL OPINION

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August 15, 2002

\$100,000,000
Pennsylvania Higher Education Assistance Agency
Student Loan Adjustable Rate Revenue Bonds,
1999 Series A

Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street
Harrisburg, PA 17102-1444

Allfirst Bank, as Trustee
213 Market Street
Harrisburg, PA 17101

Ladies and Gentlemen:

We have acted as Bond Counsel to the Pennsylvania Higher Education Assistance Agency (the "Issuer") in connection with certain actions with respect to the Issuer's \$100,000,000 aggregate principal amount of Student Loan Adjustable Rate Revenue Bonds, 1997 Series A (the "Bonds").

The Bonds were issued on June 30, 1999 pursuant to the Pennsylvania Higher Education Assistance Agency Act, Act of August 7, 1963, P.L. 549, as amended (the "Act"), a Resolution of the Issuer adopted February 12, 1998 and a Trust Indenture dated as of June 1, 1999 (the "Indenture") between the Issuer and Allfirst Bank, as trustee (the "Trustee").

The Issuer has determined to provide for the delivery of a Reserve Fund Credit Facility (as defined in the Indenture) in the form of a surety bond issued by Ambac Assurance Corporation (the "Surety Bond") and to transfer the amounts on deposit in the Debt Service Reserve Fund established under the Indenture to the Recoveries of Principal Account of the Loan Fund established under the Indenture. In connection with the delivery of the Surety Bond, the Issuer and the Trustee will execute a First Amendment to Trust Indenture (the "First Amendment"). Capitalized terms used herein and not otherwise defined shall have the

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A DELAWARE LIMITED LIABILITY PARTNERSHIP

meanings given to them in the Trust Indenture.

As Bond Counsel, we have examined: (a) the Act, (b) certified copies of the Resolution, (c) executed copies of the Indenture and the First Amendment, (d) a certificate of the Issuer as to material factual matters, including the execution and delivery of the First Amendment and (e) such other certificates, instruments and documents as we deemed necessary to enable us to give the opinions set forth below.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid certificates.

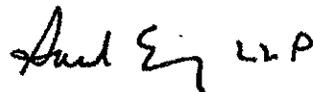
Based on the foregoing, we are of the opinion that:

1. The First Amendment is authorized and permitted by the Indenture and the Act, complies with their respective terms, and has been duly authorized, executed and delivered by the Issuer, and is enforceable against the Issuer in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally from time to time in effect and by applicable law which may affect the availability of remedies.

2. The execution of the First Amendment and the delivery of the Surety Bond will not, in and of themselves, adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for purposes of Federal income taxation.

We advise you that we have made no examination of any facts, circumstances or events occurring after June 30, 1999 other than those contained in the First Amendment. Accordingly, the opinions herein expressed are limited solely to (a) the enforceability of the First Amendment, and (b) the effect of the agreements contained in the First Amendment on our opinion issued on June 30, 1999. We express no other opinion as to the tax-exempt status of interest on the Bonds or any other matters relating to the Bonds or other documents referenced in this opinion.

Very truly yours,



APPENDIX B-3

[FORM OF BOND COUNSEL OPINION]

May 9, 2008

Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street
Harrisburg, PA 17102-1444

Re: \$100,000,000 Pennsylvania Higher Education Assistance Agency
Student Loan Adjustable Rate Revenue Bonds, 1999 Series A

Ladies and Gentlemen:

We have acted as Bond Counsel to the Pennsylvania Higher Education Assistance Agency (the "Issuer") in connection with the remarketing of the Issuer's \$100,000,000 aggregate principal amount of Student Loan Adjustable Rate Revenue Bonds, 1999 Series A (the "Bonds") and certain amendments to the Indenture and the Existing Standby Agreement (as each is defined below) required in connection with such remarketing.

The Bonds were issued on June 30, 1999, pursuant to the Pennsylvania Higher Education Assistance Agency Act, Act of August 7, 1963, P.L. 549, as amended (the "Act"), a resolution of the Board of Directors of the Issuer (the "Resolution") dated February 12, 1998, and a Trust Indenture dated as of June 1, 1999 as amended by a First Amendment to Trust Indenture dated as of June 1, 2002 and an Amendment to Trust Indenture dated as of December 1, 2004 (collectively the "Indenture"), between the Issuer and Manufacturers and Traders Trust Company, as successor trustee to Allfirst Bank. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

In connection with the remarketing of the Bonds, certain amendments will be made to the Indenture pursuant to a Third Amendment to Trust Indenture (the "Third Amendment") dated as of May 1, 2008, between the Issuer and Manufacturers and Traders Trust Company, as successor trustee (the "Trustee").

To provide for the purchase of Bonds which have been tendered or deemed tendered for purchase and not remarketed, the Issuer has entered into a Standby Bond Purchase Agreement dated as of July 15, 2006 (the "Existing Standby Agreement"), with the Trustee and Morgan Stanley Bank (the "Bank"). In connection with the remarketing of the Bonds, certain amendments to the Existing Standby Agreement will be made pursuant to an Amendment to Standby Bond Purchase Agreement (the "Standby Amendment") dated as of May 1, 2008, among the Issuer, the Trustee and the Bank (the Existing Standby Agreement, as so amended, the "Standby Agreement").

The Bonds will be remarketed pursuant to a Remarketing Circular (the "Remarketing Circular") dated as of May 9, 2008.

As Bond Counsel, we have examined: (a) the Act; (b) certified copies of the Resolution and a resolution of the Board of Directors of the Issuer dated January 24, 2008; (c) executed copies of the Indenture and the Third Amendment; (d) an executed copy of the Remarketing Agreement; (e) an executed copy of the Standby Amendment; (f) the written consents of the Bond Insurer and the holders of the Bonds to the amendments to the Indenture and the Existing Standby Agreement, the consent of the Bank to the amendment of the Indenture and the written consent of the Trustee to the amendment of the Standby Agreement; (g) the Remarketing Circular; (h) a certificate of the Issuer as to certain factual matters; and (i) such other certificates, instruments and documents as we deemed necessary to enable us to give the opinions set forth below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. In rendering our opinion, we have not undertaken to verify the factual matters by independent investigation and have relied on the covenants, warranties and representations made by the Issuer in the Indenture and other financing documents.

In rendering this opinion we have examined and relied upon the opinion of counsel to the Issuer with respect, among other things, to the due organization and existence of the Issuer, the authorization, execution and delivery of the Third Amendment and the Standby Amendment and the validity and binding effect thereof on the Issuer.

Based on the foregoing, we are of the opinion that:

1. The Third Amendment and the Standby Amendment are each authorized or permitted by the Indenture and the Act and comply with their respective terms.

2. The Third Amendment and the Standby Amendment have each been duly authorized, executed and delivered by the Issuer and, assuming the due authorization, execution and delivery thereof by the other parties thereto, are valid and binding obligations of the Issuer, enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, moratorium and other similar laws and equitable principles affecting creditors' rights and remedies generally, and by the exercise of judicial discretion in accordance with general principles of equity.

3. Subject to the assumptions and qualifications in the two succeeding paragraphs, we are of the opinion that the execution and delivery of the Third Amendment and the Standby Agreement will not, in and of themselves, adversely affect the exclusion from gross income of the holders of the Bonds for federal income tax purposes under Section 103 of the Code.

We have made no inquiry, and express no opinion herein, as to whether any events have occurred or circumstances have arisen (other than the amendment and supplement of the Indenture by the Third Amendment and of the Existing Standby Agreement by the Standby Amendment) since the issuance of the Bonds, which could adversely affect the excludability from gross income for federal income tax purposes of interest on the Bonds under Section 103 of the Code.

We express no opinion as to whether interest on the Bonds is currently excludable from gross income for federal income tax purposes under Section 103 of the Code, and have assumed that it is so excludable for purposes of the opinion expressed in the second preceding paragraph. Furthermore, we have made no inquiry, and express no opinion herein, as to whether any events have occurred or circumstances have arisen (other than the above-referenced execution and delivery of the Third Amendment and the Standby Amendment) since issuance of the Bonds, which could adversely affect the excludability of interest from gross income for federal income tax purposes of interest on the Bonds under Section 103 of the Code.

We express no opinion herein with regard to, and we assume no responsibility for, the accuracy or completeness of the Remarketing Circular.

We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in law which may hereafter occur. Our opinions are expressly limited to the current laws of the Commonwealth of Pennsylvania and current federal law.

This opinion is rendered solely in connection with the transactions contemplated hereby and is not to be quoted in whole or in part or otherwise referred to in any document, nor is it to be delivered or filed with any governmental agency or other person or relied upon by any other person, without our prior written consent.

Very truly yours,

Saul Ewing LLP

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APPENDIX C

MUNICIPAL BOND INSURANCE POLICY

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Ambac

Municipal Bond Insurance Policy

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Issuer: PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

Policy Number: 16564BE

Bonds: \$100,000,000 Student Loan Adjustable Rate Revenue Bonds, 1999 Series A dated June 30, 1999 and maturing on June 1, 2029. The Paying Agent is Allfirst Bank, Harrisburg, Pennsylvania.

Premium: \$73,643.84 payable at closing (AS FURTHER DESCRIBED ON THE REVERSE HEREOF)

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

In consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

P. Lassiter
President



Alph D. Cooke
Secretary

James R. Muen
Authorized Representative

William Weller
Authorized Officer

Effective Date: June 30, 1999

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Ambac

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE
AGENCY

Attached to and forming part of Policy No.:
16564BE

Effective Date of Endorsement:
June 30, 1999

The Policy to which this endorsement is attached and of which it forms a part is hereby amended to provide that the payment by Ambac to the Insurance Trustee, for the benefit of the Bondholders, of the principal of and interest on the Bonds which shall become Due for Payment but which are unpaid by reason of Nonpayment by the Issuer shall include any scheduled interest payment and required redemption of Liquidity Facility Provider Bonds pursuant to Section 9.1(c) of the Trust Indenture between the Issuer and Allfirst Bank, as Trustee, dated as of June 1, 1999, relating to the Bonds, as well as Section 3.02 of the Standby Bond Purchase Agreement between the Issuer, Credit Suisse First Boston, acting by and through its New York Branch as Liquidity Provider, and the Trustee, dated as of June 30, 1999, relating to the Bonds.

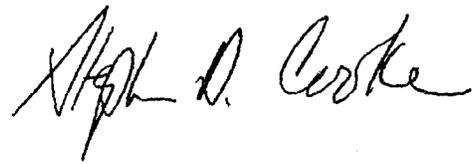
Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

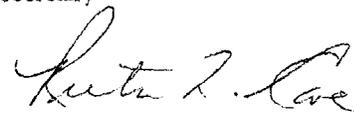
Ambac Assurance Corporation



President



Secretary



Authorized Representative

APPENDIX D

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 March 31, 2008, the Agency had guaranteed a total of approximately \$2.0 billion principal amount of Stafford Loans, approximately \$6.6 billion principal amount of PLUS and SLS Loans and approximately \$51.8 billion of Consolidation Loans. See the discussion of such Loans in APPENDIX E - "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 \$50.8 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 E - "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

Year	Percentage
2003	1.45%
2004	1.09%
2005	1.30%
2006	1.42%
2007	1.96%

See APPENDIX E - "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 \$42,000 as of March 31, 2008.

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 E - "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 March 31, 2008, approximately \$433,000 of principal and interest related to LAL and BEL loans was outstanding, of which approximately \$37,000 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 March 31, 2008, the Agency was servicing under its full-servicing program approximately \$56.4 billion outstanding principal amount for more than 475 customers and, under its remote servicing operation, approximately \$34.5 billion outstanding principal amount for seven 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 Agency has also created computer facilities to enhance administration of student financial aid in the Commonwealth by using the Federal Methodology system of calculating student need. Using the data from the Agency's application, the system now automatically calculates aid eligibility and ties together approximately 220 colleges and approximately 50 banks servicing a substantial majority of Pennsylvania, West Virginia and Delaware students in higher education. The system provides a consistent data base for all forms of financial aid and an electronic communications system between the Agency, the colleges and the banks.

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 E - "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, 2007, the Agency made approximately \$7.0 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 March 31, 2008, 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	\$ 195.50
Stafford Loans	3,314.20
PLUS Loans/SLS Loans	390.30
Consolidation Loans	7,847.40
Privately Insured Loans ¹	<u>37.60</u>
Total	\$11,785.00

As of March 31, 2008, the Agency had balances available for acquisitions of student loans from those borrowings in the amount of approximately \$67.6 million. The terms of particular bond issues may limit the Agency's ability to use bond proceeds to purchase certain types of student loans. Although the aforementioned bond issues are limited obligations of the Agency, under certain circumstances, the Agency's reimbursement obligations to certain credit facility providers are not limited to the assets pledged to those financings. Even if those financings are fully collateralized, those credit facility providers may be able to seek repayment from the Education Loan Assistance Fund under certain circumstances. See "Education Loan Assistance Fund" below.

The Agency has also used funds in the Education Loan Assistance Fund to finance student loans. See "Education Loan Assistance Fund" below. As of March 31, 2008, the Education Loan Assistance Fund contained the following approximate outstanding principal amounts of student loans: \$6.4 million of student loans which are not insured or reinsured; \$18.7 million of student loans guaranteed by Guaranty Agencies under the Higher Education Act which are reinsured (approximately \$13.0 million of which were Consolidation Loans); and \$545,000 of HEAL Loans which are federally insured. Of the student loans guaranteed by the Agency under the Higher Education Act which are federally reinsured, \$71,000 are not eligible for federal interest subsidy payments. As of December 31, 2007 the Education Loan Assistance Fund also held approximately \$205.4 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 \$14.8 Billion. As of March 31, 2008, the outstanding indebtedness and credit facilities consist of:

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

\$100,000,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series A, dated January 28, 1988 and due January 1, 2018.

\$110,000,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series B, dated July 28, 1988 and due July 1, 2018.

\$75,000,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series C, dated July 29, 1988 and due July 1, 2018.

\$36,000,000 Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series E, dated December 30, 1988 and due July 1, 2018.

\$10,000,000 (\$154,140 available for draw) M&T Bank Tax Exempt Capital Loan, dated April 15, 2003, amended on October 3, 2006 and due on demand.

\$35,000,000 Key Bank Line of Credit, dated January 28, 1998 and due August 31, 2008;

\$125,000,000 Student Loan Adjustable Rate Revenue Bonds, 1994 Series A, dated December 15, 1994 and due December 1, 2024.

\$125,000,000 Student Loan Adjustable Rate Revenue Bonds, 1995 Series A, dated December 7, 1995 and due December 1, 2025.

\$125,000,000 Student Loan Adjustable Rate Revenue Bonds, 1997 Series A, dated March 20, 1997 and due March 1, 2027.

\$35,000,000 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.

\$50,000,000 Student Revenue Bonds, Senior Series C (Taxable Auction Rate Certificates), dated March 26, 1998 and due March 1, 2028.

\$45,000,000 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.

\$100,000,000 Student Loan Adjustable Rate Revenue Bonds, 1999 Series A, dated June 30, 1999 and due June 1, 2029.

\$63,980,000 Capital Acquisition Bonds, Series of 2000, dated February 15, 2000 and due December 15, 2003 to December 15, 2010 in various increments.

\$25,000,000 National City Bank of Pennsylvania Line of Credit, dated April 14, 2000 and due December 31, 2008.

\$100,000,000 Student Loan Adjustable Rate Revenue Bonds, 2000 Series A, dated June 21, 2000 and due June 1, 2030.

\$165,000,000 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.

\$165,000,000 Student Loan Revenue Bonds, Senior Series H and \$10,000,000 Subordinate Series I, dated October 24, 2000 and due October 1, 2040.

\$215,000,000 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.

\$75,000,000 Student Loan Adjustable Rate Revenue Bonds, Series 2001 A, dated June 28, 2001, and due June 1, 2031.

\$190,000,000 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.

\$150,000,000 Pennsylvania Local Government Investment Trust Adjustable Rate Note 2007 Series A, dated August 1, 2007 and due August 8, 2008.

\$68,205,000 Capital Acquisition Refunding Bonds, Series of 2001, dated October 15, 2001 and due December 15, 2001 to December 15, 2030 in various increments.

\$92,900,000 Student Loan Adjustable Rate Revenue Refunding Bonds, 2001 Series B, dated December 15, 2001 and due January 1, 2017.

\$170,000,000 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.

\$140,000,000 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.

\$140,000,000 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.

\$150,000,000 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.

\$470,500,000 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.

\$300,000,000 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™).

\$75,000,000 Student Loan Revenue Bonds, 2003 Series A-1, dated April 17, 2003 and due January 1, 2019; \$75,000,000 Student Loan Adjustable Rate Revenue Bonds, 2003 Series A-2, dated April 17, 2003 and due January 1, 2033.

\$140,000,000 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.

\$300,000,000 Student Loan Revenue Bonds, Senior Series Y-1 through Y-4, dated September 1, 2003 and due September 1, 2043.

\$500,000,000 Pennsylvania State Treasury Higher Education Loan Program Notes, Series 1998, dated December 20, 2007 and due December 31, 2008.

\$170,000,000 Student Loan Revenue Bonds, Senior Series Z-1 through Z-4, dated June 23, 2004 and due June 1, 2039.

\$171,000,000 Student Loan Revenue Bonds, Senior Series AA-1 through AA-3, dated July 27, 2004 and due June 1, 2039.

\$300,000,000 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 – RAMS™).

\$400,000,000 Floating Rate Student Loan Revenue Notes, Series 2005; \$102,000,000 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.

\$200,000,000 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.

\$200,000,000 Student Loan Revenue Bonds (Taxable Auction Rate Securities); Senior Subseries DD-1 through DD-2; dated September 13, 2005, and due September 1, 2045.

\$380,000,000 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.

\$500,000,000 Student Loan Revenue Bonds Senior Subseries GG-1 through GG-6; dated December 20, 2005 and due December 1, 2045.

\$970,000,000 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.

\$727,500,000 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.

\$225,000,000 Student Loan Adjustable Rate Revenue Bonds, 2006 Series A, Dated August 3, 2006 and due August 1, 2036.

\$500,000,000 Floating Rate Student Loan Revenue Notes, Series 2006, \$174,000,000 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.

\$750,000,000 Floating Rate Student Loan Revenue Notes, Series 2006-2; \$269,125,000 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.

\$175,000,000 (\$80,965,000 available for draw) PNC Bank Line of Credit dated February 23, 2007 and due on demand.

\$500,000,000 2007 Student Loan Warehousing Facility, dated March 29, 2007 and due April 25, 2008 (terminated April 11, 2008).

\$750,000,000 Student Loan Revenue Bonds (Taxable Auction Rate Securities), Senior Subseries LL-1 through LL10; dated April 25, 2007 and due April 1, 2047.

(lii) \$3,163,679 IBM Corporation Complementary Financing, addendum to Installment Payment Master Agreement, dated April 24, 2007 and due on demand.

(liii) \$339,500,000 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.

(liv) \$400,000,000 Student Loan Adjustable Rate Revenue Bonds, 2007 Series A, dated July 19, 2007 and due July 1, 2037.

(lv) \$500,000,000 2007 Student Loan Line of Credit Facility, dated December 5, 2007 and due December 3, 2008.

The Agency is evaluating its financing needs for 2008.

Lease Obligations

The approximate balance as of March 31, 2008 on the Dauphin County General Authority Bonds Series of 1995, which the Agency is required to repay under a Sublease, is as follows:

Series of 1995 -	\$380,000
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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 E - “DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS”) or legislation is enacted that makes modifications to existing federal student loan programs, by expanding the direct-lending program or otherwise (as described in APPENDIX E - “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.

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APPENDIX E

DESCRIPTION OF FEDERAL STUDENT LOAN PROGRAMS

The Federal Higher Education Act of 1965, as amended (the “Higher Education Act”), provides for: (i) direct federal insurance of student loans, (ii) reinsurance of student and parental loans guaranteed or insured by a state agency or private non profit corporation (collectively, the “Federal Act Loans”), (iii) interest subsidy payments (“Interest Subsidy Payments”) to eligible lenders with respect to certain eligible students loans, and (iv) special allowance payments described below under “Special Allowance Payments” (the “Special Allowance Payments”), representing an additional subsidy paid by the Secretary of Education (the “Secretary of Education”) to owners of eligible student and parental loans (collectively, the “Student Loans”). The program established by the Higher Education Act, formerly known as the “Guaranteed Student Loan Program”, is referred to as the Federal Family Education Loan Program (the “FFEL Program”).

The Federal Health Education Assistance Loan Program (the “HEAL Program”) created pursuant to 42 U.S.C. §§ 294 through 294aa, (the “HEAL Act”), enabled the Secretary of Health and Human Services (the “Secretary of HHS”) to provide a federal program of student loan insurance for students in (and certain former students of) eligible institutions. The HEAL Act authorized the Secretary of HHS to insure loans to repeat borrowers up to certain dollar amounts through December 15, 1995. After September 30, 1995, the Secretary of HHS could authorize insurance only for loans issued to enable students who have obtained prior HEAL Loans to continue or complete their educational program or to obtain a loan to pay interest on such prior loans but no insurance may be granted for any HEAL Loan made after September 30, 1998. Congress did not extend the September 30, 1998 authorization date.

The summaries below do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Higher Education Act and the regulations thereunder. There can be no assurance that the provisions of the Higher Education Act will continue in their present forms. See “CERTAIN RISK FACTORS” in this Official Statement.

LEGISLATIVE MATTERS

History

The Higher Education Act is subject to comprehensive reauthorization approximately every 5 or 6 years and to frequent statutory and regulatory changes, and therefore, there can be no assurance that the provisions of the Higher Education Act will continue in their present form. The Higher Education Amendments of 1986 (the “1986 Amendments”) modified the FFEL Program by (i) repealing authorization of auxiliary loans to assist students (“ALAS Loans”), (ii) establishing initial authority for SLS Loans (as hereinafter defined), (iii) modifying the terms upon which PLUS Loans (as hereinafter defined) could be made available, and (iv) establishing initial authority for Consolidation Loans (as hereinafter defined). The Higher Education Amendments of 1992 (the “1992 Amendments”) contained additional provisions that affected the terms of certain Higher Education Act loans and the payment of Special Allowance Payments for certain loans, regulated the relationship between the Secretary of Education and the various Guaranty Agencies and established a direct lending demonstration program. The Student Loan Reform Act of 1993 (the “1993 Student Loan Act”), provided further material changes to the student loan programs under the FFEL Program. These changes included the establishment of the Federal Direct Student Loan Program. Certain additional amendments were made to the Higher Education Act by the Higher Education Technical Amendments Act of 1993.

Certain 1998 Legislation

Under the Higher Education Amendments of 1998 (the “1998 Amendments”), the Secretary is required to recall an additional \$250 million of reserves from Guaranty Agencies, including the Agency over the federal fiscal years 2002, 2006 and 2007. The Agency’s share of this additional recall is \$26.3 million. Of this amount, \$8.9 million was paid on September 1, 2002, \$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.

Certain Post-1998 Legislation

Since the 1998 reauthorization, the Higher Education Act was amended by the Ticket to Work and Work Incentives Improvement Act of 1999 (the “1999 Act”), the Consolidated Appropriations Act of 2001 (the “2001 Act”), Public Law 107-139 in 2002, Public Law 108-366 in 2004, The Higher Education Reconciliation Act of 2005 (the “2005 Act”) and the College Cost Reduction and Access Act of 2007 (“CCRAA”).

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 2001 Act changed the financial index on which the interest rate for some borrowers of SLS and PLUS loans are computed. The index was changed from the 1-year Treasury bill rate to the weekly average one-year constant maturity Treasury yield. This change was effective beginning in July 2001.

Public Law 107-139 amended the Higher Education Act to (i) extend current borrower interest rates for student or parent loans with a first disbursement before July 1, 2006 and for consolidation loans with an application received by the lender before July 1, 2006, (ii) establish fixed borrower interest rates on student loans made on or after July 1, 2006 and (iii) extend the computation of special allowance payments based on the three-month commercial paper (financial) index.

On February 8, 2006, the President of the United States signed The Deficit Reduction Act of 2005 which affected many of the provisions contained in the Higher Education Act. Included in The Deficit Reduction Act of 2005 is The Higher Education Reconciliation Act of 2005, which extends the Department of Education’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act through September 30, 2012. Several provisions of the Higher Education Act governing the FFELP 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 Higher Education Act 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; and
- Standard special allowance will be paid on loans that were:
 - Not earning a quarterly rate of 9.5% as of the date of enactment of the Higher Education Reconciliation Act of 2005 (February 8, 2006);
 - Financed by a tax-exempt obligation that after September 30, 2004 has matured, or been refunded, retired or defeased;
 - Sold or transferred to or purchased by any other holder after September 30, 2004.

On September 27, 2007, President Bush signed into law the College Cost Reduction and Access Act (the “CCRAA”). The CCRAA included numerous provisions that reduced the yield on loans under the FFEL Program. Specifically, the CCRAA reduced Special Allowance payments on Stafford and consolidation loans by 40 basis points 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). In addition, the CCRAA 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. These two changes are applicable to loans first disbursed on or after October 1, 2007.

The CCRAA also 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.

The CCRAA 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.

The CCRAA also created a new loan repayment option that would limit 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.

HR5715 “Ensuring Continued Access to Student Loans Act of 2008” was passed by the House of Representatives on May 1, 2008 and the Senate on April 30, 2008, and signed by the President on May 7, 2008. The following is a comprehensive summary of the provisions in the law (the “2008 Act”).

Increase Annual and Aggregate Stafford Loan Limits

The 2008 Act 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 unsubsidized loan amounts for undergraduate independent students from \$46,000 to \$57,500 (of which no more than \$23,000 may be subsidized borrowing).

Changes to ACG & SMART Grants

As amended by the Senate, the 2008 Act:

- 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

Grace Period and Deferment For Parent PLUS Borrowers

Beginning July 1, 2008, the 2008 Act 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.

Special Provision for Parents Delinquent on Mortgage Payments

The 2008 Act 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”

LLR Provisions

The 2008 Act 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 the 2008 Act becomes law. The 2008 Act 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.

The 2008 Act 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 the 2008 Act 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

Department of Education as a Secondary Market

The 2008 Act 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, 2009.

The 2008 Act 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 student loan programs." In other words, it prohibits lenders from using those proceeds in any other way than ensuring they continue participating in FFELP.

The 2008 Act 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. The 2008 Act 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.

The 2008 Act also authorizes funding through the Direct Loan program general funding authority to carry out the secondary market provisions of the 2008 Act.

Prohibited Inducements

The 2008 Act 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.

Suspension of Master Calendar and Negreg

The Department is allowed to implement all the provisions of the 2008 Act 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.

Impact Study on College Costs

The 2008 Act 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 2008 Act became law.

Federal Coordination

The 2008 Act 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.

Congressional legislation to reauthorize the Higher Education Act has been under consideration by Congress since 2005, with temporary extensions being enacted from time to time during continued consideration of more extensive reauthorization and amendatory bills. The current authorization for programs other than FFEL Program (which was reauthorized by the 2005 Amendments) was to expire on March 31, 2008, with major amendatory bills still pending. President Bush signed into law S. 2733, the *Higher Education Extension Act of 2008* (S. 2733), which temporarily extended programs authorized under the HEA through April 30, 2008 (Public Law Number 110-198). The Senate and the House have enacted Senate Bill 2929 to temporarily extend programs authorized under the HEA through May 31, 2008 and such bill is awaiting the President's signature. Pending such, the HEA has expired. The Agency believes that the U.S. Department of Education will continue to operate under the federal fiscal year 2008 appropriations bill and that the President will shortly sign the additional extension bill. However, such a result cannot be guaranteed. Such further amendatory legislation may also affect elements of the FFEL Program.

FEDERAL FAMILY EDUCATION LOAN PROGRAM

As described above, the Higher Education Act currently authorizes certain student loans to be covered under the Federal Family Education Loan Program.

Eligible Borrowers and Institutions

Loans under the FFEL Program may only be made to "Qualified Students" and parents of dependent Qualified Students or to consolidate obligations under various federally authorized student loan programs. A "Qualified Student" is generally defined as a United States Citizen or national or otherwise eligible individual under federal regulations who: (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an "eligible institution"; (ii) is carrying at least one half of the normal full time academic workload for the course of study the student is pursuing, as determined by such institution; (iii) has agreed to notify promptly the holder of the FFEL Program loan of any address change or certain changes in status; and (iv) meets the application "need" requirements, if applicable, for the particular loan program.

"Eligible institutions" include institutions of higher education and proprietary institutions of higher education. Eligible institutions of higher education must meet certain standards, which generally provide that the institution: (i) only admits persons that have a high school diploma or its equivalent; (ii) is legally authorized to operate within the Commonwealth; (iii) provides not less than a two year program with credit acceptable toward a bachelor's degree; (iv) is a public or non profit institution; and (v) is accredited by a nationally recognized accrediting agency or is determined by the Secretary of Education to meet the standard of an accredited institution. Eligible proprietary institutions of higher education include business trade and vocational schools meeting standards which provide that the institution: (i) only admits persons that have a high school diploma or its equivalent, or persons who are beyond the age of compulsory school attendance and have the ability to benefit from the training offered (as defined by statute and regulation); (ii) is authorized by the Commonwealth to provide a program of vocational education designed to fit individuals for useful employment in recognized occupations; (iii) has been in existence for at least two years; and (iv) is accredited by a nationally recognized accrediting agency or is specially accredited by the Secretary.

With certain exceptions, an institution with a “cohort” default rate that is higher than the specified thresholds in the Higher Education Act is not an eligible institution. An institution’s cohort default rate is generally based on the percentage of its current and former students who default on their Stafford Loans or SLS Loans within a specified period of time after entering repayment. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101 508) (the “1990 Budget Act”) eliminated eligibility for any institution with a default rate over 35%, with the exception of historically African American colleges and certain community colleges controlled by Native American tribes. In addition, the 1990 Budget Act extended a requirement originally enacted in the 1989 Budget Act excluding institutions with a default rate of over 30% from the SLS program. The 1992 Amendments lowered the default rate trigger for disqualifying schools to 25% beginning in fiscal year 1994.

With specified exceptions, institutions are excluded from consideration as eligible institutions if the institution: (i) offers more than 50% of its courses by correspondence; (ii) enrolls 50% or more of its 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 Higher Education Act: (i) loans for which the federal government makes certain Interest Subsidy Payments available to reduce student interest costs during certain periods (the “Subsidized Stafford Loans”); (ii) loans for student borrowers who do not qualify for Interest Subsidy Payments (the “Unsubsidized Stafford Loans,” and together with Subsidized Stafford Loans, “Stafford Loans”); (iii) supplemental loans to parents of eligible dependent students (the “Parent Loans to Undergraduate Students” or “PLUS Loans”); (iv) loans to a graduate or professional student borrower (the “Grad PLUS Loan”); and (v) 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 (the “Consolidation Loans”).

Certain loan types have had other names in the past. References to those various loan types include, where appropriate, their predecessors. Until July 1, 1994, the Agency also guaranteed new supplemental loans to graduate and professional students and undergraduate independent students and, under certain circumstances, undergraduate dependent students (the “SLS Loans”; which term includes loans formerly designated as ALAS Loans). The Agency continues to guarantee those SLS Loans made prior to July 1, 1994.

Student Loans and their guarantees will have different characteristics and be governed by different laws depending upon a variety of factors, including when they were originated for certain purposes and when the bonds by which they are financed were issued for certain other purposes (and applicable governing federal law). In turn, these loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies and special allowance payments.

Financial Need Analysis

FFEL Program 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, loans, and work assistance. The differences between the amount of grants, other aid and Subsidized Stafford Loans for which the borrower is eligible and the student's estimated cost of attendance may be borrowed through Unsubsidized Stafford Loans, subject to certain loan limits. Parents may finance the Family Contribution amount through their own resources or through PLUS Loans. Graduate or professional school students may finance the full cost of attendance minus the student's estimated financial assistance 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 Higher Education Act requires all Stafford and PLUS Loans to be disbursed by eligible lenders 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. Moreover, the Act sets limits on the amounts of both Subsidized Stafford and Unsubsidized Stafford Loans that can be borrowed in an academic year and in the aggregate. Currently, dependent undergraduates may borrow 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. Additionally, an undergraduate student who has successfully completed the first and second year, but who has not successfully completed the remainder of a program of undergraduate education, may borrow a base Stafford loan of up to \$5,500 in each academic year thereafter. In addition to the base Stafford Loan amounts, independent undergraduate students, graduate and professional students, and certain dependent undergraduate students are eligible to receive additional Unsubsidized Stafford Loans in amounts in excess of the base Stafford Loan amounts (see below Terms of Loans – Stafford Loans).

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, per academic year, subject to an aggregate limit of \$138,500, of which no more than \$65,500 may be Subsidized, including undergraduate loans and SLS loans. 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 Stafford loan limits available to graduate and professional students.

Aggregate limitations listed above exclude loans made under the PLUS Loan programs. The Secretary of Education has discretion to raise these limits, to accommodate students undertaking

specialized training requiring exceptionally high costs of education. With respect to PLUS Loans and Grad PLUS Loans, the maximum amount of loans for an academic year at the present time cannot exceed the cost of education minus other financial aid for parents or guardians of dependent students and for graduate or professional school students.

The “Ensuring Continued Access to Student Loans Act of 2008” increased Unsubsidized Stafford Loan eligibility for dependent and independent undergraduate students by \$2,000 for each academic year. This Act also 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. 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.

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 Higher Education Reconciliation Act of 2005.

Terms of Loans

The maximum interest rates and other salient terms of loans made under the Higher Education Act are controlled by statute, and the interest rate requirements have been amended with some frequency. The Agency can charge less than or equal to the maximum permitted interest rates described herein.

Stafford Loans

Subsidized Stafford Loans are FFEL Program loans with respect to which the Agency is eligible to receive interest subsidy payments and Special Allowance Payments, which provide the Agency with a guaranteed rate of interest (determined under the Higher Education Act). Unsubsidized Stafford Loans are made to students who do not qualify for such subsidy payments because either their own income or their family income is higher than the permitted level. Unsubsidized Stafford Loans are not eligible for interest subsidies but are eligible for Special Allowance Payments. See “Special Allowance Payments” below for a more complete discussion of Special Allowance Payments.

An eligible student may receive both a Subsidized Stafford Loan and an Unsubsidized Stafford Loan for the same enrollment period; however, the combination may not exceed the annual or aggregate loan limits specified in Federal statute or regulations. Unsubsidized Stafford Loans are available to both dependent and independent 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. For independent undergraduate students and dependent undergraduate students whose parents are unable to obtain a PLUS Loan, the following

amounts are in addition to any Unsubsidized Stafford Loan eligibility under the base Stafford Loan limits: for the first and second years of undergraduate programs, an independent student may borrow up to an additional \$4,000 (increased to \$6,000 by the “Ensuring Continued Access to Student Loans Act of 2008”) for a full year program (prorated amounts are available for shorter programs of study); and up to \$5,000 (increased to \$7,000 by the “Ensuring Continued Access to Student Loans Act of 2008”) each year for the remainder of the undergraduate programs.

Undergraduate aggregate loan limits for dependent students were increased from \$23,000 to \$31,000, of which no more than \$23,000 may be subsidized borrowing, and aggregate loan limits for independent students and dependent students whose parents cannot borrow PLUS were increased from \$46,000 to \$57,500, of which no more than \$23,000 may be subsidized borrowing by the “Ensuring Continued Access to Student Loans Act of 2008”. The aggregate loan limit for a graduate or professional student is \$138,500 (this includes the total of outstanding Stafford Loans, SLS Loans and loans under the Federal Direct Student Loan Program).

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. 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 effective April 18, 2008

The interest rates and Special Allowance Payment provisions, and the lender fee and plan for doing business requirements applicable to the Unsubsidized Stafford Loans are the same as for Subsidized Stafford Loans. However, certain terms of the Unsubsidized Stafford Loans differ from those of Subsidized Stafford Loans. The primary difference, in addition to the loan limits (described in the preceding paragraph), is that the federal government does not make Interest Subsidy Payments during the enrollment period, grace period, or during authorized deferment periods for an Unsubsidized Stafford Loan. Interest accrues from the date of each disbursement and any interest not paid by the borrower during the enrollment, grace or deferment periods is normally capitalized. The amount of periodic payment and the repayment schedule for an Unsubsidized Stafford Loan are established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the loan principal commences. At the option of the lender, the note or other written evidence of the loan may require that the amount of the periodic payment be adjusted annually or the period of repayment of principal be lengthened or shortened in order to reflect adjustments in variable interest rates.

Stafford Loans made to student borrowers to cover the costs of instruction for any period of instruction beginning prior to January 1, 1981, and subsequent loans to such borrowers made prior to their retirement of all previous Stafford Loans, bore interest at a maximum permitted rate of 7% per annum. Eligible loans made to new student borrowers to cover the costs of instruction for any period of instruction beginning on or after January 1, 1981, and before September 13, 1983, and subsequent loans to such borrowers made prior to their retirement of all previous Stafford Loans, bore interest at a maximum permitted rate of 9% per annum. Loans made to first time Stafford borrowers to cover costs of instruction for any periods of instruction beginning on or after September 13, 1983, and prior to July 1, 1988, and subsequent loans to such borrowers, bore interest at a rate of 8% per annum. Stafford Loans made to new borrowers for periods of enrollment beginning on or after July 1, 1988 (but prior to October

1, 1992) pursuant to Section 427A of the Higher Education Act (“427A Loans”) bore interest at rates of 8% per annum from disbursement through four years after repayment commenced and 10% per annum thereafter, subject to a provision requiring annual discharge of principal to the extent that quarterly interest calculated at the 10% per annum rate exceeded the amount that would result from application of the average bond equivalent rate of 91 day Treasury bills (the “91 Day T Bill Rate”) auctioned for such quarter, plus 3.25%. No principal is discharged if the borrower is delinquent for more than 30 days on a loan payment at the end of the calendar year. For new 427A Loans made to all existing borrowers after July 23, 1992 and for 427A Loans made to all new borrowers after July 23, 1992 but prior to October 1, 1992, the provision that required annual discharge of principal was effective immediately instead of after four years, the rate with which the quarterly calculation of interest was compared was the 91 Day T Bill Rate plus 3.10% and any excess with respect to a loan for a period during which the Secretary of Education was making Interest Subsidy Payments was credited to the Secretary.

Under current law, however, for a loan disbursed to a student on or after July 23, 1992, while that student has an outstanding balance of principal or interest on any prior loan with an interest rate of 7%, 8%, 9% or 10%, then prior to January 1, 1995, the loan shall convert to an annual variable interest rate loan. If the sum of the 91 Day T Bill Rate for the relevant calendar quarter plus 3.10% is less than the applicable interest rate on such outstanding student loan, then an adjustment shall be made to the payment by calculating excess interest (calculated in accordance with the Higher Education Act) and crediting such excess to the student’s account, at the option of the lender, by reducing the principal balance of the loan, either by reducing the amount of the periodic payments on the loan, by reducing the number of payments or by reducing the amount of the final payment of the loan.

Loans made to first time Stafford borrowers for which the first disbursement was made on or after October 1, 1992, but before July 1, 1994, and subsequent loans to such borrowers, may bear interest at a variable rate determined for each twelve month period commencing July 1 and ending June 30. The rate is the lesser of: (i) the 91 Day T Bill Rate at the final auction held prior to June 1 plus 3.1%; and (ii) 9%. The interest rate on Subsidized and Unsubsidized Stafford Loans made on or after July 1, 1994, will be the 91 day T Bill Rate (at the final auction held prior to June 1) plus 3.1%, not to exceed 8.25%. The annual interest rate on Federal Stafford Loans first disbursed on or after July 1, 1995 but before July 1, 1998 may not exceed 8.25% and is based on the sum of: (i) the bond equivalent rate of the 91 day Treasury bills auctioned at the final auction held prior to June 1; and (ii) a spread factor of 2.5% during the in school period, the 6 month grace period, and any periods when the borrower qualifies for deferment of repayment or 3.1% during the repayment period and any periods of forbearance of payments.

Pursuant to the Higher Education Act, the annual interest rate for loans first disbursed on or after July 1, 1998 was to be the bond equivalent rate of the securities with a comparable maturity as established by the Secretary plus 1.0%, not to exceed 8.25%. In June 1998, a law was enacted making temporary provisions for loans first disbursed on or after July 1, 1998 but before October 1, 1998 (the “1998 Temporary Provisions”). Pursuant to the 1998 Temporary Provisions, the interest rates for loans first disbursed on or after July 1, 1998 but before October 1, 1998 could not exceed 8.25% and is based on the sum of (i) the bond equivalent rate of the 91 day Treasury bills auctioned at the final auction held prior to June 1; and (ii) a spread factor of 1.7% during the in school period, the six month grace period, and any periods when the borrower qualifies for deferment of repayment or 2.3% during the repayment period and any periods of forbearance of payments.

Under the 1998 Amendments, interest rates for loans first disbursed on or after October 1, 1998 are to be the sum of: (i) the bond equivalent rate of the 91 day Treasury bills auctioned at the final auction held prior to June 1; and (ii) a spread factor of 1.7% during the in school period, the 6 month grace period, and any periods when the borrower qualifies for deferment of repayment or 2.3% during the repayment

period and any periods of forbearance of payments (the same rates as are in effect under the 1998 Temporary Provisions), capped at 8.25%.

Under the Deficit Reduction Act of 2005, interest rates for loans first disbursed on or after July 1, 2006 will be fixed at 6.8% per annum.

On September 27, 2007, the President signed the College Cost Reduction and Access Act [P.L. 110-084]. Under the Act 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%.

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 U.S. Department of Education for the interest that accrues during the grace period. The repayment period on an Unsubsidized Stafford Loan begins at the end of the 6 month grace period, when the first payment of principal is due from the borrower, although interest begins accruing when each loan disbursement is made. During the grace period on Unsubsidized Stafford Loans interest accrues and must be paid by the borrower or capitalized (added to the loan principal balance at the end of the grace period). At the end of the grace period, the lender may capitalize any accrued interest that the borrower has not paid.

The repayment period for both PLUS Loans and Grad PLUS loans generally begins 60 days after the loan is disbursed subject to deferral under certain circumstances. Repayment of interest, however, may be deferred only during certain periods specified under the Higher Education Act. Further, whereas federal interest subsidy payments are not available for such deferments, the Higher Education Act provides an opportunity for the capitalization of interest during such periods upon agreement of the lender and borrower. SLS borrowers have the option to defer commencement of repayment of principal until the commencement of repayment of 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. H.R. 5715 “Ensuring Continued Access to Student Loans Act of 2008” allows parent borrowers to choose to delay the commencement of repayment on a PLUS loan until six months after the date the student ceases to be enrolled on at least a half-time basis. Accruing interest may either be paid by the parent borrower monthly or quarterly or may be capitalized quarterly. This provision is effective for parent PLUS loans first disbursed on or after July 1, 2008.

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 Higher Education Act currently requires minimum yearly payments of \$600 on Stafford, PLUS and SLS Loans (including principal and interest) or the balance of the loan (including principal and interest), whichever amount is less, unless borrower and lender agree to lower payments, in which case the payment may not be less than the amount of interest due and payable. Generally payments are required to be made monthly. No penalties can be charged for loan prepayment. Graduated or income sensitive repayment schedules applicable to loans disbursed to new borrowers on or after July 1, 1993, are available under the Higher Education Act which may extend or shorten previously agreed upon repayment periods. Lenders must offer an extended repayment schedule to borrowers who are considered "new borrowers" on or after October 7, 1998, and who have more than \$30,000 in outstanding principal and interest in 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.

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 Higher Education Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments in accordance with its provisions. Such eligibility may be lost if the requirements of the federal government and the Guaranty Agency relating to the servicing and collection of the loans are not met.

Interest Subsidy Payments are not available for PLUS Loans 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 Student Loan Reform Act, the Secretary of Education will reimburse a Guaranty Agency for 100% of the amounts expended on or after October 1, 1993 in connection with a claim resulting from the death, bankruptcy, total and permanent disability of a borrower, school closure or false certification, and 98% in the case of claims connected with defaults. Claims based on death, bankruptcy, total and permanent disability, school closure or false certification are not included in calculating a Guaranty Agency's claims rate experience for Federal Reimbursement. The Secretary of Education will reimburse a Guaranty Agency for any amounts paid to satisfy claims not resulting from death, bankruptcy, disability, school closure or false certification with the amount of reimbursement dependent on the Guaranty Agency's claims rate in that fiscal year. The reimbursement formula is based on the amount of Federal Reimbursements during the current fiscal year as a percentage of the original principal amount of loans in repayment on the last day of the prior fiscal year.

The Federal Reimbursement formula for Federal Family Education Loan Program loans for which the first disbursement occurs prior to October 1, 1993, is summarized below:

<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 Student Loan Reform Act reduced the required maximum guaranty level for guaranties of Federal Family Education Loan Program loans for which the first disbursement occurs on or after October 1, 1993 to 98% instead of 100% of the principal amount, unless the loan is made by a lender-of-last resort, in which case the maximum guaranty level is 100%. The 1993 Student Loan Reform Act reduced the minimum guaranty level from 80% to 78%. Under the 1993 Student Loan Reform Act, the level at which the Secretary of Education will reinsure Guaranty Agency guaranties is reduced to 98% for annual default rates from 0% to 5%; 88% for annual default rates from 5% to 9%; and 78% for annual default rates greater than 9% for loans made on or after October 1, 1993. The Secretary of Education is not required to reimburse the Agency for more than 98% of the principal amount of and interest on such loans that default. Under prior law, the Secretary of Education would have been required to reimburse the Agency for 100% of the principal amount of such loans upon their default.

The Federal Reimbursement formula for FFEL Program loans for which the first disbursement occurs on or after to October 1, 1993, is summarized below:

<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 Higher Education Act provides that the full faith and credit of the United States is pledged to the payment of insurance claims and guarantee reimbursements not subject to reduction and further provides that Guaranty Agencies shall be deemed, subject to provisions relative to the reduction of Guaranty Agency reserves, to have a contractual right against the United States to receive reimbursement in accordance with its provisions. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary of Education is authorized, to the extent provided in advance by appropriations acts, to issue obligations through the Secretary of the Treasury to provide funds to make such federal payments.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made quarterly by the Secretary of Education to holders of qualifying insured loans and guaranteed loans, subject to certain requirements. Special Allowance Payments provide additional income to owners of FFEL Program Loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan (Stafford Loans, PLUS Loans, SLS Loans or Consolidation Loans), the date the loan was originally made or insured and the type of funds used to finance such loan (tax-exempt or taxable). For those loans originated prior to January 1, 2000, such formulas are based on the 91-Day T-Bill Rate and on the maximum interest rate which may be charged on such loan (the "Applicable Loan Rate"). The provisions on Special Allowance Payments were further amended by the 1999 amendments to the program contained in Section 409 of Public Law 106-170, signed into law on December 17, 1999 (the "1999 Amendments"). For those loans originated on or after January 1, 2000, Special Allowance Payment formulas are based on the 3-month commercial paper (financial) (the "3 Month CP Rate") rate and on the maximum interest rate which may be charged on such loan (the "Applicable Loan Rate").

The 2007 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 Higher Education Act provides that the holder of a qualifying loan has a contractual right against the United States, during the life of the loan, to receive Special Allowance Payments calculated as described above. The Higher Education Act also provides that if Special Allowance Payments have not been made within 30 days after the Secretary of Education receives an accurate, timely and complete request therefor, the Secretary of Education must pay interest on the amounts due beginning on the 31st day at the Special Allowance Payment rate plus the rate of interest applicable to the affected loans.

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 Higher Education Act, while bearing interest at 10%) effectively provide an overall minimum return of 9.5% on such loans. The 1993 Student Loan Reform Act eliminates the 9.5% minimum return on Stafford Loans originated from the proceeds of tax exempt bonds issued on or after October 1, 1993. The Special Allowance Payment for loans purchased with such bonds will be equal to the full Special Allowance Payment otherwise payable to holders of other loans. The rate of Special Allowance Payments to eligible lenders which apply proceeds of tax-exempt obligations issued prior to October 1, 1993, to fund their acquisition of loans, however, will be one-half the rate which would be payable to eligible lenders which finance such loans with taxable obligations without giving effect to the reductions effected as of November 16, 1986 and October 1, 1992.

Pursuant to the 1998 Temporary Provisions, for loans made on or after July 1, 1998 but before October 1, 1998 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment was equivalent to the 91-Day T-Bill Rate minus the Applicable Loan Rate plus 2.2% during the in-school period, the grace period and certain deferment periods, and 2.8% during repayment or forbearance periods.

For Stafford Loans made on or after October 1, 1998 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment is equivalent to the applicable bond equivalent rate of the security with a comparable maturity, as determined by the Secretary, minus the applicable interest rates on such loans from such applicable bond equivalent rate, plus 1%. For loans made on or after October 1, 1998 and before July 1, 2006, the Special Allowance Payment will be equivalent to the 91-Day T-Bill Rate minus the Applicable Loan Rate plus 2.2% during the in-school period, the grace period and certain deferment periods, and 2.8% during repayment or forbearance periods.

The 1999 Amendments provided that the formula for determining Special Allowance Payments changed for Stafford Loans originated on or after January 1, 2000 such that the Special Allowance Payments will be based on the average of the 3 Month CP Rate as reported by the Federal Reserve in Publication H-15 (or its successor), minus the applicable interest rates on the loans, and plus (x) 2.34% for loans in repayment status, or (y) 1.74% for loans during the in-school period, the grace period or certain deferment periods.

The 2005 Amendments modified the provisions addressing Special Allowance Payments, applicable to FFEL Program 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 FFEL Program 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 2007 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.

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 2007 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 2007 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 Higher Education Reconciliation Act of 2005 provides that, with respect to a loan for which the first disbursement of principal is made on or after April 1, 2006, if the applicable interest rate for any

3 month period exceeds the special allowance support level applicable to such loan for such period, then an adjustment shall be made by calculating the excess interest and crediting such amounts to the government not less often than annually. The amount of any adjustment of interest for any quarter will be equal to: **a)** the applicable interest rate minus the special allowance support level for the loan, multiplied by **b)** the average daily principal balance of the loan during the quarter, divided by **c)** four.

Fees

Guarantee Fee. A guaranty agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which must be deducted proportionately from each installment payment of the proceeds of the loan to the borrower. For loans guaranteed on or after July 1, 2006, the 1% guarantee fee is eliminated and a 1% Federal Default Fee must be collected from proceeds of the loan or other non-federal sources and must be deposited into the Federal Student Loan Reserve Fund. Guarantee fees may not currently be charged to borrowers of Consolidation Loans. However, lenders may be charged a fee to cover the costs of increased or extended liability with respect to Consolidation Loans. For loans made prior to July 1, 1994, the maximum guarantee fee was 3% of the principal amount of the loan, but no such guarantee fee was authorized to be charged with respect to Unsubsidized Stafford Loans.

Origination Fee. Lenders are authorized to charge the borrower of a Subsidized Stafford Loan or an Unsubsidized Stafford Loan an origination fee in an amount not to exceed 3% of the principal amount of the loan, and is required to charge the borrower of a PLUS Loan an origination fee in the amount of 3% of the principal amount of the loan. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. These fees are not retained by the lender, but must be passed on to the Secretary of Education. Pursuant to the provisions of the Higher Education Reconciliation Act 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 Federal Family Education Loan Program, but not simultaneously.

Selection Criteria During Phase-in Period

IHEs must apply to participate in the FDSL Program. In order to include a cross section of participants, the Department of Education will select from among applicants based on anticipated loan volume, length of academic program, control, highest degree offered, size of student enrollment, geographic location and default experience. Beginning in 1995-96, the Secretary of Education must select IHEs that are reasonably representative of each of these categories.

Federal Direct Student Loan Program Loan Terms and Conditions

Unless otherwise specified, loans made under the FDSL Program will have the same terms, conditions and benefits of and be available in the same amounts as their corresponding Federal Family Education Loan Program loans.

Repayment Options

Four repayment plans are to be offered to borrowers of FDSL Program loans: (i) standard repayment plan; (ii) extended repayment plan; (iii) graduated repayment plan; and (iv) an income contingent repayment plan.

Federal Direct Student Loan Program Loan Consolidation

A borrower of a FDSL Program loan may consolidate the loan with Federal Family Education Loan Program and other federal loans (including FFEL Program loans that have already been consolidated), as under the current Consolidation Loan program at any time, under terms and conditions established by the Secretary of Education.

The 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 FFEL Program loans and third-party servicers, establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a Guaranty Agency's or lender's participation in the FFEL Program, and establish sanctions for third-party servicers.

Under these regulations, a third-party servicer is jointly and severally liable with its client lenders, Guaranty Agencies and educational institutions, as applicable, for liability to the Secretary of Education arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the regulations, or violates other FFEL Program requirements, the regulations authorize the Secretary of Education to fine the servicer or limit, suspend, or terminate the servicer's eligibility to contract to service Student Loans. The effect of such a limitation, suspension, or termination on a servicer's eligibility to service loans already on its system, or to accept new loans for servicing under existing contracts, is unclear. No assurance exists that the Agency will not be held liable by the Secretary of Education for liabilities arising out of its FFEL Program activities for the Agency or other client lenders, or that its eligibility will not be limited, suspended, or terminated in the future. If the Agency 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 Higher Education Act and its implementing regulations impose specified requirements, guidelines and procedures with respect to originating and servicing student loans. Generally, those procedures require that completed loan applications be processed, a determination of whether an applicant is an eligible borrower under applicable standards be made, the borrower's responsibilities under the loan be explained to him or her, the promissory note evidencing the loan be executed by the borrower and then that the loan proceeds be disbursed in a specified manner by the lender. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferrals and forbearance and credit the Borrower for payments made thereon. If a borrower becomes delinquent in repaying a loan, a lender or a servicing agent must perform certain collection procedures (primarily telephone calls and demand letters), which vary depending upon the length of time a loan is delinquent. Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon lenders who fail to comply with their provisions. In certain circumstances, the Agency may be liable for certain violations of consumer protection laws that apply to the financed student loans, either as assignee or as the party directly responsible for obligations arising after the transfer.

Master Promissory Notes

Beginning in July of 2000, all lenders are required to use a master promissory note (the "MPN") for new Stafford Loans. The MPN permits a borrower to obtain future loans without the necessity of executing a new promissory note. Borrowers are not, however, required to obtain all of their future loans from their original lender, but if a borrower obtains a loan from a lender, which does not presently hold an MPN for that borrower, that borrower will be required to execute a new MPN. A single borrower may have several MPNs evidencing loans to multiple lenders. If multiple loans have been advanced pursuant to a single MPN, any or all of those loans may be individually sold by the holder of the MPN to one or more different secondary market purchasers, such as the Agency. Beginning in July 2004, all lenders are required to use a master promissory note for PLUS loans 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 "PLUS MPN").