In the opinion of Kutak Rock, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Senior Series 1998K Bonds, the Senior Series 1998L Bonds, the Senior Series 1998M Bonds, the Senior Series 1998N Bonds and the Subordinate Series 1998O Bonds (collectively, the "1998 Bonds") is excluded from gross income for federal income tax purposes. However, interest on the 1998 Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 1998 Bonds and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes. For a more complete description of the opinion of Bond Counsel, see "Tax Matters" herein.

New Issue - Book-Entry Only

$165,000,000

Vermont Student Assistance Corporation

(a non-profit public corporation established by the laws of the State of Vermont)

VSAC
OVER 30 YEARS OF SERVICE

Education Loan Revenue Bonds

$38,000,000 Senior Series 1998K (Auction Rate Certificates)

$38,000,000 Senior Series 1998L (Auction Rate Certificates)

$37,750,000 Senior Series 1998M (Auction Rate Certificates)

$41,250,000 Senior Series 1998N (Select Auction Variable Rate Securities[SM])

$10,000,000 Subordinate Series 1998O
(Auction Rate Certificates)

Dated: Date of Delivery Price: 100% Due: December 15, 2032

The Senior Series 1998K Bonds, Senior Series 1998L Bonds, Senior Series 1998M Bonds and Subordinate Series 1998O Bonds (collectively, together with the Senior Series 1998N Bonds, the "1998 Bonds") will be issued as Auction Rate Certificates - ARCs[SM] ("ARCs"). The Senior Series 1998N Bonds will be issued as Select Auction Variable Rate Securities - SAVRS*. The Senior Series 1998K Bonds, Senior Series 1998L Bonds, Senior Series 1998M Bonds and Senior Series 1998N Bonds (collectively, the "Senior 1998 Bonds") are insured by the municipal bond insurance policy described below and are superior in right of payment under the General Resolution (as defined below) to the Subordinate Series 1998O Bonds and to all other Subordinate Obligations which may be issued in the future. The Subordinate Series 1998O Bonds are not insured by the municipal bond insurance policy *and a default in the payment of the Subordinate Series 1998O Bonds will not constitute an event of default under the Resolution (as defined* below) as long as there are any Senior Bonds outstanding on which no payment default has occurred and is continuing. The 1998 Bonds are issuable only as fully registered bonds and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as securities depository for the 1998 Bonds. Purchasers of the 1998 Bonds will not receive certificates representing their beneficial ownership interests in the 1998 Bonds. Purchases and sales by the beneficial owners of the 1998 Bonds outstanding as ARCs or SAVRS shall be made in book-entry form in the principal amount of $50,000 or any integral multiple thereof. See "DESCRIPTION OF THE 1998 BONDS-Book-Entry-Only System."

Payments of principal, redemption price and interest with respect to 1998 Bonds are to be made directly to DTC by the Chittenden Trust Company, Burlington, Vermont (the "Trustee") or its successor Trustee, so long as DTC or Cede & Co. is the registered owner of such 1998 Bonds. Disbursements of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants as more fully described herein. Interest on the 1998 Bonds, while outstanding as ARCs or SAVRS and prior to a change in the Interest Payment Dates as described herein, is payable on December 15, 1998, and semiannually on each June 15 and December 15 thereafter until maturity or earlier redemption. The Applicable ARCs Rate and ARCs Auction Periods shall be established from time to time pursuant to the ARCs Auction Procedures described herein. The applicable SAVRS Rate and SAVRS Auction Periods shall be established from time to time as described herein. The 1998 Bonds are being issued by the Vermont Student Assistance Corporation (the "Corporation"), pursuant to the Corporation's 1995 Education Loan Revenue Bond Resolution as adopted on June 16, 1995 (the "General Resolution") and the 1998 Fifth Series Resolution as adopted on June 9, 1998 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution"). The 1998 Bonds are subject to redemption, acceleration and mandatory tender upon conversion to a different interest rate mode prior to maturity, as described herein.

Payment of the principal of and interest on only the Senior 1998 Bonds when due will be insured by a municipal bond insurance policy to be issued by

Ambac

simultaneously with the delivery of the Senior 1998 Bonds.

The 1998 Bonds are to be issued for the purpose of financing the origination or purchase of: (i) loans which are guaranteed by the Corporation acting pursuant to Vermont law as State Guarantor to the extent required by applicable federal law and reinsured by the Secretary of the United States Department of Education, pursuant to, and to the extent authorized by, the United States Higher Education Act of 1965, as amended; (ii) loans insured by the Secretary of the United States Department of Health and Human Services; and (iii) other loans permitted under the State Act.

THE CORPORATION HAS NO TAXING POWER. THE 1998 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 1998 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION OF THE STATE OF VERMONT IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE 1998 BONDS. THE 1998 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 1998 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality by Kutak Rock, Denver, Colorado, Bond Counsel to the Corporation. Certain legal matters will be passed *upon for the Corporation by its counsel, Little, Cicchetti & Conard, P.C., Burlington, Vermont and for the Underwriters by their* counsel, Krieg DeVault Alexander & Capehart, Indianapolis, Indiana. Government Finance Associates, Inc. serves as Financial Advisor to the Corporation. The 1998 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC on or about June 24, 1998.

PaineWebber Incorporated

Lehman Brothers

Dated: June 16, 1998

[SM] ARCs is a servicemark of PaineWebber Incorporated.

[SM] Select Auction Variable Rate Securities is a servicemark of Lehman Brothers Inc.

Initial Auction Dates

Senior Series 1998K Bonds: July 15, 1998
Senior Series 1998L Bonds: July 22, 1998
Senior Series 1998M Bonds: July 29, 1998
Senior Series 1998N Bonds: July 22, 1998
Subordinate Series 1998O Bonds: August 5, 1998

No dealer, broker, salesman or other person has been authorized by the Corporation, Ambac Assurance or the Underwriters to give any information or to make any representations, other than the information and representations contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any 1998 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. All other information set forth herein has been obtained from the Corporation, Ambac Assurance and other sources which are believed to be reliable but is not to be construed as representations by the Underwriters. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or Ambac Assurance subsequent to the date of this Official Statement.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING AMBAC ASSURANCE CONTAINED HEREIN UNDER THE CAPTION "INSURANCE ON THE SENIOR 1998 BONDS" OR IN APPENDIX G ENTITLED "AMBAC ASSURANCE CORPORATION", NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY AMBAC ASSURANCE AND AMBAC ASSURANCE MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE 1998 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE 1998 BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1998 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement. The offering of the 1998 Bonds to potential investors is made only by means of this Official Statement. No person is authorized to detach or otherwise deliver or use this Summary Statement without the entire Official Statement. Terms used in this summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Issuer	Vermont Student Assistance Corporation (the "Corporation") is a non-profit public corporation organized pursuant to the laws of the State of Vermont. The Corporation acts as a lender, servicer and guarantor under the student loan program authorized by and in compliance with the provisions of the Higher Education Act of 1965, as amended (the "Act" or the "Higher Education Act"). The Corporation also operates various other student assistance programs authorized by Vermont law, including the acquisition and origination of student loans which are not made under the Higher Education Act.
The Offering	The Corporation is offering hereby its Education Loan Revenue Bonds consisting of $38,000,000 aggregate principal amount of Senior Series 1998K Bonds (the "Senior Series 1998K Bonds"), $38,000,000 aggregate principal amount of Senior Series 1998L Bonds (the "Senior Series 1998L Bonds"), $37,750,000 aggregate principal amount of Senior Series 1998M Bonds (the "Senior Series 1998M Bonds"), $41,250,000 aggregate principal amount of Senior Series 1998N Bonds (the "Senior Series 1998N Bonds") (collectively, the Senior Series 1998K Bonds, the Senior Series 1998L Bonds, the Senior Series 1998M Bonds and the Senior Series 1998N Bonds are referred to as the "Senior 1998 Bonds") and $10,000,000 aggregate principal amount of Subordinate Series 1998O Bonds (the "Subordinate Series 1998O Bonds" and, collectively with the Senior 1998 Bonds, the "1998 Bonds").
Bond Insurance	The scheduled payment of the principal of and interest on the Senior 1998 Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") concurrently with the delivery of the Senior 1998 Bonds. The Subordinate Series 1998O Bonds are not insured by the Bond Insurer.
Redemption	The 1998 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein.
Priority	There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of $228,150,000, being comprised of Series 1995 A, B, C, D and E Bonds (collectively, the "1995 Bonds") and Series 1996 F, G, H, I and J Bonds (collectively, the "1996 Bonds"). The Senior 1998 Bonds, the 1995 Bonds, the 1996 Bonds and any bonds issued on a parity therewith and outstanding under the Resolution in the future (collectively, the "Senior Bonds") are secured equally and ratably by the security provided thereunder and are secured on a superior basis to the Subordinate Series 1998O Bonds. Failure of the Corporation to pay principal or interest on the Subordinate Series 1998O Bonds shall not be an Event of Default under the Resolution if any Senior Bonds are outstanding on which no payment default has occurred and is continuing. Additional Bonds may be issued under the Resolution if (x) each Rating Agency confirms that the issuance of the Additional Bonds will not cause such Rating Agency to

withdraw or downgrade the rating on any Bonds and (y) the Bond Insurer consents to the issuance of the Additional Bonds.

Global Bond; Securities Depository

The 1998 Bonds shall be issued for each Series as one fully registered bond in the aggregate principal amount and with the maturity of such Series of 1998 Bonds as set forth on the cover page hereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, the Securities Depository.

Purpose of Issuances

The 1998 Bonds will be issued for the purpose of (i) financing the origination or purchase of Eligible Education Loans, which generally include (a) loans qualifying under the Act and guaranteed and reinsured to the extent authorized under the Act ("Federal Act Loans"), (b) loans insured by the Secretary of the United States Department of Health and Human Services ("HEAL Loans") and (c) other loans permitted under the State Act and the Resolution ("Statutory Loans"), (ii) funding the Debt Service Reserve Account in the amount of the Debt Service Reserve Requirement with respect to the 1998 Bonds, and (iii) paying the costs associated with the issuance of the 1998 Bonds.

The 1998 Bonds

While outstanding as ARCs or SAVRS, the 1998 Bonds will be issued in denominations of $50,000 or any integral multiple thereof and will mature as indicated on the cover page hereof.

The 1998 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, the Senior Series 1998K, 1998L and 1998M Bonds and the Subordinate Series 1998O Bonds will be Auction Rate Certificates ("ARCs") and the Senior Series 1998N Bonds will be Select Auction Variable Rate Securities ("SAVRS"). Interest on the 1998 Bonds while outstanding as ARCs or SAVRS and prior to a permitted change in the Interest Payment Dates as described herein, is payable on December 15, 1998, and semiannually on each June 15 and December 15 thereafter, until maturity or earlier redemption.

Fixed Rate Conversion

Bonds of any Series of 1998 Bonds may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation (and with the consent of the Bond Insurer with respect to the Senior 1998 Bonds) under the circumstances described herein.

Variable Rate Conversion

Bonds of any Series of 1998 Bonds may be converted to bear interest at a Variable Rate at the option of the Corporation (and with the consent of the Bond Insurer with respect to the Senior 1998 Bonds) under the circumstances described herein.

Mandatory Tender Upon Conversion

Bonds of any Series of 1998 Bonds converted to bear interest at a Fixed Rate or a Variable Rate are subject to mandatory tender for purchase as described herein, without right of retention.

Security for the Bonds

The Revenues, Principal Receipts, Education Loans, Investment Securities and all amounts held in any Account established under the Resolution, including investments thereof, are pledged by the Corporation in the Resolution for the benefit of the Bondowners and the Bond Insurer, as their interests may appear, to secure the payment of the Bonds and all amounts owing to the Bond Insurer, subject only to the provisions of the Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions therein set forth.

Guarantee and Reinsurance

Federal Act Loans pledged under the Resolution are to be guaranteed to the extent required by federal law by the Corporation acting pursuant to Vermont law as State Guarantor, or any other permitted guarantor under the Resolution, and reinsured pursuant to, and to the extent authorized by, the Act. HEAL Loans are 100% insured by the Department of Health and Human Services. Other Education Loans are not guaranteed or insured but are permitted under the State Act. See "Purpose of Issuances" in this Summary Statement. See Appendix H - "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Changes to the Federal Family Education Loan Program

The programs effected by the Higher Education Act have been the subject of numerous statutory and regulatory changes over the last several years that have resulted in material modifications to such programs. No assurance can be given that relevant laws, including the Higher Education Act, will not be further changed in the future in a manner which might adversely affect the availability and flow of funds of the Corporation. Principal provisions of the Higher Education Act were recently amended to effect changes in the interest rate formula and further amendments may be enacted in the future which may adversely affect the availability of Federal Act Loans or may impact the activities of the Corporation as a Guarantor. In addition, Congress may amend the Higher Education Act in the course of statutory reauthorization, or the budget and appropriation process, or at any other time. See Appendix H - "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Certain Investment Considerations

Investment in the 1998 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading "CERTAIN INVESTMENT CONSIDERATIONS."

THE 1998 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON SUCH BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON SUCH BONDS.

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OFFICIAL STATEMENT

of the

VERMONT STUDENT ASSISTANCE CORPORATION

relating to its

$165,000,000

Education Loan Revenue Bonds

$38,000,000	Senior Series 1998K (Auction Rate Certificates -- ARCs[sm])
$38,000,000	Senior Series 1998L (Auction Rate Certificates -- ARCs[sm])
$37,750,000	Senior Series 1998M (Auction Rate Certificates -- ARCs[sm])
$41,250,000	Senior Series 1998N (Select Auction Variable Rate Securities[sm] -- SAVRS)
$10,000,000	Subordinate Series 1998O (Auction Rate Certificates -- ARCs[sm])

This Official Statement, which includes the cover page, the Summary Statement and the Appendices hereto, is being provided by the Vermont Student Assistance Corporation (the "Corporation") to furnish pertinent information to all who may become owners of its $165,000,000 Education Loan Revenue Bonds, consisting of the following series of Bonds, initially issued as Auction Rate Certificates--ARCs[sm] ("ARCs") (except in the case of the Senior Series 1998N Bonds, which are initially issued as Select Auction Variable Rate Securities[sm]--SAVRS ("SAVRS")), Senior Series 1998K in the principal amount of $38,000,000, Senior Series 1998L in the principal amount of $38,000,000, Senior Series 1998M in the principal amount of $37,750,000, Senior Series 1998N in the principal amount of $41,250,000 and Subordinate Series 1998O in the principal amount of $10,000,000 (collectively, the "1998 Bonds"). The 1998 Bonds are being offered hereby pursuant to the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted on June 16, 1995 (the "General Resolution") and the 1998 Fifth Series Resolution adopted on June 9, 1998 (collectively, together with all other supplements and amendments thereto, the "Resolution"). There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of $228,150,000, being comprised of Series 1995 A, B, C, D and E Bonds (collectively, the "1995 Bonds") and Series 1996 F, G, H, I and J Bonds (collectively, the "1996 Bonds"). The term "Bonds" as used herein shall refer to the 1998 Bonds, the 1995 Bonds, the 1996 Bonds and any Additional Bonds issued under the Resolution in the future.

All capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings provided in Appendix A under "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION," unless the context requires otherwise.

INTRODUCTION

The Corporation is a non-profit public corporation created in 1965 and existing under and by virtue of Sections 2821 through 2873 of Title 16 of the Vermont Statutes Annotated, as amended (the "State Act"). The State Act provides that the Corporation is to provide opportunities for students to pursue further education by awarding grants and guaranteeing, making, financing and servicing loans to borrowers qualifying under the State Act. The Corporation, acting as a loan originator or secondary market, originates education loans and purchases education loans previously originated by other lenders. Such loans include Federal Act Loans, HEAL Loans and Statutory Loans (as defined below). The Corporation, serving as a guarantor (the "State Guarantor") guarantees, to the extent required by applicable federal law, Federal Act Loans. In addition, the Corporation administers a program of grants, scholarships, work study and outreach services and career, education and financial aid counseling and information services. In 1993, the Vermont Legislature authorized the Corporation to develop and implement a variety of non-federal loan programs for borrowers and lenders both within and outside the State.

[sm] ARCs is a servicemark of PaineWebber Incorporated.

[sm] Select Auction Variable Rate Securities is a servicemark of Lehman Brothers, Inc.

The 1998 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, the Senior Series 1998K, 1998L and 1998M Bonds and the Subordinate Series 1998O Bonds will be issued as ARCs. Initially, the Senior Series 1998N Bonds will be issued as SAVRS. Interest on the 1998 Bonds while outstanding as ARCs or SAVRS and prior to a permitted change in the Interest Payment Dates as described herein, is payable on December 15, 1998, and semiannually on each June 15 and December 15 thereafter, until maturity or earlier redemption. See "DESCRIPTION OF THE 1998 BONDS." The ARC Auction Periods and ARC Interest Payment Dates for the 1998 Bonds while outstanding as ARCs are subject to change as described herein. The applicable SAVRS Rate and SAVRS Auction Periods shall be established as described herein.

Bonds of any Series of 1998 Bonds may be converted to bear interest at a Fixed Rate to their final maturity or at a Variable Rate at the option of the Corporation under the circumstances described herein. Bonds of any Series of 1998 Bonds converted to bear interest at a Fixed Rate or at a Variable Rate are subject to mandatory tender for purchase prior to such conversion as described herein without right of retention.

This Official Statement contains a description of the 1998 Bonds while outstanding as ARCs or SAVRS but does not address any terms or conditions which would be applicable to any Series of the 1998 Bonds if converted to a Fixed Rate or a Variable Rate.

The 1998 Bonds will be issued for the purposes of financing the origination or purchase of Eligible Education Loans, which generally include (i) loans qualifying under the Higher Education Act of 1965, as amended (the "Act"), which are guaranteed by a permitted guarantor such as the Corporation to the extent required by the Act and reinsured by the Secretary of the United States Department of Education (the "Secretary") pursuant to, and to the extent authorized by, the Act ("Federal Act Loans"), (ii) loans permitted under the State Act and insured by the Secretary of the United States Department of Health and Human Services (referred to herein as "HEAL Loans"), and (iii) other loans permitted under the State Act and the Resolution (referred to herein as "Statutory Loans").

THE BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION. THE BONDS, INCLUDING THE 1998 BONDS, DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE BONDS.

Payment of the principal of and interest on the Senior 1998 Bonds when due will be insured by a Municipal Bond Insurance Policy (as hereafter defined) to be issued by the Bond Insurer. **The Subordinate Series 1998O Bonds are not insured by the Municipal Bond Insurance Policy.**

The descriptions of the Act, the Public Health Services Act, the State Act, the Resolution and the 1998 Bonds contained herein do not purport to be definitive or comprehensive. All descriptions of such documents and statutes and any legislative bills contained herein are qualified in their entirety by reference to such documents and statutes. Copies of such documents may be obtained upon written request during the initial offering period of the 1998 Bonds from PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019, Attention: Municipal Securities Group, and thereafter from the Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 06504, Attention: President or to the Corporation's financial advisor, Government Finance Associates, Inc., 63 Wall Street, 16th Floor, New York, New York 10005.

DESCRIPTION OF THE 1998 BONDS

General

The 1998 Bonds will bear interest from their date of issue and will mature on December 15, 2032. The initial Auction Dates for the 1998 Bonds are as set forth on the inside cover page hereof. The 1998 Bonds are issuable only in fully registered form, registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). The principal at maturity of each 1998 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 1998 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 1998 Bonds is payable by the Trustee to Cede & Co. as nominee for DTC, as Owner of record. Interest on and principal upon redemption of the 1998 Bonds is payable to beneficial owners of the 1998 Bonds according to the procedures described under "DESCRIPTION OF THE 1998 BONDS -- Book-Entry-Only System." Should the Corporation discontinue the book-entry-only system for any Series of 1998 Bonds and issue certificates to the beneficial owners, interest will be payable by check or draft of the Trustee mailed to the persons in whose name such Bonds are registered at the close of business on the Record Date, or by wire transfer at the written request of a registered owner of $1,000,000 or more in aggregate principal amount of any such 1998 Bonds, which request may provide that it will remain in effect unless and until changed or revoked in writing.

Interest on ARCs

Interest Payments. Interest on the 1998 Bonds while they are Outstanding as ARCs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. An "Interest Payment Date" for the 1998 Bonds while Outstanding as ARCs initially means December 15, 1998, and each June 15 and December 15 thereafter and at maturity or earlier redemption and upon mandatory tender, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding December 14 or June 14 as the case may be). Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods. Interest Payment Dates and Auction Periods may differ as between separate series of 1998 Bonds that are ARCs. In addition, separate series of 1998 Bonds that are ARCs will have separate Auctions. See "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods" below. An "Interest Period" means, with respect to ARCs, (a) so long as interest is payable on June 15 and December 15 with respect thereto and unless otherwise changed as described below under "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods," the period commencing on the date of issue of the ARCs through and including the initial Auction Date for each series of 1998 Bonds that are ARCs set forth on the inside cover page hereof, and each successive 35-day period thereafter, respectively, commencing on a Thursday and ending on (and including) a Wednesday and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as described below under "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods," each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of ARCs in respect of each $50,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate for such Interest Period or part thereof to the principal amount of $50,000, multiplying such product by the actual number of days in the Interest Period or part thereof divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after December 15 of any year preceding a leap year through December 15 of the next succeeding year (being the leap year), such interest shall be computed on the basis of a 366-day year. In the event an Interest Payment Date occurs in any Interest Period on a date other than the first day of such Interest Period, the Trustee, after confirming the calculation required above, shall calculate the portion of the Interest Amount payable on such Interest Payment Date and the portion payable on the next succeeding Interest Payment Date. The Trustee shall make the calculation described above not later than the close of business on each Auction Date.

Interest payments on the ARCs are to be made by the Trustee to DTC as the registered Owner of the ARCs, as of the Record Date preceding each Interest Payment Date. The ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the ARCs. See "DESCRIPTION OF THE 1998 BONDS – Book-Entry-Only System" for a description of how DTC, as Owner, is expected to disburse such payments to the Beneficial Owners.

Applicable ARCs Rate. The rate of interest on the ARCs for each Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix B (the "Auction Rate"); provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall equal to the Maximum Rate on such Auction Date. Notwithstanding the foregoing, (i) if the ownership of the ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the ARCs for any Interest Period commencing after the delivery of certificates representing ARCs as described above shall be the Maximum Rate established on the Business Day immediately preceding the first day of such Interest Period, (ii) if a Payment Default occurs, Auctions will be suspended and the Applicable ARC Rate (as defined below) for the Interest Period commending on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate; or (iii) if a proposed conversion to a Fixed Rate or Variable Rate shall have failed, as described below under the caption "Inadequate Funds for Tender of ARCs; Failed Conversion of ARCs," and the next succeeding Auction Date shall be two or fewer Business Days after (or on) any such failed Rate Conversion Date (as hereinafter defined), then an Auction shall not be held on such Auction Date and the rate of interest on the ARCs subject to the failed conversion for the next succeeding Interest Period shall be equal to the Maximum Rate calculated as of the first Business Day of such Interest Period.

The rate per annum at which interest is payable on the Bonds of any series of 1998 Bonds that are ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." There will be separate Applicable ARCs Rates for the Bonds of each series of 1998 Bonds that are ARCs. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the maximum rate permitted by the laws of the State.

Notwithstanding anything herein to the contrary, if any ARC or portion thereof has been selected for redemption during the next succeeding Interest Period, such ARC or portion thereof will not be included in the Auction preceding such Redemption Date, and will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

ARC Auction Participants

Existing Owners and Potential Owners. Participants in each Auction will include (i) "Existing Owners," which shall mean any Person who is listed as the owner of record of ARCs prior to the conversion to a Fixed Rate or Variable Rate in the records of the Auction Agent (described below) at the close of business on the Business Day preceding each Auction; and (ii) "Potential Owners" which shall mean any Person, including any Existing Owner, who may be interested in acquiring ARCs (or, in the case of any Existing Owner, an additional principal amount of ARCs).

By purchasing ARCs, whether in an Auction or otherwise, each prospective purchaser of ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in Appendix B hereto, (ii) so long as the beneficial ownership of the ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix B) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Owner of ARCs so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, and (iii) to have its beneficial ownership of ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant in DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. The Bank of New York has been appointed as the initial Auction Agent for the 1998 Bonds Outstanding as ARCs. The Trustee is directed to enter into the initial Auction Agency Agreement with The Bank of New York for each such series of 1998 Bonds. Any substitute Auction Agent shall be (i) a bank or trust company duly organized under laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, and having a combined capital stock, surplus and undivided profits of at least $15,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Auction Agency Agreement by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee, if the Auction Agent is an entity other than the Trustee, acting at the direction of either (i) the Corporation or (ii) the Owners of 66-2/3% of the aggregate principal amount of the ARCs of the series of 1998 Bonds for which the Auction Agent is being removed by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Corporation shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting as agent for the Trustee and the Corporation in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

Broker-Dealer. Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including PaineWebber Incorporated as the initial Broker-Dealer or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is a "Participant" (*i.e.*, a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (ii) has a capital surplus of at least $50,000,000, (iii) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (iv) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent. The "Market Agent," initially PaineWebber Incorporated, is responsible under the terms of a Market Agent Agreement with the Trustee for each series of 1998 Bonds Outstanding as ARCs for determination of the Kenny Index and for determination of any changes to be made in the percentages used in determining the Maximum Rate, the All-Hold Rate and the Default Rate. (See "Adjustment in Percentages" below). Under a Market Agent Agreement, and in connection with the ARCs, the Market Agent shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the beneficial owners.

ARC Auctions

Auctions to establish the Applicable ARCs Rate for each series of 1998 Bonds Outstanding as ARCs are to be held on each Auction Date, except as described above under "Interest on ARCs -- Applicable ARCs Rate," by application of the Auction Procedures described in Appendix B hereto. "Auction Date" shall mean initially, for each series of 1998 Bonds that is being issued as ARCs, the Auction Date set forth on the inside cover page hereof and thereafter the Business Day immediately preceding the first day of each Auction Period, other than; (i) each Auction Period commencing after the date when ownership of the ARCs of the applicable series of ARCs is no longer maintained in book-entry form by DTC; (ii) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one of more Auction Periods may be changed as described below under "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods."

The Auction Agent shall determine the Maximum Rate and the All-Hold Rate on each Auction Date. Upon receipt of notice from the Trustee of a failed Fixed Rate Conversion or Variable Rate Conversion as described below under "Inadequate Funds for Tender of ARCs; Failed Conversion of ARCs," and if the next succeeding Auction Date shall be two or fewer Business Days after (or on) the failed Rate Conversion Date, the Auction Agent shall not hold an Auction on such Auction Date but shall calculate the Maximum Rate as of the first Business Day of the next succeeding Interest Period and give notice thereof as provided and to the parties specified in the Auction Agency Agreement. If the ownership of the ARCs of the applicable series of ARCs is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period commencing after delivery of certificates representing the ARCs. If a Payment Default shall have occurred, the Trustee shall calculate the Default Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two (2) Business Days after the cure of any Payment Default. The Auction Agent shall determine the "AA" Composite Commercial Paper Rate for each Interest Period other than the Initial Interest Period; provided, that if the ownership of the ARCs is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Trustee shall determine the "AA" Composite Commercial Paper Rate for each such Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of the "AA" Composite Commercial Paper Rate shall (in the absence of manifest error) be final and binding upon the Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Trustee of the "AA" Composite Commercial Paper Rate.

An Existing Owner may sell, transfer or otherwise dispose of ARCs only pursuant to a Bid or Sell Order (as defined in Appendix B hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Prior to a Rate Conversation Date, Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in Appendix B hereto.

A description of Auction Procedures to be used with respect to Auctions is contained in Appendix B hereto. A description of the Settlement Procedures to be used with respect to Auctions is contained in Appendix C hereto.

Adjustment in Percentages Pertaining to ARCs

The Market Agent shall adjust the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the Applicable Percentage of the Kenny Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that ARCs paying the Maximum Rate, ARCs paying the All-Hold Rate and ARCs paying the Default Rate, respectively, shall have equal market values before and after such Change of Preference Law; provided, however, that a change in the Applicable Percentage shall not become effective until such time as the Corporation obtains an Affirmation as to such change. Prior to any such adjustment, the Corporation shall give notice thereof to the Rating Agency, and no such adjustment shall be made unless such adjustment will not adversely affect the Rating on any of the Bonds. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account: (i) short-term taxable and tax-exempt market rates and indices of such short-term rates; (ii) the market supply and demand for short-term tax-exempt securities; (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to that of the ARCs; (iv) general economic conditions; and (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the ARCs.

The Market Agent shall effectuate an adjustment in the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the percentage of the Kenny Index used to determine the Default Rate by delivering written notice to the Corporation, the Trustee and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change.

Changes in ARC Auction Periods or ARC Auction Date

Changes in ARC Auction Period or Periods. While any of the 1998 Bonds are Outstanding as ARCs, the Market Agent may change, upon meeting certain conditions, the length of one or more Auction Periods. In connection with any such change or otherwise, the Market Agent may change Interest Payment Dates; any such change shall be considered a "change in the length of one or more Auction Periods" for purposes of the Resolution. Any change in the length of the Auction Period requires the consent of the Corporation and must be made for the purpose of conforming to current market practice with respect to certain securities.

The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix B hereto) existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. Such change shall take effect only if certain requirements are met as described in the Resolution.

Changes in the ARC Auction Date. While any of the 1998 Bonds are Outstanding as ARCs, the Market Agent:

(a) in order to conform with then-current market practice with respect to similar securities, shall, and

(b) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARCs and with the written consent of an Authorized Officer of the Corporation, may,

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. The Authorized Officer of the Corporation shall not consent to such change in the Auction Date, if such consent is required as described above, unless he or she shall have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for changes in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Corporation and DTC.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

Fixed Rate Conversion of ARCs

All, but not less than all, of any series of ARCs may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation, but only with the prior written consent of the Bond Insurer and the submission of a Cash Flow Statement. If a series of ARCs is to be converted to bear interest at a Fixed Rate, a Fixed Rate Conversion Date for the ARCs of such series shall be specified.

Not later than the 15th day preceding the Fixed Rate Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Auction Agent and the Owners of all such ARCs, and the 1998 Bonds being converted will be subject to mandatory tender as described below under "-- Mandatory Tender of ARCs upon Conversion; Certain Notices."

No such conversion shall occur unless the Corporation has received an Affirmation with respect to the rating on any of the Bonds (other than the Bonds being converted). In the event that the Corporation determines that the conversion to a Fixed Rate will not occur on a scheduled Fixed Rate Conversion Date, the Market Agent may schedule a new Auction Date for the series of ARCs as to which the conversion was to take place as provided in the Resolution.

Variable Rate Conversion of ARCs

All, but not less than all, of any series of ARCs may be converted to bear interest at a Variable Rate at the option of the Corporation but only with the prior written consent of the Bond Insurer and the submission of a Cash Flow Statement. If a series of ARCs is to be converted to bear interest at a Variable Rate, a Variable Rate Conversion Date for the ARCs of such series shall be specified.

Not later than the 15th day preceding the Variable Rate Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Auction Agent and the Owners of all such ARCs, and the 1998 Bonds being converted will be subject to mandatory tender as described below under "-- Mandatory Tender of ARCs upon Conversion, Certain Notices."

No such conversion shall occur unless the Corporation has received an Affirmation with respect to the rating on any of the Bonds (other than the Bonds being converted). In the event that the Corporation determines that the conversion to a Variable Rate will not occur on a scheduled Variable Rate Conversion Date, the Market Agent may schedule a new Auction Date for the series of ARCs as to which the conversion was to take place as provided in the Resolution.

Mandatory Tender of ARCs Upon Conversion; Certain Notices

MANDATORY TENDER UPON CONVERSION. ANY SERIES OF ARCs TO BE CONVERTED TO BEAR INTEREST AT A FIXED RATE OR A VARIABLE RATE, AS THE CASE MAY BE, SHALL BE SUBJECT TO MANDATORY TENDER FOR PURCHASE WITHOUT RIGHT OF RETENTION ON THE FIXED RATE CONVERSION DATE OR VARIABLE RATE CONVERSION DATE, AS THE CASE MAY BE (SUCH DATE HEREIN REFERRED TO AS A "RATE CONVERSION DATE"), AT A PRICE EQUAL TO THE PRINCIPAL AMOUNT THEREOF PLUS ACCRUED INTEREST, IF ANY, TO SUCH RATE CONVERSION DATE.

Notice to registered Owners. Any notice of conversion given to Owners as described above under "Fixed Rate Conversion of ARCs" or "Variable Rate Conversion of ARCs," as applicable, shall, in addition to the requirements described therein, specify that the Outstanding series of Bonds subject to such conversion are subject to mandatory tender pursuant to the provisions thereof and the Resolution and will be purchased on the Rate Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to such Rate Conversion Date.

Payment of Purchase Price by Trustee. On any Rate Conversion Date, the Trustee shall pay the Purchase Price of the series of Bonds required to be tendered for purchase, upon surrender and proper endorsement for transfer in blank with all signatures guaranteed, to the Registered Owners thereof on or before 3:00 p.m. (New York time). Such payments shall be made in immediately available funds, but solely from moneys representing proceeds of the remarketing of the Bonds, to any Person other than the Corporation, and neither the Corporation, the Trustee, such Paying Agent nor the Remarketing Agent shall have any obligation to use funds from any other source.

Delivery of Bonds; Effect of Failure to Surrender Bonds. All Bonds of a series of Bonds to be purchased on any Rate Conversion Date shall be required to be delivered to the designated office of the Tender Agent, at or before 12:00 Noon (New York time) on such date. If the Owner of any Bond that is subject to purchase as described herein fails to deliver such Bond to the Tender Agent, for purchase on the Purchase Date, and if the Tender Agent is in receipt of the Purchase Price thereof, such Bond shall nevertheless be deemed tendered and purchased on the Rate Conversion Date and shall be deemed an Undelivered Bond as described below under "Undelivered ARCs" and registration of the ownership of such Bond shall be transferred to the purchaser thereof as described below under "Undelivered ARCs." Upon delivery of the Bond, the Registrar shall make any necessary adjustments to the Bond Register. Pending delivery of such tendered Bonds, the Tender Agent shall hold the Purchase Price therefor uninvested in a segregated subaccount for the benefit of such Owners.

Inadequate Funds for Tenders of ARCs; Failed Conversion of ARCs

If the funds available for purchase of Bonds are inadequate for the purchase of all Bonds tendered on any Rate Conversion Date, or if a proposed conversion to a Fixed Rate or Variable Rate, as the case may be, otherwise fails as described above, the Tender Agent shall: (a) return all tendered Bonds to the Owners thereof; (b) return all moneys received for the purchase of such Bonds to the Persons providing such moneys; and (c) notify the Corporation, the Auction Agent, the Remarketing Agent and the Paying Agent of the return of such Bonds and moneys and the failure to make payment for tendered Bonds. After any such failed conversion, the Bonds subject to the failed conversion shall remain Outstanding as ARCs. Auctions shall be conducted beginning on the first Auction Date occurring more than two Business Days after the failed Rate Conversion Date, and interest payable thereon shall be determined and paid according to the Resolution.

No Tender Purchases of ARCs on Redemption Date

Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

Undelivered ARCs

Any ARCs which are required to be tendered on a Rate Conversion Date and that are not delivered on such date, and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the Purchase Price, including any accrued interest due to (but not after) such Purchase Date with respect to such Bonds, shall be deemed to have been purchased, and shall be Undelivered Bonds. The Owners of such Undelivered Bonds shall not be entitled to any payment other than the Purchase Price due on the Purchase Date and shall no longer accrue interest or be entitled to the benefits of the Resolution; provided, however, that the indebtedness represented by such Bonds shall not be extinguished, and the Trustee shall transfer, authenticate and deliver such Bonds as provided in the Resolution.

Interest on the SAVRS

The SAVRS Rate. The interest rate on the Senior Series 1998N Bonds for the periods from and including the date of initial issuance and to, but excluding, July 23, 1998 (the "Initial SAVRS Auction Period") will be separately announced.

Except as otherwise provided herein, the interest rate on the Senior Series 1998N Bonds for any period after the Initial SAVRS Auction Period to and including the succeeding SAVRS Auction Date (each a "Subsequent SAVRS Auction Period"), subject to certain exceptions described below, shall be equal to the interest rate (the "SAVRS Rate") that the Auction Agent advises has resulted from the implementation of the auction procedures set forth in the Resolution and attached hereto as Appendix E (the "SAVRS Auction Procedures") with respect to the Senior Series 1998N Bonds. Each periodic implementation of the SAVRS Auction Procedures is hereinafter referred to as a "SAVRS Auction."

In a SAVRS Auction for Senior Series 1998N Bonds, persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell the Senior Series 1998N Bonds. A SAVRS Auction to determine the SAVRS Rate for each Subsequent SAVRS Auction Period will be held on the Business Day immediately preceding the first day of such Subsequent SAVRS Auction Period (each, a "SAVRS Auction Date"). Interest on Senior Series 1998N Bonds that bear interest at a SAVRS Rate shall be computed on the basis of a 365/366-day year for the number of days actually elapsed. The SAVRS Rate for Senior Series 1998N Bonds for any Subsequent SAVRS Auction Period may not exceed the lesser of 14% per annum and the maximum rate permitted by applicable law.

If a SAVRS Auction for the Senior Series 1998N Bonds for any Subsequent SAVRS Auction Period is not held for any reason (other than the occurrence and continuance of a Payment Default), including, without limitation, (i) if such Bonds are no longer represented by a global bond registered in the name of DTC or its nominee, (ii) if there is a failure in connection with a proposed Change in the Interest Rate Mode or the establishment of a Fixed Rate or a proposed change in the SAVRS Auction Period or (iii) because there is no Auction Agent, the SAVRS Rate with respect to the Senior Series 1998N Bonds for the next succeeding Subsequent SAVRS Auction Period will be equal to the Maximum SAVRS Rate on the Auction Date for such Auction Period. See "AUCTIONS TO DETERMINE SAVRS RATE--General--Change in the Interest Rate Mode" and "--General--Change of SAVRS Auction Period" and "--Auction Procedures--Concerning the Auction Agent" contained in Appendix D hereto. See also "Book-Entry-Only System" below for a description of the circumstances under which Senior Series 1998N Bonds may no longer be represented by a global bond.

If a notice of an adjustment in the percentages used to determined the Maximum SAVRS Rate and the Minimum SAVRS Rate applicable to the Senior Series 1998N Bonds is given by the Market Agent and because of a failure to satisfy certain of the conditions to the effectiveness of such change on the proposed effective date of such change and such change does not take effect, the SAVRS Rate for the Bonds of such series of Bonds for the next succeeding Subsequent SAVRS Auction Period will be equal to the Maximum SAVRS Rate on the SAVRS Auction Date for such SAVRS Auction Period. See "AUCTIONS TO DETERMINE SAVRS RATE--Auction Procedures--Changes in Percentages Used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate" contained in Appendix D hereto.

If a Payment Default occurs under the Resolution, SAVRS Auctions for the Senior Series 1998N Bonds will be suspended and the SAVRS Rate for the Senior Series 1998N Bonds for each Subsequent SAVRS Auction Period commencing thereafter, to and including the Subsequent SAVRS Auction Period, if any, during which, or commencing less than two Business Days after, such Payment Default is waived or is cured, will equal the lesser of:

(i) 265% of the Lehman Brothers Money Market Municipal Index on the first day of each such Subsequent SAVRS Auction Period; and

(ii) 14.0% per annum.

A "Payment Default" means (i) a default by the Corporation in the due and punctual payment of any installment of interest of any Senior Series 1998N Bonds or (ii) a default by the Corporation in the due and punctual payment of the principal of any Senior Series 1998N Bonds whether at maturity or upon redemption or acceleration, which, in either such case, is followed by a default by the Bond Insurer in the due and punctual payment of the amounts due under the Bond Insurance Policy if amounts are then due under said Policy.

If all of the Senior Series 1998N Bonds are subject to Submitted Hold Orders in a SAVRS Auction, the Senior Series 1998N Bonds shall bear interest at the Minimum SAVRS Rate. The Minimum SAVRS Rate on any date of determination shall equal 70% of the lower on such date of (i) the Lehman Brothers Money Market Municipal Index or (ii) the After-Tax Equivalent Rate.

Auction Periods for SAVRS. The length of a single SAVRS Auction Period for the Senior Series 1998N Bonds may be changed at any time by the Corporation, with the prior written consent of the Bond Insurer, in accordance with the Resolution unless an Event of Default has occurred. A SAVRS Auction Period of 35 days will be maintained as the "Standard SAVRS Auction Period." See "AUCTIONS TO DETERMINE SAVRS RATE--General--Change of Auction Period" contained in Appendix D hereto.

As used herein "SAVRS Auction Period" is the Initial SAVRS Auction Period and thereafter, any period not to exceed 365 days which shall commence on and include the SAVRS Auction Settlement Date for the prior SAVRS Auction Period and end on but exclude the next succeeding SAVRS Auction Settlement Date. The Initial SAVRS Auction Period for the Senior Series 1998N Bonds shall commence on and include the date of delivery and end on and exclude July 23, 1998 (the last Business Day of such period being the "Initial SAVRS Auction Date"). As used herein "SAVRS Auction Settlement Date" means July 23, 1998 (the "Initial SAVRS Auction Settlement Date") and each succeeding fifth Thursday thereafter; provided that if such day is not a Business Day, then the SAVRS Auction Settlement Date shall be the next succeeding Business Day; provided, further, that if the Corporation changes the length of a SAVRS Auction Period, the next succeeding SAVRS Auction Settlement Date shall be the first Business Day after the last day of such SAVRS Auction Period and the next succeeding SAVRS Auction Settlement Date shall be the succeeding fifth Thursday thereafter, subject to this and the foregoing proviso.

Auction Dates for SAVRS. A SAVRS Auction to determine the SAVRS Rate for the Senior Series 1998N Bonds for each SAVRS Auction Period after the Initial SAVRS Auction Period shall occur on the Business Day immediately preceding the first day of such SAVRS Auction Period (each a "SAVRS Auction Date"). A SAVRS Auction Period of 35 days will be maintained as the Standard SAVRS Auction Period. The first SAVRS Auction Date for the Senior Series 1998N Bonds will be July 22, 1998. SAVRS Auctions for Standard SAVRS Auction Periods for Senior Series 1998N Bonds generally will be held every fifth Wednesday.

Interest Payment Dates for SAVRS. Interest on the Senior Series 1998N Bonds will be computed on the basis of a 365/366 day year for the number of days actually elapsed. Except as otherwise set forth herein, interest on the Senior Series 1998N Bonds will accrue at the SAVRS Rate with respect to such Bonds for each SAVRS Auction Period from the date of their initial issuance and will be payable in arrears, commencing on December 15, 1998 (the "Initial SAVRS Interest Payment Date") and thereafter on each June 15 and December 15 and at maturity (each a "SAVRS Interest Payment Date"). Prior to the close of business on the Business Day preceding the last day of each SAVRS Auction Period, the Trustee shall calculate the aggregate amount of accrued and unpaid interest per $50,000 aggregate principal amount of the Senior Series 1998N Bonds that will have accrued on such Bonds through and including the last day of such SAVRS Auction Period and send a notice showing the calculation thereof to the Auction Agent.

The regular record date for each SAVRS Interest Payment Date for the Senior Series 1998N Bonds during a SAVRS Interest Rate Period will be the Business Day immediately preceding such SAVRS Interest Payment Date (the "Record Date").

As used herein, "Business Day" means any day other than April 14, April 15, December 30, December 31, a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized to close in New York, New York or in any city in which is located the principal corporate trust office of the Trustee or the Paying Agent.

Change in the Interest Rate Mode for SAVRS. The Corporation, with the prior written consent of the Bond Insurer, may change the interest rate on the Senior Series 1998N Bonds from one Adjustable Rate to another, or may convert the interest rate to a Fixed Rate to maturity, subject to compliance with certain conditions specified in the Resolution. Such Change in the Interest Rate Mode or establishment of a Fixed Rate shall be specified in a written notice delivered to the Trustee, the Bond Insurer, the Remarketing Agent and the Registrar and Paying Agent (and to the Auction Agent and Market Agent, if such Change in the Interest Rate Mode is to or from a SAVRS Rate) at least thirty (30) days prior to the proposed effective date of the Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as applicable. A Change in the Interest Rate Mode from a SAVRS Rate or the conversion from a SAVRS Rate to a Fixed Rate with respect to the Senior Series 1998N Bonds may only be effected on the last day of a SAVRS Auction Period for such Bonds. The Trustee shall mail a notice of the Change in the Interest Rate Mode or establishment of a Fixed Rate to all affected Bondowners within fifteen (15) days of the receipt of such notice from the Corporation. Additionally, the Auction Agent shall mail a notice of the Change in the Interest Rate Mode or establishment of a Fixed Rate to the beneficial owners of the Senior Series 1998N Bonds if such Bonds are registered in the name of DTC or its nominee and if the Auction Agent has mailing addresses for such beneficial owners.

For additional description of changes of the interest rate mode for SAVRS, see "AUCTIONS TO DETERMINE SAVRS RATE–Change in the Interest Rate Mode" contained in Appendix D hereto.

MANDATORY TENDER. THE SENIOR SERIES 1998N BONDS ARE SUBJECT TO MANDATORY TENDER FOR PURCHASE UPON A CHANGE IN THE INTEREST RATE MODE OR THE ESTABLISHMENT OF A FIXED RATE FOR SUCH BONDS AND THE BONDOWNERS HAVE NO RIGHT TO RETAIN SUCH BONDS. All Senior Series 1998N Bonds will be purchased on the effective date for the Change in the Interest Rate Mode or establishment of a Fixed Rate with respect to such Bonds at a price equal to the principal amount thereof, and accrued interest thereon to the effective date of the Change in the Interest Rate Mode or the Fixed Rate Conversion Date, if any, as appropriate.

Auctions to Determine SAVRS Rate. Set forth in Appendices D, E and F hereto are descriptions of various provisions that relate to the Senior Series 1998N Bonds that bear interest at the SAVRS Rate.

Book-Entry-Only System

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from DTC, and the Corporation and the Underwriters take no responsibility for the accuracy thereof.

DTC, New York, New York, will act as securities depository for the 1998 Bonds. The 1998 Bonds are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond certificate is to be issued for each maturity of each series of the 1998 Bonds, as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Bank Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movements of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 1998 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 1998 Bonds on DTC's records. The ownership interests of each actual purchaser of each offered Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1998 Bonds are to be accomplished by entries made on the books of the Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 1998 Bonds, except in the event that use of the book-entry system for the 1998 Bonds is discontinued.

To facilitate subsequent transfers, all 1998 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1998 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of 1998 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 1998 Bonds are credited, which may or may not be the Beneficial Owners. The Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 1998 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 1998 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Corporation 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 1998 Bonds are credited on the Record Date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the 1998 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interests to DTC is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 1998 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 1998 Bonds by causing the Direct Participant to transfer the Participant's interest in the 1998 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 1998 Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the 1998 Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the 1998 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

In the event the book-entry-only system is discontinued for any series of the 1998 Bonds, the Beneficial Owners of such 1998 Bonds should be aware of the following restrictions on transfer and exchange which will then apply; the Corporation will not be obligated to (i) register the transfer or exchange any such 1998 Bonds during a period beginning on the date 1998 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 1998 Bonds selected for redemption; (ii) register the transfer of or exchange any such 1998 Bonds selected for redemption in whole or in part, except the unredeemed portion of a 1998 Bond being redeemed in part; or (iii) make any exchange or transfer of any 1998 Bond during the period beginning on the Record Date and ending on the Interest Payment Date.

Reference to Owners

So long as DTC or its nominee is the Owner, references herein to the Owners or registered owners of the 1998 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 1998 Bonds.

REDEMPTION OF THE 1998 BONDS

Optional Redemption

Bonds of any series of 1998 Bonds that are outstanding as ARCs or SAVRS are subject to redemption in whole or in part in Authorized Denominations, at any time, at the option of the Corporation, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon to the Redemption Date, unless the Redemption Date is an Interest Payment Date, in which case interest will be paid in the ordinary fashion. Optional redemptions of the 1998 Bonds may be made from (i) amounts held in the Loan Account or the Debt Service Reserve Account, or, after providing for the payment of certain amounts required under the Resolution, the Revenue Account, or (ii) other moneys that prior to the determination to use such moneys for redemption were not subject to the pledge set forth in the Resolution; provided, however, that in the case of the Senior 1998 Bonds, such moneys may be used to redeem Senior 1998 Bonds only if such moneys constitute Available Moneys.

Extraordinary Mandatory Redemption

Each series of 1998 Bonds shall be subject to extraordinary mandatory redemption, and shall be redeemed in Authorized Denominations, from certain amounts in the Loan Account, the Revenue Account or the Debt Service Reserve Account, as described herein and more fully set forth in the Resolution. Any such redemption shall be in whole or in part at any time and at a price equal to the principal amount of the 1998 Bonds being redeemed, without premium, together with interest accrued to the Redemption Date, unless the Redemption Date is an Interest Payment Date, in which case interest will be paid in the ordinary fashion.

The Resolution provides that in the event that the Corporation shall, by law or otherwise, become, for more than a temporary period, unable to finance Eligible Education Loans pursuant to the Resolution or shall suffer unreasonable burdens or excessive liabilities in connection therewith, the Corporation shall with all reasonable dispatch deliver to the Trustee a Certificate of an Authorized Officer stating the occurrence of such an event and setting forth the amount, if any, required to be retained in the Loan Account for the purpose of meeting any existing obligations of the Corporation payable therefrom, and the Trustee, after reserving therein the amount stated in such Certificate, shall transfer any balance remaining in the Loan Account (without regard to the origin of the funds) to the Revenue Account for the purpose, together with certain other moneys therein, of purchasing, redeeming or otherwise retiring Bonds, including 1998 Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 1998 Bonds and all Principal Receipts and any amounts which are required to be deposited therein pursuant to the Resolution or any Supplemental Resolution and any other amounts available therefor and determined by the Corporation to be deposited therein. Such amounts on deposit in the Loan Account may be used to finance Eligible Education Loans until July 1, 2002; provided, however, that an extension of such time period may be permitted upon approval from the Bond Insurer following submission of a Cash Flow Statement to the Bond Insurer and upon receipt of an Affirmation. At the end of any such period, such amounts shall be used to redeem 1998 Bonds. Notwithstanding the foregoing, no Eligible Education Loans will be financed upon the notice to the Corporation 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 Eligible Education Loans may resume. Upon the expiration of the ninety (90) day period following the date on which financing of Eligible Education Loans is no longer permitted in accordance with this provision (or such longer period as may be approved in writing by the Bond Insurer), the Corporation shall direct the Trustee to use amounts in the Loan Account representing proceeds of sale of the Bonds and Principal Receipts to redeem or purchase for cancellation Bonds (including 1998 Bonds) as soon as possible in accordance with the Resolution at a price not in excess of the principal amount of such Bonds plus accrued interest thereon. If the Corporation obtains the approval of the Bond Insurer during the period referenced above to resume the financing of Eligible Education Loans, the Corporation shall not be required to redeem 1998 Bonds.

No Education Loan impacted by a Material Adverse Change in the Loan Program may be financed without the written approval of the Bond Insurer.

If Bonds are subject to mandatory redemption as provided above, and following such redemption if the balance on deposit in the Debt Service Reserve Account would exceed the Debt Service Reserve Account Requirement, then additional Bonds shall be subject to the same mandatory redemption if and to the extent that the Corporation elects or is required to withdraw all or a portion of such excess and apply it to the redemption of Bonds.

Selection of 1998 Bonds to be Redeemed

The 1998 Bonds or portions of the 1998 Bonds to be redeemed shall be selected by the Corporation; provided, however, that no Subordinate Bonds shall be redeemed with monies held in any Account under the Resolution unless, immediately after any such redemption, the Senior Parity Percentage would be equal to at least 102% or such lesser percentage as consented to by the Bond Insurer. If less than an entire series of the 1998 Bonds is to be redeemed, the 1998 Bonds of such series to be redeemed shall be selected by lot by the Trustee or in such other manner as the Trustee in its discretion may deem appropriate.

Notice of Redemption

The Trustee shall mail a notice of redemption, postage prepaid, not less than ten days before the redemption date while the Bonds are Outstanding as ARCs or SAVRS to the Owner of any Bonds designated for redemption in whole or in part, as its address as the same shall last appear upon the registration books.

Each notice of redemption is to specify the Bonds to be redeemed, the date fixed for redemption, the place or places of payment, that payment is to be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption is to be paid as specified in said notice, and that on and after said date interest thereon shall cease to accrue. If less than all the Outstanding Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof to be redeemed.

Bonds Due and Payable on Redemption Date

On the redemption date the principal amount of each Bond to be redeemed, together with the accrued interest thereon to such date, shall become due and payable; and from and after such date, notice having been given and moneys available for such redemption being on deposit with the Trustee, then, notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds. From and after such date of redemption (such notice having been given and moneys available for such redemption being on deposit with the Trustee), the Bonds to be redeemed shall not be deemed to be Outstanding under the Resolution, and the Corporation shall be under no further liability in respect thereof.

Partial Redemption of Bonds

Upon surrender of any Bond called for redemption in part only, the Corporation shall execute and the Trustee shall authenticate and deliver to the registered Owner thereof, a new Bond or Bonds of the same series of Bonds of an Authorized Denomination or Denominations in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

Acceleration of the 1998 Bonds

Upon the occurrence of certain Events of Default under the Resolution, the 1998 Bonds may be subject to acceleration as described herein. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION".

The Resolution provides that nonpayment of the principal of or interest on Subordinate Bonds, including the Subordinate Series 1998O Bonds, occurring while there are any Senior Bonds Outstanding on which no payment default has occurred and is continuing, shall not result in an Event of Default under the Resolution and therefore would not give rise to a right on the part of owners of affected Bonds to accelerate the 1998 Bonds or to exercise any other remedy.

SECURITY FOR THE BONDS

The Revenues, Principal Receipts, Education Loans, Investment Securities and all amounts held in any Account established under the Resolution, including investments thereof, are pledged by the Corporation in the Resolution for the benefit of the Bondowners and the Bond Insurer or Liquidity Facility Issuer, if any, as their interests may appear, to secure the payment of the Bonds and all amounts owing to the Bond Insurer or Liquidity Facility Issuer, if any, subject only to the provisions of the Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions therein set forth.

The Corporation has Outstanding under the Resolution $228,150,000 aggregate principal amount of its Bonds which will rank on a parity with the Senior 1998 Bonds, and which, together with the Senior 1998 Bonds, will be secured on a basis superior to the Subordinate Series 1998O Bonds. The security for the Bonds under the Resolution is pledged equally and ratably first, to the payment of the principal of and interest on all Senior Bonds (including the Senior 1998 Bonds), and second, to the payment of the principal of and interest on the Subordinate Bonds, including the Subordinate 1998O Bonds. In addition, the Resolution permits the authorization of additional Senior Bonds and additional Subordinate Bonds. Additional Subordinate Bonds may be designated to be secured on a basis prior to, on a parity with, or subordinate to, the Subordinate Series 1998O Bonds. Failure to pay principal of or interest on the 1998 Subordinate Bonds will not constitute an Event of Default so long as Bonds of a higher secured priority are Outstanding, and no Event of Default shall have occurred with respect thereto.

Under the Resolution there is established a Debt Service Reserve Account to be held by the Trustee which is available to make payments of principal and interest due on the Bonds (first to Senior Bonds and then to Subordinate Bonds), to the extent other sources are insufficient, to redeem Bonds and to make certain other payments required under the Resolution to the extent other sources are insufficient or the balance on deposit in the Debt Service Reserve Account is then in excess of the Debt Service Reserve Requirement. The Debt Service Reserve Account is to be funded in the amount of the Debt Service Reserve Requirement, but in no event in an amount that would subject interest on any Bond or Bonds to taxation for federal income tax purposes and, with respect to a particular Series of Bonds, such greater or lesser amount as may be established in the Series Resolutions pursuant to which particular Series of Bonds may thereafter be issued. The Corporation has established Debt Service Reserve Requirements for each Series of the 1995 Bonds, 1996 Bonds and the 1998 Bonds at 2% of the par amount of the Bonds of such Series Outstanding, provided, however, that while any of the 1998 Bonds are Outstanding, the Debt Service Reserve Requirement with respect to all Bonds Outstanding shall not be less than $500,000. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" attached hereto as Appendix A.

Prior to using any monies in the Debt Service Reserve Account to make payments with respect to any Bonds, the Trustee is required to use amounts credited as cash to the Loan Account, without liquidating Loans credited thereto, and to deposit such amounts in the Revenue Account for the purpose of making such payments on the Bonds. Under the Resolution, the Trustee is required, on each Interest Payment Date, to transfer from the Revenue Account to the Debt Service Reserve Account, the amount, if any, necessary to cause the Debt Service Reserve Account to be funded at the Debt Service Reserve Requirement, subsequent to paying the amounts due on all Bonds and certain other applications. See Appendix A -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION".

Amounts on deposit in the Revenue Account may be transferred from the Revenue Account free of the lien and pledge of the Resolution provided that prior to giving effect to such transfer the Corporation shall have provided (i) to the Bond Insurer (a) evidence satisfactory to it that the Senior Parity Percentage is at least 103% and the Parity Percentage is at least 101%, and will be at least 103% and 101%, respectively, for the remainder of the life of the Bonds and that there exists a minimum aggregate surplus of Accrued Assets minus Accrued Senior Liabilities of at least $1,500,000 in all Accounts at such time and for the remainder of the life of the Bonds, and (b) a Cash Flow Statement showing that after giving effect to such transfer the resulting Senior Parity Percentage and Parity Percentage will be at least 103% and 101%, respectively, for the remainder of the life of the Bonds and that there will be a minimum aggregate surplus of Accrued Assets minus Accrued Senior Liabilities of at least $1,500,000 for the remainder of the life of the Bonds, (ii) to the Trustee evidence reasonably satisfactory to it of the Bond Insurer's satisfaction of the conditions described above and (iii) to S&P and Fitch notice of such transfer.

So long as only Subordinate Bonds are Outstanding, no amount shall be transferred from the Revenue Account free of the lien and pledge of the Resolution unless, prior to such release, the Corporation shall have delivered to the Trustee a Cash Flow Statement showing that after giving effect to such transfer, the resulting Parity Percentage will be at least 101%.

THE 1998 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 1998 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE 1998 BONDS.

INSURANCE ON THE SENIOR 1998 BONDS

The following information concerning the Ambac Assurance Municipal Bond Insurance Policy has been provided by representatives of the Bond Insurer and has not been independently confirmed or verified by the Corporation or the Underwriters or their respective counsel. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material changes in such information subsequent to the date of such information or the date hereof. Certain information concerning the Bond Insurer is included in Appendix G to this Official Statement.

The Bond Insurer has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Senior 1998 Bonds effective as of the date of issuance of each Series of the Senior 1998 Bonds. A specimen copy of the Municipal Bond Insurance Policy is attached hereto as Appendix J. Under the terms of the Municipal Bond Insurance Policy, the Bond Insurer will pay to the 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 Senior 1998 Bonds insured thereby which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). The Bond Insurer 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 the Bond Insurer shall have received notice of

Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Senior 1998 Bonds insured thereby and, once issued, cannot be canceled by the Bond Insurer.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. If any series of Senior 1998 Bonds becomes subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds of such Series, the Bond Insurer will remain obligated to pay principal of and interest on outstanding Bonds of the Series on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of any Series of Senior 1998 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/Paying Agent has notice that any payment of principal of or interest on a Senior 1998 Bond which has become Due for Payment and which is made to a Senior 1998 Bondholder by or on behalf of the Corporation 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 the Bond Insurer 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;

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any;

4. loss related to payment of the purchase price of Senior 1998 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Senior 1998 Bonds upon tender by a registered owner thereof, on the Fixed Rate Conversion Date or the Variable Rate Conversion Date; and

5. loss related to payments made in connection with the sale of Senior 1998 Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell Bonds.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of the Senior 1998 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Senior 1998 Bonds to be registered in the name of the Bond Insurer 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 the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the subject Senior 1998 Bond or the right to receive payment of principal or interest on such Senior 1998 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

ADDITIONAL BONDS

Additional Bonds may be issued under the Resolution on a parity with, or subordinated to, the Senior 1998 Bonds, the 1996 Bonds and the 1995 Bonds, or superior to or equal to or subordinated to the Subordinate Series 1998O Bonds if (x) each Rating Agency requested to rate any series of Bonds then Outstanding that has issued a current rating thereon confirms that it will not downgrade or withdraw such rating on account of the issuance of the Additional Bonds and (y) so long as any Bonds are insured by the Bond Insurer, the Bond Insurer consents to the issuance of the Additional Bonds.

EXPECTED APPLICATION OF THE 1998 BOND PROCEEDS

The Corporation expects to apply the proceeds of the 1998 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans, which generally include: (a) Federal Act Loans, which are loans qualifying under the Act and guaranteed by a permitted guarantor and reinsured by the Secretary, (b) HEAL Loans, which are loans permitted by the State Act and insured by the Secretary of Health and Human Services, and (c) Statutory Loans, which are other loans permitted under the State Act and the Resolution; (ii) funding the Debt Service Reserve Account in the amount of the Debt Service Reserve Requirement with respect to the 1998 Bonds; and (iii) paying the costs of issuance of the Corporation incidental to the issuance of the 1998 Bonds. See "CHARACTERISTICS OF EDUCATION LOANS" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" attached hereto as Appendix A.

Expected Application of Proceeds of the 1998 Bonds	
Deposit to Loan Account	$ 160,757,048
Deposit to Debt Service Reserve Account	3,300,000
Underwriters' Compensation and certain other Costs of Issuance	942,952
Total	$165,000,000

CHARACTERISTICS OF EDUCATION LOANS

As of April 30, 1998, Education Loans in an aggregate principal amount of approximately $208,617,755 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of April 30, 1998. Also set forth below are the Corporation's estimates of selected characteristics of the Eligible Education Loans which the Corporation expects to finance initially with proceeds of the 1998 Bonds.

LOAN TYPE

	Education Loans Held Under Resolution as of April 30, 1998		Eligible Education Loans Expected to be Financed with Proceeds of the 1998 Bonds	
Consolidated	$ 31,856,029	15.3%	$ 40,175,000	25.0%
Stafford Subsidized	131,114,847	62.8%	40,175,000	25.0%
Stafford Unsubsidized	18,169,306	8.7%	32,140,000	20.0%
PLUS	13,481,017	6.5%	24,105,000	15.0%
SLS	1.962,987	0.9%	-0-	.0%
VSAC EXTRA	376,153	0.2%	803,500	0.5%
HEAL	3,886,577	1.9%	16,070,000	10.0%
VSAC EXTRA Law	7,583,532	3.6%	6,428,000	4.0%
VSAC EXTRA Medical	187,307	0.1%	803,500	0.5%
Total	$208,617,755	100.0%	$160,700,000	100.0%

BORROWER PAYMENT STATUS

	Education Loans Held Under Resolution as of April 30, 1998		Eligible Education Loans Expected to be Financed with Proceeds of the 1998 Bonds	
School	$ 80,800,929	38.7%	$ 80,350,000	50.0%
Grace	10,774,522	5.2%	---	0.0%
Deferment	22,114,116	10.6%	16,070,000	10.0%
Repayment	94,928,188	45.5%	64,280,000	40.0%
Total	$208,617,755	100.0%	$160,700,000	100.0%

The characteristics of Education Loans held under the Resolution as of April 30, 1998 will change over time. No assurance can be given that such changes will not be significant or that they will not be adverse. The estimation with respect to the Eligible Education Loans which the Corporation expects to finance with proceeds of the 1998 Bonds was based upon the Corporation's recent experience with financing new Eligible Education Loans but the Corporation cannot offer assurances that the same will prove to be accurate. Percentages indicated above are calculated on the basis of principal amounts of loans.

Certain Education Loans will be eligible for the Corporation's Vermont Value Program. Under the Vermont Value Program, a program that was established by the Corporation on July 1, 1994, students or parents with qualified loans held by the Corporation are eligible for certain reductions in interest rate or interest rate rebates on any such loan. The Vermont Value Program is subject to the availability of funds and modification or termination by the Corporation in its discretion, subject in certain instances to the consent of the Bond Insurer. Currently the Program provides for (i) a rebate of interest equivalent to one percent of the principal balance of the loan annually for qualified Higher Education Act Eligible Loans, (ii) an interest-free period from July 1, 1998 through June 30, 1999, or for the corresponding academic year period for certain schools with nontraditional academic year schedules, for qualified Unsubsidized Stafford or PLUS Loans first disbursed during that period, and (iii) a one-quarter percent reduction in loan interest for qualified borrowers who elect to make loan payments with an automatic, electronic deduction from a bank account.

The Corporation offers an Equivalent Rate Adjustment ("ERA") Program to provide an alternative to borrowers eligible for Federal Consolidation Loans under the Emergency Student Loan Consolidation Act of 1997 (the "Emergency Act"). The ERA Program offers borrowers the same interest rate available under the Emergency Act, and eliminates certain costs to the Corporation associated with Emergency Act loans. Differences in the two loan programs concerning default and deferment/forbearance features are explained and disclosed to participating borrowers. The interest rate benefit available under the ERA program is guaranteed for the lifetime of the enrolled loans, subject to termination if an enrolled loan defaults. See "THE CORPORATION" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND THE STATUTORY LOAN PROGRAMS" included herein as Appendix H.

CERTAIN INVESTMENT CONSIDERATIONS

The Corporation believes, based on its analyses of cash flow projections which have been based on various assumptions and scenarios, that (i) Revenues to be received pursuant to the Resolution should be sufficient to pay principal of and interest on the Bonds when due and to pay when due all fees and expenses related to the Bonds until the final maturity of such Bonds, as more fully described below; (ii) the liquidity of the pledged assets held under the Resolution should be sufficient under the circumstances as projected to pay principal of and interest on the Bonds when due and also pay when due all expenses related to such Bonds; and (iii) the balances in various Accounts should be adequate under the circumstances as projected to pay principal of and interest on the Bonds when due and also pay when due all expenses related to such Bonds. The factors discussed below, however, could affect the sufficiency of Revenues to meet debt services payments on the Bonds.

Factors Affecting Sufficiency and Timing of Receipt of Revenues

The Corporation expects that the Revenues to be received pursuant to the Resolution should 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 administrative costs and expenses related thereto and to the Education Loans until the final maturity or earlier redemption of such Bonds. This expectation is based upon an analysis of cash flow projections using assumptions which the Corporation believes are reasonable, regarding the timing of the financing of such Education Loans to be held pursuant to the Resolution, the future composition of and yield on the Education Loan portfolio, rates of default and delinquency on Education Loans, the rate of return on moneys to be invested in various Funds under the Resolution, and the occurrence of future events and conditions. For a brief description of selected characteristics of the Education Loans held under the Resolution as of April 30, 1998 and estimated selected characteristics of the Eligible Education Loans expected by the Corporation to be financed with proceeds of the 1998 Bonds, see "CHARACTERISTICS OF EDUCATION LOANS" above. These assumptions are derived from the Corporation's experience in the administration of its education loan finance program and generally reflect performance levels lower than those which the Corporation has historically experienced. There can be no assurance, however, that the Education Loans will be acquired or originated as anticipated, that interest and principal payments from the Education Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds will be realized, or that special allowance payments and other payments will be received in the amounts and at the times anticipated. Furthermore, other future events over which the Corporation has no control may adversely affect the Corporation's actual receipt of Revenues and Principal Receipts pursuant to the Resolution.

Receipt of principal of and interest on Education Loans may be accelerated due to various factors, including, without limitation: (i) default claims or claims due to the disability, death or bankruptcy of the borrowers greater than those assumed; (ii) actual principal amortization periods which are shorter than those assumed based upon analysis of the Education Loans held under the Resolution and the Eligible Education Loans expected to be financed with proceeds of the 1998 Bonds; (iii) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon such analysis; (iv) economic conditions that induce borrowers to refinance or repay their loans prior to maturity; and (v) changes in applicable law which may affect the timing of the receipt of funds by the Corporation. Lenders, including the Federal Direct Student Loan Program, may make consolidation loans to borrowers for the purpose of retiring certain borrowers' existing loans under various federal higher education loan programs. To the extent that Education Loans are repaid with consolidation loans, the Corporation would realize repayment of such Education Loans earlier than projected.

Delay in the receipt of principal 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) Education Loans becoming delinquent for periods longer than assumed: (iv) actual loan principal amortization periods which are longer than those assumed; and (v) the commencement of principal repayment by borrowers at dates later than those assumed.

If actual receipt of Revenues under the Resolution or actual expenditures by the Corporation under its loan origination and acquisition programs vary greatly from those projected, the Corporation may be unable to pay the principal of and interest on the Bonds and amounts owing on other obligations when due. In the event that Revenues and Principal Receipts received under the Resolution are insufficient to pay the principal of and interest on the Bonds and amounts owing on certain other obligations when due, the Resolution authorizes and, under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of certain of the Bonds, and sell the Education Loans and all other property comprising the security for the Bonds. In such circumstances, it is possible, however, that the Trustee would not be able to sell the Education Loans and the other assets held under the Resolution at prices sufficient to pay the Bonds. Failure to pay amounts owing with respect to Subordinate Bonds when due to the extent Revenues are not available for such purpose under and in accordance with the Resolution does not constitute an Event of Default under the Resolution so long as any Senior Bonds are outstanding.

Changes in the Higher Education Act or other Relevant Law

No assurance can be given that the Higher Education Act 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 Official Statement and the Eligible Education Loans made thereunder, including Eligible Education Loans made pursuant to the Federal Family Education Loan Program (the "*FFEL Program*"), or that might adversely affect the Corporation. 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 Department of Education (the"Department") of certain funds held by guaranty agencies in order to achieve reductions in federal spending. The Higher Education Act is also scheduled to be considered for reauthorization no later than October 1, 1998. No assurance can be made that such reauthorization legislation, future budget legislation or administrative actions will not adversely affect expenditures by the Department or the financial condition of the Corporation. See "Appendix H - SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

The Omnibus Budget Reconciliation Act of 1993 (the *"1993 Act"*) made a number of changes to the FFEL Program, including imposing on lenders or holders of Eligible Education Loans made pursuant to the FFEL Program ("*FFELP Loans*") certain fees and affecting the Department's financial assistance to the guaranty agencies, including reducing the percentage of claim payments the Department will reimburse to guaranty agencies and reducing more substantially the insurance premiums and default collections that guaranty agencies are entitled to receive and/or retain. In addition, such legislation contemplates replacement of a minimum of 60 percent of the FFEL Program with direct lending by the Department by 1998 (the *"Federal Direct Student Loan Program"* or *"FDSL Program"*). The transition from the FFEL Program may result in increasing reductions in the volume of loans made under the existing programs.

The effect of this program on the Corporation has been to reduce the rate of growth in the number or dollar volume of new Higher Education Act Eligible Loans originated or acquired by the Corporation. Many educational institutions are participating or are expected to participate in the FDSL Program. As reductions occur, the level of competition in existence in the secondary market for loans made under the existing programs could be reduced, resulting in fewer potential buyers of the Eligible Education Loans and lower prices available in the secondary market for those loans. See "Appendix H -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

The 1993 Amendments modified the terms of the Federal Consolidation Loan Agreement to require a lender to offer income sensitive repayment terms for a Federal Consolidation Loan made on or after July 1, 1994. In the event that a borrower is unable to obtain a consolidation loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding loans (that are selected for consolidation), or from any other eligible lender, including the Student Loan Marketing Association, the 1993 Amendments authorize the Secretary to offer the borrower a direct consolidation loan with income contingent terms under the Federal Direct Student Loan Program. Such direct Federal Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provision under this section. If the Secretary determines that the Department does not have the necessary origination and servicing arrangements in place for such loans, the Secretary shall not offer such loans. On August 26, 1997, the Department suspended the Federal Direct Consolidation Loan Program in an effort to deal with a backlog of 84,000 applications for Federal Direct Consolidation Loans. To provide temporary relief for borrowers who want to consolidate loans made under the FDSL Program ("*Federal Direct Loans*") or who want to consolidate Federal Student Loans under the Federal Direct Consolidation Loan Program, President Clinton, on November 13, 1997, signed into law the Emergency Student Loan Consolidation Act (the "*Emergency Act*"). Under the terms of the Emergency Act, a borrower who wishes to consolidate Federal Direct Loans and whose application for a consolidation loan is received by an eligible lender after November 13, 1997 and prior to October 1, 1998, may obtain a Federal Consolidation Loan from an eligible lender at an interest rate equal to the 91-day Treasury Bill rate plus 3.1 percent, not to exceed 8.25 percent. The Emergency Act also permits a borrower who wishes to consolidate Federal Student Loans and whose application for a consolidation loan is received by an eligible lender after November 13, 1997 and prior to October 1, 1998, to obtain a Federal Consolidation Loan from an eligible lender at the same interest rate offered to a borrower who is consolidating Federal Direct Loans. Such interest rate is likely to be lower than the interest rate for Federal Consolidation Loans made after July 1, 1994 established by the 1993 amendments to the Higher Education At. See "Appendix H -- SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS." As a result of the Emergency Act, eligible lenders, including the Corporation, may receive a greater number of applications for Federal Consolidation Loans during the period after November 13, 1997 and prior to October 1, 1998. At this point no prediction can be made as to the effect of the Emergency Act on the rate of prepayment of Loans or as to the provisions that will govern the interest rates payable on Federal Consolidation Loans and Federal Direct Consolidation Loans after October 1, 1998.

Changes in Formulas for Determining Certain Interest Rates and Special Allowance Payments

As discussed in "Appendix H -- SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS," prior to the enactment of the legislation discussed in the next paragraph, the formulas for determining the interest rates on Stafford Loans and PLUS Loans and the formula for determining Special Allowance Payments was to change for loans originated on or after July 1, 1998 to the following: (i) Stafford Loans would bear interest at the bond equivalent yield of securities with a comparable maturity as established by the Secretary plus one percent, not to exceed 8.25 percent; (ii) PLUS Loans would bear interest at the bond equivalent yield of securities with a comparable maturity as established by the Secretary plus 2.1 percent, not to exceed 9 percent; and (iii) Special Allowance Payments for all loans (including PLUS Loans) would be based on the bond equivalent yield of securities with a comparable maturity established by the Secretary plus 1 percent.

Recently enacted legislation, however, changes the formulas discussed above for the period from July 1, 1998 through September 30, 1998. As approved, Stafford Loans originated during this period will bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 2.3 percent (1.7 percent for in-school or grace period loans), capped at 8.25 percent; PLUS Loans will bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 3.1 percent, capped at 9 percent; and Special Allowance Payments will be based on the 91-day Treasury Bill rate plus 2.8 percent (2.2 percent for in-school or grace period loans). This legislation is only applicable for loans originated through September 30, 1998. If additional legislation addressing these matters is not enacted prior to October 1, 1998, the formulas discussed in the preceding paragraph will automatically go into effect. The effect on the Corporation of the recently enacted provisions and the possible provisions which may be enacted prior to October 1, 1998 can not be fully evaluated at this time, but may result in a determination by the Corporation that the financing of such Eligible Education Loans originated after October 1, 1998, either with proceeds of the 1998 Bonds or from funds derived from the repayment or prepayment of Eligible Education Loans, would have an adverse effect on the Corporation's receipt of revenue pursuant to the Resolution.

Financial Status of the Guarantors

A deterioration in the financial status of a Guarantor, including the Corporation as State Guarantor, could result in the inability of such Guarantor to make guaranty claim payments on Federal Act Loans held under the Resolution. Among the possible causes of deterioration in a Guarantor's financial status are: (i) the amount and percentage of defaulting FFELP Loans guaranteed by such Guarantor, (ii) an increase in the costs incurred by such Guarantor in connection with FFELP Loans guaranteed, and (iii) a reduction in revenues received in connection with FFELP Loans guaranteed. The Higher Education Act grants the Department broad powers over Guarantors and their reserves. These provisions create a risk that the resources available to the Guarantors to meet their guaranty obligations may be reduced and no assurance can be given that exercise of such powers by the Department will not affect the overall financial condition of the Guarantors. Under Section 432(o) of the Higher Education Act, if the Department has determined that a Guarantor is unable to meet its guarantee obligations, the loan holder may submit claims directly to the Department and the Department is required to pay the full guaranty claim amount due with respect thereto in accordance with guaranty claim processing standards no more stringent than those of the Guarantor. However, the Department's obligation to pay guaranty claims directly in this fashion is contingent upon the Department making the determination referred to above. There can be no assurance that the Department 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 guaranty claims would be made in a timely manner.

The Balanced Budget Act of 1997 (Pub. L. 105-33)(the "Balanced Budget Act") amended the Higher Education Act to require the Secretary to recall $1 billion in Federal reserve funds from Guarantors on September 1, 2002. Under the Balanced Budget Act, each Guarantor is required to transfer its equitable share of the $1 billion, as defined in the Balanced Budget Act, to a restricted account. Each Guarantor must transfer its required share to the restricted account in equal annual installments for each of the five federal fiscal years 1998 through 2002. However, a Guarantor with a reserve ratio equal to or less than 1.1% as of September 30, 1996 may transfer its required share to the restricted account in four equal annual installments beginning in federal fiscal year 1999. The Balanced Budget Act also reduced the Guarantor's required reserve ratio from 1.1% to .5%. See "--Changes in the Higher Education Act and other Relevant Law" above and "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS--Federal Insurance and Reimbursement of Guaranty Agencies" included herein as Appendix H.

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Federal Act Loans by lenders, any guarantor, any servicer or the Corporation 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 Federal Act Loans, guarantors guaranteeing Federal Act Loans and parties servicing Education Loans to follow certain due diligence procedures in an effort to ensure that Federal Act 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 Federal Act Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to describe those procedures in their entirety. Failure to follow such procedures may result in the Secretary's refusal to make reinsurance payments to a guarantor on such loans or may result in the guarantor's refusal to honor its guarantee on such loans to the Corporation. Such action by the Secretary could adversely affect a guarantor's ability to honor guarantee claims made by the Corporation, and loss of guarantee payments to the Corporation by a guarantor could adversely affect the ability of the Corporation to make payment of principal of and interest on the Bonds.

Insufficient Revenues to Pay Subordinate Bonds

The Subordinate Series 1998O Bonds are subordinate in right of payment to the Senior Bonds. Under the Resolution, on each Interest Payment Date, or other date upon which principal of the Bonds is payable, the Trustee is required to pay from the Revenue Fund, prior to making any payment on any Subordinate Series 1998O Bonds, the amounts due on the Senior Bonds and certain other obligations. In the event of delinquent payments under the Eligible

Education Loans, sufficient Revenues and other available amounts from the Trust Estate may not be available to make all required payments of principal and interest on the Subordinate Series 1998O Bonds. Nonpayment of the principal of or interest on a Subordinate Series 1998O Bond is not an event of default giving rise to any remedies for the owners of Subordinate Series 1998O Bonds unless there are no longer any Senior Bonds Outstanding, including any Senior Bonds which may be issued hereafter.

Uncertainty as to Available Remedies

The remedies available to Owners of the 1998 Bonds upon an Event of Default under the Resolution 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 Resolution and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 1998 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Reliance on Bond Insurer Consent or Affirmations

The Resolution provides that the Corporation and the Trustee may undertake certain various actions based upon receipt by the Trustee of the written consent of the Bond Insurer and/or confirmation from each of the Rating Agencies that the outstanding respective ratings assigned by such Rating Agencies to the Bonds are not thereby impaired. Such actions include, among others, the issuance of Additional Bonds, restrictions on the optional redemption of the Subordinate Bonds, the inclusion in the Accounts held under the Resolution of a larger percentage of Eligible Education Loans which are not Federal Act Loans or which are not guaranteed at least as to the maximum percentage of the principal amount thereof permitted by the Act at the time of origination, the extension of certain dates for the acquisition or origination of Eligible Education Loans, amendments to the Resolution, removal of the Trustee and appointment of a successor, the acquisition of certain investments and the addition of loan servicers or liquidity providers. To the extent such actions are taken after issuance of the 1998 Bonds, investors in the 1998 Bonds will be relying on the consent of the Bond Insurer in certain instances or on the evaluation by each Rating Agency in certain instances of such actions and their impact on credit quality. Currently, the only Rating Agencies rating the 1998 Bonds are S&P and Fitch. Information on the ratings assigned to the 1998 Bonds can be obtained from S&P at 26 Broadway, 15th Floor, New York, New York 10004 and from Fitch at One State Street Plaza, New York, New York 10004.

THE CORPORATION

General

The Corporation, a public non-profit corporation, was created in 1965 and exists under the State Act for the purpose of providing opportunities for Vermont residents to pursue further education by awarding grants and guaranteeing, making, acquiring, financing and servicing loans to borrowers qualifying under the State Act and, where applicable, the Act and the Health Act. The Corporation serves as a central clearinghouse and information center for financial aid and career information.

The Corporation has significant responsibility for the administration of postsecondary education loan programs and services in the State of Vermont. The purpose of these programs is to make low interest loans available to eligible borrowers to assist them in meeting education expenses. The loans are made by the Corporation principally through its loan origination services, and may also be made through approved lenders, thus facilitating access to post-secondary education.

In 1982, the Corporation was authorized by the Vermont legislature to originate and acquire education loans and to provide a secondary market for education loans.

In 1993, the Vermont Legislature authorized the Corporation to develop and implement a variety of non-federal loan programs for borrowers and lenders both within and outside the State. The Corporation also administers a program of grants, financial aid services, scholarships, work study and informational and career counseling services to students seeking further education.

To finance the conduct of certain of its affairs, the Corporation receives appropriations from the Vermont Legislature and is authorized to incur liabilities, to borrow money, and to issue and have outstanding its notes, bonds or other obligations having such maturities, bearing such rate or rates of interest and secured by such lawful means as may in each case be determined by the Corporation.

The Corporation is governed by an eleven-member Board of Directors. Board membership is comprised of the following persons: five appointed by the Governor, one State Senator, one State Representative, the State Treasurer, ex officio, and three members elected by the Board. The present directors' names and, principal occupations or affiliations are as follows:

Directors	Principal Occupations or Affiliations
Joan D. Goodrich Chair	Special Assistant to the President Bennington College Bennington, Vermont
Chris Robbins Vice Chair	President, E.H.V. Weidman St. Johnsbury, Vermont
James F. Wolynec Secretary	Director of Guidance Rutland Senior High School Rutland, Vermont
Joseph L. Boutin	President, The Merchants Bank Burlington, Vermont
Edwin H. Amidon, Jr.	Attorney at Law, Roesler, Whittlesey, Meekins & Amidon Burlington, Vermont
David Ginevan	Executive Vice President and Treasurer Middlebury College Middlebury, Vermont
Representative Martha Heath	Representative Vermont Legislature Westford, Vermont
Bette Matkowski	Western Regional Director Community College of Vermont Middlebury, Vermont
Senator Cheryl R. Rivers	Senator Vermont Senate Bethel, Vermont
James H. Douglas	Treasurer, State of Vermont Montpelier, Vermont
David M. Wilson	Attorney at Law Wilson & White, P.C. Montpelier, Vermont

The Corporation's telephone number is 802-655-9602, and its address is P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404.

The following persons are officers of the Corporation:

Name	Position
Joan D. Goodrich	Chair
Chris Robbins	Vice Chair
James F. Wolynec	Secretary
Donald R. Vickers	President and CEO
Steven W. Pullen	Vice President of Finance and Assistant Secretary
Patrick J. Kaiser	Vice President of Student Services and Assistant Secretary
Elizabeth McLain	Vice President of Community and Government Relations

Ms. Joan D. Goodrich, Chair of the Board of Directors, has served as a Board member since October, 1985.

Mr. Chris Robbins, Vice Chair of the Board of Directors, has served as a Board member since June, 1991.

Mr. James F. Wolynec, Secretary of the Board of Directors, has served as a Board member since 1987.

Mr. Donald R. Vickers, President and CEO of the Corporation, has served the Corporation since 1971. Mr. Vickers previously served as Director of Financial Aid and Placement at Johnson State College, Johnson, Vermont.

Mr. Steven Pullen, Vice President of Finance and Assistant Secretary of the Corporation, joined the Corporation in 1991. Mr. Pullen was previously the Chief Financial Officer of a national non-profit association. Prior to that position, he was affiliated with KPMG Peat Marwick.

Mr. Patrick J. Kaiser, Vice President of Student Services and Assistant Secretary of the Corporation, joined the Corporation in 1986. Mr. Kaiser previously served in financial management positions in the Cambridge, Massachusetts public school system.

Ms. Elizabeth McLain, Vice President of Community and Government Relations, joined the Corporation in 1997. Ms. McLain previously served as Chief of Staff for Governor Richard Snelling, as Deputy Secretary of the Vermont Agency of Natural Resources, and for four terms in the Vermont House of Representatives.

Origination and Acquisition of Loans

Through loan originating and purchasing, the Corporation endeavors to increase the availability of funds to assist students in obtaining further education. In recent years the Corporation's loan acquisitions have occurred and, for the foreseeable future, are expected to occur almost exclusively through loan origination directly by the Corporation. The Corporation retains the authority and ability to enter into loan origination agreements or purchase agreements with financial institutions and, pursuant to such agreements, originate and purchase Eligible Education Loans. The Trustee may be a party to loan purchase agreements and loan origination agreements with the Corporation.

The Corporation acquires and originates Federal Act Loans, HEAL Loans and Statutory Loans; for summaries of certain provisions of the programs which govern these loans and the terms of these loans, see "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" in Appendix H to this Official Statement.

Certain Education Loans will be eligible for the Corporation's Vermont Value Program. Under the Vermont Value Program, a program that was established by the Corporation on July 1, 1994, students or parents with qualified loans held by the Corporation are eligible for certain reductions in interest rate or interest rate rebates on any such loan. The Vermont Value Program is subject to the availability of funds and modification by the Corporation in its discretion. Currently the Program provides for (i) a rebate of interest equivalent to one percent of the principal balance of the loan annually for qualified FFEL Program Loans, (ii) an interest-free period for July 1, 1998 through June 30, 1999, or for the corresponding academic year period for certain schools with nontraditional academic year schedules, for qualified Unsubsidized Stafford or PLUS Loans first disbursed during that period, and (iii) a one-quarter percent reduction in loan interest for qualified borrowers who elect to make loan payments with an automatic, electronic deduction from a bank account. The Vermont Value Programs may be modified or terminated by the Corporation in its discretion.

The Corporation offers an Equivalent Rate Adjustment ("ERA") Program to provide an alternative to borrowers eligible for Federal Consolidation Loans under the Emergency Student Loan Consolidation Act of 1997 (the "Emergency Act"). The ERA Program offers borrowers the same interest rate available under the Emergency Act, and eliminates certain costs to the Corporation associated with Emergency Act loans. Differences in the two loan programs concerning default and deferment/forbearance features are explained and disclosed to interested borrowers. The interest rate benefit available under the ERA program is guaranteed for the lifetime of the enrolled loans, subject to termination if an enrolled loan defaults.

Servicing of Education Loans

The Corporation provides the personnel necessary to perform all origination and servicing of Eligible Education Loans (including all Federal Act Loans, HEAL Loans and Statutory Loans). Previously, the Corporation delivered both loan origination and loan servicing services with software provided by UNIPAC Service Corporation of Aurora, Colorado, a Nebraska corporation (the "Servicing Agent"). These services included, but were not limited to: verifying that all required documents for each Eligible Education Loan have been received and that each loan qualifies as an Eligible Education Loan; maintaining and updating all loan records; performing due diligence necessary to collect loans according to standards set by the United States Department of Education and the Guarantor, as applicable; taking any action necessary to collect delinquent loans; and performing any other functions associated with the servicing of Eligible Education Loans. These services were provided by the Corporation utilizing servicing software provided by the Servicing Agent, pursuant to a contract designed to comply in all respects with the Act. In November 1996, the Corporation entered into a license agreement with Idaho Financial Associates, Inc., of Boise, Idaho ("IFA"), for the licensing and use of certain education loan servicing software systems. The Corporation converted its loan servicing operations to the IFA system on July 1, 1997, while retaining the capability to use the Servicing Agent, as a back-up servicing system provider, through December 31, 1998.

The Corporation is continuing to use software provided by the Servicing Agent to originate Eligible Education Loans. On or before April 1, 1999, the Corporation expects to replace the Servicing Agent origination software with software licensed from IFA. The Corporation anticipates that it will reach agreement with the Servicing Agent to extend the parties' contract, presently scheduled to expire on December 31, 1998, until June 30, 1999 to allow time for the transition of the origination services to the IFA software.

The State Guarantor

General. Upon original enactment of the State Act, the Corporation was authorized to establish a student loan insurance program that would guarantee loans for qualified borrowers and would meet the federal and state statutory requirements for state loan insurance programs. In 1965, the Corporation established its guarantee program under the Guaranteed Student Loan Program (now referred to as the "Federal Family Education Loan Program" or "FFEL Program") to help students borrow money for their education beyond the high school level. See "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS – Federal Insurance and Reimbursement of Guaranty Agencies" included in Appendix H to this Official Statement.

In order to effectively administer these programs, the Guarantor's duties include processing loans submitted for guarantee, issuing loan guarantees, providing collections assistance to lenders for delinquent loans, paying lender claims for loans in default, collecting loans on which default claims have been paid and making appropriate reports to the Secretary. The Corporation is also responsible for initiating policy, conducting activities to keep lenders informed with respect to Stafford Loans and PLUS/SLS Programs, encouraging lender participation and performing lender/school compliance activities. See "CERTAIN INVESTMENT CONSIDERATIONS–Financial Status of the Guarantors."

In accordance with the provisions of Section 2864 of Title 16 of the Vermont Statues Annotated and with the terms of its agreements with lenders, including with itself in its capacity as an originator of Eligible Education Loans, for the guarantee of loans, the Corporation has established a fund (the "Guarantee Reserve Fund") for the purpose of providing for the payment of any defaulted notes under the Federal Stafford Loan, PLUS/SLS and the Consolidation programs. The Corporation is obligated to make payments with respect to such guaranteed loans solely from the revenues or other funds of the Guarantee Reserve Fund, and neither the State nor any political subdivision thereof is obligated to make such payments. Neither the faith and credit nor the taxing power of the State or of any of its political subdivisions is pledged to any such payments required to be made. The amount on deposit in the Guarantee Reserve Fund at any time (including federal funds) is required by the State Act to be an amount equal to the amount required by the Act but not less than 8%

of the total loans outstanding as of such date not covered by federal reinsurance. As of April 1, 1998, the amount on deposit in the Guarantee Reserve Fund exceeded the amount required by the State Act.

Pursuant to the Balanced Budget Act of 1997 (Pub. L. 105-33), in 1997 the Secretary directed the Corporation to return to the Secretary the sum of $2,146,305 in guarantor reserve funds. The Corporation expects to transfer the full amount when due under the Balanced Budget Act. See "CERTAIN INVESTMENT CONSIDERATIONS -- Financial Status of the Guarantors".

The State Guarantor currently receives funding from several sources, including reimbursement from the Secretary pursuant to Section 428(c)(1)(A) of the Act, federal advances and federal administrative cost allowances. The Act, as amended by the Omnibus Budget Reconciliation Act of 1987 (the "1987 Amendment"), requires that any guaranty agency, including the State Guarantor, return certain advances and not accumulate cash reserves in excess of an amount determined by the Secretary.

Guaranty Volume. As of March 31, 1998, federally-reinsured education loans in the outstanding aggregate principal amount of approximately $541,943,956 were guaranteed by the Corporation. The original aggregate principal amount of these loans was approximately $616,448,679.

Reserve Ratio. As of March 31, 1998, the Corporation's reserve ratio was .57%. The Corporation calculates its reserve ratio by dividing (x) cash and investments held in or credited to the Guarantee Reserve Fund by (y) the total original principal amount all loans guaranteed by the Corporation that have a balance outstanding.

Default Trigger Claims Rate. During the most recent five federal fiscal years, the Corporation's default trigger claims rates did not exceed 5% and as a result maximum reinsurance was paid on all of the Corporation's claims. The Corporation's default trigger claims rate as of September 30, 1997 was 1.73%. See Appendix H -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS -- Federal Insurance and Reimbursement of Guaranty Agencies."

Loan by School Type. The following table sets forth, by school type, the percentage of loans (based upon actual loan balances) guaranteed by the Corporation as of March 31, 1998.

Type	Percentage of Guaranteed Loans Outstanding (as of March 31, 1998)
Four-year	75%
Two-year	7%
Proprietary	2%
Other*	16%
Total	100%

* This category includes primarily Consolidation Loans. A breakdown of school types within this category is not available to the Corporation.

Outstanding Debt of the Corporation

As of June 1, 1998, the Corporation had outstanding the following bonds and notes. Except for the 1995 Bonds and the 1996 Bonds (which were issued and are secured under the Resolution), all such debt obligations were issued and are secured under resolutions that are separate and distinct from the Resolution.

Designation	Amount Outstanding	Credit Enhancement
1985 Series A	$ 56,600,000	(Letter of Credit from National Westminster Bank, Plc.)
1991 Series A	$ 19,035,000	(Insured by Ambac Assurance)
1992 Series A-2, A-3	$ 77,500,000	(Insured by Financial Security Assurance)
1992 Series B, C	$ 50,000,000	(Insured by Financial Security Assurance)
1993 Series D, E	$ 80,000,000	(Insured by Financial Security Assurance)
1993 Series F, G. H, I, J	$ 122,500,000	(Insured by Financial Security Assurance)
1995 Series A, B, C, D	$ 96,000,000	(Insured by Ambac Assurance)
1995 Series E	$ 19,300,000	(Insured by Ambac Assurance)
1996 Series F, G, H, I	$ 100,000,000	(Insured by Ambac Assurance)
1996 Series J	$ 12,850,000	(Insured by Ambac Assurance)
1997 Series A-V Note	$ 11,830,000	(no Credit support)
Total	$ 645,615,000	

TAX MATTERS

General

In the opinion of Kutak Rock, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 1998 Bonds is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the 1998 Bonds. Failure to comply with such requirements could cause interest on the 1998 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 1998 Bonds. The Corporation has covenanted to comply with such requirements. Bond Counsel is further of the opinion that interest on the 1998 Bonds is a specific preference item for purposes of the federal alternative minimum tax.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 1998 Bonds and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes.

Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the 1998 Bonds.

The accrual or receipt of interest on the 1998 Bonds may otherwise affect the federal income tax liability of the owners of the 1998 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the 1998 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the 1998 Bonds.

Changes in Federal Tax Law

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 1998 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the 1998 Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the 1998

Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the 1998 Bonds, or in any way contesting or affecting the validity of such Bonds, any proceedings of the Corporation taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the 1998 Bonds or the due existence or powers of the Corporation.

APPROVAL OF LEGALITY

The legality of the authorization, issuance and sale of the 1998 Bonds is subject to the approving legal opinion of Kutak Rock, Denver, Colorado, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its counsel, Little, Cicchetti & Conard, P.C., Burlington, Vermont, and for the Underwriters by their counsel, Krieg DeVault Alexander & Capehart, Indianapolis, Indiana. The enforceability of the Municipal Bond Insurance Policy will be passed upon for Ambac Assurance by a Vice President and Assistant General Counsel for Ambac Assurance. The unqualified approving opinion of Bond Counsel to the Corporation is to be delivered with the 1998 Bonds substantially in the form attached to this Official Statement as Appendix I.

AGREEMENT BY THE STATE

Under the State Act, the State of Vermont pledges and agrees with the holders of the bonds, notes and obligations of the Corporation that the State will not limit or restrict the rights thereby vested in the Corporation to perform its obligations and to fulfill the terms of any agreement made with the holders of its bonds, notes and obligations, including the 1998 Bonds. Neither will the State in any way impair the rights and remedies of the holders until the bonds, notes and other obligations of the Corporation, together with interest on them and interest on any unpaid installments of interest, are fully met, paid and discharged. The State Act permits the Corporation to include such pledge and agreement of the State in the Corporation's contracts with the holders of its bonds, notes and obligations and the Corporation has included such pledge and agreement in the Resolution for the benefit of the Bondowners.

LEGAL INVESTMENT

The State Act provides that, notwithstanding any other law, the State and all public officers, governmental units and agencies of the State, all banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, all credit unions, and all executors, administrators, guardians, trustees and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control, in obligations of the Corporation issued under the State Act (including the 1998 Bonds) and such obligations (including the 1998 Bonds) are authorized security for any and all public deposits.

UNDERWRITING

The 1998 Bonds are to be purchased by PaineWebber Incorporated and Lehman Brothers Inc. (the "Underwriters") pursuant to a bond purchase contract with the Corporation. The Underwriters have agreed to purchase the 1998 Bonds at the aggregate initial public offering price less a discount equal to $579,840. The bond purchase contract provides that the Underwriters will not be obligated to purchase any of the 1998 Bonds unless all such Bonds are available for purchase. The initial public offering prices of the 1998 Bonds may be changed by the Underwriters from time to time without notice.

The Underwriters may offer and sell the 1998 Bonds to certain dealers (including dealers depositing such bonds into investment trusts) and others at prices lower than the initial public offering prices of the Bonds. After the initial public offering, the offering prices of the 1998 Bonds may be changed from time to time by the Underwriters.

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The Corporation will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") for the benefit of the holders of the 1998 Bonds to send certain financial information and operating data to certain information repositories annually and to provide notice to such repositories or the Municipal Securities Rulemaking Board of certain events, pursuant to the requirements of Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). The proposed form of the Disclosure Agreement is attached hereto as Appendix L.

The Corporation has not failed to comply with any prior ongoing disclosure undertaking required by the Rule. A failure by the Corporation to comply with the Disclosure Agreement will not constitute a default or Event of Default under the Resolution, and the holders of the 1998 Bonds will have only the remedies set forth in the Disclosure Agreement itself. Nevertheless, a failure must be reported in accordance with the Rule, and such a failure may adversely affect the transferability and liquidity of the 1998 Bonds and their market price.

FINANCIAL ADVISOR

Government Finance Associates, Inc. (the "Financial Advisor") serves as independent financial advisor to the Corporation on matters relating to debt management. The Financial Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. The Financial Advisor has provided advice as to the plan of financing and the structuring of the Bonds and has reviewed and commented on certain legal documentation, including the Preliminary Official Statement and the Official Statement. The advice on the plan of financing and the structuring of the Bonds was based on materials provided by the Corporation and other sources of information believed to be reliable. The Financial Advisor has not audited, authenticated or otherwise verified the information provided by the Corporation or the information set forth in the Preliminary Official Statement and the Official Statement or any other information available to the Corporation with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of or any other matter related to such information and the Preliminary Official Statement and the Official Statement.

FINANCIAL STATEMENTS

The Financial Statements of the Corporation for the fiscal ended June 30, 1997 were audited by KPMG Peat Marwick LLP, as set forth in their report dated September 4, 1997. Such financial statements and the report of said auditors are included as Appendix K hereto and represent the most current audited financial information available for the Corporation.

Because the 1998 Bonds are limited obligations of the Corporation, payable solely from revenue and other sources pledged under the Resolution, the overall financial status of the Corporation may not indicate and may not necessarily affect whether such revenues and other amounts will be available under the Resolution to pay the principal of and interest on the 1998 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 1998 Bonds from any moneys legally available to the Corporation for its general purposes.

FURTHER INFORMATION

Copies, in reasonable quantity, of the Resolution and other documents herein described may be obtained upon written request during the initial offering period of the 1998 Bonds from PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019, Attention: Municipal Securities Group, and thereafter from Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404, Attention: President or the Corporation's financial advisor, Government Finance Associates, Inc., 63 Wall Street, 16th Floor, New York, New York 10005.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Act, the Health Act, the State Act and the Resolution and any other documents or statutes contained herein do not purport to be complete and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any of the 1998 Bonds.

The Resolution provides that all covenants, stipulations, promises, agreements and obligations of the Corporation contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Corporation and not of any officer, director, or employee of the Corporation in his or her individual capacity, and no recourse shall be had for the payment of the principal of or interest on the 1998 Bonds or for any claim based thereon or on the Resolution against any officer or employee of the Corporation or against any person executing the 1998 Bonds.

Use of this Official Statement in connection with the sale of the 1998 Bonds has been authorized by the Corporation.

VERMONT STUDENT ASSISTANCE CORPORATION

By:____________________________________

Donald R. Vickers, President

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The Resolution contains various covenants and security provisions certain of which are summarized below. Reference should be made to the Resolution for a full and complete statement of its provisions. Section and Article references are to Sections and Articles of the Resolution.

ARTICLE I

SHORT TITLE, DEFINITIONS, INTERPRETATIONS

Section 1.1. Definitions. In the Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings. Certain terms used in the Resolution and defined therein are summarized in this Official Statement in Appendix B -- "AUCTION PROCEDURES".

"Account" means one of the special accounts created and established pursuant to the Resolution.

"Accountant" means (i) any of the top six ranked nationally recognized firms of independent certified public accountants selected by the Corporation, or (ii) any other accountant selected by the Corporation and approved in writing by the Bond Insurer.

"Accrued Assets" means, with respect to any date, the sum of (i) the principal amount of all Education Loans pledged under the Resolution, (ii) the aggregate of all other amounts on deposit in the Accounts, (iii) the amount of all accrued interest on Education Loans, (iv) all accrued interest subsidy payments and Special Allowance Payments on Education Loans, and (v) all accrued but unpaid interest and income on Investment Securities.

"Accrued Liabilities" means, with respect to any date, the sum of the principal of and unpaid interest on all Outstanding Bonds, plus all accrued but unpaid Program Expenses, including any required rebate, if any.

"Accrued Senior Liabilities" means, with respect to any date, the sum of the principal of and unpaid interest on all Outstanding Senior Bonds, plus all accrued but unpaid Program Expenses including any required rebate, if any.

"Act of Bankruptcy" means the filing of a petition in bankruptcy by or against the Corporation or the commencement of a receivership, insolvency, assignment for the benefit of creditors or other similar proceeding by or against the Corporation, unless such case or petition was dismissed and all applicable appeal periods have expired without an appeal having been filed.

"Additional Bonds" means any issue of Bonds issued subsequent to the 1998 Fifth Series Resolution.

"Adjustable Rate" means any of the following types of interest rates: an Annual Rate, a Money Market Municipal Rate, a SAVRS Rate, and a Weekly Rate.

"Affiliate" means any person known to the Auction Agent to be controlled by, in control of or under common control with the Corporation, provided that no Broker-Dealer controlled by, in control of or under common control with the Corporation shall be an Affiliate nor shall any corporation or any person controlled by, in control of or in common control with such corporation be an Affiliate solely because such director or executive officer is also a director of the Corporation.

"Affirmation" means with respect to any Bonds (i) insured by a Bond Insurance Policy with respect to which the Bond Insurer has a right to approve or consent to an action proposed to be taken by the Corporation, (ii) subject to a Liquidity Facility with respect to which the Liquidity Facility Issuer has a right to approve or consent to an action proposed to be taken by the Corporation or (iii) not so insured or subject to a Liquidity Facility with respect to which an action proposed to be taken by the Corporation requires as a prerequisite a determination that taking such action shall not adversely affect any rating by the Rating Agency on the then Outstanding Bonds, evidence satisfactory to the Trustee of such approval, consent or rating confirmation as appropriate.

"Alternate Liquidity Facility" means an irrevocable letter of credit, a surety bond, line or lines of credit or other similar agreement or agreements used to provide liquidity support for the Bonds, satisfactory to the Corporation and containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee in accordance with Section 11.18 of the Resolution and the applicable Series Resolution.

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Annual Period Record Date" means, with respect to each Interest Payment Date during an Annual Rate Period, the fifteenth day of the calendar month next preceding such Interest Payment Date.

"Annual Rate" means with respect to the first day of each Calculation Period during an Annual Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of such day as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Bonds in a secondary market transaction at a price equal to the principal amount thereof.

"Annual Rate Period" means any period during which the Bonds bear interest at an Annual Rate, which period shall commence on the effective date of a Change in the Interest Rate Mode to an Annual Rate, and shall extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date of the Bonds.

"ARCs Period Record Date" means, with respect to each Interest Payment Date during a ARCs Rate Period, the Business Day next preceding such Interest Payment Date.

"ARCs Rate" means, with respect to each such Auction Period during a ARCs Rate Period (other than the Initial Auction Period), the rate of interest per annum determined for the bonds of a Series of Bonds that bear interest at the ARCs Rate pursuant to the implementation of the Auction Procedures or, if such Auction is not held or is canceled, the rate determined pursuant to the Resolution.

"ARCs Rate Period" means any period during which all or a portion of the bonds of a Series of Bonds bear interest at the ARCs Rate, which period shall commence on the date of original issuance and shall extend through the day immediately preceding the earliest of (a) a Variable Rate Conversion Date, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date of such bonds.

"Auction Agent" means the entity designated as such with respect to a Series of Bonds by or pursuant to a Series Resolution.

"Authorized Denominations" means with respect to the 1998 Bonds while such are Outstanding as Auction Rate Certificates or Select Auction Variable Rate Securities: $50,000 and any integral multiple thereof, or otherwise as provided in the Resolution.

"Authorized Officer" means each of the Chair, Executive Director of the Corporation, any member of the board of the Corporation, the Secretary of the Corporation or any Assistant Secretary of the Corporation and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of the Corporation then authorized to perform such act or discharge such duty.

"Available Moneys" means any moneys continuously on deposit in trust with the Trustee for the benefit of the Bondowners which are (i) (A) proceeds of the Bonds or (B) proceeds of amounts paid or collateral pledged by the Corporation or other Person for a period of 124 consecutive days during which no petition in bankruptcy under the United States Bankruptcy Code has been filed by or against the Corporation or other Person which paid such money, and no similar proceedings have been instituted under state insolvency or other laws affecting creditors' rights generally, provided that such amounts will again be deemed Available Moneys if the petition or proceedings have been dismissed and the dismissal is no longer subject to appeal, (ii) derived from the proceeds of other bonds or obligations issued for the purpose of refunding the Bonds, (iii) interest earnings on the Accounts, or (iv) from a period not subject to the United States Bankruptcy Code or similar state laws with avoidable preference provisions, but, in the case of (iv) above, only if the Trustee receives an opinion of counsel, in form and substance satisfactory to the Bond Insurer and acceptable to the Trustee that payment of such amounts to the Bondowners would not constitute avoidable preferences under Section 547 of the

United States Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the United States Bankruptcy Code or similar state laws with avoidable preference provisions by or against the Corporation or the person from whom the money is received, if other than the Corporation.

"Banking Entity" means the Trustee and any paying agent, tender agent, authenticating agent, registrar, auction agent or any or all of them as may be appropriate, as approved by the Bond Insurer.

"Bond" or "Bonds" means any of the bonds authenticated and delivered pursuant to the Resolution including both the initially issued Bonds and Additional Bonds which may be Senior Bonds or Subordinate Bonds, as the case may be.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Corporation and satisfactory to the Trustee and the Bond Insurer.

"Bond Insurance Policy" means a municipal bond insurance policy issued by a Bond Insurer, or any other insurance policy, surety bond, irrevocable letter of credit or any other similar agreement as provided in the applicable Series Resolution insuring the payment of the principal of and interest on the related series of Bonds or separately the bonds of any series of Bonds when due as provided in such policy, surety bond or letter of credit agreement.

"Bond Insurer" means the entity which provides the Bond Insurance Policy as set forth in the applicable Series Resolution.

"Bondowner" or "Owner" or "owner" or words of similar import, when used with reference to a Bond, means any person who shall be the registered owner of any Outstanding Bond.

"Book Entry Bonds" means Bonds issued in uncertificated form as provided in the Resolution.

"Broker-Dealer" means the entity designated as such with respect to a Series of Bonds by or pursuant to a Series Resolution.

"Business Day" means any day other than a Saturday, Sunday or a legal holiday for commercial banks in New York City or Burlington, Vermont or on which the Bond Insurer, if any, Liquidity Facility Issuer, if any or the Corporation is closed.

"Calculation Period" means (a) during any Money Market Municipal Rate Period any period or periods from and including a Business Day to and including any day not more than 365 days thereafter which is a day immediately preceding a Business Day established by the Remarketing Agent pursuant to the Resolution; (b) during any Weekly Rate Period, with respect to a Change in the Interest Rate Mode to a Weekly Rate, the period from and including the effective date of the Change in the Interest Rate Mode to and including the following Tuesday, and, thereafter, the period from and including Wednesday of each week to and including the following Tuesday; provided, however, if such Wednesday is not a Business Day, such next succeeding Calculation Period shall begin on the Business Day next succeeding such Wednesday and such Calculation Period shall end on the day before such next succeeding Calculation Period; and (c) during any Annual Rate Period, with respect to a Change in the Interest Rate Mode to an Annual Rate, the period from and including the effective date of the change in the Interest Rate Mode to but excluding the second succeeding Interest Payment Date and, thereafter, each period from and including the day following the end of the last Calculation Period to but excluding the second succeeding Interest Payment Date.

"Cash Flow Projection" means a report or reports with regard to the expectation of revenues and use thereof in accordance with the terms of the Resolution and any applicable Series Resolution including cash flows based on assumptions acceptable to the Corporation and the Bond Insurer.

"Cash Flow Statement" means a Certificate of an Authorized Officer (i) setting forth, for the then current and each future annual period during which Bonds would be Outstanding, and taking into account (a) any Bonds reasonably expected to be issued or redeemed or purchased for cancellation in each such period upon or in connection with the filing of such certificate, and (b) the interest rate, purchase price and other terms of any Education Loans reasonably expected to be financed by the Corporation upon or in connection with the filing of such certificate;

(1) the amount of Revenues and Principal Receipts expected to be received in each such annual period that reasonably expected to be available to make debt service payments, and

(2) the aggregate debt service for each such annual period on all Bonds reasonably expected to be Outstanding, together with Program Expenses for such annual period,

and (ii) showing that in each such annual period the aggregate of the amounts set forth in clause (i)(1) of this definition is sufficient to pay when due the aggregate of the amounts set forth in clause (i)(2) of this definition; provided, that such definition as it relates to a series of Bonds may be amended from time to time by the Corporation with the consent of the Bond Insurer. The Cash Flow Statement shall be prepared using assumptions acceptable to the Bond Insurer, or if no Bond Insurance Policy is in effect, as provided in the applicable Supplemental Resolution.

"Certificate" means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to this Resolution or (ii) the report of an accountant as to audit or other procedures called for by the Resolution.

"Certificate and Agreement" means the Certificate and Agreement by and between the Corporation and the Bond Insurer to be entered into as of the date of initial delivery of the Senior 1998 Bonds to the Purchaser.

"Code" means the Internal Revenue Code of 1986.

"Contract of Purchase" means the Purchase Contract by and among the Corporation and the Purchaser as described in the Resolution.

"Corporation" means the Vermont Student Assistance Corporation, a non-profit public corporation created and established pursuant to the State Act, or any body, agency or instrumentality of the State or other entity which shall hereafter succeed to the powers, duties and functions of the Corporation.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to the Corporation and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Banking Entity or the Bond Insurer, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, accrued interest with respect to the initial investment of proceeds of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

"Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law to which such opinion relates and selected by the Corporation or the Trustee, as applicable.

"Current Adjustable Rate" means the interest rate borne by Bonds immediately prior to a Change in the Interest Rate Mode or the establishment of a Fixed Rate.

"Debt Service Reserve Account" means the Debt Service Reserve Account established pursuant to Section 5.2 of the Resolution.

"Debt Service Reserve Requirement" means the sum of the Debt Service Reserve Requirements, if any, set forth in all Series Resolutions, but in no event an amount which, in the Bond Counsel's Opinion, would subject interest on any Bond or Bonds to taxation for federal income tax purposes.

"Depository" means any bank or trust company or national banking association selected by the Corporation or the Trustee as a depository of moneys or securities held under the provisions of the Resolution and may include the Trustee or any Paying Agent.

"Determination Date" means, for any Calculation Period, the first Business Day occurring during such Calculation Period.

"DTC" means The Depository Trust Company, New York, New York, or its nominee or its successors and assigns, or any other depository performing similar functions.

"Education Loan" means any Eligible Education Loan acquired by the Corporation and held under and subject to the lien of the Resolution.

"Eligible Education Loan" means any education loan under the State Act including, but not limited to, loans commonly referred to as Stafford, PLUS, SLS, HEAL, Consolidated or Supplemental loans, or any loans guaranteed by the federal government made to a borrower to finance education and made or purchased or to be made or purchased by the Corporation.

"ERA Loan" means any Education Loan made under the Higher Education Act and which is eligible to be consolidated under the Emergency Student Loan Consolidation Act of 1997, for which the interest rate is determined in accordance with the ERA Program.

"ERA Program" means any program of the Corporation under which the interest rate on Education Loans made under the Higher Education Act which are eligible to be consolidated under the Emergency Student Loan Act of 1997, but which are not so consolidated, is changed to a formula based upon the bond equivalent rate of 91-day Treasury Bills, plus 3.1%, subject to a maximum rate of 8.25% per annum.

"Event of Default" means any of the events specified in Section 10.1 of the Resolution.

"Favorable Opinion" means a Bond Counsel's Opinion to the effect that the action being sought is permitted both under the State Act and the Resolution and will not have an adverse effect on the exclusion of interest on the Bonds so affected from gross income for federal tax purposes.

"Fitch" means Fitch IBCA, Inc., a Delaware corporation, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall not longer perform the functions of a securities rating agency. "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation with the consent of the Bond Insurer, which consent shall not be unreasonably withheld.

"Fixed Rate" means, with respect to the Fixed Rate Period, and for Bonds of any Series of Bonds to bear interest at a fixed rate the fixed rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent on and as of the Fixed Rate Conversion Date as the Fixed Rate.

"Fixed Rate Conversion Date" means the date the Fixed Rate shall take effect.

"Fixed Rate Period" means the period, if any, during which all or a portion of the bonds of a Series of Bonds bear interest at a Fixed Rate, which period shall commence on the Fixed Rate Conversion Date and extend through the Stated Maturity Date of such bonds.

"Fixed Rate Record Date" means, with respect to each Interest Payment Date during the Fixed Rate Period, the last day of the month next preceding such Interest Payment Date, or, if such day shall not be a Business Day, the next preceding Business Day.

"Guarantor" means (i) the Corporation (or any successor thereto) as State Guarantor, or (ii) any other entity acting as guarantor with respect to Education Loans pursuant to an agreement with the Secretary of Education or the Secretary of Health and Human Services, as applicable.

"Health Act" means the Public Health Service Act, as amended, and the regulations promulgated thereunder.

"Higher Education Act" means Title IV of the Higher Education Act of 1965, as amended, and the regulations promulgated thereunder.

"Interest Payment Date" means the date or dates established as the interest payment dates with respect to specific Bonds in the applicable Series Resolution.

"Investment Company" means an open-end diversified management investment company registered under the Investment Company Act of 1940 as amended.

"Investment Securities" means, for purposes of investing funds relating to the Bonds, of any of the following which at the time of investment are legal investments under the laws of the State for the moneys of the Corporation proposed to be invested therein:

(a) direct obligations of the Treasury Department of the United States of America;

(b) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Farmers Home Administration
- General Service Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(c) senior debt obligations rated "AAA" by Standard & Poor's Corporation ("S&P") and "AAA" by Moody's Investors Service, Inc. ("Moody's") issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Senior debt obligations of any other entity constituting a Government Sponsored Agency approved by the Bond Insurer;

(d) U.S. dollar denominated deposit accounts, federal funds and banker's 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. (Ratings on holding companies are not considered as the rating of the bank;

(e) 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.

(f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(g) 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

(A) 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; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations in clause (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate:

(h) any other investment or financial arrangement permitted in a particular Supplemental Resolution or Series Resolution, including but not limited to investment agreements.

"Liquidity Facility" means an irrevocable letter of credit, a surety bond, line or lines of credit or other similar agreement or agreements used to provide liquidity support for the Bonds, as the same may be amended or supplemented from time to time, in accordance with its terms.

"Liquidity Facility Issuer" means any bank or financial institution which issues a Liquidity Facility.

"Loan Account" means the Loan Account established pursuant to Section 5.2 of the Resolution.

"Market Agent" means the entity designated as such with respect to a Series of Bonds by or pursuant to a Series Resolution.

"Material Adverse Change in the Loan Program" means, with respect to all Series of Bonds, any change enacted by the United States Congress or implemented by the Secretary or the Department of Education or, if applicable, the legislature of the State, or any change resulting from the actions of the Corporation after the initial delivery date of the 1998 Bonds with respect to (a) the guarantee obligation or guarantee percentage of any Guarantor, or (b) federal insurance provisions with respect to Education Loans, or (c) any other characteristics that would reduce the yield to maturity of such Education Loan, such characteristics to include, to the extent applicable, but not limited to (i) Special Allowance Payments formulae, (ii) the loan interest rate or yield formulae, (iii) federal interest subsidies, or (iv) rebate provisions to either the student borrower or to any other party other than the Corporation or the Trustee; provided that so long as any Bonds are insured by a Municipal Bond Insurance Policy, (A) 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 (c) above resulting in a change of five (5) basis points or less to the yield to maturity of an Education Loan or any such change that does not adversely affect the Cash Flow Statement attached to the Certificate and Agreement as such Cash Flow Statement may be changed from time to time by a certificate of an Authorized Officer, as reasonably determined by the Bond Insurer, shall not be deemed material) and (B) the Bond Insurer so notifies the Corporation and the Trustee in writing.

"Money Market Municipal Period Record Date" means, with respect to each Interest Payment Date during a Money Market Municipal Rate Period, the Business Day next preceding such Interest Payment Date.

"Money Market Municipal Rate" means with respect to each Calculation Period during a Money Market Municipal Rate Period, a rate or rates of interest equal to the rate or rates of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the first day of such Calculation Period as the minimum rate or rates of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket bonds of the Series of Bonds that bear interest at the Money Market Municipal Rate in a secondary market transaction at a price equal to the principal amount thereof.

"Money Market Municipal Rate Period" means any period during which all or a portion of the bonds of a Series of Bonds bear interest at a Money Market Municipal Rate or Rates, which period shall commence on the effective date of a Change in the Interest Rate Mode to a Money Market Municipal Rate or Rates, as the case may be, and extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency. "Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation with the consent of the bond Insurer, which consent shall not be unreasonably withheld.

"Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Senior 1998 Bonds as provided therein.

"1995 First Series Resolution" means the series resolution so named providing for the issuance of the Senior Series 1995A Bonds, Senior Series 1995B Bonds, Senior Series 1995C Bonds and Senior Series 1995D Bonds.

"1996 Third Series Resolution" means the series resolution so named providing for the issuance of the Series 1996F Bonds, Series 1996G Bonds, Series 1996H Bonds, and Series 1996I Bonds.

"1996 Fourth Series Resolution" means the series resolution so named providing for the issuance of the Series 1996J Bonds.

"1998 Fifth Series Resolution" means the series resolution so named providing for the issuance of the Senior Series 1998K Bonds, Senior Series 1998L Bonds, Senior Series 1998M Bonds, Senior Series 1998N Bonds, and the Subordinate Series 1998O Bonds.

"1998 Bonds" means each of the Senior Series 1998K Bonds, the Senior Series 1998L Bonds, the Senior Series 1998M Bonds and the Senior Series 1998N Bonds, and the Subordinate Series 1998O Bonds as authorized pursuant to and defined in the 1998 Fifth Series Resolution.

"Operating Account" means the Operating Account established pursuant to Section 5.2 of the Resolution.

"Outstanding", when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under this Resolution except:

(1) any Bond canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(2) any Bond (or portion of a Bond) for the payment or redemption of which there have been separately set aside and held hereunder either:

(a) moneys in an amount sufficient to effect payment of the principal or applicable redemption price thereof, together with accrued interest on such Bond to the Redemption Date; or

(b) Investment Securities, as described in Section 12.1(B) of the Resolution, in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable redemption price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

(c) any combination of (a) and (b) above, and, except in the case of a Bond to be paid at maturity, of which notice of redemption shall have been given or provided for in accordance with Article VI of the Resolution;

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.7 or Section 9.5 of the Resolution; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1 of the Resolution.

Bonds paid pursuant to the Bond Insurance Policy and not paid by the Corporation shall not be deemed paid and shall remain Outstanding until so paid.

"Parity Percentage" means, with respect to any date, the ratio, expressed as a percentage of (a) Accrued Assets over (b) Accrued Liabilities.

"Paying Agent" means the entity, if any, so designated and appointed in a Series Resolution to perform the duties noted in the Resolution and the Series Resolution.

"Principal Receipts" means all amounts received from or on account of any Education Loan as a recovery of the principal amount of any Education Loan, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from insurance or from the sale, assignment or other disposition of an Education Loan but excluding any payments for the guaranty or insurance of any Education Loan.

"Principal Receipts Account" means the Principal Receipts Account established pursuant to Section 5.2 of the Resolution.

"Program Expenses" means all of the Corporation's expenses in carrying out and administering its education loan finance program under the Resolution and shall include, without limiting the generality of the foregoing, servicing costs, costs of publicizing to borrowers, costs of counseling borrowers, fees related to the remarketing or auctioning of the Bonds, fees and expenses related to any Bond Insurance Policy or Liquidity Facility, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Banking Entities, 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 education loan finance program. Program Expenses may also include amounts for establishing and maintaining a six-month reserve to pay operating costs and amounts appropriate to reimburse the Corporation for Program Expenses paid from other sources.

"Purchaser" means, collectively, PaineWebber Incorporated and Lehman Brothers Inc.

"Rating Agencies" means any or all of S&P, Fitch and Moody's to the extent then rating the Bonds at the request of the Corporation.

"Rebate Account" means the Rebate Account established pursuant to Section 5.2 of the Resolution.

"Record Date" means the day set forth with respect to particular Bonds in the applicable Series Resolution.

"Recycling Suspension Event" means the occurrence and uncured continuance of any of the following events:

(a) the occurrence of an Event of Default under the Resolution;

(b) if the Bond Insurer has notified the Corporation in writing of its determination that there exists a material and continuing servicing problem which has not been cured as provided in a Series Resolution;

(c) if the Parity Percentage declines for two consecutive quarters, unless the Senior Parity Percentage is not less than 102%;

(d) if there occurs a material deterioration in the financial or legal status of the Corporation which could have a material adverse impact on the Corporation's ability to pay principal of and interest on any Bonds insured by the Bond Insurer or upon the Corporation's ability to perform its duties under the Resolution;

(e) any of the Bonds bear interest at the Maximum Rate or the Maximum SAVRS Rate, as appropriate, for two consecutive Auction Periods, while outstanding as ARCs, or SAVRS Auction Periods, as appropriate; or

(f) a default rate or origination error rate with respect to Statutory Loans as set forth in the Certificate and Agreement (such event to only suspend the financing of Statutory Loans pursuant to applicable provisions of any Series Resolution).

"Redemption Date" means any date upon which Bonds may be called for redemption pursuant to the Resolution.

"Remarketing Agent" means (a) with respect to the Senior Series 1998K Bonds, the Senior Series 1998L Bonds, the Senior Series 1998M Bonds and the Subordinate Series 1998O Bonds, PaineWebber Incorporated, (b) with respect to the Senior Series 1998N Bonds, Lehman Brothers, Inc. or (c) any other entity assuming the duties and obligations of the Remarketing Agent as may be appointed by the Corporation.

"Resolution" means the Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Account" means the Revenue Account established pursuant to Section 5.2 of the Resolution.

"Revenues" means all payments, proceeds, charges and other cash income received from or on account of any Education Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, interest on any Education Loan), Special Allowance Payments from the Secretary related to such Education Loans and all interest earned or gain realized from the investment of amounts in any Account, but excludes (i) any amount retained by a servicer (excluding the Corporation) of any Education Loan as compensation for services rendered in connection with such Education Loan, (ii) Principal Receipts and (iii) any payments for the guaranty or insurance of any Education Loan.

"Secretary of Education" means the Secretary of the United States Department of Education, or any predecessor or successor officer, board, body, commission or agency under the Higher Education Act, or any successor under the Higher Education Act.

"Secretary of Health and Human Services" means the Secretary of the United States Department of Health and Human Services, or any predecessor or successor officer, board, body, commission or agency under the Health Act, or any successor under the Health Act.

"Senior Bonds" means any Bonds so designated in a particular Series Resolution.

"Senior Parity Percentage" means, with respect to any date, the ratio, expressed as a percentage, of (a) Accrued Assets over (b) Accrued Senior Liabilities.

"Series Resolution" means a Supplemental Resolution authorizing the issuance of one or more Series of Bonds.

"Servicer" means the Corporation and any other entity servicing Loans in accordance with the Resolution.

"Special Allowance Payments" means the special allowance payments by the Secretary to be made pursuant to the Higher Education Act or similar allowances authorized from time to time by federal law or regulation.

"Standard & Poor's" or "S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation with the consent of the Bond Insurer, which consent shall not be unreasonably withheld.

"State" means the State of Vermont.

"State Act" means Vermont Statutes Annotated, Title 16 §2821 et. seq., as the same may be amended from time to time.

"State Guarantor" means the Corporation, in its capacity under the State Act and the laws of the State of Vermont, pursuant to which it guarantees certain of the Education Loans and as a party to an agreement with the Secretary for reinsurance of such guarantees.

"Statutory Loan" means any education loan permitted under the State Act other than an education loan under either the Higher Education Act or the Health Act.

"Subordinate Bonds" means any Bonds so designated in a particular Series Resolution.

"Supplemental Loan" means any education loan permitted under the State Act other than an education loan under either the Higher Education Act or the Health Act.

"Supplemental Resolution" means any resolution supplemental to or amendatory of the Resolution, adopted by the Corporation and effective in accordance with Article VIII of the Resolution.

"Tax Certificate" means any tax certificate covering certain matters pertaining to the use of proceeds of any series of Bonds, including all exhibits attached thereto.

"Trustee" means the Trustee as may be designated pursuant to Article XI of the Resolution as such from time to time by the Corporation.

"Value" means, with regard to any Investment Security (except cash) the value of any such Investment Security calculated no less frequently than once a month in the following manner:

(a) 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, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such times of determination;

(b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination 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 the bid price published by a nationally recognized pricing service;

(c) as to certificates of deposit and bankers acceptances: the fact amount thereof, plus accrued interest; and

(d) as to any investment not specified above: the value thereof established by prior agreement among the Corporation, the Trustee, the Bond Insurer and, if applicable, any Liquidity Facility Issuer.

"Variable Rate" means for Bonds of any Series of Bonds (other than a Series of Bonds that can be SAVRS) to bear interest at a variable rate other than the ARCs Rate, the rate determined under the Resolution as the Variable Rate.

"Variable Rate Conversion Date" means the day on which Bonds of a Series of Bonds cease bearing interest at one Variable Rate and begin bearing interest at another Variable Rate.

"Vermont EXTRA Loan" means a loan (also known as a "VSAC EXTRA Loan") made by the Corporation pursuant to the State Act to a student borrower attending a post-secondary school in Vermont or who is a resident of Vermont attending a Title IV eligible non-Vermont post-secondary school for the purpose of paying such student borrower's total cost of attendance less other forms of student assistance (other than loans pursuant to Section 428B(a)(1) of the Higher Education Act or subpart I of Part C of the Health Act) for which the student borrower may be eligible.

"Vermont Value Loan" means any Education Loan made under the Vermont Value Program.

"Vermont Value Program" means any program under which Education Loans are made and under which the Corporation has specifically reserved the right to waive or rebate certain interest or principal payments.

"VSAC EXTRA Medical Loan" means a loan made by the Corporation pursuant to the State Act to a student borrower enrolled at least half-time in a professional degree program at the University of Vermont Medical School or any other medical school approved by the Bond Insurer for the purpose of paying such student borrower's total cost of attendance less other forms of student assistance (other than loans pursuant to Section 428B(a)(1) of the Higher Education Act or subpart I of Part C of the Health Act) for which the student borrower may be eligible.

"VSAC Law Loan" means a loan (also known as a "VSAC EXTRA Law Loan") made by the Corporation pursuant to the State Act to a student borrower enrolled at least half-time in a professional degree program at Vermont Law School or any other law school approved by the Bond Insurer for the purpose of paying such student borrower's total cost of attendance less other forms of student assistance (other than loans pursuant to Section 428B(a)(1) of the Higher Education Act or subpart I of Part C of the Health Act) for which the student borrower may be eligible.

"Weekly Period Record Date means, with respect to each Interest Payment Date during a Weekly Rate Period, the Business Day next preceding such Interest Payment Date.

"Weekly Rate" means with respect to each Calculation Period during a Weekly Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the bonds of a Series of Bonds that bear interest at the Weekly Rate in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

"Weekly Rate Period" means any period during which all or a portion of the bonds of a Series of Bonds bear interest at a Weekly Rate, which period shall commence with the effective date of a Change in the Interest Rate Mode to the Weekly Rate and shall extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date of such bonds.

TERMS OF BONDS

Resolution to Constitute Contract. In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the Resolution shall be a part of the contract of the Corporation with the Owners of Bonds, as their interest may appear, and shall be deemed to be and shall constitute a contract among the Corporation, the Trustee and the Owners from time to time of the bonds, as their interests may appear.

Obligation of Bonds. The Resolution creates a continuing pledge and lien to secure (i) the full and final payment of the principal of and interest on all Outstanding Bonds and (ii) upon provisions for such payment having been made, the obligations to the Bond Insurer under the Insurance Agreement. The Bonds shall be special limited obligations of the Corporation, payable solely from the revenues, funds and assets specifically pledged by the Corporation under the Resolution for the payment of the principal of and interest on said Bonds. The Bonds shall contain on their face a statement that the Corporation is not obligated to pay the principal of, or the interest on, the Bonds except from the revenues, funds and assets pledged for their payment under the Resolution and that neither the full faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal or Redemption Price thereof or the interest thereon. The funds and accounts pledged under the Resolution to the payment of the Bonds shall not be secured by amounts on deposit or required to be deposited in the Rebate Account. The pledges and assignments made by the Resolution and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the Corporation shall be for the equal benefit, protection and security of the Owners of any and all of such Bonds (each of which regardless of the time or times of its issue, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in the Resolution) and the Bond Insurer, as their interests may appear.

GENERAL TERMS AND PROVISIONS OF BONDS

Negotiability, Transfer and Registry. The Bonds issued under the Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in the Resolution and in the Bonds. So long as the Bonds shall remain Outstanding, the Corporation shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of the Bonds.

Transfer of the Bonds. (A) The Bonds shall be transferable only upon the books of the Corporation, which shall be kept for such purpose at the corporate trust office of the Trustee by the registered Owner thereof in person or by such Owner's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee or the Paying Agent, as appropriate, duly executed by the registered Owner or such Owner's duly authorized attorney. Upon the transfer of a Bond, the Corporation shall issue in the name of the transferee a new Bond.

(B) The Corporation, the Bond Insurer and any Banking Entity may deem and treat the person in whose name a Bond shall be registered upon the books of the Corporation as the absolute Owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes and all such payments so made to any such registered Owner or upon such Owner's order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and the Corporation, the Bond Insurer and any Banking Entity shall not be affected by any notice to the contrary.

Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging or transferring a Bond is exercised, the Corporation shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Resolution. For every such exchange or transfer, whether temporary or definitive, the Corporation or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of a definitive Bond in exchange for a temporary Bond, or with respect to transfers to the Bond Insurer due to payments made on the Bond Insurance Policy, or as otherwise provided in the Resolution, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The Corporation shall not be obliged to make any such exchange or transfer of Bonds (i) on the Business Day preceding an Interest Payment Date on such Bond, (ii) on the Business Day preceding the date of publication of notice of any proposed mandatory redemption of the Bonds, or (iii) after such Bond has been called for redemption. The Corporation may, by written notice to the Trustee, establish a record date of the payment of interest or for the giving notice of any proposed mandatory tender or redemption of the Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bond or, in the case of any proposed redemption of the bonds, ten days preceding the date of such redemption.

Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, upon stipulation of the conditions set forth in the Resolution, the Corporation shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost.

Authentication. Each Bond shall bear thereon a certificate of authentication executed manually by the Trustee. No Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee.

PLEDGE OF RESOLUTION; ACCOUNTS

Pledge Effected by Resolution. The Revenues, Principal Receipts, Education Loans, Investment Securities and all amounts held in any Account under the Resolution (other than the Rebate Account), including investments thereof, are pledged for the benefit of the Bondowners and the Bond Insurer as their interests may appear and to secure the payment of the Bonds and all amounts owing to the Bond Insurer, subject only to the provisions of the Resolution permitting the application or exercise thereof for or to the purposes an on the terms and conditions therein set forth.

Accounts. (A) The Corporation establishes and creates the following special trust accounts under the Resolution:

(1) Loan Account;

(2) Revenue Account;

(3) Debt Service Reserve Account;

(4) Rebate Account; and

(5) Operating Account.

(B) All such Accounts shall be held and maintained by the Trustee, including one or more Depositories in trust for the Trustee, and shall be identified by the Corporation and the Trustee according to the designations provided in the Resolution in such manner as to distinguish such Accounts from the Accounts established by the Corporation for any other of its obligations. All moneys or securities held by the Trustee or any Depository or Paying Agent pursuant to the Resolution shall be held in trust and pledged thereunder and applied only in accordance with the provisions of the Resolution.

Loan Account. (A) There shall be deposited in the Loan Account on the date of the issuance of any Bonds, the proceeds thereof and, thereafter all Principal Receipts and any amount required to be deposited therein pursuant to the Resolution or any Series Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Account shall be expended only (i) to finance Eligible Education Loans as permitted under the Resolution and the applicable Bond Insurance Policy; (ii) to pay Costs of Issuance; (iii) to make deposits in the Revenue Account in the manner provided in subsection (D) and subsection (F) of this Section; (iv) to purchase, retire or redeem Bonds in accordance with subsection (E) of this Section; (v) to make deposits into the Debt Service Reserve Account in an amount required to restore the Debt Service Reserve Account to the Debt Service Reserve Requirement but only when and to the extent necessary to satisfy the requirements of any applicable Bond Insurance Policy or Liquidity Facility and (vi) to pay all amounts owed the Bond Insurer. All Education Loans financed by application of amounts in the Loan Account shall be credited to the Loan Account.

(D) At least one day prior to the day on which either or both of principal or interest is payable on Bonds the Corporation shall deliver to the Trustee and the Bond Insurer a Certificate of an Authorized Officer setting forth the amount necessary due to a deficiency therefor in the Revenue Account, in the opinion of such Authorized Officer, to pay the principal of or interest on the Bonds (in accordance with the priorities established by Section 5.4(B) SECOND and THIRD thereof) from the amount on deposit in the Loan Account, after giving effect to the actual and expected application of amounts therein to the financing of Eligible Education Loans as of the date of such Certificate.

(E) Subject to the Resolution and the Series Resolution, at any time the Corporation may direct the Trustee in writing to apply amounts in the Loan Account to the Revenue Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI of the Resolution.

(F) In the event that the Corporation shall, by law or otherwise (including by reason of any restrictions in the applicable Insurance Agreement), become for more than a temporary period, unable to finance Eligible Education Loans pursuant to the Resolution and, to the extent applicable, the applicable Insurance Agreement, or shall suffer unreasonable burdens or excessive liabilities in connection therewith, the Corporation shall with all reasonable dispatch deliver to the Trustee and any Bond Insurer a Certificate of an Authorized Officer stating the occurrence of such an event and setting forth the amount, if any, required to be retained in the Loan Account for the purpose of meeting any existing obligations of the Corporation payable therefrom in accordance with the Resolution, and the Trustee, after reserving therein the amount stated in such Certificate, shall transfer any balance remaining in the Loan Account to the Revenue Account for the purpose of purchasing, redeeming or otherwise retiring Bonds.

Revenue Account. (A) The Corporation shall cause all Revenues to be deposited promptly with a Depository and shall cause such Revenues to be transmitted regularly to the Trustee and such amounts shall be deposited in the Revenue Account.

(B) The Trustee shall pay out of the Revenue Account on each Interest Payment Date from moneys then deposited therein, as follows and in the following order of priority:

FIRST: The amount, if any, due on such Interest Payment Date as the Bond Insurance premium.

SECOND: To the Trustee, as Paying Agent, to be held in trust in a payment account therefor, such amounts as will equal the principal of and interest on all Senior Bonds Outstanding as of such day and accrued and unpaid or due and payable as of such day.

THIRD: To the Trustee, as Paying Agent, to be held in trust in a payment account therefor, such amounts as will equal the principal of and interest on all Subordinate Bonds outstanding as of such day and accrued and unpaid or due and payable as of such day.

FOURTH: Into the Operating Account, to the extent available, the amount, if any, necessary to pay estimated Program Expenses then unpaid and for the six months beginning after the date of the transfer, as determined by the Corporation, less the amounts then on deposit and available therefor in the Operating Account.

FIFTH: To any Bond Insurer or Liquidity Facility Issuer, if applicable, to pay any amounts which are then due to the Bond Insurer or Liquidity Facility Issuer, if applicable, under the Resolution and the Bond Insurance Policy except for any amounts paid pursuant to paragraphs FIRST and SECOND above.

SIXTH: Into the Debt Service Reserve Account, to the extent necessary, the amount required to restore the Debt Service Reserve Account to the Debt Service Reserve Requirement.

(D) The foregoing notwithstanding, the Corporation, pursuant to the applicable Series Resolution, may on any Interest Payment Date after making the payments or deposits required pursuant to (B) of this Section 5.4 remove any amounts from the Revenue Account remaining after making such payments and (1) pay such amounts to itself free and clear of the lien of the Resolution, provided that the Parity Percentage subsequent to such payment or deposit is at least equal to the greater of one hundred percent (100%) or as otherwise provided in the applicable Series Resolution or (2) transfer such amounts to any other Account held by the Trustee pursuant to the Resolution which shall be used for the stated purposes of such Account.

Debt Service Reserve Account. In the case of any Series of Bonds for which there is a Debt Service Reserve Requirement, there shall be deposited and held in the Debt Service Reserve Account an amount equal to the Debt Service Reserve Requirement for such Series. Amounts on deposit in the Debt Service Reserve Account shall be used to pay debt service on the Bonds when due to the extent amounts available therefor pursuant to Section 5.4 of the Resolution are insufficient. Amounts on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement shall be transferred to the Revenue Account as soon as practicable after the determination of such excess.

Rebate Account. The Rebate Account shall be maintained by the Trustee as a fund separate from any other funds established and maintained under the Resolution. All money at any time deposited in the Rebate Account shall be held by the Trustee in trust, to the extent required to satisfy the rebate requirement (as provided in the Tax Certificate), for payment to the Treasury Department of the United States of America, and the Corporation or the Bond Insurer or the Owner of any Bonds shall not have any rights in or claim to such money.

Operating Account. (A) There shall be deposited in the Operating Account all amounts to be deposited therein pursuant to the Resolution and any other amount available therefor and determined by the Corporation to be deposited therein.

(B) Amounts on deposit in the Operating Account transferred pursuant to (A) above shall be used to pay reasonable and necessary Program Expenses.

REDEMPTION OF BONDS

Notice of Redemption. When the Trustee shall receive notice from the Corporation of its election or direction to redeem the Bonds the Trustee shall give notice, in the name of the Corporation, of the redemption of such Bonds. Such notice shall be given by mailing a copy the required number of days before the redemption date to the registered Owner of the Bonds at the last address, if any, appearing upon the registry books of the Trustee.

Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.3 of the Resolution, the Bonds so called for redemption shall become due and payable on the redemption date so designated at the redemption price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, together with a written instrument of exchange duly executed by the registered Owner or such Owner's duly authorized attorney. If, on the redemption date, moneys for the redemption of the Bonds, together with interest to the redemption date, shall be held by the Trustee or the Paying Agent, as the case may be, so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds shall continue to bear interest until paid at the same rate as it would have borne had it not been called for redemption.

PARTICULAR COVENANTS

The Corporation covenants and agrees with the Trustee and the Owners of the Bonds as follows:

Payment of Bonds. The Corporation shall duly and punctually pay or cause to be paid, as provided in the Resolution, the principal of the Bonds and the interest thereon, at the dates and places and in the manner stated in the Bonds according to the true intent and meaning thereof.

Offices for Servicing Bonds. The Corporation shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon the Corporation in respect of the Bonds or of the Resolution may be served. The Corporation hereby appoints the Trustee as its agent to maintain such office or agency for the registration, transfer or exchange of the Bonds, and for the service of such notices, presentations and demands upon the Corporation.

Power to Issue Bonds and Pledge Revenues, Funds and Other Property. The Corporation is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver the Resolution and to pledge the assets and revenues purported to be pledged in the manner and to the extent provided in the Resolution. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, or, to the extent permitted by law, subordinate to, the pledge created in the Resolution, and all corporate or other action on the part of the Corporation to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms and the terms of the Resolution. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and Principal Receipts and other assets and revenues, including rights therein pledged under the Resolution against all claims and demands of all person whomsoever.

Tax Covenants. (A) The Corporation covenants that it will not take any action, or fail to take any action, or permit such action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or failure to take action would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds under Section 103 of the Code (with respect to Bonds the interest on which has not been determined to be included in gross income prior to issuance). In furtherance of the foregoing covenant, the Corporation covenants to comply with any applicable tax certificate.

(B) Notwithstanding any other provision of the Resolution to the contrary, including in particular Article XII of the Resolution, the covenants contained in Section 7.5 shall survive defeasance or payment in full of the Bonds.

Education Loan Finance Program. (A) The Corporation shall from time to time, with all practical dispatch and in sound and economical manner consistent in all respects with the provisions of the Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds to finance Eligible Education Loans pursuant to the Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues and Principal Receipts sufficient to pay the expenses (including debt service) of the education loan finance program, (iii) diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Corporation to protect its rights with respect to Education Loans, (iv) take all steps, actions and proceedings reasonably necessary in the judgment of the Corporation to maintain any guarantee or insurance on the Education Loans, (v) to enforce all terms, covenants and conditions of Education Loans and (vi) deliver to the Trustee all Education Loans, to be held by the Trustee as custodian.

(B) No amount in the Loan Account shall be expended or applied for the purpose of financing an Eligible Education Loan, and no Eligible Education Loan shall be financed, unless (except to the extent that a variance from such requirements is required by an agency or instrumentality of the United States of America insuring or guaranteeing the payment of an Eligible Education Loan) the Corporation, upon independent verification and certification by the Trustee, has determined that: (1) the payment of the Education Loan is either (i) insured as to principal and interest by a Guarantor and reinsured by the Secretary under the Higher Education Act, or (ii) insured as to principal and interest by the Secretary under the Higher Education Act (provided, however, such Education Loan's application for insurance commitment was received by the Secretary before March 1, 1973), or (iii) fully insured as to principal and interest by the United States Secretary of Health and Human Services (or any delegatee or successor) acting under the Public Health Service Act, as part of the Health Education Assistance Loan Program; or (2) such Eligible Education Loan is a Statutory Loan permitted under the State Act as provided for in any Series Resolution. Eligible Education Loans as such term is used in the Resolution may be expanded, consistent with the State Act, to include any other education loan, the inclusion of which has received an Affirmation from the Bond Insurer and/or the Rating Agencies, as applicable.

(C) The Corporation may at any time sell, assign, transfer or otherwise dispose of any Education Loan at a price (i) at least equal to the principal amount thereof (plus accrued borrower interest) (a) when the Parity Percentage shall be at least 100% or (b) to pay current debt service on the Bonds; or (ii) lower than the principal amount thereof (plus accrued interest and Special Allowance Payments) with the Affirmation of the Bond Insurer, or, if no Bond Insurance Policy is in effect when the Corporation delivers to the Trustee a certificate showing that either (a) the Revenues and Principal Receipts expected to be received assuming such sale, assignment, transfer or other disposition of such Education Loan would be at least equal to the Revenues and Principal Receipts expected to be received assuming no such sale, assignment, transfer for other disposition of such Education Loan or (b) assuming such sale, assignment, transfer or other disposition (1) the Corporation shall remain able to pay debt service on the Bonds and related Program Expenses on a timely basis and (2) the Parity Percentage will be at least 100%. The Corporation may sell Education Loans in accordance with Section 7.8(C) if necessary to prevent the occurrence of an Event of Default.

Issuance of Additional Obligations. The Corporation further covenants that (unless otherwise agreed to by each Bond Insurer), except with respect to Additional Bonds for which the initial Bond Insurer has issued a Bond Insurance Policy, the Corporation shall not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a superior or equal charge and lien on the revenues and assets pledged under the Resolution.

(B) The Corporation expressly reserves the right in the Resolution to adopt one or more additional general resolutions for its purposes, including the purposes of the education loan finance program, and reserves the right to issue other obligations for such purposes, provided however, that such obligations shall be secured by assets other than those held under the Resolution.

General. The Corporation shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Corporation under the provisions of the State Act and the Resolution in accordance with the terms of such provisions.

State Covenant. The State Act provides that the Corporation may execute the following pledge and agreement of the State, in any agreement with the holders of the Corporation's notes, bonds, or other obligations and the Corporation includes such pledge and agreement for the benefit of the owners of the Bonds and the Bond Insurer, to the extent permitted by law:

The State pledges to and agrees with the holders of the notes, bonds and other obligations issued under the State Act that the State will not limit or restrict the rights thereunder vested in the Corporation to perform its obligations and to fulfill the terms of any agreement made with the holders of its bonds or notes or other obligations, including the Bonds or the obligations to the Bond Insurer. Neither will the State in any way impair the rights and remedies of the holders until the notes and bonds and other obligations, including the Bonds or the obligations to the Bond Insurer, together with interest on them and interest on any unpaid installments of interest, are fully met, paid and discharged.

SUPPLEMENTAL RESOLUTIONS

Supplemental Resolutions Effective Upon Filing With the Trustee. Subject to Section 8.4(E) of the Resolution, for any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Company may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

(1) to add to the covenants and agreements of the Corporation in the Resolution other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(2) to add to the limitations and restrictions in the Resolution other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Resolution as thereupon in effect;

(3) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolution;

(4) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other revenues or assets;

(5) to make such changes in the Resolution as are reasonably necessary in the opinion of the Corporation to effectuate a change in the interest mode or a conversion to a Fixed Rate with respect to bonds of any Series of Bonds;

(6) notwithstanding Section 8.4(E) of the Resolution, to make such changes in the Resolution as are reasonably necessary in the opinion of the Corporation to effectuate the replacement of or a supplement to a Bond Insurance Policy in accordance with the express terms of (i) Section 13.5 of the Resolution and (ii) the Series Resolution or Supplemental Resolution thereto relating to bonds of any Series of Bonds;

(7) to make such changes in the Resolution as are required by one or more Rating Agencies to obtain or preserve a rating on the bonds of any Series of Bonds; or

(8) to provide for the issuance of Additional Bonds.

Supplemental Resolutions Effective Upon Consent of Trustee. Subject to Section 8.4(E) of the Resolution, (A) for any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and the Corporation of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

(1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

(2) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect; or

(3) to provide for additional duties of the Trustee in connection with the Education Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of Section 8.2.

Supplemental Resolutions Effective Upon Consent of Bondowners. Subject to Section 8.4(E) of the Resolution, at any time or from time to time, a Supplemental Resolution (other than as referenced in Section 8.1 or 8.2 of the Resolution) may be adopted subject to consent by the Bondowners in accordance with and subject to the provisions of Article IX of the Resolution. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX of the Resolution.

General Provisions. For so long as the Bond Insurance Policy shall be in force and effect and the Bond Insurer shall not be in default thereunder, no Supplemental Resolution shall be effective without the written consent of the Bond Insurer.

AMENDMENTS

Powers of Amendment. Any modification of or amendment to the Resolution and of the rights and obligations of the Corporation and of the Bondowners under the Resolution or of the Bond Insurer, in any particular, may be made by a Supplemental Resolution, but only in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3 of the Resolution (rather than Section 8.1 or 8.2 thereof), with the written consent of the Bond Insurer given as provided in Section 8.4(E) of the Resolution and of the Owners of at least a majority of the principal amount of the Bonds Outstanding at the time such consent is given and any other required Affirmation. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the Owners of which is required to effect any such modification or amendment, or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the Bondowners, and the written consent of the Bond Insurer.

DEFAULTS AND REMEDIES

Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of, interest, purchase price or redemption price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same become due; provided, however, that for purposes of this Section 10.1(1), a payment by the Bond Insurer shall not constitute such a payment and provided further, that failure to pay the principal of, interest or redemption price, if any, on a Subordinate Bond, shall not constitute an Event of Default, unless at such time there shall also be a failure to pay the principal of, interest or redemption price, if any, on a Senior Bond;

(2) the Corporation shall fail or refuse to comply with the provisions of the Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained therein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee, the Bond Insurer or, subject to Section 10.11 of the Resolution, the owners of not less than fifty percent (50%) in principal amount of the Outstanding Bonds;

(3) an Act of Bankruptcy shall have occurred and be continuing or shall be deemed to have occurred and be continuing and the Trustee shall have received written notice of such from the Corporation, the Bond Insurer or, subject to Section 10.11 of the Resolution, a Bondholder; provided, however, that the filing of a petition in bankruptcy or similar

proceeding against the Corporation, if dismissed within ninety (90) days of the filing thereof, will not be deemed to be an Act of Bankruptcy for the purposes of Section 10.1 of the Resolution; and

(4) the occurrence and continuance of an Event of Default under and within the meaning of the Insurance Agreement and the Trustee shall have received written notice of such from the Bond Insurer.

Remedies. (A) Subject in all events to Section 13.4 of the Resolution, upon the happening and continuance of any Event of Default specified in Section 10.1 of the Resolution, the Trustee, with the written consent of the Bond Insurer, may proceed and, upon the written request of the Owners of not less than fifty percent (50%) in principal amount of the Outstanding Bonds with the consent of the Bond Insurer, or upon the written request of the Bond Insurer alone, shall proceed, in its own name, subject to the provisions of Section 11.3 and Section 10.11 of the Resolution, to protect and enforce the rights of the Bondowners or the Bond Insurer by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, including the right to require the Corporation to receive and collect Principal Receipts and Revenues adequate to carry out the covenants and agreements as to, and the assignment of, the Education Loans and to require the Corporation to carry out any other covenants or agreements with Bondowners and the Bond Insurer and to perform its duties under the Act and the State Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Owners of the Bonds;

(4) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds or the Bond Insurer;

(5) by declaring the Bonds due and payable (subject to limits on such declaration for other than payment defaults); and if all defaults shall be cured, the Trustee, with the written consent of the Bond Insurer and not less than 25% of the Owners of the Bonds or at the direction of the Bond Insurer alone if a Bond Insurance Policy is then in effect, may annul such declaration and its consequences; or

(6) in the event that all the Bonds are declared due and payable, and the Bond Insurance Policy is in effect, if the Bond Insurer shall so direct, the Trustee shall make a claim under the Bond Insurance Policy to pay the principal of and interest on the Bonds which are covered by such Bond Insurance Policy. If no Bond Insurance Policy is in effect, or if the Bond Insurer does not so direct, the Trustee shall proceed by selling Education Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under the Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Corporation for principal, interest or otherwise, under any provisions of the Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the Corporation for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondowners and the Bond Insurer under the Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Principal Receipts and Revenues and of the assets of the Corporation relating to the education loan finance program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default under the Resolution, the Corporation expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Education Loans and the proceeds and collections therefrom, and the Trustee, the Bond Insurer and any Bondowner shall not in any manner, be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Bond Insurer's Direction of Proceedings. Anything in the Resolution to the contrary notwithstanding, but subject to Section 13.4 of the Resolution, the Bond Insurer shall have the right, by any instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to the Bondowners not parties to such direction.

Limitation on Rights of Bondowners. (A) No Owners of any Bonds shall have the right to institute any suit, action, mandamus or other proceeding in equity or at law under the Resolution, or for the protection or enforcement of any right under the Resolution unless, subject to Section 10.11 of the Resolution, such Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken.

(B) Anything to the contrary notwithstanding contained in Section 10.6, or any other provision of the Resolution, each Owner of any Bond by its acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of any undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pretrial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondowner or to any suit instituted by any Bondowner or group of Bondowners, holding at least 25% in principal amount of the Bonds Outstanding, for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses. (A) Anything in the Resolution to the contrary notwithstanding other than Section 13.4 of the Resolution, upon the occurrence and continuance of any Event of Default, the Bond Insurer shall be exclusively entitled to control and direct the enforcement of all rights and remedies granted to the Bondowners or the Trustee under the Resolution, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in Article X of the Resolution, 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.

(B) Notwithstanding anything in Article X of the Resolution to the contrary, subject to Section 13.4 of the Resolution, upon the occurrence of an Event of Default, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or the Bondowners of a majority of the principal amount of the Bonds with the consent of the Bond Insurer, by written notice to the Corporation and the Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of the payment shall, without further action, become and be immediately due and payable, anything in the Resolution or in the Bonds to the contrary notwithstanding.

CONCERNING THE BANKING ENTITIES AND OTHERS

Responsibility of Banking Entities. No Banking Entity makes any representations as to the validity or sufficiency of the Resolution or of any Bonds issued under the Resolution or in respect of the security afforded by the Resolution, and no Banking Entity shall incur any responsibility in respect thereof. Except in the Event of Default by the Corporation, the Trustee is not undertaking any responsibility for and is not liable for the operations of or the monitoring of the education loan finance program.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than ninety days' written notice to the Corporation, the Bond Insurer and the Bondowners specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.8 of the Resolution, in which event such resignation shall take effect immediately on the appointment of such successor, provided however that no such resignation shall take effect until a successor has been duly appointed and has accepted.

Removal of Trustee. The Corporation, with the written consent of the Bond Insurer, may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of the Corporation, by filing with the Trustee an instrument signed by an Authorized Officer. No Trustee may be removed until a successor has been duly appointed and has accepted.

So long as a Series of Bonds is covered by a Bond Insurance Policy, the Bond Insurer, at any time under various circumstances, may remove the Trustee by notice to the Corporation.

Appointment of Successor Trustee. (A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Corporation covenants and agrees that it will thereupon appointment a successor Trustee, with the prior consent of the Bond Insurer, which consent shall not be unreasonably withheld. The Corporation shall give notice of any such appointment made by it by mailing a notice to the Bondowners within thirty days after such appointment.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to the Corporation written notice, as provided in Section 11.6 of the Resolution, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee, the Bond Insurer or any Bondowner may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank in good standing duly authorized to exercise trust power within or outside the State and subject to examination by federal or state authority, having a capital, surplus and undivided profits aggregating at least $15,000,000 or such greater amount as may be required pursuant to a specific Series Resolution, if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

Trustee Not to Consider Bond Insurance Policy in Determination of Adverse Actions Against Bondowners. Notwithstanding any other provision of the Resolution, in determining whether the rights of the Bondowners will be adversely affected by any action taken pursuant to the terms and provisions of the Resolution, the Trustee (or Paying Agent) shall consider the effect on the Bondowners as if there were no Bond Insurance Policy.

Replacement of Liquidity Facility. (a) If, at any time, the Corporation shall receive notice (i) that the short-term ratings on the Bonds as to which a Liquidity Facility is in effect have been either withdrawn or reduced below VMIG 1 or A-1 by Moody's or S&P, respectively, as a consequence of the withdrawal or reduction in the ratings of the issuer of the Liquidity Facility, or (ii) that the Liquidity Facility relating to a Series of Bonds will not be extended, then the Corporation may replace the Liquidity Facility with an Alternate Liquidity Facility so that the Bonds as to which such Liquidity Facility is in effect will be assigned higher ratings by the Rating Agencies then rating the Bonds if the replacement is due to a downgrade (otherwise the rating may be the same).

(b) Upon the occurrence of any event specified in paragraph (a) above, the Trustee shall accept an Alternate Liquidity Facility only upon satisfaction of the following conditions:

> (1) receipt of an opinion or opinions of counsel satisfactory to the Trustee to the effect that (i) the Alternate Liquidity Facility meets the requirements and complies with the conditions of this Section, (ii) such Alternate Liquidity Facility is a legal, valid and enforceable obligation of the issuer or provider thereof, (iii) no registration of such Bonds or such Alternative Liquidity Facility is required under the Securities Act of 1933, as amended and (iv) the use of the Alternate Liquidity Facility will not adversely affect the exclusion of the interest on any Bond from the gross income of the Owner thereof, as defined in the Code, for federal income tax purposes;
>
> (2) Moody's and S&P shall have confirmed in writing on or before the substitution date that the substitution of such Alternate Liquidity Facility for the Liquidity Facility will result in short-term ratings on the Bonds by Moody's and S&P that are higher than the previous ratings (in the case of a downgrade) or are the same (in all other cases);
>
> (3) such Alternate Liquidity Facility must be issued by a banking institution or other entity satisfactory to the Corporation and must have a term extending at least one (1) year from its effective date;

(4) the Alternate Liquidity Facility shall provide that funds shall be provided for the purposes, in the amounts and at the times as provided for in the Liquidity Facility;

(5) all amounts owing to the issuer of the initial Liquidity Facility under the Liquidity Facility shall be paid including any Bonds purchased pursuant to the Liquidity Facility;

(6) written notice of the effectiveness of the Alternate Liquidity Facility or Supplemental Liquidity Facility shall have been given to Moody's, S&P and the Remarketing Agent; and

(7) any other requirements or required Affirmations contained in the applicable Series Resolution.

(c) The Trustee shall mail a notice to all Bondholders not less than fifteen (15) days prior to the proposed effective date of the replacement of the Liquidity Facility with the Alternate Liquidity Facility which shall (i) state such proposed effective date, (ii) to the extent such information is available to the Trustee, describe the Alternate Liquidity Facility and the issuer thereof, (iii) state that written confirmation described in Section 11.18(b)(2) above is expected to be received from Moody's and S&P and (iv) any other information deemed to be appropriate by the Trust or the Trustee.

(d) Upon receipt of an Alternate Liquidity Facility, the Trustee shall mail a notice to all Bondholders stating the name of the issuer of the Alternate Liquidity Facility, the date it became effective and the new ratings on the Bonds, or any confirmation of ratings, issued by Moody's and S&P.

DEFEASANCE; MISCELLANEOUS PROVISIONS

Defeasance. (A) If the Corporation shall pay or cause to be paid to the Owners of the Bonds, the principal and interest to become due thereon, at the times and in the manner stipulated therein and in the Resolution, and there shall be no moneys owed the Bond Insurer under the Resolution, then the pledge of any Revenues and other moneys, securities, funds and property pledged and all other rights granted under the Resolution shall be discharged and satisfied except as otherwise provided in Section 5.8 of the Resolution. In such event, the Trustee shall, upon the request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Banking Entities shall pay over or deliver to the Corporation all moneys or securities held by them pursuant to the Resolution which are not required for the payment or redemption of the Bonds or for the payment of amounts owing under the Insurance Agreement to the Bond Insurer. The Trustee is authorized to transfer all moneys or securities held by it, at the direction of the Corporation, with the consent of the Bond Insurer, to secure any obligations owing under the Insurance Agreement. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the Outstanding Bonds, the redemption price and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the Corporation to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) The Bonds or interest installments for the payment or redemption of which moneys have been set aside and have been held in trust by the Banking Entities (through deposit by the Corporation of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. All or a portion of the Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case said Bonds are to be redeemed on any date prior to its maturity, the Corporation shall have given to the Trustee and the Bond Insurer in form satisfactory to it irrevocable instructions to give, as provided in Article VI of the Resolution, notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either Available Moneys in an amount which shall be sufficient, or Investment Securities purchased with Available Moneys, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Bond is not by its terms subject to redemption within the next succeeding sixty days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable, notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal due on said Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and interest payments on the Bonds and any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, and if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities means and includes only such obligations as are described in clauses (1) and (2) of the definition of Investment Securities herein.

(C) Notwithstanding anything in the Resolution to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Corporation until the Bond Insurer has been paid as subrogee and reimbursed pursuant to the Insurance Agreement as evidenced by a written notice of the Bond Insurer delivered to the Trustee and the Bond Insurer shall be deemed to be Bondowner thereof to the extent of any payments made by the Bond Insurer. Bonds owned by the Corporation which have been pledged in good faith may be regarded as Outstanding if the pledgee certifies to the Trustee the pledgee's right to act with respect to such Bonds and that the pledgee is not the Corporation. The assignment and pledge and all covenants, agreements and other obligations of the Corporation 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.

No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of the Corporation contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Corporation and not of any officer or employee of the Corporation in such person's individual capacity, and no recourse shall be had for the payment of the principal of or interest on the Bond or for any claim based thereon or on the Resolution against any officer or employee of the Corporation or any natural person executing the Bonds.

GENERAL PROVISIONS RELATING TO THE BOND INSURER

Consent of Bond Insurer. Notwithstanding anything to the contrary in the Resolution, any provision of the Resolution expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer without the prior written consent of the Bond Insurer.

Default of the Bond Insurer. The right of the Bond Insurer to elect remedies or direct proceedings under the Resolution shall be suspended during any period that the Bond Insurer shall be in default under the Bond Insurance Policy. In the event that the Bond Insurer is in default of its payment obligation under the Bond Insurance Policy, except as otherwise noted in the Resolution, the remedies shall be elected and proceedings shall be directed pursuant to a vote of 51% of the Owners of Outstanding principal amount of the bonds of the Series of bonds secured by such Bond Insurance Policy; provided, however, that in all cases, Bonds owned by the Corporation shall be disregarded and not deemed to be Outstanding and only Bonds which the Trustee knows to be so owned shall be disregarded.

Replacement or Supplementation of the Bond Insurance Policy. (A) If, at any time, the Corporation receives notice that the rating of the claims-paying ability of the Bond Insurer has fallen below Aa3/Aa- by Moody's or S&P, respectively, the Corporation, in its discretion, may replace (in the case of Bonds issued under a Series Resolution or Supplemental Resolution thereto expressly permitting replacement of the applicable Bond Insurance Policy) or (in all cases) supplement the Bond Insurance Policy insofar as it secures Bonds that bear interest at rates other than a Fixed Rate with a Replacement or Supplemental Bond Insurance Policy, as the case may be, issued by a Bond Insurer whose claims-paying ability is then rated Aa3/AA- or higher, by Moody's and S&P, respectively.

(B) Upon the occurrence of the events specified in paragraph (A) above, the Trustee shall accept the Replacement Bond Insurance Policy, only upon satisfaction of the following conditions:

(1) receipt of an opinion or opinions of counsel stating that (i) such Replacement Bond Insurance Policy meets the requirements and complies with the conditions of this section, (ii) the Replacement Bond Insurance Policy constitutes a legal, valid, and binding obligation of the obligor thereon and is enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws for the relief of debtors and by general principles of equity which permit the exercise of judicial discretion) and (iii) the use of the Replacement Bond Insurance Policy will not

adversely affect any exclusion of the interest on any Bond from the gross income, as defined in the Code, of the Owner thereof for federal income tax purposes;

(2) such Replacement Bond Insurance Policy must provide for the payment of principal of and interest on the Outstanding Bonds of the Series of Bonds that were secured by the Bond Insurance Policy as is being replaced in form and substance at least as favorable as the provisions of such Bond Insurance Policy;

(3) the payment in full of all amounts owing to the Bond Insurer under the Bond Insurance Policy, if any, unless the Bond Insurer is in default on its obligations under the Bond Insurance Policy or such payment is waived by the Bond Insurer; provided, however that such amounts shall not be paid by or with funds received from the provider of the Replacement Bond Insurance Policy unless the Bond Insurer expressly agrees to be paid by or with such funds;

(4) The Rating Agencies then rating the Bonds shall have confirmed in writing prior to the effective date of the Replacement Bond Insurance Policy that the provision of the Replacement Bond Insurance Policy will result in long-term ratings on the Bonds of the Series of Bonds to be secured by the Replacement Bond Insurance Policy of at least Aa3/AA-; and

(5) written notice of the effectiveness of the Replacement Bond Insurance Policy shall have been given to Moody's, S&P and the Remarketing Agent.

(C) The Trustee shall mail a notice to all Bondholders not less than fifteen (15) days prior to the effective date of the replacement of the Bond Insurance Policy with the Replacement Bond Insurance Policy and such notice shall (i) state the proposed effective date or replacement date, (ii) to the extent such information is available to the Trustee, describe the Replacement Bond Insurance Policy and the issuer thereof, (iii) state that the written confirmation described in Section 13.5(B)(4) above is expected to be received from Moody's and S&P prior to the effective date of the Replacement Bond Insurance Policy and (iv) any other information deemed to be appropriate by the Trustee.

(D) Upon receipt of a Replacement Bond Insurance Policy, the Trustee shall mail a notice to all Bondholders stating the name of the issuer of the Replacement Bond Insurance Policy, the date it became effective and the new ratings, or confirmation of ratings, on the Bonds of the Series of Bonds to be secured by the Replacement Bond Insurance Policy issued by Moody's and S&P.

Actions Requiring Bond Insurer Approval. The following actions under the Resolution shall require the prior written consent of the Bond Insurer:

(i) the adoption and delivery to the Trustee of any Supplemental Resolution, including a Series Resolution providing for the issuance of Additional Bonds;

(ii) removal of the Trustee and the appointment of a successor thereto;

(iii) the addition or replacement of a Liquidity Provider, Servicer or Guarantor;

(iv) any conversion of any of the 1998 Series Bonds to a different interest mode or, if the 1998 Series Bonds bear interest at an Auction Rate, any change in the length of an Auction Period or (A) from a period of 90 days or less to a period of greater than 90 days, (B) from a period of greater than 90 days to a period of 90 days or less, or (C) which results in the length of that period being a length of time that is more than 90 days different than the preceding period;

(v) investment of moneys from any Account in Investment Securities not specifically listed in the Resolution or a Series Resolution;

(vi) the extension of the recycling period for Principal Receipts pertaining to any Bonds;

(vii) an increase in the maximum percentage of Vermont EXTRA Loans, VSAC EXTRA Medical Loans, PLUS Loans, VSAC Law Loans, ERA Loans, HEAL Loans and Consolidation Loans allowed under the Resolution;

(viii) any change in economic characteristics of Statutory Loans, such as guarantee fee, repayment term, credit criteria, underwriting criteria or interest rate formula;

(ix) an increase in the amount of Program Expenses that may be transferred to the Operating Account;

(x) any loan forgiveness program other than the Vermont Value Program (as described in the Certificate and Agreement) are made; provided that prior written consent of the Bond Insurer shall not be necessary if such loan forgiveness program is necessary to preserve the exclusion of interest on any Bonds from gross income for federal income tax purposes, as determined by a Bond Counsel's Opinion; and

(xi) any other action which would require Bondowner consent.

Covenants and Notices to Bond Insurer. In the Resolution, various covenants and notice requirements are established in favor of the Bond Insurer. The Bond Insurer is to receive financial and other information from or with respect to the Corporation, Guarantors and Servicers, notice of certain action or inaction by or with respect to the Corporation, Guarantors, Servicers or the Trustee and Cash Flow Statements. The Bond Insurer also has certain rights with respect to the Servicer, including the right under certain circumstances to compel the Corporation to replace the Servicer with another Servicer reasonably acceptable to the Bond Insurer. Breach of these covenants and notice requirements can result in an Event of Default under the Resolution.

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ARC AUCTION PROCEDURES

The Auction Procedures for the Senior Series 1998K, 1998L and 1998M Bonds and the Subordinate Series 1998O Bonds are as set forth below. **These procedures will apply separately to an Auction of Bonds of a Series of 1998 Bonds that are ARCs.** All of the terms used in this Appendix B are defined herein or in other parts of this Official Statement.

Definitions

"'AA' Composite Commercial Paper Rate," on any date of determination, means (i) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by Standard & Poor's Ratings Group, or the equivalent of such rating by Standard & Poor's Ratings Group, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination: or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the commercial paper dealers, to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination; provided that if any commercial paper dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, the "AA" Composite Commercial Paper Rate shall be determined on the basis of such quotation or quotations furnished by the remaining commercial paper dealer or commercial paper dealers and any substitute commercial paper dealer or substitute commercial paper dealers selected by the Corporation to provide such quotation or quotations not being supplied by any commercial paper dealer or commercial paper dealers, as the case may be, or if the Corporation does not select any such substitute commercial paper dealer or substitute commercial paper dealers by the remaining commercial paper dealer or commercial paper dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (A) 100 times (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1% of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360.

"After Tax Equivalent Rate," on any date of determination, means the interest rate per annum equal to the product of:

(a) the "AA" Composite Commercial Paper Rate on such date; and

(b) 1.00 minus the Statutory Corporate Tax Rate on such date.

"All-Hold Rate" on any date of determination, means the interest rate per annum equal to 90% (as such percentage may be adjusted pursuant to the 1998 Fifth Series Resolution) of the lesser on such date of:

(a) the After Tax Equivalent Rate on such date; and

(b) the Kenny Index on such date;

rounded to the nearest one-thousandth (.001) of 1%; provided that in no event shall the All-Hold Rate be more than the Maximum Rate or less than zero.

"Applicable Number of Business Days" means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

"Applicable Percentage," on the date of determination, means the percentage determined (as such percentage may be adjusted pursuant to the Resolution) based on the lower of the prevailing credit ratings on the ARCs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

Credit Ratings

Standard & Poor's Ratings Services	Fitch ICBA, Inc.	Applicable Percentage
"AAA"	"AAA"	175%
"AA-" to "AA+"	"AA-" to "AA+"	175
"A-" to "A+"	"A-" to "A+"	175
"BBB-" to "BBB+"	"BBB-" to "BBB+"	200
Below "BBB-"	Below "BBB-"	265

provided, that, in the event that the ARCs are not rated by any nationally recognized rating agency, the Applicable Percentage shall be 265%; and provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%. For purposes of this definition, Standard & Poor's Ratings Services' rating categories of "AAA," "AA," "A" and "BBB," and Fitch IBCA, Inc. rating categories of "AAA," "AA," "A" and "BBB," refer to and include the respective rating categories correlative thereto if any or all of such rating agencies have changed or modified their generic rating categories or if they no longer rate the ARCs and have been replaced.

"Auction Agency Agreement" means the Auction Agency Agreement dated as of June 1, 1998, between the Trustee and the Auction Agent, for the ARCs and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

"Auction Agent" means any person appointed as such pursuant to the Resolution.

"Auction Date" means for the 1998 Bonds outstanding as ARCs, July 15, 1998 in the case of the Senior Series 1998K Bonds, July 22, 1998 in the case of the Senior Series 1998L Bonds, July 29, 1998 in the case of the Senior Series 1998M and August 5, 1998 in the case of the Subordinate Series 1998O Bonds and thereafter, in each instance the Business Day immediately preceding the first day of each Interest Period other than;

(a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository;

(b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or

(c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to Schedule A of the Fifth Supplemental Resolution.

"Auction Period" means, with respect to any ARCs, the Interest Period applicable thereto as the same may be changed pursuant to the Resolutions.

"Auction Rate" means the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures as determined and described herein.

"Broker-Dealer" means PaineWebber Incorporated or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has a capital surplus of at least $50,000,000, (c) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld, and (d) has entered into a Broker-Dealer Agreement that remains effective.

"Broker-Dealer Agreement" means the Broker-Dealer Agreement dated as of June 1, 1998 between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

"*Business Day*" means any day other than April 14 and 15, December 30 and 31, a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close or such other date as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the Corporation.

"*Change of Preference Law*" means, with respect to any Owner of ARCs, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulations promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

"*Default Rate*" on any date of determination, means the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the Kenny Index and (2) the Maximum Interest Rate.

"*Existing Owner*" means a person who has signed a Master Purchaser's Letter and is listed as the owner of ARCs in the records of the Auction Agent.

"*Fixed Rate*" means the fixed rate or rates of interest on any Senior Series K, Senior Series L, Senior Series M or Subordinate Series O Bonds determined pursuant to the Resolution.

"*Fixed Rate Conversion Date*" means a date on which any of the Senior Series K, Senior Series L, Senior Series M or Subordinate Series O Bonds begin to bear interest at a Fixed Rate as provided in Schedule A to the Fifth Supplemental Resolution.

"*Initial Interest Period*" means the period from and including the date of delivery of the 1998 Bonds and ending on and including July 15, 1998 with respect to the Senior Series 1998K Bonds, on July 22, 1998 with respect to the Senior Series 1998L Bonds, on July 29, 1998 with respect to the Senior Series 1998M Bonds and August 5, 1998 with respect to the Subordinate Series 1998O Bonds.

"*Interest Payment Date*" means, with respect to the Senior Series K, Senior Series L, Senior Series M or Subordinate Series O Bonds, (a) while outstanding as ARCs, (i) each June 15 and December 15, commencing December 15, 1998, except as changed as described in the Resolution, (ii) any day on which the 1998 Bonds are subject to mandatory tender for purchase pursuant to the Resolution or redemptions pursuant to the Resolution, and (iii) on the maturity date thereof, or if such date is not a Business Date, the next succeeding Business Day (but only for interest accrued through the preceding June 14 on December 14, as the case may be), (b) after the Variable Rate Conversion Date each June 15 and December 15 next following the Variable Rate Conversion Date, on any day on which the Senior Series K, Senior Series L, Senior Series M and Subordinate Series O Bonds are subject to mandatory tender for purchase pursuant to the Resolution, or redemption pursuant to the Resolution, and (c) after the Fixed Rate Conversion Date, each June 15 and December 15 commencing with the June 15 or December 15 that occurs no sooner than three months after the Fixed Rate Conversion Date.

"*Interest Period*" means, with respect to ARCs, (a) so long as interest is payable on June 15 or December 15 with respect thereto and unless otherwise changed as described in the Resolution, the Initial Interest Period and each successive 35-day period thereafter, respectively, commencing on a Thursday and ending on (and including) a Wednesday (or such other changed period), and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period as described in the Resolution, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"*Kenny Index*" means the index most recently made available by Kenny S&P Evaluation Services ("Kenny") or any successor thereto (the "Indexing Agent") based upon 30-day yield evaluations at par of securities, the interest on which is excluded from gross income for federal income tax purposes under the Code, of not less than five "Intermediate Grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The securities on which the Kenny Index is based shall not include any securities the interest on which is subject to a "minimum tax" or similar tax under the Code, unless all such securities are subject to such tax. In the event that Kenny no longer publishes an index satisfying the above definition of the Kenny Index or the Market

Agent reasonably concludes that the Kenny Index will not be announced in a timely manner, then the Market Agent shall announce a rate based upon the same criteria used by Kenny to determine the Kenny Index and the rate announced by the Market Agent for each Auction Date thereafter shall be used in lieu of the Kenny Index for each Auction Date.

"*Market Agent Agreement*" means the Market Agent Agreement dated as of June 1, 1998, between the Trustee and the Market Agent for the ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

"*Maximum Interest Rate*" means the lesser of (a) 14% per annum or (b) the maximum rate of interest permitted under Vermont law.

"*Maximum Rate,*" on any date of determination, means the interest rate per annum equal to the lesser of:

(a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date and (ii) the Kenny Index on such date; and

(b) the Maximum Interest Rate;

rounded to the nearest thousandth (.001) of 1%.

"*Owner*" means the beneficial owner of any offered Bond.

"*Participant*" means a member of or participant in the Depository.

"*Payment Default*" means failure by the Corporation to make payment of interest on, premium, if any, and principal of the ARCs when due, followed in the case of the Senior Series 1998 Bonds, by a default by the Bond Insurer under the Bond Insurance Policy therefor.

"*Person*" means and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

"*Potential Owner*" means any Person, including any Existing Owner, (a) who shall have executed a Master Purchaser's Letter and (b) who may be interested in acquiring ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of ARCs).

"*Prevailing Market Conditions*" means, to the extent relevant (in the professional judgment of the Remarketing Agent) at the time of establishment of a Fixed Rate or Variable Rate for the Senior Series K, Senior Series L, Senior Series M and Subordinate Series O Bonds as provided in the Resolution, (a) interest rates on comparable securities then being issued and traded; (b) other financial market rates and indices that may have a bearing on rates of interest; (c) general financial market conditions (including then current forward supply figures) that may have a bearing on rates of interest; and (d) the financial condition, results of operation and credit standing on the Corporation to the extent such standing has a bearing on rates of interest.

"*Record Date*" means, with respect to the Senior Series K, Senior Series L, Senior Series M and Subordinate Series O Bonds outstanding as ARCs, (a) so long as interest is payable with respect thereto on each June 15 and December 15, one Business Day prior to each Interest Payment Date and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as provided in the Resolution, the Applicable Number of Business Days immediately preceding each Interest Payment Date.

"*Redemption Date*", when used with respect to any ARCs to be redeemed, means the date fixed for such redemption.

"*Remarketing Agent*" means PaineWebber Incorporated, as such other remarketing agent appointed by the Corporation pursuant to the Resolution.

"*Statutory Corporate Tax Rate*" means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in

Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, which on the date hereof is 35%.

"Submission Deadline" means 1:00 p.m. (New York City time), on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

"*Variable Rate*" means the variable rate or rates of interest, or manner of determining the same, on any Senior Series 1998K, Senior Series 1998L, Senior Series 1998M or Subordinate Series 1998O Bonds determined pursuant to the provisions of the Resolution.

"*Variable Rate Conversion Date*" means a date on which any Senior Series 1998K, Senior Series 1998L, Senior Series 1998M and Subordinate Series 1998O Bonds begin to bear interest at a Variable Rate as provided in the Resolution.

"*Winning Bid Rate*" is used as defined herein under Section (c)(1)(C).

Introduction

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by DTC; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than two business days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, auctions shall be conducted in the following manner (such procedures to apply separately to each Series of ARCs):

(a) *Order By Existing Owners and Potential Owners.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to: (1) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period; (2) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or (3) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3) or (B) of this subsection (a)(i) is hereinafter referred to as an "Order" and collectively as "Orders." Each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders." An Order containing the information referred to in clause (A)(1) of this subsection (a)(i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders." An Order containing the information referred to in clause (A)(2) or (B) of this subsection (a)(i) is hereinafter referred to as a "Bid" and collectively as "Bids." An order containing the information referred to in clause (A)(3) of this subsection (a)(i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding

ARCs to be determined as set forth in clause (c) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell: (i) the principal amount of Outstanding ARCs specified in such Sell Order; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (c) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

(b) *Submission by Broker-Dealers to the Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Order obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order,

(B) the aggregate principal amount of ARCs that are the subject of such Order,

(C) to the extent that such Bidder is an Existing Owner: (1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Owner; (2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and (3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Owner, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess; such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of ARCs equal to such excess; (3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to $50,000 or any multiple thereof shall be rejected.

(viii) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates in the Submitted Bids.

(c) *Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.*

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether (1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Rate; exceeds or is equal to the sum of : (2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Rate; and (3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (2) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(aa) each such Submitted bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (2)(aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted, the result would be that such Existing Owner described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.* Existing Owners shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of subsection (c), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owners' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) above, any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer Submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-

Dealer shall deliver, or from which other Broker-Dealers acting for one or more Sellers such Broker-Dealer shall receive, as the case may be, ARCs.

ARC SETTLEMENT PROCEDURES

Capitalized terms used herein shall have the respective meanings specified in Appendix A or Appendix B of this Official Statement.

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the next Interest Period;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders if different than the aggregate principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Owners on whose behalf such Broker-Dealer acted by one or more Potential Owners on whose behalf each of such other Buyer's Broker-Dealers acted;

(vi) if the principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the agent member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Owners on whose behalf such Broker-Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker-Dealers acted;

(vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and

(viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment thereto;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Date for the next Interest Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to the Participant of the Existing Owner delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Owner selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARCs that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Owner. In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure for the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agency Agreement and the Broker-Dealer Agreement.

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AUCTIONS TO DETERMINE SAVRS RATE

Set forth below is a description of various auction provisions that relate to the Senior Series 1998N Bonds that bear interest at the SAVRS Rate. All of the terms used in this Appendix are defined herein, in Appendix E to the Official Statement or in the Official Statement.

General

SAVRS Auction Dates. Except as otherwise described herein, a SAVRS Auction to determine the SAVRS Rate for each Subsequent SAVRS Auction Period will be held on the Business Day immediately preceding the first day of such Subsequent SAVRS Auction Period (each a "SAVRS Auction Date"). The first SAVRS Auction for Senior Series 1998N Bonds will be held on July 22, 1998. Thereafter, SAVRS Auctions for the Senior Series 1998N Bonds will normally be held every fifth Wednesday, and each Subsequent SAVRS Auction Period will normally begin on the following Thursday. The SAVRS Auction Date and the first day of the related SAVRS Auction Period (both of which must be Business Days) need not be consecutive days.

Change of SAVRS Auction Period. The Corporation, with the prior written consent of the Bond Insurer or other credit provider, if any, for the Senior Series 1998N Bonds that bear interest at the SAVRS Rate, and subject to certain other conditions set forth in the Resolution, may change the length of a single SAVRS Auction Period by means of a written notice delivered at least ten days prior to the SAVRS Auction Date for such SAVRS Auction Period to the Trustee, the Market Agent, the Auction Agent and DTC. Any SAVRS Auction Period established by the Corporation may not exceed 365 days in duration. The length of a SAVRS Auction Period may not be changed unless Sufficient Clearing Bids existed at both the SAVRS Auction immediately preceding the date the notice of such change was given and the SAVRS Auction immediately preceding such changed SAVRS Auction Period.

A change in the length of a SAVRS Auction Period shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the change in the SAVRS Auction Period, a certificate from the Corporation authorizing the change in the SAVRS Auction Period, which shall be specified in such certificate, and confirming that Bond Counsel expects to be able to give a Bond Counsel Opinion on the first day of such SAVRS Auction Period, (B) Sufficient Clearing Bids exist at the SAVRS Auction on the SAVRS Auction Date for such SAVRS Auction Period, and (C) the Trustee and the Auction Agent receive, by 9:30 a.m. (New York City time) on the first day of such SAVRS Auction Period, a Bond Counsel Opinion to the effect that the change in the SAVRS Auction Period is authorized by the Resolution, is permitted by the Act and will not have an adverse effect on the exclusion of interest on the Bonds of such series of Bonds from gross income for federal tax purposes. If the condition referred to in (A) above is not met, the SAVRS Rate for the next succeeding SAVRS Auction Period shall be determined pursuant to the Auction Procedures and the next succeeding SAVRS Auction Period shall be a Standard SAVRS Auction Period. If any of the conditions referred to in (B) or (C) above is not met, the SAVRS Rate for the next succeeding SAVRS Auction Period shall equal the Maximum SAVRS Rate as determined as of such SAVRS Auction Date.

Change in the Interest Rate Mode. The Corporation, with the prior written consent of the Bond Insurer or other credit provider, if any, for the Senior Series 1998N Bonds, may effect a change in the interest rate (a "Change in the Interest Rate Mode") of the Bonds of such series that do not bear interest at a Fixed Rate to a Money Market Municipal Rate, a SAVRS Rate, a Weekly Rate or an Annual Rate or may convert the Bonds of such series of Bonds to bear interest at a Fixed Rate to maturity. Such Change in the Interest Rate Mode or the establishment of a Fixed Rate shall be specified in a written notice delivered to the Trustee, the Bond Insurer or other credit provider, if any, with respect to such Bonds, the Remarketing Agent and the Registrar and Paying Agent (and to the Auction Agent, the Market Agent and DTC if such Change in the Interest Rate Mode is to or from a SAVRS Rate) not less than 35 days nor more than 45 days prior to the proposed effective date of the Change in the Interest Rate Mode or the establishment of a Fixed Rate. A Change in the Interest Rate Mode from a SAVRS Rate or the conversion from a SAVRS Rate to a Fixed Rate may only be effected on the last day of a SAVRS Auction Period. The Trustee shall mail a notice of the Change in the Interest Rate Mode or the establishment of a Fixed Rate to all Bondowners of the Bonds of such series of Bonds within three (3) days of the receipt of such notice from the Corporation. Additionally, the Auction Agent shall mail a notice of the Change in the Interest Rate Mode or the establishment of a Fixed Rate to the beneficial Owners of the Bonds of such series of Bonds for which an address is known if such Bonds are registered in the name of DTC or its nominee.

THE SENIOR SERIES 1998N BONDS ARE SUBJECT TO MANDATORY TENDER FOR PURCHASE UPON A CHANGE N THE INTEREST RATE MODE OR THE ESTABLISHMENT OF A FIXED RATE FOR SUCH BONDS AND THE OWNERS OF SUCH BONDS HAVE NO RIGHT TO RETAIN THE BONDS. All Senior Series 1998N Bonds will be purchased on the effective date for the Change in the Interest Rate Mode or the conversion to a Fixed Rate for such Bonds at a price equal to the principal amount thereof, and accrued interest thereon to the effective date of the Change in the Interest Rate Mode or the Fixed Rate Conversion Date, if any, as appropriate. Former Owners of such Bonds will not thereafter be entitled to interest and shall only be entitled to the Purchase Price of the Bonds as aforesaid.

A Change in the Interest Rate Mode or the establishment of a Fixed Rate with respect to the Senior Series 1998N Bonds will only be effective pursuant to the Resolution if:

(a) the Trustee and the Auction Agent receive a certificate of an Authorized Officer of the Corporation by no later than the tenth day prior to the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, stating that a written agreement between the Corporation and the Remarketing Agent to remarket such Bonds on such effective date at a price of 100% of the principal amount thereof has been entered into and that, in the case of a Change in the Interest Rate Mode (other than to a SAVRS Rate), a Liquidity Facility is in effect or has been obtained by the Corporation with respect to such Bonds and shall be in effect prior to such Change in the Interest Rate Mode and thereafter for a period of at least one year;

(b) the Trustee and the Auction Agent receive by 11:00 a.m. (New York City time) on the Business Day prior to the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, by telex, telecopy or other similar means, a certificate from the Corporation (x) authorizing the establishment of the new Adjustable Rate or the Fixed Rate, as applicable, and (y) confirming that Bond Counsel expects to be able to give the opinion on the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, to the effect that such Change in the Interest Rate Mode or the establishment of a Fixed Rate is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Bonds from gross income for federal income tax purposes;

(c) the Trustee and the Auction Agent (and the Market Agent in the case of any Change in the Interest Rate Mode to or from a SAVRS Rate) receive by 9:30 a.m. (New York City time) on the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, a Bond Counsel Opinion to the effect that such Change in the Interest Rate Mode or the establishment of a Fixed Rate is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Bonds from gross income for federal income tax purposes;

(d) the Trustee and the Auction Agent receive by 4:00 p.m. (New York City time) on the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, a certificate from the Corporation that all of such Bonds tendered or deemed tendered have been purchased at a price equal to the principal amount thereof with funds provided from the remarketing of such Bonds in accordance with the Remarketing Agreement or, in the case of a Change in the Interest Rate Mode (other than to a SAVRS Rate), from the proceeds of the Liquidity Facility; and

(e) with respect to any Change in the Interest Rate Mode to an Adjustable Rate (other than a SAVRS Rate) a Liquidity Facility meeting the requirements of the Resolution has been delivered to the Trustee not less than one Business Day prior to the effective date of such Change in the Interest Rate Mode and is, by its terms, in effect prior to such effective date.

If any of the conditions referred to in (a) or (b) above is not met with respect to any Change in the Interest Rate Mode from a SAVRS Rate or the establishment of a Fixed Rate from a SAVRS Rate, the SAVRS Rate for the next succeeding SAVRS Auction Period shall be determined pursuant to SAVRS Auction Procedures. If any of the conditions referred to in (c), (d) or (e) above is not met with respect to any Change in the Interest Rate Mode from a SAVRS Rate or the establishment of a Fixed Rate from a SAVRS Rate, the SAVRS Rate for the next succeeding SAVRS Auction Period shall be equal to the Maximum SAVRS Rate as determined on such SAVRS Auction Date. If a Change in the Interest Rate Mode (other than from a SAVRS Rate) or the conversion to a Fixed Rate (other than from a SAVRS Rate) does not become effective, such Bonds will continue to bear interest at the then Current Adjustable Rate.

Auction Agency Agreement. The Trustee shall enter into an auction agency agreement with respect to the Senior Series 1998N Bonds (the "Auction Agency Agreement") with The Bank of New York (together with any successor bank or trust company or other entity approved by the Bond Insurer or other credit provider, if any, for the Senior Series 1998N Bonds that bear interest at the SAVRS Rate and entering into a similar agreement with the Trustee, the "Auction Agent") which provides, among other things, that the Auction Agent will follow the SAVRS Auction Procedures for the purposes of determining the SAVRS Rate so long as the SAVRS Rate is to be based on the results of a SAVRS Auction. See "SAVRS Auction Procedures--Concerning the Auction Agent" below.

Market Agent Agreement. The Trustee shall enter into a market agent agreement with respect to the Senior Series 1998N Bonds (the "Market Agent Agreement") with Lehman Brothers Inc. (together with any successor as market agent approved by the Bond Insurer or other credit provider, if any, for the Senior Series 1998N Bonds that bear interest at the SAVRS Rate and entering into a similar agreement with the Trustee, the "Market Agent") which sets forth the Market Agent's duties and responsibilities with respect to a change in the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate in the event of a Change of Preference Law and the determination of the Lehman Brothers Money Market Municipal Index used to determine the Maximum SAVRS Rate and the Minimum SAVRS Rate.

Broker-Dealer Agreements. Each SAVRS Auction requires the participation of one or more broker-dealers. The Auction Agent shall enter into an agreement with Lehman Brothers Inc. ("Lehman") and may enter into similar agreements (collectively, the "Broker-Dealer Agreements") with one or more additional broker-dealers (collectively, the "Broker-Dealers") selected by the Trustee and approved by Lehman which provide for the participation of Broker-Dealers in Auctions.

SAVRS Auction Procedures

The following summary of the SAVRS Auction Procedures to be used with respect to SAVRS Auctions is qualified by reference to the SAVRS Auction Procedures attached to the Official Statement as Appendix E and set forth in the Resolution.

As used herein, (i) "Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of Bonds of a series of Bonds bearing interest at the SAVRS Rate, (ii) "Existing Holder" means a Broker-Dealer who is listed as the Beneficial Owner of Bonds of a series of Bonds bearing interest at the SAVRS Rate in the records of the Auction Agent, (iii) "Potential Beneficial Owner" means a customer of a Broker-Dealer that is not a Beneficial Owner of Bonds of a series of Bonds bearing interest at the SAVRS Rate but that wishes to purchase Bonds of a series of Bonds bearing interest at the SAVRS Rate, or that is a Beneficial Owner of Bonds of a series of Bonds bearing interest at the SAVRS Rate that wishes to purchase an additional principal amount of Bonds of a series of Bonds bearing interest at the SAVRS Rate and (iv) "Potential Holder" means a Broker-Dealer that is not an Existing Holder or that is an Existing Holder that wishes to become the Existing Holder of an additional principal amount of Bonds of a series of Bonds bearing interest at the SAVRS Rate.

Orders by Existing Holders and Potential Holders. Prior to the Submission Deadline on each SAVRS Auction Date with respect to the Bonds of a series of Bonds that bear interest at the SAVRS Rate:

(a) each Beneficial Owner may submit to a Broker-Dealer by telephone or otherwise a:

(i) Hold Order - indicating the principal amount of such Bonds, if any, that such Beneficial Owner desires to continue to hold without regard to the SAVRS Rate for the next SAVRS Auction Period;

(ii) Bid - indicating the principal amount of such Bonds, if any, that such Beneficial Owner offers to sell if the SAVRS Rate for the next SAVRS Auction Period shall be less than the rate per annum specified in such Bid by such Beneficial Owner; and/or

(iii) Sell Order - indicating the principal amount of such Bonds, if any, that such Beneficial Owner offers to sell without regard to the SAVRS Rate for the next SAVRS Auction Period; and

(b) Broker-Dealers may contact customers who are Potential Beneficial Owners by telephone or otherwise to determine whether such customers desire to submit Bids, in which they will indicate the principal amount of such Bonds that they offer to purchase if the SAVRS Rate for the next Auction Period is not less than the rates per annum specified in such Bids.

The communication to a Broker-Dealer of the foregoing information is herein referred to as an "Order" and, collectively, as "Orders." A Beneficial Owner or a Potential Beneficial Owner placing an Order is herein referred to as a "Bidder " and, collectively, as "Bidders." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder" and collectively as "Bidders."

An Order may be submitted only in a principal amount of $50,000 or any integral multiple thereof.

A Beneficial Owner may submit different types of Orders in a SAVRS Auction with respect to the Bonds of a series of Bonds that bear interest at the SAVRS Rate then held by such Beneficial Owner. A Bid placed by a Beneficial Owner specifying a rate higher than the Auction Rate determined in the Auction shall constitute an irrevocable offer to sell the Bonds subject thereto. A Beneficial Owner that submits a Bid to its Broker-Dealer having a rate higher than the Maximum SAVRS Rate on the Auction Date will be treated as having submitted a Sell Order to its Broker-Dealer. A Beneficial Owner that fails to submit to its Broker-Dealer prior to the Submission Deadline an Order or Orders covering the entire principal amount of Bonds of a series of Bonds that bear interest at the SAVRS Rate held by such Beneficial Owner will be deemed to have submitted a Hold Order to its Broker-Dealer covering the principal amount of Bonds held by such Beneficial Owner and not subject to Orders submitted to a Broker Dealer. A Sell Order shall constitute an irrevocable offer to sell the principal amount of Bonds of a series of Bonds that bear interest at the SAVRS Rate subject thereto. A Beneficial Owner that offers to purchase additional Bonds of a series of Bonds that bear interest at the SAVRS Rate is, for purposes of such offer, treated as a Potential Beneficial Owner. For information concerning the priority given to different types of Orders placed by Beneficial Owners, see "Submission of Orders by Broker-Dealers to Auction Agent" below.

The Maximum SAVRS Rate is the maximum rate per annum that can result from a SAVRS Auction as described below. Any Bid specifying a rate higher than the Maximum SAVRS Rate will (i) be treated as a Sell Order if submitted by a Beneficial Owner or an Existing Holder and (ii) not be accepted if submitted by a Potential Beneficial Owner or a Potential Holder. See "Determination of Sufficient Clearing Bids, Winning Bid Rate and SAVRS Rate" and "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds" in Appendix E to the Official Statement.

As used herein, "Maximum SAVRS Rate" means on any date of determination:

(i) except as provided in (ii) or (iii) below the interest rate per annum equal to, the Applicable Percentage (as defined below) multiplied by the higher of (A) the After-Tax Equivalent Rate determined with respect to a Standard Auction Period and (B) the Lehman Brothers Money Market Municipal Index;

(ii) with respect to any change in a SAVRS Auction Period including any automatic reversion to a Standard SAVRS Auction Period from a different SAVRS Auction Period and/or the Standard SAVRS Auction Period, the interest rate per annum equal to the highest of (a) the Applicable Percentage of the higher of the After-Tax Equivalent Rate as determined on such date with respect to a Standard SAVRS Auction Period and the Lehman Brothers Money Market Municipal Index, (b) the Applicable Percentage of the higher of the After-Tax Equivalent Rate as determined on such date with respect to the SAVRS Auction Period which is proposed to be established and the Lehman Brothers Money Market Municipal Index, and (c) the Applicable Percentage of the higher of the After-Tax Equivalent Rate as determined on such date with respect to the SAVRS Auction Period in effect immediately prior to such proposed change in the SAVRS Auction Period and the Lehman Brothers Money Market Municipal Index; or

(iii) with respect to any Change in the Interest Rate Mode from a SAVRS Rate or the conversion from a SAVRS Rate to a Fixed Rate, the interest rate per annum equal to the higher of (a) the Applicable Percentage of the higher of the After-Tax Equivalent Rate as determined on such date with respect to a Standard SAVRS Auction Period and the Lehman Brothers Money Market Municipal Index, and (b) the Applicable Percentage of the higher of the After-Tax Equivalent Rate as determined on such date with respect to the SAVRS Auction Period in effect immediately prior to such proposed change and the Lehman Brothers Money Market Municipal Index;

provided, that in no event shall the Maximum SAVRS Rate for the Senior Series 1998N Bonds bearing interest at the SAVRS Rate be greater than the lesser of 14.0 % or the maximum per annum rate permitted by Vermont law, as the same may be modified by United States law of general applicability.

"Applicable Percentage" means, with respect to the Senior Series 1998N Bonds on any date of determination, the percentage determined as set forth below based on the prevailing rating of such Bonds in effect at the close of business on the Business Day immediately preceding such date of determination:

Prevailing Rating	Applicable Percentage
"AAA" / "Aaa"	175%
"AA" / "Aa"	175%
"A" / "A"	175%
"BBB" / "Baa"	200%
Below "BBB" / "Baa"	265%

The above percentages may be adjusted by the Market Agent to reflect a Change in Preference Law. See "Changes in Percentages used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate" below.

For purposes of this definition, the "prevailing rating" of the Senior Series 1998N Bonds will be:

(a) "AAA"/ "Aaa," if such Bonds have a rating of "AAA" by Standard & Poor's Corporation ("S&P") and a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's"), or the equivalent of such rating by a substitute rating agency or agencies selected as provided below;

(b) if not "AAA"/ "Aaa," then "AA"/ "Aa" if such Bonds have a rating of "AA-" or better by S&P and a rating of "Aa3" or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below.

(c) if not "AAA"/ "Aaa" or "AA"/ "Aa," then "A"/ "A" if such Bonds have a rating of "A-" or better by S&P and a rating of "A3" or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below;

(d) if not "AAA"/ "Aaa," or "AA"/ "Aa," then "A"/ "A," then "BBB"/ "Baa" if such Bonds have a rating of "BBB-" or better by S&P and a rating of "Baa3" or better by Moody's, or equivalent of such ratings by a substitute rating agency or agencies selected as provided below; and

(e) if not "AAA"/"Aaa," "AA"/"Aa," "A"/"A" or "BBB"/"Baa" then Below "BBB"/"Baa," whether or not such Bonds are rated by any securities rating agency.

The Corporation shall take all reasonable action necessary to enable at least one nationally recognized statistical rating agency to provide ratings for the Senior Series 1998N Bonds that bear interest at the SAVRS Rate. If (x) the Senior Series 1998N Bonds that bear interest at the SAVRS Rate are rated by a nationally recognized statistical rating agency or agencies other than Moody's or S&P and (y) the Corporation has delivered to the Trustee and the Auction Agent an instrument designating one or two of such rating agencies to replace Moody's or S&P, or both, unless the replacement rating agency is Fitch, in which case no such instrument need be delivered, then for purposes of the definition of "prevailing rating," Moody's or S&P, or both, will be deemed to have been replaced in accordance with such instrument or by Fitch, as the case may be; provided, however, that such instrument must be accompanied by the consent of the Market Agent unless the other rating agency is Fitch. For purposes of this paragraph, S&P's rating categories of "AAA," "AA-," "A-," and "BBB-," and Moody's rating categories of "Aaa," "Aa3," "A3" and "Baa3," refer to and include the respective rating categories correlative thereto in the event that either or both of such rating agencies have changed or modified their generic rating categories. If the prevailing ratings for the Senior Series 1998N Bonds that bear interest at the SAVRS Rate are split between categories set forth above for a series of Bonds, the lower rating will determine the prevailing rating.

As used herein "After-Tax Equivalent Rate," on any date of determination, means the interest rate per annum equal to:

Commercial Paper/Treasury Rate on such date times
(1.00 - Statutory Corporate Tax Rate on such date).

For purposes of the definition of After-Tax Equivalent Rate,

(i) "Commercial Paper/Treasury Rate" on any SAVRS Auction Date shall mean (A) in the case of any SAVRS Auction Period of less than 49 days, the interest equivalent on the 30-day rate, (B) in the case of any SAVRS Auction Period of 49 days or more but less than 70 days, the interest equivalent of the 60-day rate, (C) in the case of any SAVRS Auction Period of 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (D) in the case of any SAVRS Auction Period of 85 days or more but less than 99 days, the interest equivalent of the 90-day rate, (E) in the case of any SAVRS Auction Period of 99 days or more but less than 120 days, the arithmetic average of the interest equivalent of the 90-day and the 120-day rates, (F) in the case of any SAVRS Auction Period of 120 or more but less than 141 days, the interest equivalent of the 120-day rate, (G) in the case of any Auction Period of 141 days or more but less than 162 days, the arithmetic average of the interest equivalent of the 120-day and 180-day rates, (H) in the case of any Auction Period of 162 days or more but less than 183 days, the interest equivalent of the 180-day rate and (I) in the case of any SAVRS Auction Period of 183 days or more, the Treasury Rate for such Auction Period. The foregoing reference to "rate" or "rates" shall in all cases, except with respect to the Treasury Rate, be rates on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such SAVRS Auction Date, or in event that the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers, to the SAVRS Auction Agent for the close of business on the Business Day immediately preceding such SAVRS Auction Date. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Commercial Paper/Treasury Rate, the Commercial Paper/Treasury Rate shall be determined on the basis of a commercial paper quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer or Substitute Paper Dealers selected by the Corporation to provide such commercial paper rate or rates bot being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Corporation does not select any such Substitute Commercial Paper Dealer or Substitute Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (A) 100 times (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (i) 1.00 and (ii) a fraction the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 365; and

(ii) "Statutory Corporate Tax Rate," on any date of determination, means the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor section without regard to any minimum additional tax provisions regarding changes in rates during a taxable year; and

(iii) "Treasury Rate," on any date of determination for any SAVRS Auction Period, shall mean (A) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such SAVRS Auction Period, as quoted in The Wall Street Journal on such date for the Business Day next preceding such date; or (B) in the event that any such rate is not published in The Wall Street Journal, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity closest to the length of such SAVRS

Auction Period, based on bid price quotations on such date obtained by the Auction Agent from Lehman, Goldman, Sachs & Co., Salomon Brothers Inc and Morgan Guaranty Trust Company of New York, or their respective affiliates or successors, if such entity is a dealer of U.S. Government securities.

As used herein "Lehman Brothers Money Market Municipal Index," on any date of determination, means the interest index published by the Market Agent representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial paper mode, having a range of maturities or mandatory purchase dates between 25 and 36 days traded during the immediately preceding five Business Days.

If all Bonds of a series of Bonds that bear interest at the SAVRS Rate are subject to Submitted Hold Orders, such Bonds shall bear interest at the Minimum SAVRS Rate. As used herein, "Minimum SAVRS Rate," on any date of determination, means the interest rate per annum equal to 70% of the lower on such date of (i) the Lehman Brothers Money Market Municipal Index or (ii) the After-Tax Equivalent Rate. The percentage used to determine the Minimum SAVRS Rate may be adjusted by the Market Agent to reflect a Change in Preference Law. See the caption "Changes in Percentages used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate" below.

A Potential Beneficial Owner may submit to its Broker-Dealer a Bid in which it offers to purchase the principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate subject to such Bid if the Auction Rate determined in the Auction is not less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner specifying a rate not higher than the Maximum SAVRS Rate shall constitute an irrevocable offer to purchase the principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate specified in such Bid if the rate determined in the Auction is equal to or greater than the rate specified in such Bid.

As described more fully below and in Appendix E to the Official Statement under "Submission of Orders by Broker-Dealers to Auction Agent," the Broker-Dealers will submit the Orders of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves as Existing Holders in respect of the Bonds subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of the Bonds subject to Orders submitted to them by Potential Beneficial Owners.

However, neither the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent. Any Order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing Holder or a Potential Holder will be treated in the same manner as an Order placed with a Broker-Dealer by a Beneficial Owner or a Potential Beneficial Owner, as described above. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an Order in respect of any principal amount of Bonds held by it or its customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner's failure to submit to its Broker-Dealer an Order in respect of the principal amount of Bonds held by it, as described above. The principal amount of Bonds of a Series of Bonds purchased or sold may be subject to proration procedures. See "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds" in Appendix E to the Official Statement. Each purchase or sale of Bonds of a Series of Bonds that bear interest at the SAVRS Rate shall be made for settlement on the first Business Day following the SAVRS Auction Date at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to but excluding the Auction Settlement Date, except that if such Auction Settlement Date is also an Interest Payment Date, such price shall be equal to the principal amount of such SAVRS. See the caption "Notification of Results: Settlement" below. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

If an Order or Orders covering the entire outstanding principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate held by an existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, either because a Broker-Dealer failed to contact such Existing Holder or otherwise, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the outstanding principal amount of such Bonds held by such Existing Holder and not subject to Orders submitted to the Auction Agent.

Neither the Corporation nor any Affiliate thereof may submit an Order in any SAVRS Auction except as set forth in the following sentence. Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in a SAVRS Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds of a Series of Bonds that bear interest at the SAVRS Rate for its own account, it must submit a Sell Order on the next SAVRS Auction Date with respect to such Bonds.

Submission of Orders by Broker-Dealers to Auction Agent. Prior to 1:00 p.m., New York City time, on each SAVRS Auction Date, or such other time on the SAVRS Auction Date specified by the Auction Agent (the "Submission Deadline"), each Broker-Dealer will submit to the Auction Agent in writing all Orders obtained by it for the SAVRS Auction to be conducted on such SAVRS Auction Date designating itself as the Existing Holder or Potential Holder in respect of the principal amount of Bonds subject to such Orders.

Notification of Results; Settlement. The following summary of the SAVRS Settlement Procedures to be used with respect to SAVRS Auction is qualified by reference to the description of the SAVRS Settlement Procedures attached to the Official Statement as Appendix F.

The Auction Agent is required to advise each Broker-Dealer that submitted an Order of the SAVRS Rate for the next SAVRS Auction Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on each SAVRS Auction Date. Each Broker-Dealer that submitted an Order on behalf of a customer is required to then (i) advise such customer of the SAVRS Rate for the next SAVRS Auction Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected in whole or in part, (ii) confirm purchases and sales with each customer purchasing or selling Bonds of a Series of Bonds that bear interest at the SAVRS Rate as a result of the SAVRS Auction and (iii) advise each customer purchasing or selling Bonds of a Series of Bonds as a result of the SAVRS Auction to give instructions to its Agent Member of DTC to pay the purchase price against payment thereof, as appropriate. The Auction Agent will record each transfer of Bonds on the registry of Existing Holders to be maintained by the Auction Agent. See "General--Auction Agency Agreement" above.

In accordance with DTC's normal procedures, on the Business Day after the SAVRS Auction Date, the transactions described above will be executed through DTC and the accounts of the respective Agent Members at DTC will be debited and credited and Bonds of a Series of Bonds delivered as necessary to effect the purchases and sales of such Bonds as determined in the SAVRS Auction. Purchasers are required to make payments through their Agent Member in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in same-day funds.

If any Existing Holder selling in a SAVRS Auction Bonds of a Series of Bonds that bear interest at the SAVRS Rate fails to deliver such Bonds, the Broker-Dealer of any person that was to have purchased such Bonds in such SAVRS Auction may deliver to such person a principal amount of such Bonds that is less than the principal amount of Bonds that otherwise was to be purchased by such person but in any event equal to $50,000 or an integral multiple thereof. In such event, the principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of Bonds shall constitute good delivery.

Concerning the Auction Agent. The Bank of New York is the initial Auction Agent with respect to the Bonds that are SAVRS under the Resolution.

The Auction Agent is acting as agent for the Trustee in connection with SAVRS Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted of for any error of judgement made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining the pertinent factors.

The Auction Agent may terminate the Auction Agency Agreement upon notice to the Trustee and the Market Agent on a date no earlier than 90 days after such notice. If the Action Agent should resign or be removed, the Trustee is obligated to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agency Agreement.

Broker-Dealers. The Auction Agent after each SAVRS Auction will pay each Broker-Dealer, from funds provided by the Trustee from amounts received from the Corporation, a service charge at a rate equivalent to a capitalized rate of .25% of the aggregate purchase prices of Bonds of a Series of Bonds that bear interest at the SAVRS Rate placed by such Broker-Dealer at the SAVRS Auction. For purposes of the preceding sentence, Bonds of a Series of Bonds will be deemed to have been placed by a Broker-Dealer if such Bonds were (i) the subject of Hold Orders deemed to have been submitted by such Broker-Dealer for its account or that were acquired by such Broker-Dealer for its customers who are Beneficial Owners or (ii) the subject of an Order submitted by such Broker-Dealer that is (A) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such Bonds as a result of the Auction, (B) a

Submitted Bid of as Potential Holder that resulted in such Potential Holder purchasing such Bonds as a result of the SAVRS Auction or (C) a valid Hold Order.

Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in SAVRS Auctions but only if such orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds of a Series of Bonds that bear interest at the SAVRS Rate for its own account it must submit a Sell Order in the next SAVRS Auction.

If a Broker-Dealer submits an Order for its own account in any SAVRS Auction, it might have an advantage over other Bidders because it would have knowledge of Orders placed through it in that SAVRS Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers in the SAVRS Auction.

Changes in Percentages used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate. The Market Agent may adjust the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate if adjustment of such percentages is necessary, in the judgment of the Market Agent, to reflect any Change in Preference Law such that the Maximum SAVRS Rate and Minimum SAVRS Rate shall have substantially equal market values before and after such Change in Preference Law. The Resolution specifies certain factors to be taken into account by the Market Agent in making any such adjustment. A "Change in Preference Law" means any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date hereof, which (a) changes or should change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or should impose or reduces or would reduce or increases or should increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of Bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

An adjustment in the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate shall take effect on a SAVRS Auction Date only if (i) the Trustee and the Auction Agent receive by 11:00 a.m., New York City time, on the Business Day immediately preceding such SAVRS Auction Date a certificate from the Market Agent (A) authorizing the adjustment of the percentages which shall be specified in such authorization, and (B) confirming that Bond Counsel expects to be able to give an opinion on such SAVRS Auction Date, and (ii) the Trustee and the Auction Agent receive by 9:30 a.m., New York City time, on such SAVRS Auction Date written notice of any such change in percentages intended to take effect and an opinion of Bond Counsel. If a notice of adjustment in the percentages used to determine the Maximum SAVRS Rate and the Minimum SAVRS Rate applicable to the bonds of a Series of Bonds that bear interest at the SAVRS Rate is given by the Market Agent and such change does not occur because of a failure of either of the conditions contained in (ii) above, the SAVRS Rate for such Bonds for the next succeeding Subsequent SAVRS Auction Period will be equal to the Maximum SAVRS Rate on the SAVRS Auction Date for such SAVRS Auction Period.

The Market Agent is required to communicate its determination to adjust the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate by means of a written notice delivered at least 10 days prior to the SAVRS Auction Date on which the Market Agent desires to effect such adjustment to the Trustee, the Auction Agent and certain other specified parties. Such notice is required to state the determination of the Market Agent to change such percentages and the date such adjustment is to take effect, which shall be a SAVRS Auction Date. Such notice shall be effective only if it is accompanied by the form of Bond Counsel Opinion that Bond Counsel expects to be able to give on such SAVRS Auction Date. The Auction Agent is required to mail notice thereof to the Existing Holders of Bonds of a Series of Bonds that bear interest at the SAVRS Rate for which the Auction Agent has mailing addresses within two Business Days of receipt thereof. Existing Holders to whom any of the foregoing notices have been delivered should contact their respective Broker-Dealers to be given information regarding any of the foregoing changes.

Lehman Brothers Inc. has advised the Corporation that is intends initially to make a market for the Senior Series 1998N Bonds that bear interest at the SAVRS Rate between SAVRS Auctions; however, Lehman Brothers is not obligated to make such markets. Neither the Corporation nor Lehman Brothers can give any assurance that secondary markets therefore will develop.

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APPENDIX E

SAVRS AUCTION PROCEDURES

The Auction Procedures for the Senior Series 1998N Bonds, as the same are or will be defined in the applicable Series Resolution, will be substantially identical to the procedures summarized below. All of the terms used in this Appendix E are defined herein, in Appendix D to the Official Statement or in the Official Statement, except that for purposes of this Appendix E, "Bonds" shall refer to the bonds of a Series of Bonds that bear interest at the SAVRS Rate.

The following terms, except where the context indicates otherwise, shall have the respective meanings set forth below:

"Adjustable Rate" means any of the following types of interest rates: an Annual Rate, a Money Market Municipal Rate, a SAVRS Rate and a Weekly Rate.

"Affiliate" means any person known to the Auction Agent to be controlled by, in control of or under common control with the Corporation, provided that no Broker-Dealer controlled by, in control of or under common control with the Corporation shall be an Affiliate nor shall any corporation or any person controlled by, in control of or in common control with such corporation be an Affiliate solely because such director or executive officer is also a director of the Corporation.

"After-Tax Equivalent Rate" means, on any Auction Date, the interest rate of annum equal to the product of (i) the Commercial Paper/Treasury Rate on such date and (ii) 1.00 minus the Statutory Corporate Tax Rate on such date.

"Agent Member" means a member of, or participant in, the Securities Depository.

"Annual Period Record Date" means, with respect to each Interest Payment Date during an Annual Rate Period, the fifteenth day of the calendar month preceding such Interest Payment Date.

"Annual Rate" means with respect to the first day of each Calculation period during an Annual Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of such day as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and of such day to remarket Bonds in a secondary market transaction at a price equal to the principal amount thereof.

"Annual Rate Period" means any period during which the Bonds bear interest at an Annual Rate, which period shall commence on the effective date of a Change in the Interest Rate Mode to an Annual Rate, and shall extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agency Agreement" means the Auction Agency Agreement, dated as of June 1, 1998, between the Trustee and the Auction Agent and any similar agreement with a successor Auction Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented.

"Auction Date" means the Business Day immediately preceding the Auction Settlement Date for each Auction Period.

"Auction Period" means (a) the Initial Auction Period and, thereafter, after a Change in the Interest Rate Mode to a SAVRS Rate until the effective date of a Change in the Interest Rate Mode or the Stated Maturity Date, each period from and including the Auction Settlement Date for the immediately preceding Calculation Period, as the case may be, to but excluding the next succeeding Auction Settlement Date or, in the event of a Change in the Interest Rate Mode, to but excluding the effective date of such change.

"Auction Settlement Date" means the Initial Auction Settlement Date and each succeeding fifth Thursday thereafter; provided that if such day is not a Business Day, then the Auction Settlement Date shall be the next succeeding Business Day; provided, further, that if the Corporation, subject to the conditions set forth in Section 3.11 hereof, changes the length of an Auction Period, the next succeeding Auction Settlement Date shall be the first Business Day after the last day of such Auction Period and the next succeeding Auction Settlement Date shall be the succeeding fifth Thursday thereafter, subject to this and the foregoing proviso.

"Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of the Bonds bearing interest at a SAVRS Rate.

"Bond Counsel" means an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Corporation and satisfactory to the Trustee.

"Bonds" means for purposes of this Appendix E only, the Corporation's Senior Series 1998N (Education Loan Revenue Bonds) that initially bear interest at the SAVRS Rate or any series of Additional Bonds that bear interest at a SAVRS Rate.

"Broker-Dealer" means any broker or dealer (as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that is an Agent Member (or an affiliate of an Agent Member), has been selected by the Trustee, is acceptable to the Market Agent and has entered into a Broker-dealer Agreement that remains effective.

"Broker-Dealer Agreement" means each agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

"Business Day" means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or as notified to the Auction Agent in writing, in any city in which is located the principal corporate trust office of the Trustee or the Liquidity Facility will be made and, during any SAVRS Rate Period, April 14, April 15, December 30 and December 31.

"Calculation Period" means (a) during any Money Market Municipal Rate Period, any period or periods from and including a Business Day to and including any day not more than 365 days thereafter which is a day immediately preceding a Business Day established by the Remarketing Agent pursuant to the Resolution; and (b) during any Weekly Rate Period, with respect to a Change in the Interest Rate Mode to a Weekly Rate, the period from and including the effective date of the Change in the Interest Rate Mode to and including the following Wednesday, and, thereafter, the period from and including Thursday of each week to and including the following Wednesday; provided, however, if such Thursday is not a Business Day, such next succeeding Calculation Period shall begin on the Business Day next succeeding such Wednesday and such Calculation Period shall end on the day before such next succeeding Calculation Period and (c) during any Annual Rate Period, with respect to a change in the Interest Rate Mode to an Annual Rate, the period from and including the effective date of the Change in the Interest Rate Mode to but excluding the second succeeding Interest Payment Date and thereafter, each period from and including the day following the end of the last Calculation Period to but excluding the second succeeding Interest Payment Date.

"Change in the Interest Rate Mode" means any change in the type of interest rate borne by the Bonds as described in Appendix D.

"Change of Preference Law" means any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date hereof, which (I) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or removes or would remove or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

"Commercial Paper Dealers" means Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a commercial paper dealer.

"Computation Date" means each date which is one (1) Business Day prior to any Determination Date.

"Counsel" means an attorney or firm of attorneys.

"Counsel's Opinion" means an opinion signed by any Counsel.

"Current Adjustable Rate" means the interest rate borne by the Bonds immediately prior to a Change in the Interest Rate Mode or the establishment of a Fixed Rate.

"Date of Original Issuance" means June 24, 1998, the date on which the Corporation initially issued the Bonds.

"Determination Date" means, for any Calculation Period, the first Business Day occurring during such Calculation Period.

"Existing Holder" means a Broker-Dealer who is listed as the beneficial owner of Bonds during a SAVRS Rate period in the records of the Auction Agent.

"Fixed Rate" means, with respect to the Fixed Rate Period, the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no late than 12:00 noon (New York City time) on and as of the Fixed Rate Conversion Date as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such date to remarket the bonds of a series of Bonds that bear interest at a Fixed Rate in a secondary market transaction (i) at a price not to exceed 102% of the Outstanding principal amount thereof, provided that there shall be delivered to the Trustee a Bond Counsel Opinion to the effect that the determination of the Fixed Rate in accordance with this clause (i) would not have an adverse effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes, or if such Bond Counsel Opinion is not delivered to the Trustee, then (ii) at a price equal to 100% of the Outstanding principal amount thereof.

"Fixed Rate Period" means the period, if any, during which all or a portion of the Bonds bear interest at a Fixed Rate, which period shall commence on the Fixed Rate Conversion Date and extend through the Stated Maturity Date.

"Fixed Rate Record Date" means, with respect to each Interest Payment Date during the Fixed Rate Period, the last day of the month next preceding such Interest Payment Date, or, if such day shall not be a Business Day, the next preceding Business Day.

"Initial Auction Date" means July 22, 1998.

"Initial Auction Settlement Date" means July 23, 1998.

"Interest Payment Date" means:

(a) during each Money Market Municipal Rate Period, the Business Day immediately succeeding any Calculation Period;

(b) during a SAVRS Rate Period, (i) initially, each June 15 and December 15, commencing December 15, 1998 and (ii) after a Change in the Interest Rate Mode to a SAVRS Rate; the June 15 or December 15 next succeeding such Change in Interest Rate Mode; provided, however, that if the June 15 or December 15 next succeeding such Change in Interest Rate Mode occurs less than 21 days after such Change in Interest Rate Mode, the first Interest Payment Date shall be the second such date following such Change in Interest Rate Mode;

(c) during each Weekly Rate Period, the first Thursday of each month thereof;

(d) during each Annual Rate Period, (i) the first Business Day of the sixth and twelfth calendar months following the month in which the first day of such Annual Rate Period occurred and (ii) each anniversary of the date so determined in (i);

(e) the June 15 or December 15 next succeeding the Fixed Rate Conversion Date and each June 15 and December 15 thereafter; provided, however, that if the June 15 or December 15 next succeeding the Fixed

Rate Conversion Date occurs less than twenty-one (21) days after the Fixed Rate Conversion Date, the first Interest Payment Date shall be the second such date following the Fixed Rate Conversion Date;

(f) the Fixed Rate Conversion Date;

(g) any day on which Bonds are subject to mandatory tender for purchase pursuant to Section 5.04 or 5.05 hereof or redemption in whole pursuant to Sections 5.02 or 5.06 hereof; and

(h) the Stated Maturity Date;

provided, however, that if any such date determined in any of the foregoing clauses (other than (e)) is not a Business Day, the Interest Payment Date shall be the next succeeding day which is a Business Day, and during the Fixed Rate Period, if the Interest Payment Date is not on a Business Day, interest shall be paid for the Fixed Rate Period on the next succeeding Business Day but for interest accrued to but not including the Interest Payment Date.

"Lehman Brothers Money Market Municipal Index" means, on any Auction Date, the interest index published by the Market Agent representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial paper mode, having a range of maturities or mandatory purchase dates between 25 and 36 days traded during the immediately preceding five Business Days.

"Market Agent Agreement" means the Market Agent Agreement, dated as of June 1, 1998, between the Trustee and the Market Agent, and any similar agreement with a successor Market Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented.

"Minimum SAVRS Rate" means, on any date of determination, the rate per annum equal to 70% (as such percentage may be adjusted pursuant to the Resolution) of the lesser of (a) the After-Tax Equivalent Rate on such date and (b) the Lehman Brothers Money Market Municipal Index on such date.

"Money Market Municipal Period Record Date" means, with respect to each Interest Payment Date during a Money Market Municipal Rate Period, the Business Day next preceding such Interest Payment Date.

"Money Market Municipal Rate" means with respect to each Calculation Period during a Money Market Municipal Rate Period, a rate or rates of interest equal to the rate or rates of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the first day of such Calculation Period as the minimum rate or rates of interest per annum which, int eh opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Bonds in a secondary market transaction at a price equal to the principal amount thereof.

"Money Market Municipal Rate Period" means any period during which all or a portion of the Bonds bear interest at a Money Market Municipal Rate or Rates, which period shall commence on the effective date of a Change in the Interest Rate Mode to a Money Market Municipal Rate or Rates, as the case may be, and extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Option to Convert" means the Corporation's right and option to convert the rate of interest payable on the Bonds from an Adjustable Rate to the Fixed Rate as provided in the Resolution.

"Outstanding" means, as of any particular time, all Bonds which have been duly authenticated and delivered by the Trustee under the Resolution, except: Bonds in lieu of which other Bonds have been authenticated provided, however, that for the purposes of the SAVRS Auction Procedures on any SAVRS Auction Date, Bonds as to which the Corporation of any Person known to the Auction Agent to be an Affiliate of the Corporation shall be the Existing Holder thereof shall be disregarded and deemed not to be Outstanding, and further provided that the Bonds in respect of which the Bond Insurer has paid principal and/or interest pursuant to the Municipal Bond Insurance Policy shall be deemed to be "Outstanding" until such time at the Bond Insurer has been reimbursed in full thereunder.

"Overdue Rate" means, on any date, the interest rate per annum equal to the lesser of (i) 265% of the Lehman Brothers Money Market Municipal Index on such date and (ii) 14% per annum, provided that in no event shall the Overdue

Rate be more than the maximum rate permitted by Vermont law, as the same may be modified by United States law of general application.

"Payment Default" means (a) a default by the Corporation in the due and punctual payment of any installment of interest of any Bonds or (b) a default by the Corporation in the due and punctual payment of the principal of any Bonds whether at maturity or upon redemption or acceleration, which, in either such case, is followed by a default by the Bond Insurer in the due and punctual payments of the amounts due under the Municipal Bond Insurance Policy if amounts are then due under said Policy.

"Potential Beneficial Owner" shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of the Bonds bearing interest at a SAVRS Rate but that wishes to purchase Bonds bearing interest at a SAVRS Rate, or that is a Beneficial Owner of Bonds bearing interest at a SAVRS Rate that wishes to purchase an additional principal amount of Bonds bearing interest at a SAVRS Rate.

"Potential Holder" means a Broker-Dealer that is not an Existing Holder or that is an Existing Holder that wishes to become the Existing Holder of an additional principal amount of Bonds bearing interest at a SAVRS Rate.

"Rating Agency" means Moody's, S&P and Fitch IBCA, Inc.

"Rating Category" means one of the generic rating categories of a Rating Agency, without regard to any refinement or graduation of such rating category by a numerical modifier, plus or minus sign, or otherwise.

"Record Date" at any time, means each Annual Period Record Date during an Annual Rate Period, Money Market Municipal Period Record Date during a Money Market Municipal Rate Period, each SAVRS Period Record Date during a SAVRS Rate Period, each Weekly Period Record Date during a Weekly Rate Period and each Fixed Rate Record Date during the Fixed Rate Period.

"Registrar and Paying Agent" means, the Trustee or, if the Trustee is unable to perform such services as its principal office, shall mean a bank or trust company with its principal office located in New York, New York and which meets the requirements of Section 5.02 of Schedule B to the Resolution and agrees to be bound by the provisions hereof relating to the Registrar and Paying Agent or their respective successors or assigns in its separate capacity as Registrar and Paying Agent for the Bonds.

"Remarketing Agreement" means the remarketing agreement between the Corporation and the Remarketing Agent in a form satisfactory to the Trustee, the Bond Insurer, the Corporation and the Liquidity Facility Issuer.

"SAVRS Period Record Date" means, with respect to each Interest Payment Date during a SAVRS Rate Period, the Business Day next preceding such Interest Payment Date.

"SAVRS Rate" means, with respect to each Auction Period during a SAVRS Rate Period (other than the Initial Auction Period or an Initial Auction Period after a Change in the Interest Rate Mode to a SAVRS Rate), the rate of interest per annum determined for the Bonds that bear interest at a SAVRS Rate pursuant to the implementation of the Auction Procedures or, if such Auction is not held or is canceled hereunder, the rate determined pursuant to this Resolution.

"SAVRS Rate Period" means any period during which all or a portion of the Bonds bear interest at a SAVRS Rate, which period shall commence on the Date of Original Issuance or on the effective date of the Change in the Interest Rate Mode to a SAVRS Rate, as the case may be, and shall extend through the day immediately preceding the earlier of (a) the effective date of a Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Securities Depository" means 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 Corporation discontinues use of the Securities Depository pursuant to Section 2.7 of the Resolution, 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 Corporation with the consent of the Bond Insurer, the Trustee, the Auction Agent and the Market Agent.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Standard Auction Period" means an Auction period of 35 days.

"Stated Maturity Date" shall mean December 15, 2032.

"Statutory Corporate Tax Rate" means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provisions or provisions regarding changes in rates during a taxable year.

"Submission Deadline" means 1:00 p.m. (New York City time) on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Substitute Commercial Paper Dealer" means CS First Boston Corporation or Morgan Stanley & Co. Incorporated, or their respective affiliates or successors, if such person is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"Substitute U.S. Government Securities Dealers" means CS First Boston Corporation or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or their respective affiliates or successors, if such person is a dealer in U.S. Government securities, provided that neither such person nor any of its affiliates or successors is a U.S. Government Securities Dealer.

"Sufficient Clearing Bids" shall have the meaning set forth in Section 3.04(c)(i)(B)(2) hereof.

"Treasury Rate," on any date of determination for any Auction Period, means:

(i) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or

(ii) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealers.

"U.S. Government Securities Dealers" means Lehman Brothers Inc., Goldman, Sachs & Co., Salomon Brothers Inc. and J.P. Morgan Securities, Inc. or in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a U.S. Government securities dealer.

"Weekly Period Record Date" means, with respect to each Interest Payment Date during a Weekly Rate Period, the Business Day next preceding such Interest Payment Date.

"Weekly Rate" means with respect to each Calculation Period during a Weekly Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the bonds of a series of Bonds that bear interest at the Weekly Rate in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

"Weekly Rate Period" means any period during which all or a portion of the Bonds bear interest at a Weekly Rate which period shall commence with the effective date of a Change in the Interest Rate Mode to the Weekly Rate and shall extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Winning Bid Rate" shall have the meaning set forth in Section 3(c)(i)(c) hereof.

SAVRS Auction Procedures

Subject to the provisions of each applicable Series Resolution, Auctions for Bonds shall be conducted on each Auction Date in the following manner;

Orders by Existing Holders and Potential Holders

(a) (i) Prior to the Submission Deadline on each Auction Date:

(A) each Beneficial Owner of Bonds may submit to a Broker-Dealer information as to:

(1) the principal amount of Outstanding Bonds, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold without regard to the SAVRS Rate for the next succeeding Auction Period;

(2) the principal amount of Outstanding Bonds, if any, which such Beneficial Owner offers to sell if the SAVRS Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Beneficial Owner; and/or

(3) the principal amount of Outstanding Bonds, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell without regard to the SAVRS Rate for the next succeeding Auction Period; and

(B) one or more Broker-Dealers may contact Potential Beneficial Owners to determine the principal amount of Bonds which each such Potential Beneficial Owner offers to purchase if the SAVRS Rate for the next succeeding Auction Period shall not be less than the rate per annum specified by such Potential Beneficial Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(1) , (A)(2), (A)(3), or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders," and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in (x) clause (A)(1) of this paragraph (i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders," (y) clause (A)(2) or (B) of this paragraph (i) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(3) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder" and collectively as "Bidders."

(ii) (A) Subject to the provisions of subsection (b) of this Section, a Bid by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding Bonds specified in such Bid if the SAVRS Rate determined as provided in this Section shall be less than the rate specified therein; or

(2) such principal amount or a lesser principal amount of Outstanding Bonds to be determined as set forth in clause (D) of paragraph (i) of subsection (d) of this Section if the SAVRS Rate determined as provided in this Section shall be equal to the rate specified therein; or

(3) such principal amount of Outstanding Bonds if the rate specified therein shall be higher than the Maximum SAVRS Rate, or such principal amount or a lesser principal amount of Bonds to be determined as set forth in clause (C) of paragraph (ii) of subsection (d)

of this Section if the rate specified therein shall be higher than the Maximum SAVRS Rate and Sufficient Clearing Bids do not exist.

(B) Subject to the provisions of subsection (b) of this Section, a Sell Order by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding Bonds specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of Outstanding Bonds as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section if Sufficient Clearing Bids do not exist.

(C) Subject to the provisions of subsection (b) of this Section, a Bid by a Potential Beneficial Owner or a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding Bonds specified in such Bid if the SAVRS Rate determined as provided in this Section shall be higher than the rate specified therein; or

(2) such principal amount or a lesser principal amount of Outstanding Bonds as set forth in clause (E) of paragraph (i) of subsection (d) of this Section if the SAVRS Rate determined as provided in this Section shall be equal to the rate specified therein.

<u>Submission of Orders by Broker-Dealers to Auction Agent</u>

(b) (i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each Order, designating itself as an Existing Holder in respect of the principal amount of Bonds subject to Orders submitted or deemed submitted to it by Potential Beneficial Owners, and shall specify with respect to each Order:

(A) the name of the Bidder placing such Order (which shall be the Broker-Dealer);

(B) the aggregate principal amount of Bonds that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder;

(1) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(2) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(3) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Bonds held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Bonds held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) Neither the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder, Beneficial Owner, Potential Holder or Potential Beneficial Owner.

(v) If any Existing Holder submits to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Bonds held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Holder, and, if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Holder, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Bonds held by such Existing Holder;

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Bonds held by such Existing Holder over the aggregate principal amount of Bonds subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Bonds equal to such excess;

(3) subject to subclause (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(4) in any such event, the aggregate principal amount of Bonds, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Bonds held by such Existing Holder over the aggregate principal amount of Bonds subject to Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for Bonds is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Bonds not equal to $50,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Bonds not equal to $50,000 or an integral multiple thereof shall be rejected.

Determination of Sufficient Clearing Bid, Winning Bid Rate and SAVRS Rate

(c) (i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Bonds over the sum of the aggregate principal amount of Bonds subject to Submitted Hold Orders (such excess hereinafter referred to as the "Available Bonds"); and

(B) from the Submitted Orders whether the aggregate principal amount of Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum SAVRS Rate exceeds or is equal to the sum of:

(1) the aggregate principal amount of Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum SAVRS Rate; and

(2) the aggregate principal amount of Bonds subject to Submitted Sell Orders (in the event such excess or such equality exists (other than because the sum of the principal amounts of Bonds in subclauses (1) and (2) above is zero because all of the Bonds are the subject of Submitted Hold Orders), such Submitted Bids in subclause (B) above being hereinafter referred to collectively, as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (the "Winning Bid Rate") which if:

(1) (x) each such Submitted Bid from Existing Holders specifying such lowest rate and (y) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Bonds subject to such Submitted Bids; and

(2) (x) each such Submitted Bid from Potential Holders specifying such lowest rate and (y) all other Submitted Bids from Potential Holders specifying lower rates were accepted, would result in such Existing Holders described in subclause (1) above continuing to hold an aggregate principal amount of Bonds which, then added to the aggregate principal amount of Bonds to be purchased by such Potential Holders described in subclause (2) above, would equal not less than the Available Bonds.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall, by telecopy confirmed in writing, advise the Corporation and the Trustee of the Maximum SAVRS Rate and the Minimum SAVRS Rate and the components thereof on the Auction Date and, based on such determinations, the SAVRS Rate for the next succeeding Auction Period as follows:

(A) if Sufficient Clearing Bids exist, the SAVRS Rate for the next succeeding Auction Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Bonds are subject to Submitted Hold Orders), that the SAVRS Rate for the next succeeding Auction Period shall be equal to the Maximum SAVRS Rate; or

(C) if all Bonds are subject to Submitted Hold Orders, that the SAVRS Rate for the next succeeding Auction Period shall be equal to the Minimum SAVRS Rate.

<u>Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds</u>

(d) Existing Holders shall continue to hold the principal amount of Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of subsection (c) of this Section, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraphs (iv) and (v) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell aggregate principal amount of Bonds subject to such Submitted Bids;

(B) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bids;

(C) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Race shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bid;

(D) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bid, unless the aggregate principal amount of Bonds subject to all such Submitted Bids shall be greater than the principal amount of Bonds (the "remaining principal amount") equal to the excess of the Available Bonds over the aggregate principal amount of Bonds subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of Bonds subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Bonds obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Bonds subject to such Submitted Bids made by all Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Bonds obtained by multiplying the excess of the aggregate principal amount of Available Bonds over the aggregate principal amount of Bonds subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Bonds subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amounts of Bonds subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Bonds are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum SAVRS Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bid; and

(B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum SAVRS Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bid; and

(C) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum SAVRS Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Bonds obtained by multiplying the aggregate principal amount of Bonds subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Bonds subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraphs (i) or (ii) of this subsection (d), any Existing Holder would be entitled or requiring to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Bonds that is not equal to $50,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Bonds purchased or sold by each Existing Holder or Potential Holder shall be equal to $50,000 or any integral multiple thereof.

(v) If, as a result of the procedures described in paragraph (ii) of this subsection (d), any Potential Holder would be entitled or required to purchase less than $50,00 principal amount of Bonds, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Bonds for purchase among Potential Holders so that only Bonds in principal amounts of $50,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more such Potential Holders not purchasing any Bonds.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of Bonds to be purchased and the aggregate principal amount of Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Bonds to be sold differs from such aggregate principal amount of Bonds to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Bonds.

(f) Potential Holders shall purchase Bonds to be purchased by such Potential Holders as a result of each Auction, and Existing Holders shall sell Bonds to be sold by such Existing Holders as a result of such Auction, at a purchase price on the Auction Settlement Date thereof equal to the principal amount thereof plus accrued interest to such Auction Settlement Date, except that if such Auction Settlement Date is also an Interest Payment Date, such price shall be equal to the principal amount of such Bonds.

MISCELLANEOUS

Neither the Corporation nor any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such Bonds.

SAVRS SETTLEMENT PROCEDURES

Capitalized terms used herein have the respective meanings specified in Appendices D and E to the Official Statement and in the Official Statement, except that for purposes of this Appendix F, "Bonds" shall refer to the Bonds of a series of Bonds that bear interest at the SAVRS Rate.

(a) On each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Holder or Potential Holder of:

(i) the SAVRS Rate fixed for the next Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the interest rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Holder;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Holder;

(v) if the aggregate principal amount of Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different than the aggregate principal amount of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (x) purchased from one or more Existing Holders on whose behalf such other Broker-Dealers submitted Bids or Sell Orders, or (y) sold to one or more Potential Holders on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the Auction Date of the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder is required to:

(i) advise each Existing Holder and Potential Holder (and each Beneficial Owner and Potential Beneficial Owner) on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through DTC the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid against receipt of such principal amount of Bonds;

(iii) instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, or a Sell Order that was accepted, in whole or in part, to instruct such Bidder's Agent Member to deliver to such Broker-Dealer (or its Agent Members) through DTC the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Holder (and each Beneficial Owner) on whose behalf such Broker-Dealer submitted an Order and each Potential Holder (and each Potential Beneficial Owner) on whose behalf such Broker-Dealer submitted a Bid of the interest rate for the next succeeding Auction Period;

(v) advise each Existing Holder (and each Beneficial Owner) on whose behalf such Broker-Dealer submitted an Order of the scheduled Auction Date of the next succeeding Auction; and

(vi) advise each Potential Holder (and each Potential Beneficial Owner) on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date of the next succeeding Auction.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any Bonds received by it pursuant to paragraph (b)(iii) above, among the Potential Holders and Potential Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders and Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealers identified to it by the Auction Agent pursuant to paragraph (a)(v) above.

(d) On the Business Day after the Auction Date, DTC shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchases and sales of Bonds as determined in the Auction.

AMBAC ASSURANCE CORPORATION

The following information concerning Ambac Assurance has been provided by representatives of Ambac Assurance and has not been confirmed or verified by the Corporation or the Underwriters or their respective counsel. No representation is made herein as to the accuracy of such information or as to the absence of material changes in such information subsequent to the date of such information or the date hereof.

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 licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $2,968,000,000 (unaudited) and statutory capital of approximately $1,715,000,000 (unaudited) as of March 31, 1998. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A claims-paying ability rating to Ambac Assurance.

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 its Municipal Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Senior 1998 Bonds.

Ambac Assurance makes no representation regarding the Senior 1998 Bonds or the advisability of investing in the Senior 1998 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented in this Appendix or under the heading "INSURANCE ON THE SENIOR 1998 BONDS" in the Official Statement or in Appendix J to the Official Statement.

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 (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed with the Commission on March 31, 1998;

(2) The Company's Current Report on Form 8-K dated March 27, 1998 and filed on March 27, 1998;

(3) The Company's Amendment to its Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997 and filed on March 31, 1998; and

(4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1998 and filed on May 15, 1998.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of these Offering Materials will be available for inspection in the same manner a described above in "*AVAILABLE INFORMATION*".

APPENDIX H

SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

SUMMARY OF CERTAIN PROVISIONS OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

SUMMARY OF CERTAIN PROVISIONS OF THE STATUTORY LOAN PROGRAM

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

General

The Higher Education Act provides for a program of (a) direct federal insurance of student loans ("FISLP") and (b) reinsurance of student loans guaranteed or insured by a state agency or private nonprofit corporation (collectively, "Federal Family Education Loans" and the "Federal Family Education Loan Program"). Several types of loans are currently authorized as Federal Family Education Loans pursuant to the Federal Family Education Loan Program. These include: (i) loans to students with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment ("Subsidized Federal Stafford Loans"); (ii) loans to students with respect to which the federal government does not make such interest payments ("Unsubsidized Federal Stafford Loans" and, collectively with Subsidized Federal Stafford Loans, "Federal Stafford Loans"); (iii) supplemental loans to parents of dependent students ("Federal PLUS Loans"); and (iv) loans to fund payment and consolidation of certain of the borrower's obligations ("Federal Consolidation Loans"). Prior to July 1, 1994, the Federal Family Education Loan Program also included a separate type of loan to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students, to supplement their Stafford Loans ("Federal Supplemental Loans for Students" or "Federal SLS Loans").

This summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder. Certain of the provisions of the Federal Family Education Loan Program described below have been subsequently modified by legislation signed by President Clinton on August 10, 1993 and December 20, 1993. See "1993 Amendments to the Federal Family Education Loan Program" and "Subsidized Federal Stafford Loans Principal and Interest" below.

Recent Developments. Prior to the enactment of the legislation discussed in the next paragraph, the formulas for determining the interest rates on Stafford Loans and PLUS Loans and the formula for determining Special Allowance Payments was to change for loans originated on or after July 1, 1998 to the following: (i) Stafford Loans would bear interest at the bond equivalent yield of securities with a comparable maturity as established by the Secretary plus one percent, not to exceed 8.25 percent; (ii) PLUS Loans would bear interest at the bond equivalent yield of securities with a comparable maturity as established by the Secretary plus 2.1 percent, not to exceed 9 percent; and (iii) Special Allowance Payments for all loans (including PLUS Loans) would be based on the bond equivalent yield of securities with a comparable maturity plus 1 percent. These formulas are discussed in more detail hereafter.

Recently enacted legislation, however, changes the formulas discussed above for the period from July 1, 1998 through September 30, 1998. As approved, Stafford Loans originated during this period will bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 2.3% (1.7 percent for in-school or grace period loans), capped at 8.25%. PLUS Loans will bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 3.1%, capped at 9%. Special Allowance Payments will be based upon the 91-day Treasury Bill Rate plus 2.8% (2.2 percent for in-school or grace period loans). This legislation is only applicable for loans originated through September 30, 1998. If additional legislation addressing these matters is not enacted prior to October 1, 1998, the formulas discussed in the preceding paragraph, and in more detail in this Summary, will automatically go into effect.

Subsidized Federal Stafford Loans

The Higher Education Act provides for federal (a) insurance or reinsurance of eligible Subsidized Federal Stafford Loans, (b) interest subsidy payments to Eligible Lenders with respect to certain eligible Subsidized Federal Stafford Loans, and (c) special allowance payments representing an additional subsidy paid by the Secretary of Education to such holders of eligible Subsidized Federal Stafford Loans.

Subsidized Federal Stafford Loans are eligible for reinsurance under the Higher Education Act if the eligible student to whom the loan is made has been accepted or is enrolled in good standing at an eligible institution of higher education or vocational school and is carrying at least one-half the normal full-time workload at that institution. In connection with eligible Subsidized Federal Stafford Loans there are limits as to the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. Both aggregate limitations exclude loans made under the Federal SLS and Federal PLUS Programs. The Secretary of Education has discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subject to these limits, Subsidized Federal Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act. Provisions addressing the implementation of needs analysis and the relationship between unmet need for financing and the availability of Subsidized Federal Stafford Loan Program 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 Subsidized Federal Stafford Loan funding to borrowers or the availability of Subsidized Federal Stafford Loans for secondary market acquisition.

Qualified Student. Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (b) 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, (c) has agreed to notify promptly the holder of the loan of any address change, and (d) meets the applicable "needs" requirements. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. Each loan is to be evidenced by an unsecured note.

Principal and Interest. Subsidized Federal Stafford Loans may bear interest at a rate not in excess of 7% per annum if made to a borrower to cover costs of instruction for any period beginning prior to January 1, 1981 or, subsequent to such date, if made to a borrower who, upon entering into a note for a loan, has outstanding student loans under the Federal Family Education Loan Program for which the interest rates do not exceed 7%. Subsidized Federal Stafford Loans made to new borrowers for periods of instruction between January 1, 1981 and July 13, 1983 bear interest at a rate of 9% per annum and for periods of instruction beginning on or after July 13, 1983 the rate for new borrowers is 8% per annum. Further, loans to first-time borrowers for periods of enrollment beginning on or after July 1, 1988, made pursuant to Section 427A of the Higher Education Act ("427A Loans"), bear interest at rates of 8% per annum from disbursement through four years after repayment commences and 10% per annum thereafter, subject to a provision (the so-called "rebate") requiring annual discharge of principal to the extent, in excess of $50, that the sum of quarterly calculations of the amount by which interest calculated at the rate of 10% per annum exceeds the amount which would result from application of a rate equivalent to the annual average Treasury Bill rate plus 3.25%. For new loans made to all existing borrowers after July 23, 1992 and for loans made to all new borrowers after July 23, 1992 but prior to October 1, 1992, the provision that requires annual rebate is effective immediately, the rate with which the quarterly calculation of interest is compared is equivalent to the annual average 91-day Treasury Bill bond equivalent rate plus 3.10%, and any rebate with respect to a loan for a period during which the Secretary of Education is making interest subsidy payments must be credited to the Secretary of Education.

The Higher Education Technical Amendments of 1993, enacted December 20, 1993 (P.L. 103-208) (the "1993 Technical Amendments") changed the excess interest rebate provisions of the Higher Education Act applicable to the Federal Stafford Loans described in the preceding paragraph which were previously subject to such rebate requirements. Holders of all such loans previously subject to rebates were required to convert the fixed rates on such loans to annual variable rates by January 1, 1995 in most cases (loans with an initial rate of 8% which increase to 10% after four years of repayment ("8/10% loans") must convert by January 1, 1995 or the date of increase to 10%, whichever is later). The converted loans will not thereafter be subject to the rebate requirements. At the time of conversion the holder of the loan also must retroactively convert the fixed interest rate for periods prior to the conversion to a quarterly variable rate. In all cases the new variable rate cannot exceed the originally stated fixed rate. The annual variable rate for 8/10% loans made prior to July 23, 1992 and to new borrowers between July 23, 1992 and October 1, 1992 are the bond equivalent rate of the 91-day Treasury Bills auctioned at the final auction prior to each June 1, plus 3.25%. The annual variable rate for 8/10% loans and other fixed rate loans made to existing borrowers between July 23, 1992 and October 1, 1992 are the bond equivalent rate of the 91-day Treasury Bills auctioned at the final auction prior to each June 1, plus 3.10%. The retroactive quarterly variable rates for periods prior to conversion is the average of the bond equivalent rates of the 91-day Treasury Bills auctioned for the preceding three months plus 3.25% (in the case of 8/10% loans described in the second preceding sentence) or 3.10% (in the case of loans described in the preceding sentence).

Subsidized Federal Stafford Loans initially disbursed on or after October 1, 1992 to new borrowers as of that date, and subsequent loans to such borrowers, bear a variable rate of interest, subject to annual reset. The effective interest rate thereon would equal 3.10% over the average of the bond equivalent rate of 91-day Treasury Bills auctioned during a particular fiscal year not to exceed 9%. The 1993 Amendments (as described below) made certain changes to the interest rates on student loans to be originated in the future. The interest rates on new Subsidized Federal Stafford Loans disbursed on or after July 1, 1994 will be the 91-day Treasury Bill rate plus 3.1%, not to exceed 8.25%. The interest rates on these programs for loans made on or after July 1, 1995 prior to repayment and during any grace period will be the 91-day Treasury Bill plus 2.5%, not to exceed 8.25%. The interest rate on new Subsidized Federal Stafford Loans and new Unsubsidized Federal Stafford Loans disbursed on or after July 1, 1998, will be the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education plus 1%, not to exceed 8.25%, but see "***Recent Developments***" above.

The Higher Education Act requires that loans in excess of $1,000 made to cover enrollment periods longer than six months be disbursed by Eligible Lenders in at least two separate disbursements. Prior to January 1, 1987, the maximum amount of the loan for an academic year could not exceed $2,500 for undergraduate study and $5,000 for graduate or professional study, subject to an aggregate limit of $12,500 for undergraduate study and up to $25,000 for graduate and professional study, inclusive of loans for undergraduate study. Since January 1, 1987, undergraduates have been able to borrow up to $2,625 annually through the completion of the second year of instruction and $4,000 annually through the remainder of undergraduate study. Subsidized Federal Stafford Loans are subject to an aggregate limit of $17,250 for undergraduate study, while graduate or professional students, who may borrow up to $7,500 annually, are subject to an aggregate limit of $54,750, inclusive of loans for undergraduate study. After July 1, 1993, the maximum amount of a Subsidized Federal Stafford Loan for an academic year cannot exceed $2,625 for the first year of undergraduate study, $3,500 for the second year of undergraduate study and $5,500 for the remainder of undergraduate study. The aggregate limit for undergraduate study is $23,000. The maximum amount of the loans for an academic year for graduate students is $8,500. In either case, the Secretary of Education has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study.

Repayment. Repayment of principal on a Subsidized Federal Stafford Loan does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable Grace Period, as described below. Such Grace Periods may be waived by borrowers. In general, each loan must be scheduled for repayment over a period of not more than 10 years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of $600, including principal and interest, unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total combined payments for such a couple may not be less than $600 per year.

Grace Period, Deferment Periods, Forbearance. Repayment of principal of a Subsidized Federal Stafford Loan must generally commence following a period of (a) not less than nine months or more than 12 months (with respect to loans for which the applicable interest rate is 7% per annum) and (b) not more than six months (with respect to loans for which the applicable interest rate is 9% per annum or 8% per annum and for loans to first-time borrowers on or after July 1, 1988) after the student borrower ceases to pursue at least a half-time course of study (a "Grace Period"). However, during certain other periods and subject to certain conditions, no principal repayments need be made, including periods when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship program, is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or is temporarily totally disabled or is unable to secure employment by reason of the care required by a dependent who is so disabled ("Deferment Periods"). Other Deferment Periods include periods of unemployment and qualified internships. The lender may also allow periods of forbearance during which the borrower may defer principal payments because of temporary financial hardship.

Interest Subsidy Payments. The Secretary of Education pays interest on Subsidized Federal Stafford Loans while the student is a qualified student, during a Grace Period or during certain Deferment Periods. The Secretary of Education makes interest subsidy payments to the owner of Subsidized Federal Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the owner of an eligible Subsidized Federal Stafford Loan shall be deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

Unsubsidized Federal Stafford Loans

The 1992 Amendments (defined below) created the Unsubsidized Federal Stafford Loan Program designed for students who do not qualify for Subsidized Federal Stafford Loans due to parental and/or student income and assets in excess of permitted amounts. In other respects, the general requirements for Unsubsidized Federal Stafford Loans are essentially the same as those for Subsidized Federal Stafford Loans. The interest rate, the annual loan limits and the special allowance payment provisions of the Unsubsidized Federal Stafford Loans are the same as the Subsidized Federal Stafford Loans. However, the terms of the Unsubsidized Federal Stafford Loans differ materially from Subsidized Federal Stafford Loans in that the federal government will not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower will be required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins. The authority for offering Unsubsidized Federal Stafford Loans became effective for periods of enrollment beginning on or after October 1, 1992.

The 1993 Amendments made certain changes to the interest rates on student loans. The interest rates on new Unsubsidized Federal Stafford Loans disbursed on or after July 1, 1994 are the 91-day Treasury Bill rate plus 3.10%, not to exceed 8.25%. The interest rates on these programs for loans made on or after July 1, 1995 prior to repayment and during any grace period are the 91-day Treasury Bill rate plus 2.50%, not to exceed 8.25%. The interest rate on new Unsubsidized Federal Stafford Loans disbursed on or after July 1, 1998 will be the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education plus 1%, not to exceed 8.25%, but see "***Recent Developments***" above.

Special Allowance Payments

The Higher Education Act provides for special allowance payments to be made by the Secretary of Education to Eligible Lenders. The rates for special allowance payments are based on formulas that differ according to the type of loan (Federal Stafford or Federal PLUS and Federal SLS), the date the loan was originally made or insured and the type of funds used to finance such loan (tax-exempt or taxable). The effective formulas, for special allowance payment rates for Subsidized Federal Stafford Loans to borrowers whose first loans were disbursed prior to July 23, 1992 and were acquired or originated with the proceeds of tax-exempt obligations are set forth in the following table.

Interest Rate on Loan	Annualized SAP Rate Pre-October 1980 Loans[1]	Annualized SAP Rate Post-October 1980 Tax-Exempt Loans[1]
7%	T-Bill -3.5%	(T-Bill – 3.5%)/2: minimum 2.5%
8	T-Bill -4.5	(T-Bill – 4.5%)/2: minimum 1.5%
8	T-Bill -5.5	(T-Bill – 5.50%)/2: minimum 0.5%

[1] "T-Bill," as used in this table, means the average 13-week Treasury Bill rate calculated as a "bond equivalent rate" in the manner applied by the Secretary of Education as referred to in Section 438 of the Higher Education Act.

As noted in the foregoing table, there are minimum special allowance payment rates for Subsidized Federal Stafford Loans acquired with proceeds of tax-exempt obligations made on and after October 1, 1980, except for 427A Loans (while bearing interest at ten percent), which rates effectively ensure an overall minimum return of 9.5 percent on such Subsidized Federal Stafford Loans. However, loans acquired with the proceeds of tax-exempt obligations originally issued after September 30, 1993 will no longer be assured of a minimum special allowance payment. In addition, the formula will be the same as for loans acquired with taxable proceeds (*i.e.*, the full, rather than half, special allowance payment rate). The formula for special allowance payment rates for Federal PLUS and Federal SLS Loans is similar to that for the Subsidized Federal Stafford Loans except that no such payments are made until the rate on the Federal PLUS or Federal SLS Loan exceeds a certain rate per annum according to the type of loan and based on when the loan was first disbursed. In order to be eligible for special allowance payments, the rate on PLUS Loans first disbursed on or after October 1, 1992 must exceed 10% and for SLS Loans first disbursed on or after October 1, 1992 the rate must exceed 11%. The rate of special allowance payments for Subsidized Federal Stafford Loans first disbursed on or after October 1, 1992 is based on the bond equivalent 91-day Treasury Bill rate plus 3.1%. The special allowance payment rates applicable to Federal Consolidation Loans are determined in the same manner as Subsidized Federal Stafford Loans made on or after October 1, 1980.

One of the requirements to be eligible for the receipt of special allowance payments in respect to Federal Family Education Loans which have been financed by the holder with funds obtained through the issuance of tax-exempt obligations is that such holder, prior to 1986, must have received approval from the U.S. Department of Education, and, after 1986, from the governor of such holders' state, of a plan for doing business which complies with statutory requirements.

There can be no assurance that relevant federal laws, including the Higher Education Act, will not be changed retroactively or prospectively in a manner which might adversely affect the Corporation's ability to pay the principal of and interest on its bonds and notes, including the 1998 Bonds. For example, the Higher Education Act has been amended in the past to change the method of determining special allowance payments. Special allowance payments are pledged as security for the 1998 Bonds and are payable to the Corporation for all applicable Loans which are to secure the 1998 Bonds.

Federal PLUS and Federal SLS Loan Programs

The Higher Education Act authorizes Federal PLUS Loans to be made to parents of eligible dependent students and Federal SLS Loans to be made to certain categories of students. Only parents who do not have an adverse credit history are eligible for Federal PLUS Loans that have a first disbursement date on or after July 1, 1993. The basic provisions applicable to Federal PLUS and Federal SLS Loans are similar to those of Subsidized Federal Stafford Loans with respect to the involvement of guaranty agencies and the Secretary of Education in providing federal reinsurance on the loans. However, Federal PLUS and Federal SLS Loans differ significantly from Subsidized Federal Stafford Loans, particularly because federal interest subsidy payments are not available under the Federal PLUS and Federal SLS Programs and special allowance payments are more restricted.

Federal SLS Loan limits for loans disbursed on or after July 1, 1993 are dependent on the class year of the student and the length of the academic year. The annual loan limit for Federal SLS Loans first disbursed on or after July 1, 1993 ranges from $4,000 for first- and second-year undergraduate borrowers to $10,000 for graduate borrowers, with a maximum aggregate amount of $23,000 for undergraduate borrowers and $73,000 for graduate and professional borrowers. The only limit on the annual and aggregate amounts of Federal PLUS Loans first disbursed on or after July 1, 1993 is the student's unmet financial need. Federal PLUS and Federal SLS Loans disbursed prior to July 1, 1993 are limited to $4,000 per academic year with a maximum aggregate amount of $20,000. Prior to October 17, 1986, the applicable loan limits were $3,000 per academic year with a maximum aggregate amount of $15,000. Federal PLUS and Federal SLS Loans are also limited, generally, to the cost of attendance minus other financial aid for which the student is eligible.

The applicable interest rate depends upon the date of issuance of the loan and the period of enrollment for which the loan is to apply. For Federal PLUS Loans issued on or after October 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest is either 12% or 14% per annum. A variable interest rate applies to Federal PLUS and Federal SLS Loans made and disbursed on or after July 1, 1987 but prior to October 1, 1992. The rate is determined on the basis of any 12-month period beginning on July 1 and ending on the following June 30, such that the rate shall be the bond equivalent rate of 52-week Treasury Bills auctioned at the final auction held prior to the June 1 preceding the applicable 12-month period, plus 3.25%, with a maximum rate of 12% per annum. Special allowance payments are available on variable rate Federal PLUS and Federal SLS Loans disbursed on or after July 1, 1987 but prior to October 1, 1992 only if the rate determined by the formula above would exceed 12%. The variable interest rate for Federal PLUS and Federal SLS Loans first disbursed on or after October 1, 1992 is based on the same 12-month period as Federal PLUS and Federal SLS Loans disbursed prior to October 1, 1992, except that 3.10% shall be added to the bond equivalent rate of 52-week Treasury Bills auctioned prior to the applicable period, with a maximum rate of 11% per annum for Federal SLS Loans, and a maximum rate of 10% per annum for Federal PLUS Loans. Special allowance payments are available on variable rate Federal SLS and Federal PLUS Loans disbursed on or after October 1, 1992 only if the rate determined by the formula in the preceding sentence exceeds 11% per annum for Federal SLS Loans and 10% for Federal PLUS Loans.

The 1993 Amendments made certain changes to the interest rates on student loans to be originated in the future. The interest rate on the Federal PLUS Loans made on or after July 1, 1994 shall be the 52-week Treasury Bill rate plus 3.10%, not to exceed 9%. Federal PLUS Loans made on or after July 1, 1998 shall have an interest rate of the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education, plus 2.10%, not to exceed 9%, but see "***Recent Developments***" above.

The 1992 Amendments provide Federal SLS Loan borrowers the option to defer commencement of repayment of principal until the commencement of repayment of Federal Stafford Loans. Otherwise, repayment of principal of Federal PLUS and Federal SLS Loans is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferral provisions. The deferral provisions which apply are more limited than those which apply to Stafford Loans. In addition, a parent borrower may defer principal payments for periods during which the borrower has a dependent student for whom the parent borrowed a Federal PLUS Loan, if such student is engaged in a qualifying educational program, graduate fellowship program or rehabilitation training program.

Repayment of interest, however, may be deferred only during certain periods of educational enrollments 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. Amounts borrowed to capitalize interest do not count against the $4,000 annual loan limit.

A borrower may refinance all outstanding Federal PLUS Loans under a single repayment schedule for principal and interest. The interest rate of such refinanced loan shall be the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an Eligible Lender to reissue a Federal PLUS Loan which 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 Federal PLUS Loans on and after July 1, 1987. If a lender is unwilling to refinance the original Federal PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

Commencing July 1, 1994, the Federal SLS Loan Program was replaced by the Unsubsidized Stafford Loan Program with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger.

The Federal Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Subsidized Federal Stafford Loans. Federal Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than Federal PLUS Loans made to "parent borrowers") selected by the borrower, as well as loans made pursuant to the Perkins (formally "National Direct Student Loan") and Health Professional Student Loan Programs. These loans, for applications received on or after January 1, 1993, are available only to borrowers who have aggregate outstanding student loan balances of at least $7,500, and for applications received before January 1, 1993, are available only to borrowers who have aggregate outstanding student loan balances of at least $5,000. The borrowers may be either in repayment status or in a grace period preceding repayment and, for applications received prior to January 1, 1993, the borrower must not be delinquent by more than 90 days on any loan payment; for applications received on or after January 1, 1993 delinquent or defaulted borrowers are eligible to obtain Federal Consolidation Loans if they agree to re-enter repayment through loan consolidation. For applications received on or after January 1, 1993, borrowers may add additional loans to a Federal Consolidation Loan during the 180-day period following origination of the Federal Consolidation Loan. Further, a married couple whose application is received on or after January 1, 1993 and who agree to be jointly and severally liable will be treated as one borrower for purposes of loan consolidation eligibility. A Federal Consolidation Loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

Federal Consolidation Loans made prior to July 1, 1994 bear interest at a rate which equals the weighted average of interest rates on the unpaid principal balance of outstanding loans, rounded to the nearest whole percent, with a minimum rate of 9%. Interest on Federal Consolidation Loans accrues and, for applications received prior to January 1, 1993, is to be paid without deferral. Borrowers may defer periodic payments of principal under certain circumstances that are more limited than those applicable to the loans being refinanced. Deferral of principal repayments is authorized for periods similar to those for Subsidized Federal Stafford Loans. Borrowers may elect to accelerate principal payments without penalty. The rate for special allowance payments for Federal Consolidation Loans financed with tax-exempt funds is determined in the same manner as for Subsidized Federal Stafford Loans made on or after October 1, 1980. See "Special Allowance Payments" above. Further, no insurance premium may be charged to a borrower and no insurance premium may be charged by a lender in connection with a Federal Consolidation Loan. However, a fee may be charged to a lender by the guaranty agency to cover the costs of increased or extended liability with respect to a Federal Consolidation Loan.

Repayment of Federal Consolidation Loans begins 60 days after discharge of all prior loans which are consolidated. Federal interest subsidy payments generally are not available with respect to Federal Consolidation Loans. Repayment schedules include, for applications received on or after January 1, 1993, the establishment of graduated and income sensitive repayment plans, subject to certain limits applicable to the sum of the Federal Consolidation Loan and the amount of the borrower's other eligible student loans outstanding. The lender may at its option include such graduated and income sensitive repayment plans for applications received prior to that date. Generally, the repayment shall be made over periods no shorter than 10 but not more than 25 years in length, subject to a borrower's right to prepay. For consolidation loans made after July 1, 1994, the maximum maturity schedule is 30 years for Federal Consolidation Loans of $60,000 or more.

Certain other changes have recently been made with respect to Federal Consolidation. See "1993 Amendments to the Federal Family Education Loan Program."

Federal Insurance and Reimbursement of Guaranty Agencies

A Federal Family Education Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other tenants of the loan, and if the failure persists for 180 days in the case of a loan repayable in monthly installments or for 240 days in the case of a loan repayable in less frequent installments.

If the loan in default is covered by federal loan insurance in accordance with the provisions of the Higher Education Act, the Secretary of Education is to pay the holder the amount of the loss sustained thereby, upon notice and determination of such amount, within 90 days of such notification subject to reduction as described in the following paragraphs.

The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and such Act guarantees reimbursements are not subject to reduction. It further provides that guaranty agencies shall be deemed to have a contractual right against the United States to receive reimbursement in accordance with its provisions. In addition, the 1992 Amendments provide that if a guaranty agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guaranty agency capable of meeting such obligations or until a successor guaranty agency assumes such obligations. 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 to the Secretary of the Treasury to provide funds to make such federal payments.

Loans Initially Disbursed Prior to October 1, 1993. If the loan is guaranteed by a guaranty agency, the Eligible Lender is reimbursed by the guaranty agency for 100% of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the Eligible Lender has properly serviced such loan. Under the Higher Education Act, the Secretary of Education enters into a guarantee agreement and an annually renewable supplemental guarantee agreement with a guaranty agency which provides for federal reimbursement for amounts paid to Eligible Lenders by the guaranty agency with respect to defaulted loans.

Pursuant to such agreements, the Secretary of Education is to reimburse a guaranty agency for 100% of the amounts expended in connection with a claim resulting from the death, bankruptcy or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a Federal PLUS Loan, or claims by borrowers who received loans on or after January 1, 1986 and who are unable to complete the programs in which they are enrolled due to school closure or borrowers whose borrowing eligibility was falsely certified by the eligible institution. Such claims are not included in calculating a guaranty agency's claims rate experience for federal reimbursement purposes. The

Secretary of Education is also required to repay the unpaid balance of any loan if collection is stayed under the Bankruptcy Code and is authorized to acquire the loans of borrowers who are at high risk of default and who request an alternative repayment option from the Secretary of Education. Further, the Secretary of Education is to reimburse a guaranty agency for any amounts paid to satisfy claims not resulting from death, bankruptcy or disability (i.e., default claims) subject to reduction as described in the following paragraphs.

The amount of such insurance or reimbursement payment for default claims is subject to reduction based upon the annual claim rate of the guaranty agency calculated to equal the amount of federal reimbursement as a percentage of the original principal amount of originated or guaranteed loans in repayment on the last day of the prior fiscal year. The formula used for loans initially disbursed prior to October 1, 1993 is summarized below:

Claims Rate	Federal Payment
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%; 80% of claims 9% and over

The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year.

Loans Initially Disbursed on or After October 1, 1993. The 1993 Amendments reduce the reimbursement amounts for default claims described above (effective for loans initially disbursed on or after October 1, 1993) as follows: 100% reimbursement is reduced to 98%, 90% reimbursement is reduced to 88%, and 80% reimbursement is reduced to 78%, subject to certain limited exceptions. Reimbursement amounts for claims other than default claims remain at 100% as in the case of pre-October 1, 1993 loans.

Reimbursement

The original principal amount of loans guaranteed by a guaranty agency which are in repayment for purposes of computing reimbursement payments to a guaranty agency means the original principal amount of all loans guaranteed by a guaranty agency less: (a) guarantee payments on such loans, (b) the original principal amount of such loans that have been fully repaid, and (c) the original amount of such loans for which the first principal installment payment has not become due.

In addition, the Secretary of Education may withhold reimbursement payments if a guaranty agency makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary of Education or applicable federal law. A supplemental guarantee agreement is subject to annual renegotiation and to termination for cause by the Secretary of Education. The Corporation has no knowledge that any aforementioned supplemental guarantee agreement will not be renegotiated in the same terms as are currently in effect.

Under the guarantee agreements and the supplemental guarantee agreements, if a payment on a Federal Family Education Loan guaranteed by a guaranty agency is received after reimbursement by the Secretary of Education, the guaranty agency is entitled to receive an equitable share of the payment.

Any originator of any student loan guaranteed by a guaranty agency is required to discount from the proceeds of the loan at the time of disbursement, and pay to the guaranty agency, an insurance premium which may not exceed that permitted under the Higher Education Act.

The Corporation (or any other holder of a loan) is required to exercise due care and diligence in the servicing of the loan and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guaranty agency has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guaranty agency may take reasonable action including withholding payments or requiring reimbursement of funds. The guaranty agency may also terminate the agreement for cause upon notice and hearing.

The Guarantee Agreement

Pursuant to most typical agreements for guarantee between a guaranty agency and the originator of the loan, any eligible holder of a loan insured by such a guaranty agency is entitled to reimbursement from such guaranty agency of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower at the rate of 100% of such loss (or, subject to certain limitations, 98% for loans in default made on or after October 1, 1993). Guaranty agencies generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 180 days in the case of a loan payable in monthly installments or for 240 days in the case of a loan payable in less frequent installments. When a loan becomes from 60 to 90 days past due, the holder is required to request proclaims assistance from the applicable guaranty agency in order to attempt to cure the delinquency. When a loan becomes 150 days past due, the holder is required to make a final demand for payment of the loan by the borrower and to submit a claim for reimbursement to the applicable guaranty agency. The holder is required to continue collection efforts until the loan is 180 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guaranty agency all rights accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guaranty agency from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

If a student who has received any loan directly insured by the Secretary of Education dies, becomes totally and permanently disabled or is discharged in bankruptcy, the Secretary is required to discharge the borrower's liability on the loan by repaying the amount owed. Loans guaranteed by a guaranty agency made to students who die, become totally and permanently disabled or discharged in bankruptcy are subject to reimbursement pursuant to a valid claim to the guaranty agency.

Federal Administrative Cost Allowances

Upon periodic application by a guaranty agency pursuant to the Higher Education Act, the Secretary is authorized to pay to the guaranty agency an administrative cost allowance up to one percent of the total principal amount of guaranty agency-insured student loans in any federal fiscal year prior to October 1, 1993. The guaranty agency must generally use at least one-half of this allowance for its administrative costs of collection of loans and proclaims assistance for default prevention, at least one-quarter of the allowance for its administrative costs of promotion of commercial lender participation in the program and the balance of the allowance for any of its costs related to its insurance program.

Pursuant to a supplemental guarantee agreement, the guaranty agency is eligible to receive an additional administrative cost allowance of up to ½ percent of the total principal amount of guaranty agency-insured student loans in any fiscal year. This additional allowance may be used for any of the administrative expenses specified in the preceding paragraph.

Higher Education Amendments of 1992

The 1992 Amendments reauthorized the Higher Education Act and made certain amendments thereto. The following text describes some of the amendments to the Higher Education Act contained in the 1992 Amendments, but does not purport to be a complete description of those amendments, to which reference is made for full and complete statements of their respective provisions.

The 1992 Amendments adopted several provisions that affect loan terms, which are described in part above. These include, among others, provisions to grant new borrowers (with respect to loans for which the first disbursement is on or after July 1, 1993) the right to receive income-sensitive repayment schedules. In cases where the borrowers have indicated a willingness to pay, but have demonstrated an inability to do so, the 1992 Amendments entitle them to forbearance, on and after October 1, 1992. The 1992 Amendments also provide that in-school interest and special allowance payments to lenders shall be made only with respect to loans that have been consummated by the borrower.

In addition, the 1992 Amendments include 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 the Secretary of Education work with guaranty agencies to develop criteria regarding assignment of loans to the Secretary of Education; a requirement for annual submissions to, and evaluations by, the Secretary of Education of financial information concerning each guaranty agency; a provision for the establishment by the Secretary of standards pursuant to which certain guaranty agencies would be required to submit management plans to the Secretary of Education; a provision authorizing 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 1992 Amendments also require that officers and employees of guaranty agencies and other participants in the Higher Education Act's program (such as lenders, secondary markets and servicers) report to the Secretary of Education regarding financial interests they may have in other participants in the Higher Education Act's program. The foregoing provisions of the 1992 Amendments were generally effective on the date of enactment, July 23, 1992, subject to rulemaking procedures.

The 1992 Amendments also established a direct lending demonstration program which would not have involved banks, secondary markets or guaranty agencies. This program was to cover the period of July 1, 1994 through June 30, 1998. The direct loan demonstration program was to include educational institutions which were representative of the Higher Education Act's program participants and which were to be selected by the Secretary of Education first, from among those institutions expressing an interest in participating and second, from those institutions selected by the Secretary of Education as necessary to complete the sample, with an opportunity for such institutions to decline to participate. Selected institutions may be required to participate either in the demonstration program or the Act's program, but not both. Institutions comprising more than 15% of the annual loan volume of any one guaranty agency will not be selected. The 1993 Amendments, described below, made substantial revisions to the direct lending program established by the 1992 Amendments. Certain of the 1992 Amendments require promulgation of regulations by the Secretary of Education.

1993 Amendments to the
Federal Family Education Loan Program

On August 10, 1993, President Clinton signed into law the Omnibus Budget Reconciliation Act of 1993, including Title IV of the Omnibus Budget Reconciliation Act of 1993 and the Student Loan Reform Act of 1993 (the "1993 Amendments"). The summary of the 1993 Amendments contained herein does not purport to be complete or comprehensive.

The 1993 Amendments provided for substantial changes to the student loan programs under the Federal Family Education Loan Program (the "FFEL Program") and the Federal Direct Loan Demonstration program of the Higher Education Act. Except as stated herein and in the 1993 Amendments, these changes were effective on the date of enactment of the 1993 Amendments into law.

Terms and Conditions. Several terms and conditions of the current FFEL Program were changed as follows:

With respect to loans initially disbursed on or after October 1, 1993, a lender is entitled to receive from a guaranty agency 98% (reduced from 100%) of the unpaid principal of defaulted loans (except with respect to loans made by a lender-of-last-resort).

The effective floor rate of return of 9.5 percent available to holders of loans made or purchased with funds obtained by the holder from the issuance of tax exempt obligations, was eliminated for such obligations which were issued on or after October 1, 1993. The special allowance payments payable with respect to eligible loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are the full special allowance payments paid to other lenders.

With respect to loans initially disbursed on or after October 1, 1993, the Secretary of Education is required to reduce the interest subsidy and any special allowance payment to any holder of a loan by a loan fee equal to 0.50% of the principal amount of the loan.

Each holder of a Federal Consolidation Loan for which the first disbursement is made on or after October 1, 1993, shall pay to the Secretary of Education a monthly rebate fee calculated on an annual basis equal to 1.05% of the principal plus accrued unpaid interest on such loan.

Guaranty agency retention on collections was reduced to 27% from 30%. A one-time lender-paid user fee of 0.5% on new loan volume has been imposed. Guaranty agency reinsurance reimbursement was reduced from 100% to 98%, 90% to 88% and 80% to 78% of the amount expended by it in the discharge of its insurance obligation. Loans made under a lender-of-last-resort program and under an agreement resulting from guaranty agency insolvency are exempt from these reductions.

General. Under the Federal Direct Student Loan Program (the "FDSL Program") established by the 1993 Amendments, a variety of student loans, including loans for parents of students, may be obtained directly from the student's institution of higher education ("IHE") or through an alternative originator designated by the Secretary of Education, without application to an outside lender. Loans made under the FDSL Program are funded and owned by the Secretary of Education. The FDSL Program provides for a variety of repayment plans from which borrowers may choose, including repayment plans based on income.

There can be no assurance that further amendments to the Higher Education Act or budgetary action will not materially change the provisions described herein or the effect thereof. From time to time, legislation is introduced in the United States Congress to amend the Higher Education Act.

Direct Loans. The 1993 Amendments provided that, unless otherwise specified, loans made to borrowers under the FDSL Program have the same terms, conditions, and are available in the same amounts as loans made to borrowers for Subsidized Federal Stafford Loans, Federal PLUS Loans and Unsubsidized Federal Stafford Loans. The FDSL Program loans are known respectively as Federal Direct Stafford Loans, Federal Direct PLUS Loans and Federal Direct Unsubsidized Stafford Loans.

Guaranty Agencies. The 1993 Amendments also provide that a guaranty agency's assets are dedicated to the loan programs and may not be used for unauthorized purposes. Thus, the 1993 Amendments add to the guaranty agency reserve provisions in the Higher Education Act what the 1993 Amendments describe as a "clarification" that, notwithstanding any other provision of law, the reserve funds of the guaranty agencies, and any assets purchased with these reserve funds, regardless of who holds or controls the reserves or assets, are the property of the United States, to be used in the operation of the FFEL Program or the FDSL Program. These reserves are required to be maintained by each guaranty agency to pay program expenses and contingent liabilities, as authorized by the Secretary of Education. The 1993 Amendments further provided that the Secretary of Education is prohibited from requiring the return of all of a guaranty agency's reserve funds unless the Secretary of Education determines that the return of these funds is in the best interest of the operation of the FFEL Program, or to ensure the proper maintenance of such agency's funds or assets or the orderly termination of the guaranty agency's operations and the liquidation of its assets. However, the Secretary of Education is also authorized to direct a guaranty agency to: (a) return to the Secretary of Education all or a portion of its reserve expenses and contingent liabilities; (b) return to the Secretary of Education, or the guaranty agency any funds or assets held by, or under the control of, any other entity, which the Secretary of Education determines are necessary to pay the program expenses and contingent liabilities of the agency, or which are required for the orderly termination of the agency's operation and liquidation of its assets; and (c) cease any activities involving expenditure, use or transfer of the guaranty agency's reserve funds or assets which the Secretary of Education determines is a misapplication, misuse or improper expenditure.

The 1993 Amendments gave the Secretary of Education increased flexibility to terminate a guaranty agency's agreement by allowing the Secretary of Education to terminate the agreement if the Secretary of Education determines that termination is necessary, to protect the federal financial interest, to ensure the continued availability of loans to student or parent borrowers or to ensure an orderly transition from the FFEL Program to the FDSL Program.

The 1993 Amendments also expanded the Secretary of Education's authorized functions when a guaranty agency's agreement is terminated. The Secretary of Education is authorized to provide the guaranty agency with additional advance funds with such restrictions on the use of such funds as is determined appropriate by the Secretary of Education, in order to meet the immediate cash needs of the guaranty agency, ensure the uninterrupted payment of claims or ensure that the guaranty agency will make loans as the lender-of-last-resort. Finally, the 1993 Amendments authorized the Secretary of Education to take whatever other action is necessary, to ensure an orderly transition from the FFEL Program to the FDSL Program.

The 1993 Amendments provided that if the Secretary of Education has terminated or is seeking to terminate a guaranty agency's agreement, or has assumed a guaranty agency's functions, notwithstanding any other provision of law: (a) no state court may issue an order affecting the Secretary of Education's actions with respect to that guaranty agency; (b) any contract entered into by the guaranty agency with respect to the administration of the agency's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary of Education upon 30 days' notice to the contracting parties if the Secretary of Education determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of this law; and (c) no provision of state law shall apply to the actions of the Secretary of Education in terminating the operations of the guaranty agency. Finally, notwithstanding any other provision of law, the 1993 Amendments provided that the Secretary of Education's liability for any outstanding liabilities of a guaranty agency (other than outstanding student loan guarantees under Part D of Title IV of the Higher Education Act), the functions of which the Secretary of Education has assumed, shall not exceed the fair market value of the reserves of the guaranty agency, minus any necessary liquidation or other administrative costs.

Amendments to Terms of Federal Family Education Loan Program Loans. The 1993 Amendments also amended the terms of loans under the FFEL Program. The 1993 Amendments require that following a borrower's default, the Secretary of Education shall require at least 10% of borrowers who have defaulted on loans made under the FFEL Program and whose loan is assigned to the Secretary of Education to repay that loan under an income contingent repayment plan, the terms and conditions of which would be established by the Secretary of Education, and would be the same as or similar to the income contingent repayment plan authorized under the FDSL Program. These provisions of the 1993 Amendments are effective for loans for periods of instruction beginning on or after July 1, 1994 or, in the case of Federal PLUS Loans, for loans made on or after July 1, 1994.

Federal Family Education Loan Program Loan Consolidation. The 1993 Amendments altered the provisions for the Federal Consolidation Loan Program in order to facilitate the expansion of the FDSL Program. The 1993 Amendments define "eligible borrower" for loan consolidation in the FFEL Program to mean a borrower 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 re-enter repayment through loan consolidation.

In addition, the 1993 Amendments provided that any lender who wishes to make consolidation loans must enter into an agreement with the Secretary of Education that the lender shall offer an income-sensitive repayment schedule to the borrower of any Federal Consolidation Loan made by the lender on or after July 1, 1994. The Federal Consolidation Loan must also be evidenced by a note or other written agreement which includes a provision stating that interest during periods of authorized deferment shall accrue and be paid by the Secretary of Education, in the case of consolidation of only Federal Stafford Loans for which the borrower received an interest subsidy or by the borrower or capitalized in the case of a Federal Consolidation Loan that consolidated loans other than the Federal Stafford Loans. The interest rate on Federal Consolidation Loans made before July 1, 1994 shall be the greater of the weighted average of the interest rates on the consolidated loans, rounded to the nearest whole percent or 9%. The interest rate of a Federal Consolidation Loan made on or after July 1, 1994 shall be the weighted average of the rates on the Federal Consolidation Loans, rounded upward to the nearest whole percent.

The 1993 Amendments modified the terms of the Federal Consolidation Loan Agreement to require a lender to offer income sensitive repayment terms for a Federal Consolidation Loan made on or after July 1, 1994. In the event that a borrower is unable to obtain a consolidation loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding loans (that are selected for consolidation), or from any other Eligible Lender, including Sallie Mae, the 1993 Amendments authorize the Secretary of Education to offer the borrower a direct consolidation loan with income contingent terms under the Federal Direct Student Loan Program. Such direct Federal Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provision under this Section. If the Secretary of Education determines that the Department of Education does not have the necessary origination and servicing arrangements in place for such loans, the Secretary of Education shall not offer such loans.

On August 26, 1997, the Department suspended the Federal Direct Consolidation Loan Program in an effort to deal with a backlog of 84,000 applications for Federal Direct Consolidation Loans. To provide temporary relief for borrowers who want to consolidate Federal Direct Loans or who want to consolidate Federal Student Loans under the Federal Direct Consolidation Loan Program, President Clinton, on November 13, 1997, signed into law the Emergency Student Loan Consolidation Act (the "Emergency Act"). Under the terms of the Emergency Act, a borrower who wishes to consolidate Federal Direct Loans and whose application for a consolidation loan is received by an Eligible Lender after November 13, 1997 and prior to October 1, 1998, may obtain a Federal Consolidation Loan from an Eligible Lender at an interest rate equal to the 91-day Treasury Bill rate plus 3.1% not to exceed 8.25%. The Emergency Act also permits a borrower who wishes to consolidate Federal Student Loans and whose application for a consolidation loan is received by an Eligible Lender after November 13, 1997 and prior to October 1, 1998 to obtain a Federal Consolidation Loan from an Eligible Lender at the same interest rate offered to a borrower who is consolidating Federal Direct Loans.

The 1993 Amendments repealed the Federal Supplemental Loans for Students program, but the loan limits for Unsubsidized Federal Stafford Loans were increased to include the amounts formerly disbursed under the Federal

Supplemental Loans for Students program. Further, a section was added that provides that the amount of periodic payment and the repayment schedule for any Unsubsidized Federal Stafford Loan shall be 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 will be adjusted annually or the period of repayment of principal will be lengthened or shortened to reflect adjustments in interest rates. Finally, the 10-year repayment period of these loans shall commence at the time the first payment of principal is due from the borrower.

Interest Rates. The interest rates on Federal Stafford Loans and Unsubsidized Federal Stafford Loans made to new borrowers as of July 1, 1994 are the 91-day Treasury Bill rate plus 3.1%, not to exceed 8.25%. The interest rates for loans made on or after July 1, 1995 prior to repayment, during any grace period or during deferment status, are the 91-day Treasury Bill rate plus 2.5%, not to exceed 8.25%. The interest rate on Federal Stafford Loans and Unsubsidized Federal Stafford Loans made on or after July 1, 1998 will be the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education plus 1.0%, not to exceed 8.25%. The interest rates on the Federal PLUS Loans made on or after July 1, 1994 shall be the 52-week T-bill plus 3.1%, not to exceed 9%. Federal PLUS Loans made or after July 1, 1998 shall have an interest rate of the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education plus 2.1%, not to exceed 9%, but see "***Recent Developments***" above.

THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

General

The Public Health Service Act provides a program of federal insurance for education loans for graduate students of Health professions ("HEAL Loans") by the Secretary of the United States Department of Health and Human Services (the "Secretary of HHS"). The information contained in this heading is intended to summarize certain provisions of the Public Health Service Act and regulations promulgated thereunder which affect a lender's activities in financial HEAL Loans under the Health Education Assistance Loan Program (the "HEAL Loan Program"). The summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Public Health Service Act.

The Public Health Service Act currently authorizes Federal Loan Insurance for HEAL Loans issued or installments paid prior to September 30, 1995. After 1995, the Secretary of HHS may authorize federal 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.

No assurance can be given that Congress will extend the September 30, 1998 authorization date, that the Public Health Service Act will be continued in its present form, or that relevant federal laws, including the Public Health Service Act, will not be changed in a manner that may adversely affect the receipt of funds by the Corporation with respect to insured HEAL Loans.

Federal Reimbursement Pursuant to the Public Health Service Act

The Corporation receives reimbursement under the HEAL Loan program in accordance with an Insurance Contract for Secondary Markets which presently runs through June 30, 1998. Under this Insurance Contract, the Secretary of HHS has agreed to reimburse the Corporation for 100 percent of the Corporation's losses on HEAL Loans held by the Corporation during such period resulting from the default, bankruptcy, death or total and permanent disability of a borrower, subject to certain terms and conditions as further described below. The Insurance Contract is an annual agreement and the Corporation must enter into a new contract with the Secretary of HHS upon its expiration in order to be eligible for insurance coverage for new HEAL Loans. The Corporation anticipates that a new Insurance Contract will be entered into with effect as of June 30, 1998. The Corporation also receives reimbursement with respect to HEAL consolidation loans under a Consolidation Lender Insurance Contract with the Secretary of HHS which provides insurance for the period through September 30, 1998. The Corporation anticipates a renewal of this contract with respect to HEAL consolidation loans.

Insurance contracts entered into after August 29, 1991 eliminated reimbursement for lenders upon the filing by a borrower for bankruptcy under Chapter 7 of the Bankruptcy Code unless such borrower also files a complaint to determine dischargeability of the HEAL Loan. This amendment to insurance contracts is based upon 42 U.S.C. 294(g) which provides that HEAL Loans may not be discharged in any bankruptcy proceeding until five years after the date on which repayment of this loan begins. Such amendment does not affect reimbursement provisions in connection with Chapter 11 and 13 bankruptcies by borrowers.

The Corporation's receipt of federal reimbursement payments under the HEAL Loan program is subject to compliance by the Corporation with the Insurance Contract and requirements of the Public Health Service Act. The Corporation is required, among other matters, to assure that all of the requirements for the initial insurability of the HEAL Loans have been met and to exercise due diligence in servicing and collecting such loans and to maintain required records.

Failure to comply with the terms and conditions of the Insurance Contract and the provisions of the Public Health Service Act and regulations thereunder entitles the Secretary of HHS to terminate its agreement with the Corporation. In the event of termination, the Secretary of HHS remains obligated to make reimbursement payments for claims made by the Corporation prior to termination. The Secretary of HHS also may take less severe actions than termination, such as requesting the return of certain payments made to the Corporation, all in accordance with procedures for the limitation, suspension or termination of lender eligibility under the Higher Education Act program of direct federal insurance to holders of student loans ("FISLP").

Eligibility for Federal Insurance

A HEAL Loan is federally insurable provided:

(i) The loan is made to an eligible student by an eligible lender pursuant to loan documents containing certain provisions, which, in general, require a loan term of not less than 10 years nor more than 25 years (with deferments, 33 years), minimum annual payments and may provide for payments of additional amounts (including costs and insurance premiums in the event of a borrower default);

(ii) Principal and interest may be deferred (a) during the term that the borrower continues study, (b) for up to four years of residency or internship training, (c) for up to three years during which the borrower is a member of the Armed Forces, a Peace Corps volunteer or a volunteer under the National Health Service Corps or the Domestic Volunteer Act. For HEAL Loans received on and after October 22, 1985, payments may be additional deferred up to two years during which time the borrower is in fellowship training study or engaged in a post-doctoral training.

(iii) The loan, (a) if made to a student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, or podiatric medicine does not exceed $20,000 in any one academic year, (b) if made to a student enrolled in a school of pharmacy, public health, allied health, or chiropractic, or a graduate program in health administration or clinical psychology does not exceed $12,500 in any one academic year; and

(iv) Loans made to a student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry or podiatric medicine do not exceed $80,000 in aggregate principal amount and in the case of a student enrolled in a school of pharmacy, public health, allied health or chiropractic, or a graduate program in health administration or clinical psychology do not exceed $50,000 in aggregate principal amount.

HEAL Loans may also be made to non-student borrowers for the limited purpose of consolidating and refinancing existing HEAL Loans.

Interest Provisions

At a lender's option, the interest rate on a HEAL Loan may be calculated on a fixed rate or on a variable rate basis. Whichever method is selected, that method must continue over the life of the HEAL Loan, except where the HEAL Loan is consolidated with another HEAL Loan. Interest that is calculated on a fixed rate basis is determined for the lief of the HEAL Loan during the calendar quarter in which the HEAL Loan is disbursed. It may not exceed the maximum rate determined for that quarter by the Secretary of HHS. Interest that is calculated on a variable rate basis will vary every calendar quarter throughout the life of the Loan as the market price of U.S. Treasury Bills changes. For any quarter, the interest may not exceed the maximum rate determined by the Secretary of HHS.

For each calendar quarter, the Secretary of HHS determines the maximum annual HEAL interest rate by, (i) determining the average of the bond equivalent rates reported for the 91-day U.S. Treasury Bill auctioned for the preceding calendar quarter, (ii) adding 3.5 percentage points for loans made before October 22, 1985 and 3 percentage points for loans made on or after October 22, 1985, and (iii) rounding that figure to the next higher one-eighth of one percent.

Any borrower who received a HEAL Loan bearing an interest rate that is fixed at a rate in excess of 12 percent per year may enter into an agreement with the eligible lender that made for the reissuance of such loan in order to permit the borrower to obtain the interest rate in effect for HEAL Loans as of the date the borrower submits an application to such lender for such reissuance.

As a general rule, unpaid accrued interest may be compounded annually and added to principal. However, if a borrower postpones payment of interest before the beginning of the repayment period or during deferment periods or if the lender permits postponement during the forbearance, the lender may refrain from annual compounding of interest and add accrued interest to principal only at the time repayment of principal begins or resumes. A lender may refrain only if this practice does not result in interest being compounded more frequently than annually. Interest begins to accrue when a loan is disbursed. However, a borrower may postpone payment of interest before the beginning of the repayment period or during deferment periods or a lender may permit postponement during forbearance. In these cases, payment of interest must begin or resume on the date on which repayment of principal begins or resumes. If payment of interest is postponed, it may be added to the principal for purposes of calculating a repayment schedule.

HEAL Consolidation Loans

HEAL Loans may be consolidated by the lender only if the borrower agrees. A lender may (i) consolidate two or more HEAL Loans of the same borrower into a single HEAL Loan or (ii) consolidate the HEAL Loan with any other loan to the borrower if the consolidation will not result in terms less favorable to the borrower than if no consolidation had occurred.

A lender may reissue any HEAL Loan selected by the borrower for incorporation in a consolidation loan, if (i) a lender determines that (a) the HEAL Loan to be consolidated is a legal, valid and binding obligation of the borrower; (b) each such loan was made and serviced in compliance with applicable laws and regulations; and (c) the insurance on such loan is in full force and effect; and (ii) the loan being reissued was not in default at the time the request for consolidation is made.

The Secretary of HHS insures the HEAL Loan components of consolidation loans under a certificate of comprehensive insurance with no insurance limit. The reissued loan is made in an amount which includes outstanding principal, capitalized interest, accrued unpaid interest not yet capitalized, and authorized late charges.

Due Diligence Obligations Under the Public Health Service Act

Under the Public Health Service Act, pursuant to regulations promulgated by the Secretary of HHS, a lender must exercise due diligence in the collection of HEAL Loans. In order to exercise due diligence, certain procedures must be implemented. These procedures include notification to the borrower at specified intervals of a delinquency, that the continued delinquent status will be reported to consumer credit reporting agencies if payment is not made, and if required, skip tracing procedures. Records must be made of compliance with such collection procedures. When a borrower is 90 days delinquent in making a payment, a lender must request pre-claim assistance from the Public Health Service.

With respect to the default by a borrower on any HEAL Loan, a lender must commence and prosecute an action for such default unless, in the determination of the Secretary of HHS (i) a lender has made reasonable efforts to serve process on the borrower involved and has been unsuccessful with respect to such efforts and prosecution of such an action would be fruitless because of the financial or other circumstances of the borrower; (ii) for HEAL Loans made before November 4, 1988, the loan amount was less than $5,000; or (iii) for HEAL Loans after November 4, 1988 the loan amount was less than $2,500. Only after such collection effort does the Secretary of HHS pay the amount of the loss sustained.

STATUTORY LOAN PROGRAM

General

The Corporation has established loan programs that are separate and apart from the Higher Education Act or the Public Health Service Act (the "Statutory Loan Program"). Loans made pursuant to the Corporation's Statutory Loan Program are herein referred to as "Statutory Loans."

THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM HAVE BEEN ESTABLISHED TO SERVE THE GOALS OF THE CORPORATION IN INCREASING THE AVAILABILITY OF CREDIT FOR EDUCATION, CONSISTENT WITH PROVIDING FOR PAYMENT OF DEBT SERVICE ON THE CORPORATION'S OBLIGATIONS. THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM ARE, HOWEVER, SUBJECT TO CHANGE AT ANY TIME WITHOUT NOTICE TO OR CONSENT OF THE OWNERS OF THE 1998 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 1998 BONDS WITHOUT THE CONSENT OF THE BOND INSURER.

Under the Statutory Loan Program, the Corporation finances Statutory Loans to eligible persons (each an "Eligible Borrower") from the proceeds of bonds or other obligations, from repayments or prepayments of the Statutory Loans and from other moneys available therefor under the Statutory Loan Program. The Corporation services or contracts for the servicing of the Statutory Loans.

Presently, the Statutory Loan Program consists of three types of loan programs: the VSAC EXTRA Loan Program, the VSAC EXTRA Medical Loan Program and the VSAC EXTRA Law Loan Program. Set forth below are brief summaries of these three programs and the Statutory Loans made thereunder. These Statutory Loans are not insured, subsidized or guaranteed. These loans are intended to supplement other available sources of credit for student borrowers. The security for a VSAC EXTRA Loan, a VSAC EXTRA Medical Loan and a VSAC EXTRA Law Loan will be exclusively derived from the creditworthiness of the borrower and any co-signer. The Statutory Loan borrowers will be required to pay a borrowing or origination fee which will be held by the Corporation outside the Resolution and is not available to pay debt service on the 1998 Bonds..

The Statutory Loan Program may include other types of Statutory Loans from time to time.

VSAC EXTRA Loan Program	**Program Features**
DETERMINATION OF LOAN AMOUNT	1. Cost minus Aid after maximum Title IV loans have been approved; or 2. Past due balance at school for Stafford borrowers who are currently enrolled or need to pay balance in order to reenroll.
ELIGIBILITY	Student borrowers at school in VT or VT residents attending Title IV-eligible school out of state. Credit and Income standards apply.
COSIGNORS	If student is unable to meet income standards alone, creditworthy cosigner may be required. Cosigner should be member of student's immediate family or a Vermont resident.
INTEREST CALCULATION METHOD	Index: 91-day US Treasury Bill + 2.5% margin for the life of the loan. Quarterly variable. No maximum rate.
CURRENT INTEREST RATE	8.19% (For the period 4/1/98 -- 6/30/98)
GUARANTEE FEE	4% of the loan amount.
COMMENCEMENT OF REPAYMENT	Repayment begins within 45 days of disbursement. Interest-only payments required during in-school period, payments of principal and interest begin when full-time enrollment ends.
INTEREST CAPITALIZATION	After periods of forbearance.

DEFERMENT TYPES	None.
FORBEARANCE	At option of lender. Interest payments encouraged.
MINIMUM PAYMENT REQUIRED	$50 minimum, negotiable.
PREPAYMENT PENALTY	None.
LATE CHARGES	VSAC does not assess late fees.
DEFAULT	1. Failure to pay when due or to keep promises made in promissory note. 2. Failure to notify Lender of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignation of assets. 4. Any false written statement pertaining to loan.
NOTICES	1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to borrower from VSAC will be effective when mailed to the latest address VSAC has for borrower. 3. Lender may report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	Borrower fills in requested amount on application. When credit and income requirements are approved VSAC asks school financial aid office to provide enrollment confirmation and cost-minus-aid figures, or balance due school. VSAC will approve the cost-minus-aid amount, or the borrower's requested amount, whichever is less. VSAC then prepares and sends Promissory Note and Disclosure Statement, which shows amount of loan, guarantee fee, APR and total finance costs. Borrower may request multiple disbursements of funds.
INCOME STANDARDS	Consignor must meet VSAC income standards. Applicant must have verifiable job history of at least 2 years with same employer or in same profession. Applicant must show sufficient income to demonstrate a debt to income ratio of not more than 40%.

CREDIT STANDARDS

VSAC will consider making a loan if the credit report shows no credit history or shows:

- No bankruptcy within the past 5 years.
- No unsatisfied court judgment or federal or state tax lien or government claim over $100.
- No education loan default with more than $0 balance. If prior default is now showing current, get written explanation from borrower.
- No real estate foreclosure or deed in lieu thereof.
- No record of a collection account, profit and loss write-off, charge-off, or repossession for more than $200 which has not been satisfied. Accounts with less than $200 balance or medical collection accounts may be subject to credit committee judgment.

CREDIT COMMITTEE

Loan Officer in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

VSAC EXTRA Medical Loan Program	Program Features
LOAN AMOUNTS	
1. ANNUAL MAXIMUM	1. Cost Minus Aid after maximum Title IV Loans have been borrowed from VSAC.
2. CUMULATIVE	2. Cost Minus Aid for Number of Academic Years. *(Exceptions considered with Financial Aid Officer recommendation.)*
	• Borrowers may pay off existing private education loans up to cumulative amount, provided all loans are in good standing.
3. MEDICAL RESIDENCY LOAN	3. Up to $7,500.
	• NON COST-MINUS-AID LOAN available to pay legitimate education-related expenses connected with the preparation for and expenses of medical residency. Borrower's VSAC loans must be in good standing. Additional credit review required.
ELIGIBILITY	1. Must be enrolled at least half-time in a professional degree program at a VSAC-approved Medical School.
	2. Must borrow maximum eligibility under FFELP and other Federal Loan Programs before applying for **EXTRA Medical.**
	3. Borrower must meet VSAC's credit standards, including all education debt in good standing. *(see "Credit Standards" below.)*
	4. **EXTRA Medical** proceeds may be used only for education expenses, except as noted for medial residency borrowing (#3 above).
COSIGNORS	Yes, if creditworthy and financially qualified. For certain purposes.
INTEREST CALCULATION METHOD	Index: 91-day T-BILL + 2.5% Margin for the life of the loan. Quarter variable; no maximum rate
CURRENT INTEREST RATE	8.19% (for the period 4/1/98 -- 6/30/98
FEES 1. INSURANCE	1. 8% of the loan amount.
2. REPAYMENT	2. NONE.
COMMENCEMENT OF REPAYMENT	Repayment begins 9 months after graduation or drop to less than half-time enrollment.
INTEREST CAPITALIZATION.	When repayment begins and after periods of forbearance.
FORBEARANCE	1. At VSAC's discretion. 2. Match borrower's FFELP or other Federal Loan deferment eligibility.
REPAYMENT TERM	Tied to Federal Loan terms; maximum of 30 years.

MINIMUM PAYMENT REQUIRED	$50/month, or monthly interest amount, whichever is less.
PREPAYMENT PENALTY	NONE.
LATE CHARGES	VSAC does not assess late fees.
DEFAULT	1. Failure to pay when due or to keep promises made in promissory note. 2. Failure to notify VSAC of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignation of assets. 4. Any false written statement pertaining to loan.
NOTICES	1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to borrower from VSAC will be effective when mailed to the most recent address VSAC has for borrower. 3. VSAC may report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	Borrower completes and signs Multi-Year Promissory Note (MYPN), including consent to credit review. VSAC processes the application using electronic means wherever possible. NON COST MINUS AID LOANS do not require school certification. Subsequent disbursements and loan requests do not require a new promissory note and are subject to current credit review.
CREDIT STANDARDS	VSAC will consider making a loan if the credit report shows no credit history or shows: 1. No bankruptcy within the past 5 years. 2. No unsatisfied court judgment or federal or state tax lien or government claim over $100. 3. No education loan default with more than a $0 balance. If prior default is now showing current, get written explanation from borrower. 4. No real estate foreclosure or deed in lieu thereof. 5. No record of a collection account, profit and loss write-off, charge-off, or repossession for more than $200 which has not been satisfied. Accounts with less than $200 balance or medical collection accounts may be subject to credit committee judgment.
CREDIT COMMITTEE	Loan Officer in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

VSAC EXTRA Law Loan Program	**Program Features**
LOAN AMOUNTS	
1. ANNUAL MAXIMUM	1. Cost Minus Aid after maximum Title IV loans have been borrowed from VSAC
2. CUMULATIVE	2. Cost Minus Aid for Number of Academic Years. *(Exceptions considered with Financial Aid Officer recommendation.)*
	• Borrowers may pay off existing private education loans up to cumulative amount, provided all loans are in good standing.
3. BAR EXAM LOAN	4. Up to $5,000.
	• NON COST-MINUS-AID LOAN available to pay legitimate education-related expenses connected with the preparation for and expenses of, but not limited to, the Bar Exam. Borrower's VSAC loans must be in good standing. Additional credit review required.
ELIGIBILITY	1. Must be enrolled at least half-time in a professional degree program at a VSAC-approved Law School.
	2. Must borrow maximum eligibility under FFELP, and other Federal Loan Programs before applying for **EXTRA Law.**
	3. Borrower must meet VSAC's credit standards, including all education debt in good standing. *(see "Credit Standards" below.)*
	4. **EXTRA Law** proceeds may be used only for education expenses, except as noted for Bar Exam borrowing (#3 above).
COSIGNORS	Yes, if creditworthy and financially qualified. For certain purposes.
INTEREST CALCULATION METHOD	Index: 91-day T-BILL + 2.5% Margin for the life of the loan. Quarterly variable; no maximum rate
CURRENT INTEREST RATE	8.19% (for the period 4/1/98 -- 6/30/98)
FEES	
1. INSURANCE 2. REPAYMENT	1. 8% of the loan amount. 2. NONE.
COMMENCEMENT OF REPAYMENT	Repayment begins 9 months after graduation or drop to less than one half-time enrollment.
INTEREST CAPITALIZATION.	After repayment begins and periods of forbearance.
FORBEARANCE	1. At VSAC's discretion.
	2. Match borrower's FFELP or other Federal Loan deferment eligibility.
REPAYMENT TERM	Tied to Federal Loan terms; maximum of 30 years

MINIMUM PAYMENT REQUIRED	$50/month, or monthly interest amount, whichever is less.
PREPAYMENT PENALTY	NONE.
LATE CHARGES	VSAC does not assess late fees.
DEFAULT	1. Failure to pay when due or to keep promises made in promissory note. 2. Failure to notify VSAC of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignation of assets. 4. Any false written statement pertaining to loan.
NOTICES	1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to borrower from VSAC will be effective when mailed to the most recent address VSAC has for borrower. 3. VSAC may report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	Borrower completes and signs Multi-Year Promissory Note (MYPN), including consent to credit review. VSAC processes the application using electronic means wherever possible. NON-COST-MINUS AID LOANS do not require school certification. Subsequent disbursements and loan requests do not require a new promissory note and are subject to current credit review.
CREDIT STANDARDS	VSAC will consider making a loan if the credit report shows no credit history or shows: 1. No bankruptcy within the past 5 years. 2. No unsatisfied court judgment or federal or state tax lien or government claim over $100. 3. No education loan default with more than a $0 balance. If prior default is now showing current, get written explanation from borrower. 4. No real estate foreclosure or deed in lieu thereof. 5. No record of a collection account, profit and loss write-off, charge-off, or repossession for more than $200 which has not been satisfied. Accounts with less than $200 balance or medical collection accounts may be subject to credit committee judgment.
CREDIT COMMITTEE	Loan officer in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

APPENDIX I

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

$165,000,000 VERMONT STUDENT ASSISTANCE CORPORATION EDUCATION LOAN REVENUE BONDS SERIES 1998

We have acted as Bond Counsel to the Vermont Student Assistance Corporation (the "Corporation"), a nonprofit public corporation organized pursuant to the laws of the State of Vermont, in connection with the issuance by the Corporation on the date hereof of $165,000,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 1998K, Senior Series 1998L, Senior Series 1998M, Senior Series 1998N and Subordinate Series 1998O (collectively, the "1998 Bonds").

The 1998 Bonds have been authorized and issued pursuant to Sections 2821 through 2873 of Title 16 of the Vermont Statutes Annotated, as amended (the "Act), and the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted by the Corporation's Board of Directors on June 16, 1995 and the 1998 Fifth Series Resolution of the Corporation adopted by the Corporation's Board of Directors on June 9, 1998 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 1998 Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Education Loans, make a deposit to the Debt Service Reserve Account, and pay certain costs and other expenses of the Corporation associated with the issuance of the 1998 Bonds. Any capitalized term used herein and not defined herein shall have the same meaning ascribed thereto in the Resolution unless the context shall clearly otherwise require.

The 1998 Bonds are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and mandatory tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 1998 Bonds, a certified copy of the Bylaws of the Corporation, certificates of public officials, and such other documents and instruments as we have deemed necessary for the purpose of rendering this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings, including the representations therein, and other certifications of officials furnished to us, without undertaking to verify the same by independent investigation. We have also examined the Act and such other statutes, regulations and law as we have deemed necessary under the circumstances.

Based upon the foregoing, and on laws, regulations, rulings and judicial decisions existing as of the date hereof, we are of the opinion that:

1. The Corporation is duly organized and existing as a nonprofit public corporation under the Act, with full power and authority to issue the 1998 Bonds and adopt the Resolution.

2. The Resolution has been duly adopted and constitutes the legal, valid and binding obligation of the Corporation enforceable in accordance with its terms. The Resolution creates a valid pledge, to secure payment of the principal of and interest on the 1998 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 1998 Bonds) held by the Trustee in any account established pursuant to the Resolution, except the Rebate Account, subject to provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

3. The 1998 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding limited obligations of the Corporation, payable solely from the amounts pledged therefor as described in (2) above, and entitled to the protections, benefits and security of the Resolution, subject to the priorities contained therein of Senior Bonds over Subordinate Bonds.

4. The 1998 Bonds are not a lien or charge upon the funds or property of the Corporation except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of Vermont or any political subdivision thereof is pledged to the payment of the principal of or interest on the 1998 Bonds.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 1998 Bonds is excluded from gross income of the recipients thereof for federal income tax purposes. However, we are of the opinion that interest on the 1998 Bonds constitutes a specific preference item for purposes of the alternative minimum tax for individuals and corporations imposed by the Internal Revenue Code of 1986, as amended. The Corporation has covenanted in the Resolution and the Tax Regulatory Agreement to comply with certain guidelines designed to assure that interest on the 1998 Bonds will not become includable in gross income. Failure to comply with these covenants may result in interest on the 1998 Bonds being included in gross income from the date of issuance of the 1998 Bonds. Our opinion assumes continuing compliance with such covenants.

The accrual or receipt of interest on the 1998 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws of the State of Vermont, the 1998 Bonds and the interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes.

Our opinions in paragraphs 2 and 3 of this letter are qualified to the extent that (a) the enforceability of the 1998 Bonds and the Resolution and the rights of the registered owners of the 1998 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally heretofore or hereafter enacted, (b) the enforceability thereof may be limited by the application of general principles of equity and (c) the enforcement of such rights may also be subject to the exercise of judicial discretion in appropriate cases.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. The opinions expressed herein are based on existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation or as to any other matters.

Very truly yours,

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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:

Policy Number: APPENDIX J

Bonds:

Premium:

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.

President

SEAL

Secretary

Effective Date:

Authorized Representative

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

Authorized Officer

Form No. [illegible]

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APPENDIX K

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Financial Statements

June 30, 1997

(With Comparative Information for 1996)

(With Independent Auditors' Report Thereon)

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VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

June 30, 1997

(With Comparative Information for 1996)

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KPMG Peat Marwick LLP

One Church Street
P.O. Box 564
Burlington, VT 05402

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Vermont Student Assistance Corporation:

We have audited the accompanying balance sheet of the Vermont Student Assistance Corporation, a component unit of the State of Vermont, as of June 30, 1997, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation at June 30, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

September 4, 1997

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Balance Sheet
June 30, 1997
(With Comparative Totals for June 30, 1996)

	1997				1996
				(Memorandum Only)	
Assets	General Fund	Loan Guarantee Fund	Loan Finance Fund	Total	Total
Cash and cash equivalents (note 3)	$ 532,168	1,858,277	117,348,106	119,738,551	67,269,602
Investments (note 3)	0	3,216,879	65,293,445	68,510,324	175,925,767
Receivables:					
Investment interest	0	65,942	101,741	167,683	1,473,209
Student loans (notes 4 and 5)	0	0	496,517,764	496,517,764	438,186,212
Student loan interest and special allowance (note 7)	0	0	14,740,847	14,740,847	13,767,752
Administrative cost allowance	0	118,819	0	118,819	324,440
Grants and other	183,709	3,360	221,160	408,229	228,713
Due from other funds	486,805	21,150	61,029	568,984	2,475,424
Federal reinsurance receivable (note 5)	0	1,732,465	0	1,732,465	1,155,005
Property and equipment (note 9)	1,858,091	0	1,089,713	2,947,804	1,707,256
Deferred bond issuance costs, less accumulated amortization of $2,281,077	0	0	4,675,209	4,675,209	4,950,999
Other assets	57,234	0	759,084	816,318	808,852
Total assets	$ 3,118,007	7,016,892	700,808,098	710,942,997	708,273,231

See accompanying notes to financial statements.

Liabilities and Fund Balances		1997 General Fund	1997 Loan Guarantee Fund	1997 Loan Finance Fund	1997 (Memorandum Only) Total	1996 (Memorandum Only) Total
Bonds and notes payable (note 12)	$	0	0	646,772,672	646,772,672	646,815,390
Line of credit payable (note 10)		0	0	0	0	466,000
Accounts payable and other liabilities		512,753	14,296	529,466	1,056,515	973,006
Grants and scholarships payable		422,933	0	0	422,933	172,905
Accrued interest on bonds payable		0	0	1,852,327	1,852,327	1,934,392
Borrower rebates payable (note 13)		0	0	0	0	1,846,636
U.S. Treasury rebates payable (note 13)		0	0	10,792,683	10,792,683	6,850,263
Deferred loan administrative fees		0	1,734,499	0	1,734,499	1,748,947
Federal advances (note 8)		0	538,194	0	538,194	538,194
Due to other funds		60,898	473,204	34,882	568,984	2,475,424
Due to U.S. Department of Education		0	219,447	0	219,447	432,598
Total liabilities		996,584	2,979,640	659,982,030	663,958,254	664,253,755
Fund balances:						
Restricted:						
Bond resolution		0	0	30,618,587	30,618,587	32,752,066
Loan guarantees		0	4,037,252	0	4,037,252	3,839,319
Grants and scholarships		84,336	0	0	84,336	(443,759)
Unrestricted		150,139	0	0	150,139	427,816
Unrestricted - designated for future bond issuances (note 11)		0	0	9,117,768	9,117,768	5,736,778
Net investment in property and equipment		1,886,948	0	1,089,713	2,976,661	1,707,256
Total fund balances		2,121,423	4,037,252	40,826,068	46,984,743	44,019,476
Commitments and contingencies (notes 15 and 17)						
Total liabilities and fund balances	$	3,118,007	7,016,892	700,808,098	710,942,997	708,273,231

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Revenues, Expenses and Changes in Fund Balances
Year ended June 30, 1997
(With Comparative Totals for June 30, 1996)

	1997				1996
				(Memorandum Only)	
	General Fund	Loan Guarantee Fund	Loan Finance Fund	Total	Total
Revenues:					
U.S. Department of Education:					
Interest (note 7)	$ 0	0	10,796,390	10,796,390	11,249,046
Special allowance (note 7)	0	0	3,690,410	3,690,410	2,767,204
Interest on investments	634,113	239,144	10,418,287	11,291,544	9,896,173
Interest and other charges on student loans	0	0	26,788,269	26,788,269	23,415,066
State appropriations	11,861,900	0	0	11,861,900	12,051,900
Loan administrative fees	0	923,011	0	923,011	792,081
Federal reinsurance	0	7,815,890	0	7,815,890	5,663,413
Federal administrative cost allowance	0	812,403	0	812,403	789,184
Collections on defaulted loans	0	1,544,518	0	1,544,518	1,570,600
Loan rehabilitation and repurchase revenue	0	882,917	0	882,917	843,851
Federal grants	1,186,717	0	0	1,186,717	1,311,421
Scholarship income	922,232	0	0	922,232	283,203
Other income	277,303	36,417	0	313,720	198,445
Total revenues	14,882,265	12,254,300	51,693,356	78,829,921	70,831,587
Expenses:					
Salaries and benefits	2,474,085	0	6,046,186	8,520,271	7,507,181
Other general and administrative	1,099,875	11,754	2,522,679	3,634,308	3,196,659
State grants and scholarships	12,483,527	0	0	12,483,527	12,507,514
Purchases of defaulted loans	0	7,878,075	0	7,878,075	5,666,334
Reimbursement of collections to U.S. D.E.	0	1,153,706	0	1,153,706	1,163,315
Loan rehabilitation and repurchase expense	0	712,836	0	712,836	675,852
Interest rebated to borrowers (note 13)	0	0	5,750,364	5,750,364	1,843,928
Interest subject to U.S. Treasury rebate (note 13)	0	0	3,964,101	3,964,101	2,208,741
Interest, net of amortization of discount/premium	5,019	0	27,836,782	27,841,801	25,193,124
Credit enhancement and remarketing fees	0	0	2,558,655	2,558,655	2,159,599
Other loan financing expense	0	0	367,199	367,199	384,147
Depreciation and amortization	528,288	0	0	528,288	496,898
Amortization of bond issuance costs	0	0	471,523	471,523	385,516
Total expenses	16,590,794	9,756,371	49,517,489	75,864,654	63,388,808
Excess (deficiency) of revenues over expenses	(1,708,529)	2,497,929	2,175,867	2,965,267	7,442,779
Transfers (to) from other funds	2,300,000	(2,300,000)	0	0	0
Net increase in fund balance	591,471	197,929	2,175,867	2,965,267	7,442,779
Fund balances at beginning of year, as restated (note 16)	1,529,952	3,839,323	38,650,201	44,019,476	36,576,697
Fund balances at end of year	$ 2,121,423	4,037,252	40,826,068	46,984,743	44,019,476

See accompanying notes to financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Cash Flows
Year ended June 30, 1997
(With Comparative Totals for June 30, 1996)

	1997				1996
				(Memorandum Only)	
	General Fund	Loan Guarantee Fund	Loan Finance Fund	Total	Total
Cash flows from operating activities:					
Excess (deficiency) of revenues over expenses	$ (1,708,529)	2,497,929	2,175,867	2,965,267	7,442,779
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:					
Transfers (to) from other funds	2,300,000	(2,300,000)	0	0	0
Depreciation and amortization	528,288	0	0	528,288	496,898
Amortization of bond issuance costs	0	0	471,523	471,523	385,516
Amortization of bond discount	0	0	(42,718)	(42,718)	(34,566)
Provision for losses on student loans	0	0	276,699	276,699	285,186
Changes in assets and liabilities:					
Decrease (increase) in investment interest receivable	0	14,230	1,291,296	1,305,526	(1,320,044)
Increase in student loans receivable	0	0	(58,608,251)	(58,608,251)	(57,182,492)
Increase in student loan interest and special allowance receivables	0	0	(973,095)	(973,095)	(3,074,502)
Decrease (increase) in administrative cost allowance	0	205,621	0	205,621	(73,783)
Decrease (increase) in grants and other receivables	40,548	1,096	(221,160)	(179,516)	(50,907)
Decrease (increase) in due from other funds	888,810	(4,014)	1,021,644	1,906,440	(2,050,182)
Increase in Federal reinsurance receivable	0	(577,460)	0	(577,460)	(289,983)
Decrease (increase) in other assets	(21,334)	0	13,868	(7,466)	(101,987)
Increase (decrease) in accounts payable and other liabilities	47,926	418	35,165	83,509	(316,119)
Increase in grants and scholarships payable	250,028	0	0	250,028	27,151
Increase (decrease) in accrued interest on bonds payable	0	0	(82,065)	(82,065)	216,318
Increase (decrease) in borrower rebates payable	0	0	(1,846,636)	(1,846,636)	800,154
Increase in U.S. Treasury rebates payable	0	0	3,942,420	3,942,420	2,131,309
Increase (decrease) in deferred loan administrative fees	0	(14,448)	0	(14,448)	25,109
Increase (decrease) in due to other funds	(1,038,911)	(902,411)	34,882	(1,906,440)	2,050,182
Decrease in due to U.S. Department of Education	0	(213,151)	0	(213,151)	(96,416)
Total adjustments	2,995,355	(3,790,119)	(54,686,428)	(55,481,192)	(58,173,158)
Net cash provided by (used in) operating activities	1,286,826	(1,292,190)	(52,510,561)	(52,515,925)	(50,730,379)

(Continued)

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Cash Flows, Continued

	1997				1996
		Loan	Loan	(Memorandum Only)	
	General Fund	Guarantee Fund	Finance Fund	Total	Total
Cash flows from noncapital financing activities:					
Principal repayments of bonds and notes payable	$ 0	0	(17,950,000)	(17,950,000)	(24,565,000)
Proceeds from issuance of bonds and notes payable	0	0	17,950,000	17,950,000	124,545,000
Repayment of line of credit payable	(466,000)	0	0	(466,000)	466,000
Increase in deferred bond issuance costs	0	0	(195,733)	(195,733)	(931,003)
Net cash provided by (used in) noncapital financing activities	(466,000)	0	(195,733)	(661,733)	99,514,997
Cash flows from investing activities:					
Decrease (increase) in investments	0	1,676,878	105,738,565	107,415,443	(134,767,839)
Net cash provided by (used in) investing activities	0	1,676,878	105,738,565	107,415,443	(134,767,839)
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(679,123)	0	(1,089,713)	(1,768,836)	(510,872)
Net cash used in capital and related financing activities	(679,123)	0	(1,089,713)	(1,768,836)	(510,872)
Net increase (decrease) in cash and cash equivalents	141,703	384,688	51,942,558	52,468,949	(86,494,093)
Cash and cash equivalents at beginning of year	390,465	1,473,589	65,405,548	67,269,602	153,763,695
Cash and cash equivalents at end of year	$ 532,168	1,858,277	117,348,106	119,738,551	67,269,602
Supplemental cash flow information:					
Cash paid during the year for:					
Interest	$ 5,019	0	27,961,565	27,966,584	24,971,039

See accompanying notes to financial statements.

(1) Authorizing Legislation and Nature of Funds

(a) Authorizing Legislation

The Vermont Student Assistance Corporation ("VSAC") was created as a public non-profit corporation by an act of the General Assembly of the State of Vermont in accordance with the provisions of the Higher Education Act of 1965, as amended ("the Act"). The purpose of VSAC is to provide opportunities for Vermont residents to pursue post-secondary education by awarding grants and guaranteeing, making, financing, and servicing loans to students. VSAC also administers scholarships, student employment programs, and outreach services to students seeking post-secondary education.

Pursuant to Vermont statutes, VSAC is responsible for the administration of the Loan Finance Program. Under this program, VSAC originates, purchases, services and consolidates education loans. The loans are financed through the issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education. The bonds outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of the bonds. The bonds are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

As required by generally accepted accounting principles, VSAC is considered a component unit of the State of Vermont and is included as part of the State's financial reporting entity. VSAC's relationship with the State primarily consists of an annual appropriation designated for grant aid to Vermont students.

(b) Basis of Presentation and Nature of Funds

The accompanying financial statements are presented in three distinct funds, each of which is considered a separate accounting entity.

General Fund - This fund is used to account for all financial transactions for Federal and State grant programs, and related administration and support services of VSAC.

Loan Guarantee Fund - This fund is used to account for the operation of the Federal Loan Guarantee Program. Under this program, VSAC guarantees loans made to students, collects on defaulted loans and receives Federal reinsurance on defaulted loans.

Loan Finance Fund - This fund is used to account for the operations of the Loan Finance Program as described above. Revenues are derived from interest on student loans, U.S. Department of Education interest subsidies and special allowances, and investment earnings related to the issuance of VSAC's revenue bonds.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

VSAC follows the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when obligation for payment is incurred.

(Continued)

In accordance with generally accepted accounting principles, VSAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to the extent these pronouncements do not conflict with GASB pronouncements.

(b) Cash, Cash Equivalents and Investments

VSAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Investments are comprised of short-term investments other than cash equivalents with original maturities of one year or less, and long-term investments with original maturities in excess of one year. Cash equivalents and investments are carried at cost which approximates fair value.

(c) Property and Equipment

Property and equipment are stated at historical cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

(d) Costs of Bond Issuances

Costs of bond issuances, which are comprised of underwriters' discount, legal fees, and other related financing costs, are deferred and amortized over the lives of the respective bond issues using the straight-line method.

(e) Deferred Loan Administrative Fees

The Loan Guarantee Program collects an administrative fee from borrowers at the time of loan disbursement. Administrative fee revenue is recognized by a formula which takes into account the estimated average life of the loans and related costs of loan processing.

(f) Amortization of Bond Premiums and Discounts

Bond premiums and discounts are amortized using the interest method over the life of the bonds.

(g) Fund Balances

Restricted fund balances represent resources that can only be used for specific purposes as set forth under the terms of the underlying bond resolutions or by Federal or State statute.

(h) Compensated Absences

VSAC employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitation, unused vacation earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation recognized as expense is the amount earned.

(i) Income Tax Status

VSAC is exempt from Federal and state income taxes.

(Continued)

(j) Reclassifications

Certain reclassifications have been made to the 1996 financial statements in order to conform with the 1997 presentation.

(k) Memorandum Only

The "memorandum only" columns contain totals of similar accounts of the three funds. Since assets of certain funds are restricted by the related resolutions, totaling of these accounts is for illustrative purposes only and does not indicate the assets available in any manner other than provided for in the resolutions for the separate funds.

(3) Cash, Cash Equivalents and Investments

VSAC's deposit and investment policy complies with the underlying bond resolution requirements. In accordance with those bond resolutions, all deposits and investments meet the requirements and approval of the letter of credit and bond insurance providers. Additionally, such requirements mandate specific classes of investment vehicles including: bank time deposits; certificates of deposit; direct obligations of the United States of America, unconditionally guaranteed by the United States of America; indebtedness issued by certain Federal agencies; collateralized repurchase agreements secured by obligations of the United States of America with collateral held by or at the direction of the trustee; guaranteed investment contracts with banks or bank holding companies; commercial paper and open ended investment funds.

The book balance of cash and cash equivalents totaled $119,738,551 at June 30, 1997. The bank balance of cash and cash equivalents totaled $119,846,318 at June 30, 1997, of which $567,265 was covered by Federal depository insurance (FDIC) and other insurance. The remaining cash and cash equivalents were uninsured and uncollateralized. Investments totaling $68,510,324 at June 30, 1997 were comprised primarily of U.S. treasury notes and guaranteed investment contracts. Investments were uninsured and unregistered, with securities held by an agent of the trustee, but not in VSAC's name. During the year, VSAC had balances in bank accounts, money market accounts, guaranteed investment contracts and U.S. treasury notes which were not fully insured or collateralized.

(4) Student Loans Receivable - Loan Finance Fund

The Loan Finance Fund has outstanding student loans with annual interest rates ranging from 6.0% to 12.0% that are insured by the U.S. Department of Education and U.S. Department of Health and Human Services. There is an allowance for loan losses of $561,884 as of June 30, 1997.

Student loans are classified as being in "interim" status during the period from the date the loan is made until a student is out of school either for six or nine months. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" status is a period during the life of the loan when repayment is suspended for authorized purposes.

(Continued)

Student loans receivable, before allowance for loan losses, are summarized as follows as of June 30, 1997:

Status:

Interim status	$ 146,899,459
Deferral status	63,665,804
Repayment status	286,514,385
	$ 497,079,648

Guarantee Type:

Department of Education	$ 473,578,033
Department of Health and Human Services	16,902,612
Other	6,599,003
	$ 497,079,648

(5) Federal Reinsurance

Under its contract with the U.S. Department of Education, the Loan Guarantee Program is reimbursed for payments to participating lending institutions on defaulted loans based upon a reimbursement formula ranging from 80% to 100% (for loans originated on or after October 1, 1993 the reimbursement formula ranges from 78% to 98%) of the unpaid balance of the principal plus accrued interest on the insured loss. The level of reinsurance is determined by calculating current year default claims paid as a percentage of loans in repayment at the end of the preceding federal fiscal year. VSAC received the highest reinsurance rate allowed by this formula during 1997.

(6) Student Loan Guarantee Reserves

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement institutions. During 1997, VSAC maintained sufficient reserves to fully comply with these requirements.

(7) Student Loan Interest and Special Allowance Revenues

Interest on student loans is accrued when earned. The U.S. Department of Education makes quarterly interest subsidy payments on behalf of certain qualified students until the student is required under the provisions of the Act to begin repayment. Repayment on Stafford Student Loans normally begins within six months after students complete their course of study, leave school or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS, SLS and Consolidation loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period. HEAL loans enter repayment status after completion of an internship and residency.

(Continued)

The U.S. Department of Education provides a special allowance to lenders participating in the Stafford, PLUS, SLS and Consolidation Student Loan Programs. The Stafford and Consolidation special allowance is determined quarterly based on the average rate established in the auction of thirteen-week U.S. Treasury bills in the previous quarter as compared to the yield on the student loans. The special allowance rate is reduced for loans made or purchased from funds obtained through the issuance of tax-exempt obligations. The PLUS and SLS special allowance rate is based on one year U.S. Treasury bill rates.

(8) Federal Advances

The liability for Federal advances of $538,194 includes advances received under Section 422(A), $101,968, and Section 422(C), $436,226. This liability represents a segregation of Federal "seed money" which was advanced for the HEA Program. The advances are subject to recall by the Federal government.

(9) Property and Equipment

A summary of property and equipment at June 30, 1997 is as follows:

	Estimated Lives	General Fund	Loan Finance Fund
Furniture and equipment	3-10 Years	$ 3,766,643	0
Leasehold improvements	10-20 Years	968,638	0
Software	3-10 Years	352,605	1,089,713
		5,087,886	1,089,713
Less accumulated depreciation and amortization		3,229,795	0
Net property and equipment		$ 1,858,091	1,089,713

(10) Bank Line of Credit

VSAC has a line of credit agreement with a commercial bank which provides for maximum borrowings of up to $3,000,000. The line of credit is unsecured, bears interest at the prime interest rate and is renewed annually. There were no borrowings outstanding under this line of credit agreement at June 30, 1997.

(11) Designated Fund Balances

Designated fund balances of $9,117,768 represents amounts designated to provide funding of cost of issuance fees, remarketing and line of credit fees as well as equity contributions pertaining to future bond issuances.

(Continued)

(12) Bonds and Notes Payable - Loan Finance Fund

VSAC has issued the following bonds and notes outstanding at June 30, 1997, to finance student loans:

1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds that mature in increments through January 2004; interest is payable monthly at variable rates which ranged from 3.5% to 3.8% in 1997.	$ 60,000,000
1991 Series A, dated May 15, 1991; comprised of serial bonds maturing in increments between December 15, 1997 and December 15, 2000; interest is payable semi-annually at fixed rates ranging from 6.125% to 6.50%. The face amount of the bonds payable is $22,365,000 and $22,732 of unamortized discount has been netted against the liability.	22,342,268
1992 Series A-2, A-3, dated June 15, 1992; comprised of serial and auction variable rate bonds maturing in increments between June 15, 1999 and December 15, 2005; interest on Series A-2 is paid every 35 days at rates which ranged from 3.59% to 4.0% during 1997; interest on Series A-3 bonds is paid semi-annually at fixed rates ranging from 5.8% to 6.5%. The face amount of the bonds payable is $77,500,000 and $188,595 of unamortized discount has been netted against the liability.	77,311,405
1992 Series B and C, dated July 15, 1992; comprised of term, serial, and auction variable rate bonds maturing in increments between June 15, 2003 and December 15, 2012; interest on Series B is paid semi-annually at fixed rates ranging from 6.0% to 6.7%; interest on Series C bonds is paid every 35 days at rates which ranged from 3.51% to 3.9% during 1997. The face amount of the bonds payable is $50,000,000 and $497,813 of unamortized premium has been added to the liability.	50,497,813
1993 Series D and E, dated June 22, 1993; comprised of term, serial, and auction variable rate bonds maturing in increments between December 15, 2003 and June 15, 2012; interest on Series D is paid semi-annually at fixed rates ranging from 5.3% to 9.5%; interest on Series E bonds is paid every 35 days at rates which ranged from 3.53% to 4.0% during 1997. The face amount of the bonds payable is $80,000,000 and $871,186 of unamortized premium has been added to the liability.	80,871,186

(Continued)

1993 Series F, G, H, I and J, dated September 27, 1993: comprised of auction variable rate bonds maturing in increments between December 21, 2005 and December 15, 2015. Interest is reset every 35 days and payable semi-annually at rates which ranged from 3.502% to 4.09% during 1997.	$ 122,500,000
1995 Series A, B, C and D, dated June 27, 1995; comprised of auction variable rate bonds maturing December 2025: interest is reset every 35 days and payable semi-annually at rates which ranged from 3.52% to 4.05% during 1997.	96,000,000
1995 Series E, dated October 17, 1995; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.38% to 3.85% during 1997.	19,300,000
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction variable rate bonds maturing February 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.51% to 4.375% during 1997.	100,000,000
1996 Series J, dated October 23, 1996; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.6% to 3.95% during 1997.	12,850,000
	641,672,672
VSAC has the following notes outstanding at June 30, 1997 to finance student loans:	
1997 Series A-IV, dated June 16, 1997; principal and interest at 4.25%, due December 15, 1997.	5,100,000
Bonds and notes payable	$ 646,772,672

All bonds are limited obligations of VSAC and are secured, as provided in underlying bond resolutions, by an assignment and pledge to the trustee of all VSAC's rights, title and interest in student loans and revenues derived therefrom and the guarantee thereof, including the reinsurance of the student loans by the U.S. Department of Education. The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by National Westminster Bank, PLC. The 1991 Series A, 1995 Series A, B, C, D and E, and 1996 Series F, G, H, I and J bonds are secured for credit-worthiness by AMBAC Indemnity Corporation. The 1992 Series A-2, and A-3, 1992 Series B and C, 1993 Series D and E, and 1993 Series F, G, H, I and J bonds are secured for credit-worthiness by Financial Security Assurance Corporation. All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 1997 all bonds authorized under the underlying bond resolutions have been issued.

Proceeds from issuance of the bonds and all revenues related to them are restricted as follows: repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses in carrying out the Loan Finance Program.

(Continued)

The future maturities of debt are as follows:

Year ending June 30:

1998	$ 15,170,000
1999	14,220,000
2000	17,945,000
2001	15,840,000
2002	12,620,000
Thereafter	569,820,000
	$ 645,615,000

During the year ended June 30, 1997, VSAC issued 1996 Series J bonds totaling $12,850,000 and 1997 Series A-IV notes totaling $5,100,000 to refund the scheduled principal maturities of the 1985 Series A and 1991 Series A bonds of $3,100,000 and $9,605,000, respectively, and the 1996 Series A-III notes of $5,245,000. Based on the terms of the old and new debt, these refundings are estimated to result in additional interest payments over the next six years of approximately $3,000,000.

(13) Rebates Payable

The Vermont Value Program began in 1995. This program allows for an annual student rebate of interest equal to 1% of the outstanding principal on student loans. These rebates were paid prior to June 30, 1997. During 1997, VSAC extended the Vermont Value Program to include an interest rebate on all unsubsidized Stafford and PLUS loans. The rebate was equal to the total interest accrued on those loan types from July 1, 1996 through June 30, 1997 and was rebated to borrowers in June 1997.

In connection with VSAC's tax exempt bond issues, VSAC is subject to rebatable arbitrage when bond proceeds are invested in investments and student loans. The amount accrued for U.S. Treasury rebates payable at June 30, 1997 represents the estimated amount of arbitrage rebates due to the Federal government for excess earnings on the bond proceeds.

(14) Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA/CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 1997 amounted to $4,291,990: VSAC's total payroll was $6,749,033. Total contributions by VSAC amounted to $429,199 in 1997, which represented 10% of the covered payroll.

(15) Commitments Under Operating Lease

VSAC has entered into a noncancellable operating lease for its office facility that expires in 2001, and provides for renewal options. Rental expense for the year ended June 30, 1997 amounted to $302,840. The following is a summary of future minimum rental commitments under this noncancellable operating lease:

Year ending June 30:		
1998	$	309,295
1999		309,295
2000		309,295
2001		309,295
2002		103,098
	$	1,340,278

(16) Restatement of Fund Balance

During 1997, it was determined that interest subject to U.S. Treasury rebate expense was understated in 1996. The effect of the restatement was to decrease fund balance at June 30, 1996 by $2,131,309. Additionally, at June 30, 1996, the liability for U.S. Treasury rebates payable increased $2,131,309, interest subject to U.S. Treasury rebate expense increased $2,131,309, and excess of revenues over expenses decreased $2,131,309.

(17) Contingencies

VSAC participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time.

VSAC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSAC manages these risks through a combination of commercial insurance packages purchased in the name of VSAC, and beginning July 1, 1996 through self insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced settled claims resulting from these risks which have exceeded its commercial insurance coverage. VSAC has purchased stop-loss insurance for its self insurance programs and has transferred the risk of loss to the commercial insurance carrier.

Reserves for self insured medical and dental liabilities are included in accounts payable and other liabilities in the amount of $75,596 at June 30, 1997.

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by and between The Vermont Student Assistance Corporation (the "Corporation") and Chittenden Trust Company (the "Trustee") in connection with the offering by the Corporation of its $165,000,000 Education Loan Revenue Bonds, Senior Series 1998K, 1998L, 1998M and 1998N and Subordinate Series 1998O (collectively, the "Bonds"). In consideration of the purchase of Bonds by the owners and Beneficial Owners thereof initially and thereafter from time to time, the Corporation undertakes and agrees as follows:

1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the rule (defined below).

2. Definitions. In addition to the definitions set forth in the 1995 Education Loan Revenue Bond Resolution adopted on June 16, 1995, as amended and supplemented (the "Resolution") which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms used in this Disclosure Agreement have the following meanings:

"Annual Financial Information" shall mean any Annual Financial Information with respect to the Corporation as described in Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any individual beneficial owner of the Bonds. Beneficial ownership is to be determined consistent with the definition thereof contained in Rule 13d-3 of the Securities Exchange Act of 1934, as amended, or, in the event such provisions do not adequately address the situation at hand (in the opinion of nationally recognized federal securities law counsel), beneficial ownership is to be determined based upon ownership for federal income tax purposes.

"Dissemination Agent" shall mean any Dissemination Agent designated by the Corporation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, 1150 18th Street, N.W., Suite 400, Washington, D.C. 20036-2491.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
Phone: (609) 279-3200
Fax: (609) 279-5962

Kenny Information Systems, Inc.
65 Broadway - 16th Floor
New York, NY 10006-2511
Attn: Kenny Repository Service
Phone: (212) 779-4595
Fax: (212) 797-7994

Disclosure, Inc.
5161 River Road
Bethesda, MD 20816
Attn: Document Acquisitions/Municipal Securities
Phone: (301) 951-1450
Fax: (301) 718-2329

Moody's NRMSIR
Public Finance Information Center
99 Church Street
New York, NY 10007
Phone: (800) 339-6306
Fax: (212) 553-1460

Thomson Municipal Services Group
c/o The Bond Buyer
Attn: Municipal Disclosure
395 Hudson Street
New York, NY 10004
Phone: (212) 807-5940
Fax: (212) 989-2078

R. R. Donnelley Financial
Municipal Securities Disclosure Archieve
559 Main Street
Hudson, MA 01749
Phone: (800) 580-3670
Fax: (508) 562-1969

"Official Statement" shall mean the Official Statement of the Corporation, dated June __, 1998, relating to the Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as such rule may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" or "SID" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

"Underwriter" or "Participating Underwriter" shall mean collectively, and individually, PaineWebber Incorporated and Lehman Brothers, Inc.

3. Provision of Annual Financial Information. The Corporation shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of each fiscal year of the Corporation (currently the twelve months ended June 30), commencing with the report for the 1998 fiscal year, provide to each Repository the Annual Financial Information for the Corporation for the preceding fiscal year. The Annual Financial Information may be submitted as a single document or as separate documents comprising a package; provided that, if the financial statements of the Corporation are audited, the audited financial statements of the Corporation must be submitted but may be submitted separately from the balance of the Annual Financial Information and later than the date required above for the filing of the Annual Financial Information if they are not available by that date. If the fiscal year of the Corporation changes, the Corporation shall give written notice of such change in the same manner as for a Listed Event under Section 5(a) hereof. If the financial statements of the Corporation specified in Section 4(I) hereof are audited but are not available by the time the Annual Financial Information must be provided, unaudited financial statements of the Corporation will be provided by the Corporation as part of the Annual Financial Information and such audited financial statements of the Corporation, when and if available, will be provided by the Corporation to each Repository.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so included by reference.

4. Content of Annual Financial Information. The Annual Financial Information of the Corporation shall consist of the following:

(I) Annual financial statements for the Corporation prepared in accordance with generally accepted accounting principles.

(II) An update and a discussion of the financial information and operating data presented under the heading "Characteristics of Education Loans" or the heading "The Corporation" in the Official Statement, including the following:

(a) Composition of Board of Directors and officers of the Corporation.

(b) The following Resolution information:

(i) Debt Service Reserve Account balance,
(ii) Outstanding principal amount of the Bonds and other bonds issued under the Resolution,
(iii) Breakdown of Education Loans by loan type and borrower payment status and
(iv) Issuance of any Additional Bonds.

(c) Outstanding debt of the Corporation.

(d) The deposit level of the Guarantee Reserve Fund established by the Corporation.

(III) An update of the information concerning the availability of information with respect to the parent company of Ambac Assurance Corporation, Ambac Inc., of the type included under the heading Ambac Assurance Corporation--Available Information" in Appendix G of the Official Statement.

(IV) Changes to the Higher Education Act having a special financial impact on the program of the Corporation financed by the Bonds which is not generally experienced in the student loan sector.

5. Reporting of Significant Events

(a) The Corporation shall give, or cause to be given, on behalf of the Corporation and in a timely manner, notice of the occurrence of any of the following events with respect to the Bonds, if material, to each National Repository or the MSRB and to the SID, if any:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. Modifications to rights of owners of the Bonds;

8. Bond calls;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the Bonds;

11. Rating changes.

(b) Each notice given pursuant to this Section 5 shall be captioned "Material Event Notice" and shall prominently state the date, title and CUSIP numbers of the Bonds.

6. Termination of Reporting Obligation. The obligations under this Disclosure Agreement shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give or cause to be given notice of such event in the same manner as for a Listed Event under Section 5(a) hereof.

7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation may unilaterally amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, but only upon the delivery by the Corporation to the Trustee of the proposed amendment or waiver and an opinion of nationally recognized bond counsel to the effect that such amendment or waiver, and giving effect thereto, will not adversely affect the compliance of this disclosure Agreement and the Corporation with the Rule, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3, 4, 5 or 10 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Corporation or any other Obligated Person (as defined in the Rule) or the type of business conducted;

(b) this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the rule at the time of the offering of the Bonds, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) the amendment or waiver does not materially impair the interests of the owners or Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the Corporation or any other Obligated Person (as defined in the Rule) (e.g., either the trustee for the Bonds or nationally recognized bond counsel), or by approving vote of holders of the Bonds pursuant to the terms of the Resolution at the time of the amendment.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Financial Information, and shall include a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being provided by or in respect of the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a) hereof, and (ii) the Annual Financial Information relating to the Corporation for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Corporation to meet its obligations. To the extent reasonably feasible, the comparison also shall be quantitative.

9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation hereunder to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Agreement, any owner or Beneficial Owner of Bonds may seek, and may only seek, specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Agreement, it being agreed by the parties that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy hereunder in the event of any failure of the Corporation to comply with this Disclosure Agreement shall be an action to compel specific performance. If the Corporation fails to provide the Annual Financial Information to each Repository by the date required by and in accordance with Section 3 of this Disclosure Agreement, the Corporation shall promptly provide notice of such failure to (a) either the MSRB or each National Repository and (b) the State Repository.

11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Dissemination Agent, if any, the Underwriter, and owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

12. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Vermont, provided that, to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

13. Counterparts. This Disclosure Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

14. Severability. In case any part of this Disclosure Agreement is held to be illegal or invalid, such illegality or invalidity shall not affect the remainder or any other section of this Disclosure Agreement. This Disclosure Agreement shall be construed and enforced as if such illegal or invalid portion were not contained therein, nor shall such illegality or invalidity of any application of this Agreement affect any legal and valid application.

15. Further Assurances. The Corporation agrees that it shall take such further action, and agrees to such further undertakings, as may be necessary in the opinion of nationally recognized bond counsel, which opinion and counsel shall be reasonably satisfactory to the Corporation and the Underwriter, in order for the Underwriter to comply with the Rule.

IN WITNESS WHEREOF, the Parties have caused this CONTINUING DISCLOSURE AGREEMENT to be executed on their behalf as of this ______ day of June, 1998, by the persons whose signatures appear below.

Vermont Student Assistance Corporation

By:____________________________

Name: __________________________

Title: ___________________________

Accepted on behalf of the owners and
Beneficial Owners of the Bonds by
Chittenden Trust Company, as Trustee

By:____________________________

Name: __________________________

Title: ___________________________

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