NEW ISSUE - Book-Entry Only **Rating** – *Moody's: A2*
See "RATING" herein.

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance by the Corporation with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under the existing laws of the State of Vermont, the 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. See "tax matters" herein for a more detailed discussion.

VSAC
OVER 35 YEARS OF SERVICE

$22,155,000
Vermont Student Assistance Corporation
(a nonprofit public corporation established by the laws of the State of Vermont)
General Obligation Bonds
Series 2003

Dated: Date of Delivery **Due:** March 1, as shown on the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement.

The Bonds will bear interest from the date of delivery thereof, and interest will be payable on March 1, 2004 and semiannually thereafter on each March 1 and September 1.

The Bonds are subject to redemption prior to maturity, including at par under certain circumstances, as more fully described herein.

The Bonds are being issued by the Vermont Student Assistance Corporation (the "Corporation"), pursuant to the Corporation's Resolution adopted November 5, 2003 (the "Resolution").

Payments of principal, redemption price and interest with respect to the Bonds are to be made directly to DTC by Chittenden Trust Company, Burlington, Vermont (the "Paying Agent") or its successor Paying Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds.

The Bonds are general obligations of the Corporation payable from Available Revenues (as defined herein) of the Corporation. The Bonds are being issued for the purpose of financing the acquisition of land and the construction, renovation, financing and equipping of a new headquarters building for the Corporation as more fully described herein.

THE CORPORATION HAS NO TAXING POWER. THE BONDS SHALL NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION OF THE STATE OF VERMONT, NOR SHALL THE BONDS CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF.

The Bonds are offered when, as and if issued and received by the Underwriters and subject to the unqualified approving opinion as to legality of Kutak Rock LLP, Bond Counsel to the Corporation. Certain legal matters will be passed upon by the Corporation by its General Counsel and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the Corporation. The Bonds are expected to be available for delivery to DTC in New York, New York, or its custodial agent on or about December 9, 2003.

Citigroup **William R. Hough & Co.**

November 20, 2003

VERMONT STUDENT ASSISTANCE CORPORATION

$22,155,000
General Obligation Bonds
Series 2003

Dated: Date of Delivery

Maturity (March 1)	Amount	Interest Rate	Price or Yield	CUSIP*
2006	$725,000	2.00%	1.95%	92428EAP5
2007	735,000	2.25	2.25	92428EAQ3
2008	755,000	2.50	2.60	92428EAR1
2009	770,000	3.00	2.90	92428EAS9
2010	795,000	3 1/8	3.20	92428EAT7
2011	820,000	3 3/8	3.47	92428EAU4
2012	435,000	3 5/8	3.70	92428EAV2
2013	450,000	3.75	3.80	92428EAW0

$8,265,000 5.00% Term Bonds Due March 1, 2026 Yield 5.03% CUSIP 92428EAX8*
$8,405,000 5.00% Term Bonds Due March 1, 2034 Yield 5.08% CUSIP 92428EAY6*

 The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Corporation does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

The information set forth herein has been obtained from the Corporation and other sources which are believed to be reliable, but, as to information from other than the Corporation, it is not to be construed as a representation by the Corporation. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sales made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation since the date hereof, except as expressly set forth herein.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters have not guaranteed the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there by any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Available Revenues (see "BONDHOLDERS' RISKS"), the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Corporation or the Underwriters that the results of such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

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

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OFFICIAL STATEMENT

$22,155,000
VERMONT STUDENT ASSISTANCE CORPORATION

General Obligation Bonds
Series 2003

INTRODUCTION

This Official Statement, including the cover page and appendices, provides information in connection with the issuance by the Vermont Student Assistance Corporation (the "Corporation") of its $22,155,000 General Obligation Bonds, Series 2003 (the "Bonds") issued pursuant to the Corporation's Resolution adopted November 5, 2003 (the "Resolution").

The Corporation is a nonprofit public corporation created in 1965 and existing under and by virtue of Chapter 87 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 guaranteeing, making, financing and servicing loans to borrowers qualifying under the State Act. The Corporation also administers financial aid services, a program of grants and scholarships, a Section 529 savings plan and work study, informational and career counseling services to students seeking further education, and related services for parents of such students.

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 (i) loans qualifying under the Higher Education Act of 1965, as amended (the "Federal Act"), which are guaranteed by a permitted guarantor such as the Corporation to the extent required by the Federal Act and reinsured by the Secretary of the United States Department of Education (the "Department") pursuant to the Federal Act (the "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 (the "HEAL Loans") and (iii) other loans (the "Statutory Loans") permitted under the State Act. In addition, the Corporation, serving as a guarantor (the "State Guarantor") guarantees, to the extent required by applicable federal law, Federal Act Loans. See "THE CORPORATION." For further information regarding the Federal Act Loans, the HEAL Loans and the Statutory Loans (collectively, the "Education Loans"), see Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

The Bonds will be issued for the purposes of financing the acquisition of land and the construction, renovation, reconstruction, rehabilitation, improvement, furnishing, and equipping of office or other business space to be owned and used by the Corporation, which facility will be the Corporation's new headquarters and will house the principal office of the Corporation (the "Project"), to pay costs of issuance of the Bonds and to pay interest on the Bonds during construction of the Project, all in accordance with the State Act. See "THE PROJECT" and "ESTIMATED APPLICATION OF THE PROCEEDS OF THE BONDS."

The Bonds are general obligations of the Corporation payable from any moneys of the Corporation held in any unencumbered or unrestricted fund or any other funds otherwise legally available to the payment of the Bonds from whatever source derived. See "AUTHORIZATION AND SECURITY FOR THE BONDS" and "THE CORPORATION."

THE CORPORATION HAS NO TAXING POWER. THE BONDS SHALL NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR SHALL THE BONDS CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF.

The descriptions of the State Act, the Federal Act, the Resolution and the Bonds contained herein do not purport to be definitive or comprehensive. All descriptions of such documents and statutes contained herein are qualified in their entirety by reference to such documents and statutes. Copies of such documents may be obtained upon written request from the Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404, Attention: President or to the Corporation's financial advisor, Government Finance Associates, Inc., 590 Madison Ave, 21st Floor, New York, New York 10022. Capitalized terms used and not defined herein shall have the meanings given such terms in the Resolution.

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Appendix A contains the Corporation's audited financial statements for the fiscal year ended June 30, 2003 with comparative financial information for fiscal year 2002. Appendix B contains a summary of certain provisions of the Corporation's Federal Act, HEAL and Statutory Loan Programs. Appendix C contains the proposed form of legal opinion of bond counsel with respect to the Bonds. Appendix D contains the proposed form of the Corporation's continuing disclosure undertaking to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE."

THE BONDS

General

The Bonds will be dated the date of delivery thereof and will initially bear interest from such date payable semiannually on March 1 and September 1 of each year, commencing March 1, 2004 (each an "Interest Payment Date"), until the principal amount is paid. The Bonds shall mature on March 1 in the years and in the principal amounts and bear interest at the rates per annum set forth on the inside cover page of this Official Statement. Chittenden Trust Company, Burlington, Vermont will be the paying agent (together with any successors, the "Paying Agent") for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity immobilized at The Depository Trust Company, New York, New York ("DTC") or its agent. The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of $5,000, or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its Participants (as defined herein) pursuant to rules and procedures established by DTC and its Participants. Interest, principal and premium, if any, due on the Bonds will be paid in clearinghouse funds to DTC or its nominee as registered owner of the Bonds. The record date for each Interest Payment Date for the Bonds will be the fifteenth day of the month immediately preceding the month (whether or not such day is a Business Day) in which such Interest Payment Date occurs. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. Neither the Corporation nor the Paying Agent will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM."

Redemption

Optional Redemption. The Bonds maturing on or after March 1, 2014, are subject to redemption prior to maturity at the option of the Corporation, in whole or in part in integral multiples of $5,000, and if in part in such order of maturities or sinking fund installments as the Corporation shall determine and by lot within a maturity or sinking fund installment, on March 1, 2013 and on any day thereafter, at a redemption price equal to the principal amount thereof (with no redemption premium), plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing March 1, 2026 are also subject to mandatory sinking fund redemption by lot on March 1 of the years and in the principal amounts set forth below, at a redemption price equal to the principal amount of each Bond or portion thereof redeemed (with no redemption premium), plus accrued interest to the redemption date:

Date	Amount	Date	Amount
2014	$465,000	2021	$655,000
2015	490,000	2022	690,000
2016	515,000	2023	725,000
2017	540,000	2024	760,000
2018	565,000	2025	800,000
2019	595,000	2026	840,000
2020	625,000		

The Bonds maturing March 1, 2034 are also subject to mandatory sinking fund redemption by lot on March 1 of the years and in the principal amounts set forth below, at a redemption price equal to the principal amount of each Bond or portion thereof redeemed (with no redemption premium), plus accrued interest to the redemption date:

Date	Amount	Date	Amount
2027	$ 880,000	2031	$1,070,000
2028	925,000	2032	1,120,000
2029	970,000	2033	1,180,000
2030	1,020,000	2034	1,240,000

At its option, to be exercised on or before the forty-fifth day next preceding each sinking fund redemption date, the Corporation may (i) deliver to the Paying Agent for cancellation any Bonds with the same maturity date as the Bonds subject to sinking fund redemption and (ii) receive a credit in respect of its sinking fund redemption obligation for any Bonds with the same maturity date as the Bonds subject to sinking fund redemption which prior to such date have been redeemed (otherwise than through the operation of the sinking fund) and cancelled by the Paying Agent and not theretofore applied as a credit against any sinking fund redemption obligation. Each Bond so delivered or previously redeemed shall be credited by the Paying Agent at the principal amount thereof against the obligation of the Corporation on a sinking fund redemption date designated by the Corporation, and the principal amount of Bonds to be redeemed by operation of such sinking fund on such date shall be accordingly reduced.

Extraordinary Redemption. Upon completion of the Project, the Bonds are subject to extraordinary redemption by the Corporation on any date, in whole or in part in integral multiples of $5,000, and if in part in such order of maturities or sinking fund installments as the Corporation shall determine and by lot within a maturity or sinking fund installment, at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date, from any unexpended proceeds of the Bonds on deposit in the Project Account or the Bond Account under the Resolution.

Notice of any redemption of Bonds shall be given by the Paying Agent in the name of the Corporation by sending a copy of such notice by first-class, postage-prepaid mail, not less than 30 days prior to the redemption date, to the Owner of each Bond being redeemed. Such notice shall specify the number or numbers of the Bonds so to be redeemed (if redemption shall be in part) and the redemption date. If any Bond shall have been duly called for redemption and if, on or before the redemption date, there shall have been deposited with the Paying Agent in accordance with the Resolution funds sufficient to pay the redemption price of such Bond on the redemption date, then such Bond shall become due and payable at such redemption date, and from and after such date interest will cease to accrue thereon. Failure to deliver any redemption notice or any defect in any redemption notice shall not affect the validity of the proceeding for the redemption of Bonds with respect to which such failure or defect did not occur. Any Bond redeemed prior to its maturity by prior redemption or otherwise shall not be reissued and shall be cancelled.

Book-Entry Only System

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC, AND THE CORPORATION TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company, New York, New York will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form and the ownership of one fully registered Bond for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, 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 Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC 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 banks, securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 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 the Bonds; DTC's records reflect only the identity of the DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC 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 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 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 voting rights to those DTC Participants having the Bonds credited to their accounts on the record date (identified in a listing attached to the omnibus proxy).

NEITHER THE CORPORATION NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; THE PAYMENT OF, OR THE PROVIDING OF NOTICE TO, THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS; OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS BONDOWNER.

Beneficial Owners of the Bonds will not receive or have the right to receive physical delivery of such Bonds, and will not be or be considered to be owners thereof. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Corporation. Under such circumstances, unless a substitute depository is retained by the Corporation, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondholder.

The Corporation may determine that continuation of the system of book-entry transfers through DTC (or a successor depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest and premium on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payable date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not DTC or the Corporation, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium on the Bonds to DTC is the responsibility of the Corporation; disbursement of such payments to DTC Participants and Indirect Participants shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

Neither the Corporation nor the Paying Agent can give any assurances that DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this document.

ESTIMATED APPLICATION OF THE PROCEEDS OF THE BONDS

The Corporation expects to apply the proceeds of the Bonds (the par amount of the Bonds equal to $22,155,000.00 less original issue discount of $148,586.25) as set forth below for the purpose of financing the Project, paying costs of issuance of the Bonds and paying interest on the Bonds through September 1, 2005.

Estimated Application of Proceeds	
Deposit to Project Account to pay costs of the Project	$19,981,866.27
Capitalized Interest	1,687,428.27
Costs of Issuance, including Underwriters' Discount	337,119.21
Total	$22,006,413.75

THE PROJECT

The Project is planned for a portion of the Winooski Falls Riverfront Downtown Project (the "Winooski Project"), a mixed-use urban revitalization project being developed as a collaborative effort of the City of Winooski, Vermont and the Winooski Community Development Corporation (WCDC), a nonprofit organization founded in 1970 and dedicated to improving the quality of life and the fiscal health of the City of Winooski. Additionally, the City has embraced a partnership with HallKeen, a large real estate investment and property management company from Norwood, Massachusetts. HallKeen will finance, build, and manage the rental housing and retail aspects of the Winooski Project.

The 124-acre Winooski Project is planned to include a new 103-acre park and recreation area for the City of Winooski and a 20.4-acre portion of the core downtown area surrounding the Winooski Falls Mills Historic District, which district was established as a HUD-sponsored urban renewal project in 1972. Within this previously developed core, federal, state and local permits have been procured for 1.45 million square feet of new commercial and residential space within a master development scheme. The Project is planned to be located in this core area.

In addition to the Corporation's Project, the Winooski Project is planned to include a revitalized Champlain Mill (a 156,000 square feet of historic woolen mill space), 350 units of mixed-income apartments, 100 luxury apartments, 150 affordable homeownership opportunities, and neighborhood retail. In addition, a parking garage, surface parking, roadway and utility infrastructure serving all phases of the Winooski Project, including the Project are being developed and will be constructed using a combination of Federal Highway Administration grants, United States Housing and Urban Development loans and other moneys, a pledge of certain State of Vermont community development funds, private investments, and the proceeds of bonds and other debt instruments issued by the City of Winooski.

Under the Purchase and Sale Agreement described below, the Corporation would be obligated for the payment of parking charges once the parking garage is complete and certain payments in lieu of taxes (PILOT) with respect to the Project to the City of Winooski. The parking charges shall be $8,000 per month for the first year of occupancy, increasing by 3% per year for the 20-year term of certain tax increment financing debt to be issued by the City of Winooski (the "TIF Period"). Thereafter, the Corporation will pay its proportionate share of actual costs of the parking garage. The formula for determining the amount of the PILOT shall be set forth in the Purchase and Sale Agreement, but is currently anticipated to be approximately $128,000 annually, increasing by 2% each year during the TIF Period. After the TIF Period, the PILOT shall be based on the actual annual municipal tax rate in the City of Winooski applied to the fair market value of the Project.

The Project is expected to consist of a new office building of approximately 115,000 square feet, sufficient in size and design to accommodate all of the Corporation's employees for the foreseeable future. The Corporation expects to enter into a Purchase and Sale Agreement with the City of Winooski and WCDC with respect to the purchase of a lot of land for the Project (the "VSAC Parcel"). The Purchase and Sale Agreement will address land development, construction, road and parking garage infrastructure, the PILOT obligation and other critical issues. The Purchase and Sale Agreement also will address issues of the purchase price and title to the VSAC Parcel, environmental hazards, entitlement of the Corporation to parking spaces in the Winooski Project's parking garage, and other matters conventionally addressed in such an agreement.

On November 5, 2003, the Board of Directors of the Corporation authorized the Corporation to enter into the Purchase and Sale Agreement.

The Corporation expects to contract with a Vermont design-build construction firm to design and construct the Project on the VSAC Parcel, all with the proceeds of the Bonds. This contract will address the design, configuration, cost and construction schedule for the Project, and is expected to be in place prior to the issuance of the Bonds.

The Resolution authorizing the issuance of the Bonds allows the Corporation to undertake a new headquarters building in a Vermont location other than in the Winooski Project, in the event that the Winooski Project is not ready to accept the construction of the Project in a timely manner. The Resolution also provides that upon completion of the Project, any proceeds of the Bonds remaining may be used to redeem Bonds at a redemption price of par plus accrued interest to the redemption date. See "THE BONDS – Redemption – Extraordinary Redemption."

AUTHORIZATION AND SECURITY FOR THE BONDS

Authorization

The Bonds are authorized by and issued pursuant to the State Act. The Bonds are issued under and pursuant to the Resolution adopted by the Corporation on November 5, 2003. As required by the State Act, the issuance of Bonds was approved in writing on November 6, 2003 by the Governor of the State of Vermont (the "State"). While the Resolution does not authorize the issuance of additional bonds, there is no limit under the State Act or the Resolution on the total amount of general obligation bonds issued by the Corporation to finance costs of the Project or for any other purpose. The Corporation does not anticipate issuing additional general obligation bonds or other indebtedness for the Project.

The Bonds are general obligations of the Corporation payable from any moneys of the Corporation held in any unencumbered or unrestricted fund or any other funds otherwise legally available for the payment of the Bonds from whatever source derived, but shall not include any moneys of the Corporation, the use of which is restricted at any time at the discretion of the Corporation for other purposes resulting in the general unavailability thereof or which is now or hereafter pledged to other debt obligations of the Corporation ("Available Revenues"). In addition, the Bonds are not secured by a lien on the Project or by any other property of the Corporation.

Under the State Act, the Corporation has issued and is authorized to issue special obligation revenue bonds to finance Education Loans. Such bonds are secured solely by amounts on deposit under various resolutions (the "Education Loan Resolutions"), adopted from time to time, including without limitation, income from Education Loans. See "THE CORPORATION – EDUCATION LOAN PROGRAM." Money and other assets held under the Education Loan Resolutions are not available to pay debt service on the Bonds. See "THE CORPORATION" for details on Available Revenues which may be used to pay debt service on the Bonds and the sources thereof.

General Obligations

The Bonds are general obligations of the Corporation payable from Available Revenues. The Bonds are not a debt or liability of the State of Vermont or of any political subdivision of the State, nor do the Bonds constitute a pledge of the faith and credit of the State or of any political subdivision of the State. Payments of debt service on the Bonds are to be made from Available Revenues on deposit in the Bond Account or other legally available funds deposited with the Paying Agent no later than three Business Days preceding each date on which a payment of principal of or interest on the Bonds is due.

Remedies of Owners of Bonds

The Resolution sets forth the Events of Default relating to the Bonds, which include failure to pay principal of or interest on the Bonds when due, breach by the Corporation of any covenant contained in the Resolution or failure to perform any other duty imposed on it under the Resolution and continuation of such breach or failure for a period of 60 days after receipt of notice thereof from the Paying Agent or from the Owners of at least 25% of the aggregate principal amount of the Bonds then outstanding, provided that such 60 day period shall be extended so long as the Corporation has commenced and continues a good faith effort to remedy such breach or failure. An order of decree declaring the Corporation bankrupt or appointing a receiver of all or any material portion of the Corporation's assets or revenues that is not vacated, discharged or stayed within 30 days after it is entered shall also constitute an Event of Default under the Resolution. Under current state law, the Corporation is not eligible to be a debtor under federal bankruptcy law.

The Resolution provides that neither the Paying Agent nor the owners of the Bonds shall have any right to accelerate the principal of or interest on the Bonds.

If an Event of Default has occurred and is continuing, the Owners of not less than 25% in aggregate principal amount of the Bonds then outstanding may proceed against the Corporation to protect and to enforce the rights of the Owners under the Resolution by mandamus, injunction or by other suit, action or special proceeding in equity or at law (i) for the payment of interest or any installment of principal of any Bond that was not paid when due; (ii) for the specific performance of any covenants contained in the Resolution; (iii) to enjoin any act that may be unlawful in violation of any right of any Owner of any Bond; (iv) for any other proper legal or equitable remedy; or (v) any combination of such remedies or as otherwise may be authorized by applicable law.

The remedies available to Owners of the Bonds upon the occurrence of an Event of Default are limited and are in many respects dependent upon judicial actions which are often subject to discretion and delay.

THE CORPORATION

General

The Corporation, a public nonprofit corporation, was created in 1965 and exists under the State Act for the purpose of ensuring that Vermont students and parents have the necessary information and financial resources to pursue their education goals beyond high school. The Corporation carries out its mandate by guaranteeing, making, acquiring, financing and servicing loans to borrowers qualifying under the State Act and, where applicable, the Federal Act and the Public Health Service Act, as amended (the "Health Act"). The Corporation also administers financial aid services, a program of grants and scholarships, a Section 529 savings plan and work study, informational and career counseling services to students seeking further education, and related services to parents of such students.

To finance the conduct of certain of its affairs, the Corporation receives appropriations from the Vermont General Assembly 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. Obligations issued to finance the Project are not effective until approved in writing by the Governor of the State. The Governor approved the issuance of the Bonds on November 6, 2003.

An eleven-member Board of Directors governs the Corporation. 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. There currently are two vacancies on the Board. The present Directors' names and principal occupations or affiliations are as follows:

DIRECTORS	PRINCIPAL OCCUPATIONS OR AFFILIATIONS
Chris Robbins Chair	President, Weidmann Industries, Inc. St. Johnsbury, Vermont
Representative Martha P. Heath Vice-Chair	Vermont House of Representatives Westford, Vermont
Jon F. Ratti Secretary	Director of Guidance Bellows Falls Union High School Bellows Falls, Vermont
Joseph L. Boutin	President, The Merchants Bank Burlington, Vermont
Senator Ann E. Cummings	Vermont State Senator Montpelier, Vermont
Jeb Spaulding *ex officio*	Treasurer, State of Vermont Montpelier, Vermont
David Ginevan	Executive Vice President for Facilities Planning Middlebury College Middlebury, Vermont
Pamela A. Chisholm	Director of Financial Aid Community College of Vermont Waterbury, Vermont
Dorothy R. Mitchell	Higher Education and Community Volunteer Worcester, Vermont

The Corporation's telephone number is 802-655-9602, and its address until completion of the Project is P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404. The Corporation's web site address is www.vsac.org.

The following persons are officers of the Corporation:

NAME	POSITION
Chris Robbins	Chair
Martha P. Heath	Vice Chair
Jon F. Ratti	Secretary
Donald R. Vickers	President – CEO
Steven Karcher	Vice President of Finance and Administration and Assistant Secretary
Patrick J. Kaiser	Vice President of Student Services and Assistant Secretary
Thomas A. Little	Vice President – General Counsel and Assistant Secretary
Scott A. Giles	Vice President of Policy, Research and Planning and Assistant Secretary

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

Ms. Martha P. Heath, Vice Chair of the Board of Directors, has served as a Board member since 1997.

Mr. Jon F. Ratti, Secretary of the Board of Directors, has served as a Board member since 1999.

Management

The principal management level staff of the Corporation are listed below:

Mr. Donald R. Vickers, President of the Corporation, has served the Corporation since 1971. Mr. Vickers was appointed President and C.E.O. of the Corporation in 1990. Mr. Vickers previously served as Director of Financial Aid and Placement at Johnson State College, Johnson, Vermont. Mr. Vickers is a member of a number of regional and national higher education organizations, including the Vermont Higher Education Council, the Vermont Commission on Higher Education Funding and the National Council of Higher Education Loan Programs (NCHELP) – Chairman 2003. From 1999 to 2002, Mr. Vickers served on the Advisory Committee on Student Financial Assistance which makes recommendations to Congress on federal student aid programs. From 2000 to 2003, Mr. Vickers served on the Board of Directors of the Education Finance Council (EFC).

Mr. Steven Karcher, Vice President of Finance and Administration and Assistant Secretary of the Corporation, joined the Corporation in 1999. Mr. Karcher was previously the Vice President of Business Affairs at Marywood University, Scranton, Pennsylvania. He is a licensed Certified Public Accountant.

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.

Mr. Thomas A. Little, Vice President - General Counsel and Assistant Secretary, joined the Corporation in January 2003. Mr. Little served as the Corporation's outside legal counsel from 1983 to 2003 as a member of the law firm Little, Cicchetti and Conard, P.C., Burlington, Vermont. Mr. Little was a member of the Vermont House of Representatives from 1992 to 2002.

Mr. Scott A. Giles, Vice President of Policy, Research and Planning, joined the Corporation in 2003. Mr. Giles was previously Deputy Chief of Staff of the Committee on Science of the U. S. House of Representatives.

Mr. Michael Grant, Director of Finance, joined the Corporation in 1990. Mr. Grant was previously an auditor with a local accounting firm. Mr. Grant is a licensed Certified Public Accountant.

Sources of Payments for the Bonds

The Bonds are general obligations of the Corporation payable from Available Revenues which consist of any moneys of the Corporation held in any unencumbered or unrestricted fund or any other funds otherwise legally available for the payment of the Bonds from whatever source derived, but not including any moneys of the Corporation, the use of which is restricted at any time at the discretion of the Corporation for other purposes resulting in the general unavailability thereof or which is now or hereafter pledged to other debt obligations of the Corporation. In addition, the Bonds are not secured by a lien on the Project or by any other property of the Corporation.

As described herein, only certain revenues generated by the Corporation's activities constitute Available Revenues which may be used to pay debt service on the Bonds. The primary sources of revenue for the Corporation include: the Corporation's Education Loan Program, State appropriations for grants, fees paid to the Corporation as State Guarantor, fees and payments under certain contracts and investment interest and other revenues. In recent years, the Corporation's State appropriation has been earmarked exclusively for grants to eligible students. Accordingly, none of the State appropriations in such years has been used for any other purpose.

The Corporation is obligated to use the majority of its revenues to pay principal and interest on Education Loan Program bonds, provide grants to students and pay fees to the Department. Once these obligations have been met on a current basis and subject to certain release provisions contained in the resolution securing the Corporation's Education Loan Bonds, remaining revenues may constitute Available Revenues which may be used to pay debt service on the Bonds. The Corporation expects that there will be sufficient Available Revenues to pay debt service on the Bonds. Available Revenues are described more fully below, under "Investment Considerations" and in the Appendices. In addition, see "SUMMARY TABLE OF AVAILABLE REVENUES" for a five-year history of certain Available Revenues. In addition, see "SUMMARY OF HISTORICAL FINANCIAL RESULTS" for a five-year history of unencumbered or unrestricted net assets which could have constituted Available Revenues.

Education Loan Program

Through loan originating, purchasing and servicing, the Corporation endeavors to increase the availability of funds to assist students in obtaining further education. In recent years the Corporation's Education Loan acquisitions have occurred and, for the foreseeable future, are expected to occur almost exclusively through loans originated 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 Education Loans.

The Corporation has significant responsibility for the administration of post secondary Education Loan programs and services in the State. The purpose of these programs is to make low interest rate 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.

The Education Loan Program has established and maintains a competitive advantage in the Education Loan marketplace by offering Education Loans with certain discounts. Collectively, these discounts are called the Vermont Value Program. These discounts reduce the cost of financing an education for students and parents. The program helps the Corporation expand its loan portfolio and is described more fully under "CERTAIN INVESTMENT CONSIDERATIONS."

The Corporation finances its Education Loan Program primarily through the issuance of tax-exempt student loan bonds, and in limited cases by the issuance of taxable student loan bonds. The bond financings are structured in a manner such that the return on the student loans providing the security for the student loan bonds is expected to be in excess of the Corporation's borrowing and program costs, thereby resulting in revenues sufficient to pay debt service on the student loan bonds and other costs of administering the student loan bond programs (including loan servicing fees of the Corporation), plus provide an additional residual from time to time to the Corporation as described below. When tax-exempt bonds are utilized, the spread between the tax-exempt bond yield and the student loan yield is subject to various limitations contained in the Internal Revenue Code of 1986, as amended, which are factored into the expected cashflows for such student loan bonds.

The Corporation also earns revenues from its Education Loan Program through certain servicing fees. The servicing fees are based on the principal balance of outstanding Education Loans held under the Education Loan Resolutions. Generally, the Corporation is permitted a monthly servicing fee of .154% (1.85% annually). Specific provisions regarding the servicing fees are detailed in the Education Loan Resolutions issued since 1985. These servicing fee revenues will be the primary source of the Available Revenues. See "SUMMARY TABLE OF AVAILABLE REVENUES" for details of the servicing fee revenues earned by the Corporation over each of the last five years.

The Education Loan Resolutions also provide for assets accumulated in excess of liabilities to be released to the Corporation in its discretion. Certain coverage ratios required by the credit enhancers for the bonds issued pursuant to the Education Loan Resolutions must be met and sustained before any assets are released to the Corporation. As of June 30, 2003, amounts in excess of such ratios cumulatively released from the Corporation's Education Loan Resolutions are approximately $25 million. Such amounts constitute Available Revenues.

As of June 30, 2003, Education Loans in an aggregate principal amount of approximately $1,124,733,000 were outstanding under the Education Loan Resolutions. Set forth below are selected characteristics of such Education Loans as of June 30, 2003, including the loan type and borrower payment status.

Loan Type		Education Loan Amounts	
Consolidation		$530,343,000	47.2%
Stafford		413,710,000	36.8
PLUS		111,246,000	9.9
SLS		3,559,000	.3
HEAL		20,277,000	1.8
Statutory Loans		45,598,000	4.0
	Total	$1,124,733,000	100%

Borrower Payment Status		Education Loan Amounts	
Interim		$258,982,000	23.0%
Deferment/Forbearance		195,002,000	17.3
Repayment		670,749,000	59.7
	Total	$1,124,733,000	100%

As of June 30, 2003, the Corporation's Education Loan Program had outstanding the following bonds and notes. The obligations are comprised of approximately $1,251,685,000 in tax-exempt debt and $80,000,000 in taxable debt. All such debt obligations were issued and are secured under Education Loan Resolutions that are separate and distinct from the Resolution.

1985 Series Resolution	$ 40,900,000
1992 Series Resolution	131,250,000
1995 Series Resolution	1,133,650,000
Notes	25,885,000
Total Outstanding	$1,331,685,000

At June 30, 2003, total outstanding Education Loan Program bonds and notes exceeded the aggregate principal amount of Education Loans by approximately $207 million, which amount is less than the cash and equity available to the Corporation as of such date. See "SUMMARY OF HISTORICAL FINANCIAL RESULTS – BALANCE SHEET."

The Corporation as State Guarantor

Upon original enactment of the State Act, the Corporation was authorized to establish a student loan insurance program to guarantee loans for qualified borrowers and meet the federal and state statutory requirements for state loan insurance programs. In 1965, the Corporation established its guarantee program under the Federal 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" included in Appendix B to this Official Statement.

In order to effectively administer these programs, the Corporation's duties as State Guarantor include processing Federal Act and Health Act Education Loans submitted for guarantee, issuing Federal Act and Health Education Loan guarantees, providing collections assistance to lenders for delinquent Federal Act and Health Education Loans, paying lender claims for Federal Act and Health Act Education Loans in default, collecting such Federal Act Education 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 Federal Act Education Loans, encouraging lender participation and performing lender/school compliance activities. See "CERTAIN INVESTMENT CONSIDERATIONS."

As State Guarantor, the Corporation earns revenue and fees for its services from several sources. Pursuant to the Federal Act, these include a Default Aversion Assistance Fee, an Administrative Maintenance Fee, and an Issuance Fee. The Guarantor also retains a portion of money collected on defaulted Federal Act Education Loans.

The specific calculations for revenues available to the State Guarantor are outlined in the Federal Act. Summarized, the formulae that produce these revenues for the Corporation currently are as follows:

1. Default Aversion Assistance Fee - equal to 1% of principal and accrued interest on loans 60 days delinquent. This fee is collected monthly.

2. Administrative Maintenance Fee - equal to .10% of outstanding principal guaranteed. This fee is received quarterly.

3. Issuance Fee - equal to .40% of new guaranteed loan volume. This fee was .65% for loans made prior to Federal Fiscal Year 2004. This fee is received quarterly.

4. Default Collections Retention - contingent collection fee ranging between 18.5% and 30% of gross dollars collected.

The foregoing four categories of revenues are paid into the Corporation's operating fund. These revenues, net of expenses, are Available Revenues. For further information, see "INVESTMENT CONSIDERATIONS" and Appendix B.

Guaranty Loan Volume. As of June 30, 2003, federally-reinsured Education Loans in the outstanding aggregate principal amount of approximately $1,292,111,000 were guaranteed by the Corporation as State Guarantor. Approximately $200,000,000 in new loan volume is guaranteed each year.

Defaulted Loan Portfolio As of June 30, 2003, the State Guarantor was responsible for collections on an outstanding defaulted Federal Act Education Loan portfolio of approximately $39,761,000. This defaulted portfolio is made up entirely of Federal Act Education Loans previously originated or purchased by the Corporation's Education Loan Program. During the federal fiscal year ending September 30, 2002, the Corporation achieved gross collections in the amount of approximately $8,700,000 from this portfolio.

The revenues these fees generate fluctuate each year with Federal Act Education Loan activity. Actual revenues from these fees are included in the "SUMMARY TABLE OF AVAILABLE REVENUES."

Contract Services

The Corporation administers a variety of federal and State student grant programs. Generally, the grants are funded for three to five years. The Corporation aggressively pursues all available federal and State grants that may help contribute to meeting its mandate outlined in the State Act. The revenues generated from these programs, after payments of grants obligations, are Available Revenues.

The Corporation also performs a variety of student aid related activities on a contract basis for entities throughout the State. The Corporation currently holds eight financial aid services contracts with the State educational institutions to provide part or all of their financial aid service function. The financial aid services contracts are negotiated individually with services tailored to meet the needs of each institution. These services include processing, awarding, and reporting of all types of Title IV financial aid. The duration of these contracts is generally five years. The contracts are structured charging a set fee for the first three years with the last two years open for further negotiation. The revenues from these contracts, net of expenses, constitute Available Revenues.

The Corporation also provides survey and research services to several primary and secondary schools within the State. These services include development, distribution, collection, analysis, and reporting of information collected from Vermont students and parents. The projects are primarily paid for by a flat fee charged to the participating school. For example, the Corporation conducts a yearly survey for the State Department of Education tracking high school seniors' aspiration and continuation rates. The revenues from these contracts are Available Revenues.

See "SUMMARY TABLE OF AVAILABLE REVENUES" for a detailed presentation of the revenues generated by these activities over the last five years.

Investment Interest and Other Revenues

The Corporation holds approximately $28,144,000 in unencumbered net assets. To maximize the earnings on these assets to the Corporation, these assets are generally invested in Education Loans held by the Corporation. In addition to generating substantial interest income to the Corporation, this strategy also provides an additional source of low-cost Education Loans for students and parents.

This interest income constitutes Available Revenues and may be used to pay debt service on the Bonds. See "SUMMARY TABLE OF AVAILABLE REVENUES."

Summary Table of Available Revenues

The following table sets forth a summary of Available Revenues for the fiscal years ended June 30, 1999 through June 30, 2003. The table was developed from the Corporation's internal records. The information in the table should be read in conjunction with the Corporation's audited financial statements and the notes thereto. The financial statements for the fiscal year ended June 30, 2003, audited by Baker, Newman and Noyes LLC and comparative information for fiscal year 2002 audited by KPMG LLP are included as Appendix A. In addition, see "SUMMARY OF HISTORICAL FINANCIAL RESULTS" for a description of unrestricted net assets and other available amounts that could have constituted Available Revenues for the fiscal years ended June 30, 1999 through June 30, 2003.

Available Revenues

Available Revenues derived from:	1999	2000	2001	2002	2003
Education Loan Program	$ 11,935,273	$ 13,864,272	$ 15,837,212	$17,250,774	$19,690,008
State Guarantor	2,400,000	2,800,450	3,500,000	3,600,000	4,300,000
Contract Service	1,491,447	2,009,832	2,309,588	2,672,002	2,793,136
Investment Interest and Other	889,819	1,059,720	826,124	1,564,847	1,415,576
Total Available Revenues	$ 16,716,539	$ 19,734,274	$ 22,472,924	$25,087,623	$28,198,720
Less Salaries and Benefits and other Administrative Expenses	(14,709,902)	(17,708,669)	(20,115,000)	(22,749,000)	(24,578,000)
Available Revenue after payment of Salaries and Benefits and other Administrative Expenses	$ 2,006,637	$ 2,025,605	$ 2,357,924	$2,338,623	$3,620,720

Summary of Historical Financial Results

The following tables show the Corporation's condensed balance sheets as of each of the fiscal years ended June 30, 1999 through June 30, 2003 and the statements of revenues, expenses, and changes in net assets for each of the fiscal years then ended. The tables were developed from the Corporation's financial statements for fiscal years 1999, 2000, 2001 and 2002 audited by KPMG LLP, financial statements for fiscal year 2003, audited by Baker, Newman and Noyes LLC and internal records. The information in the following tables should be read in conjunction with such audited financial statements and the notes thereto. The financial statements for the fiscal year ended June 30, 2003 audited by Baker, Newman and Noyes LLC and comparative information for fiscal year 2002 audited by KPMG LLP are included as Appendix A.

BALANCE SHEETS[1]
As of June 30, (audited)

Assets:	**1999**	**2000**	**2001**	**2002**	**2003**
Cash and cash equivalents	$141,764,201	$241,846,420	$256,840,691	$143,540,665	$261,668,387
Investments	36,563,445	25,663,445	20,458,400	23,987,200	10,870,000
Receivables[2]	696,536,727	785,459,222	895,515,361	1,013,100,798	1,148,630,569
Due from other funds	9,364,003	8,805,066	7,907,034	0	0
Capital assets	3,448,072	4,521,551	3,216,927	2,790,397	2,863,194
Deferred bond issuance costs, net	4,645,553	5,173,193	5,603,919	5,205,748	6,427,718
Other assets	945,672	1,131,955	1,168,028	1,225,767	1,485,254
TOTAL ASSETS	**$893,267,673**	**$1,072,600,852**	**$1,190,710,360**	**$1,189,850,575**	**$1,431,945,122**
Liabilities and Net Assets					
Liabilities:					
Bonds and notes payable	$811,598,072	$984,055,576	$1,097,479,515	$1,097,351,792	$1,332,192,757
Accounts payable, other liabilities and deferred revenue	2,730,265	2,972,447	3,718,626	5,419,277	5,845,036
Accrued interest on bonds payable	1,794,291	2,852,309	1,976,963	1,103,608	1,211,436
Arbitrage earnings rebatable	17,189,687	17,270,413	10,678,486	14,499,366	13,007,310
Due to other funds	9,364,711	8,805,066	7,907,034	0	0
Due to the Department of Education	265,127	0	271,624	0	0
TOTAL LIABILITIES	**$842,942,153**	**$1,015,955,811**	**$1,122,032,248**	**$1,118,374,043**	**$1,352,256,539**
Net Assets:					
Restricted[3]	$36,532,640	$43,937,324	$41,154,364	$41,708,233	$48,681,207
Unrestricted[4]	10,344,808	8,186,166	24,306,821	26,977,902	28,144,183
Net investment in capital assets	3,448,072	4,521,551	3,216,927	2,790,397	2,863,193
TOTAL NET ASSETS	**$50,325,520**	**$56,645,041**	**$68,678,112**	**$71,476,532**	**$79,688,583**
TOTAL LIABILITIES AND NET ASSETS:	**$893,267,673**	**$1,072,600,852**	**$1,190,710,360**	**$1,189,850,575**	**$1,431,945,122**

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1 Excludes the Federal Loan Reserve Fund and Vermont Higher Education Investment Plan, both of which do not produce Available Revenues. See Appendix A.
2 Includes the following receivables: Education Loans, interest and special allowance on Education Loans, investment interest, federal administrative and program fees, and other. See Appendix A.
3 Includes Education Resolution bond assets in excess of certain coverage ratios, loan guarantees and grants and scholarships.
4 Constitutes Available Revenues if not restricted by the Corporation.

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ended June 30, (audited)

Revenues:	**1999**	**2000**	**2001**	**2002**	**2003**
Department of Education					
Interest benefits	$11,066,923	$10,825,545	$13,595,544	$11,550,145	$9,018,693
Special allowance	4,404,137	9,794,870	6,505,883	10,010,506	16,098,730
Interest on investments	11,115,498	7,927,140	10,490,000	5,233,866	2,567,608
Interest and other charges on student loans	37,344,924	44,026,440	53,814,221	49,931,784	45,411,739
State appropriations	12,926,951	13,831,839	14,911,716	15,445,766	16,581,671
Guaranty agency administrative revenue	2,108,459	2,916,497	3,549,683	4,253,595	4,972,943
Federal grants	1,327,050	1,725,800	2,195,545	2,366,608	2,550,070
Scholarship income	2,097,166	1,926,962	1,928,813	2,502,824	3,650,882
Other income	497,959	1,051,973	1,142,540	1,234,237	1,189,207
Total revenues	$82,889,067	$94,027,066	$108,133,945	$102,529,331	$102,041,543

Expenses:					
Salaries and benefits	$11,324,904	$13,244,318	$15,247,970	$17,079,766	$18,482,501
Other general and administrative	3,384,998	4,464,351	4,866,938	5,667,093	6,095,365
State grants and scholarships	15,269,901	15,985,681	16,633,839	18,633,795	20,603,413
Interest rebated to borrowers	8,333,476	9,347,263	12,431,312	15,354,345	14,663,567
Interest subject to U.S. Treasury rebate	5,911,841	84,189	(5,087,303)	5,119,825	(1,180,507)
Finance expense - interest and discount/premium	32,394,689	35,862,726	41,696,489	25,411,807	20,043,409
Credit enhancement and remarketing fees	3,077,988	3,105,251	3,686,987	4,115,698	4,384,636
Consolidation and lender paid fees	—	3,100,787	3,870,718	5,106,575	6,860,846
Other loan financing expense	86,105	201,166	208,475	1,226,545	1,648,176
Depreciation and amortization	1,799,565	1,845,353	2,110,205	1,553,746	1,332,298
Amortization of bond issuance costs	473,236	466,460	435,244	461,716	895,788
Total expenses	$82,056,703	$87,707,545	$96,100,874	$99,730,911	$93,829,492

Excess of revenues over expenses	$832,364	$6,319,521	$12,033,071	$2,798,420	$8,212,051
Transfers (to) from other funds	745,450	—	—	—	—
Net increase in net assets	1,577,814	6,319,521	12,033,071	2,798,420	8,212,051
Net assets at beginning of year, as restated	48,747,706	50,325,520	56,645,041	68,678,112	71,476,532
Net assets at end of year	$50,325,520	$56,645,041	$68,678,112	$71,476,532	$79,688,583

DEBT SERVICE REQUIREMENTS OF THE BONDS

Fiscal Year	Principal	Interest	Total Debt Service
2004	-	$ 225,882	$ 225,882
2005	-	991,675	991,675
2006	$ 725,000	991,675	1,716,675
2007	735,000	977,175	1,712,175
2008	755,000	960,638	1,715,638
2009	770,000	941,763	1,711,763
2010	795,000	918,663	1,713,663
2011	820,000	893,819	1,713,819
2012	435,000	866,144	1,301,144
2013	450,000	850,375	1,300,375
2014	465,000	833,500	1,298,500
2015	490,000	810,250	1,300,250
2016	515,000	785,750	1,300,750
2017	540,000	760,000	1,300,000
2018	565,000	733,000	1,298,000
2019	595,000	704,750	1,299,750
2020	625,000	675,000	1,300,000
2021	655,000	643,750	1,298,750
2022	690,000	611,000	1,301,000
2023	725,000	576,500	1,301,500
2024	760,000	540,250	1,300,250
2025	800,000	502,250	1,302,250
2026	840,000	462,250	1,302,250
2027	880,000	420,250	1,300,250
2028	925,000	376,250	1,301,250
2029	970,000	330,000	1,300,000
2030	1,020,000	281,500	1,301,500
2031	1,070,000	230,500	1,300,500
2032	1,120,000	177,000	1,297,000
2033	1,180,000	121,000	1,301,000
2034	1,240,000	62,000	1,302,000
Total*	$22,155,000	$19,254,557	$41,409,557

* Totals may not add due to rounding.

CERTAIN INVESTMENT CONSIDERATIONS

The Corporation believes, based on its analyses of cash flow projections which have been based on various assumptions and scenarios, that Available Revenues 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; and the liquidity of the Corporation's assets 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. The factors discussed below, however, could affect the sufficiency of Available Revenues to meet debt services payments on the Bonds.

Factors Affecting Sufficiency and Timing of Receipt of Available Revenues

The Corporation expects that the Available Revenues will be sufficient to allow the Corporation to make all payments of principal of and interest on the Bonds when due and also to pay the annual cost of all fees and other administrative costs and expenses related thereto until the final maturity or earlier redemption of the Bonds. This expectation is based upon an analysis of cash flow projections using assumptions which the Corporation believes are reasonable. Other future events over which the Corporation has no control may adversely affect the Corporation's actual receipt of Available Revenues. This, in turn, may affect the Corporation's ability to make payments of principal and interest on the Bonds when due.

Education Loan Program

The Corporation relies on its Vermont Value Program to provide Education Loans at a low cost to eligible students. The Vermont Value Program gives the Corporation a competitive advantage in the Education Loan marketplace, but it reduces the revenues flowing to the Corporation's Education Loan Program, and therefore has the effect of the diminishing Available Revenues under the Resolution. The Vermont Value Program is described more fully below.

Under the Vermont Value Program, students or parents with 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. Currently, the Vermont Value Program provides for (i) a rebate of interest equivalent to one percent of the principal balance of the loan annually for qualified Federal Act Loans (except for consolidation loans funded on or after July 1, 2001), (ii) an interest free period from July 1 through June 30 of each year, 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 the loan interest rate for qualified borrowers who elect to make loan payments with an automatic, electronic deduction from a bank account

A variety of factors influence the Corporation's ongoing ability to fund the Vermont Value Program. Access to the State's allocation of private activity bond cap, market share of new Education Loan volume and interest rates on Education Loans all effect the earnings used to fund the Program.

Receipt of principal of and interest on Education Loans may be accelerated due to various factors, including, without limitation: (a) default claims or claims due to the disability, death or bankruptcy of the borrowers greater than those assumed; (b) actual principal amortization periods which are shorter than those assumed based upon analysis of the Education Loans; (c) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon such analysis; (d) economic conditions that induce borrowers to refinance or repay their loans prior to maturity; and (e) 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. Such accelerated repayment of Education Loans held by the Corporation tends to diminish the revenues flowing to its Education Loan Program, and thus may decrease Available Revenues.

Delay in the receipt of principal and interest on Education Loans may adversely affect the receipt of revenues in the Education Loan Resolutions. Principal of and interest on Education Loans may be delayed due to numerous factors, including, without limitation: (a) borrowers entering deferment periods due to a return to school or other eligible purposes: (b) forbearance being granted to borrowers: (c) Education Loans becoming delinquent for periods longer than assumed: (d) actual loan principal amortization periods which are longer than those assumed; and (e) the commencement of principal repayment by borrowers at dates later than those assumed. These delays could decrease the revenues available from the Corporation's Education Loan Program service fees and thus decrease Available Revenues.

If actual receipt of revenues of the Corporation or actual expenditures by the Corporation under its Education 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 when due.

Changes in Federal Law

The provisions governing the terms of loans originated pursuant to the Federal Act have been subject to repeated amendments in recent years, as discussed in Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE

FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto. Changes in the Federal Act or other relevant federal or State laws may affect the availability of revenues derived from the Corporation's Education Loan Program. No assurance can be given that the Federal 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 Corporation and might prospectively or retroactively adversely change the terms and conditions under which Education Loans are made and under which lenders (including the Corporation) are provided interest subsidy payments or other payments in a manner that might adversely affect the Corporation. Funding under the Federal Act is subject to the annual budget and appropriation process by Congress. In addition, existing legislation and future measures to reduce federal budget deficits 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, including the Balanced Budget Act of 1997, has provided for the recovery by the Secretary of Education of certain funds held by Guaranty Agencies in order to achieve reductions in federal spending. No assurance can be made that future budget legislation or other legislation or administrative actions will not adversely affect expenditures by the Secretary of Education or the financial condition of the Corporation and Available Revenues. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Various amendments to the Federal Act authorize the Secretary of Education to offer borrowers direct consolidation loans whereby the borrowers may consolidate their various Federal Act and Health Act Education Loans into a single loan with income sensitive repayment terms. The financing of such consolidation loans by the Secretary of Education on a large-scale basis may cause an increase in the number of prepayments of Education Loans and reduce the size of the Corporation's Education Loan portfolio. There can be no assurance that relevant federal laws, including the Federal Act, will not change in a manner which might adversely affect Available Revenues derived from the Corporation's Education Loan Program. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" for more information on the Federal Act and various amendments thereto.

The Federal Act is subject to scheduled Congressional reauthorization in 2004. Any changes could impact the Corporation's Education Loan Program and, therefore, the amount of Available Revenues.

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

From time to time, Congress has enacted or could enact legislation affecting the interest rate on Education Loans under the Federal Act. Such changes could impact the Corporation's Education Loan Program and, therefore, the amount of Available Revenues.

As part of the reauthorization of the Federal Act in 1999, a study group was established to identify and evaluate means of establishing a "market mechanism" for the delivery of Federal Act Education Loans. Additionally, the Congress enacted H.R. 1180 which provides, in part, that Special Allowance Payments for the period January 1, 2000 through June 30, 2003 with respect to loans initially disbursed on or after January 1, 2000 would be computed on a 90-day commercial paper index (calculated quarterly and based on an average of 90-day commercial paper rates as reported in the Federal Reserve's Statistical Release H.15) plus 2.34% (for loans during in-school and grace periods 1.74% is to be substituted for 2.34%, and for certain PLUS and Consolidation Loans, 2.64% is to be substituted for 2.34%). The commercial paper based Special Allowance Payment formulas were subsequently extended indefinitely. The Corporation does not believe such provisions would have a material adverse effect on its ability to meet its financial obligations.

By way of further illustration of the history of changes to the economics of originating and holding Education Loans, the Congress changed the formulas discussed above for the period from July 1, 1998 through September 30, 1998. 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% for in-school or grace period loans), capped at 8.25%; PLUS Loans bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 3.1%, capped at 9%; and Special Allowance Payments are based on the 91-day Treasury Bill rate plus 2.8% (2.2% for in-school or grace period loans). This legislation is only applicable for loans originated through September 30, 1998.

For loans made between October 1, 1998 and July 1, 2006, both Subsidized Federal Act Stafford Loans and Unsubsidized Federal Act Stafford Loans in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 1.7%, with a maximum rate of 8.25%. Subsidized Federal Act Stafford Loans and Unsubsidized Federal Act Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 2.3% with a maximum rate of 8.25%. For Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, the interest rate will be equal to 6.8%. Federal Act PLUS Loans in all periods bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 3.1 %, with a maximum rate of 9%. The rate is adjusted annually on July 1. The Federal Act currently provides that for PLUS Loans made on or after July 2006, the interest rate will be 7.9%. Federal Act Consolidation Loans in all periods bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto.

Financial Status of the Corporation as Guarantor

A deterioration in the financial status of the Corporation in its capacity as guarantor could result in its inability to make guaranty claim payments. Among the possible causes of deterioration in the financial status of the Corporation as guarantor (a "Guaranty Agency") are: (a) the amount and percentage of defaulting Federal Family Education Loan Program loans ("FFELP Loans") guaranteed by such Guaranty Agency; (b) an increase in the costs incurred by such Guaranty Agency in connection with FFELP Loans guaranteed; and (c) a reduction in revenues received in connection with FFELP Loans guaranteed. The Federal Act grants the Department broad powers over Guaranty Agencies and their reserves. These provisions create a risk that the resources available to the Guaranty Agencies 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 Guaranty Agencies, including the Corporation as sole State Guarantor. Under Section 432(o) of the Federal Act, if the Department has determined that a Guaranty Agency is unable to meet its guaranty 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 Guaranty Agency. 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. Virtually all of the Education Loans are, and will be, guaranteed by the Corporation. See Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto.

Noncompliance with the Federal Act

Noncompliance with the Federal Act with respect to Federal Act Loans held by the Corporation may adversely affect the Corporation's finances. The Federal Act and the applicable regulations thereunder require the lenders making Federal Act Loans, guarantors guaranteeing Federal Act Loans and parties servicing such 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. Failure to follow such procedures may result in the refusal by the Department to make reinsurance payments to a guarantor, including the Corporation as State 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 Department 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 Corporation's ability to meet its financial obligations, including repayment of the Bonds.

If the Department or the State Guarantor determines that the Corporation owes a liability to the Department or the State Guarantor on any FFELP Loan for which the Corporation is legal titleholder, the Department or the State Guarantor might seek to collect that liability by offsetting against payments due to the Corporation on Federal Act Loans. Such offsetting or shortfall of payments could adversely affect the amount of revenues and the Corporation's ability to meet its financial obligations, including the Bonds.

Uncertainty of Available Revenues for the Corporation as State Guarantor

The provisions governing the terms of Education Loans originated pursuant to the Federal Act have been subject to repeated amendments in recent years, as discussed in Appendix B -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto. Changes in the Federal Act or other relevant federal or State laws may affect the availability of revenues flowing to the Corporation as State Guarantor. No assurance can be given that the Federal 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 Corporation and might prospectively or retroactively adversely change the terms and conditions under which Education Loans are made and under which guarantors (including the Corporation) earn fees or other payments in a manner that might adversely affect the Corporation's Available Revenues. Funding under the Federal Act is subject to the annual budget and appropriation process by Congress. In addition, existing legislation and future measures to reduce federal budget deficits or for other purposes may adversely affect the amount and nature of federal financial assistance available with respect to these programs.

The Default Aversion Assistance Fee is directly related to the principal and interest of Education Loans that become delinquent. Changes in delinquency patterns will have an immediate impact on the amounts and timing of Available Revenues generated from this function. Significant variations from the Corporation's assumptions could have an impact on the Corporation's ability to make required debt service payments on the Bonds.

Changes in new Education Loan volume, repayment rates, defaults and the volume of Education Loans purchased by competing lenders all have an impact on the volume of outstanding Education Loans guaranteed by the Corporation. These changes may result in differences in actual earnings from the Account Maintenance Fee and Issuance Fee from the Corporation's assumptions. These differences could have an impact on the Corporation's ability to make required debt service payments on the Bonds.

Fluctuations in the size of the Corporation's default portfolio collection volume may have an adverse impact on the Corporation's ability to collect revenues associated with Education Loans held in such portfolio. This would have an adverse effect on Available Revenues from this program.

Uncertainty of Funds from the Corporation's Contracts

There is no guarantee that the grants and contracts administered by the Corporation will be renewed upon completion. While smaller in size, loss of these revenues could have impact on the Corporation's ability to pay debt service on the Bonds.

Uncertainty as to Available Remedies

The remedies available to Owners of the Bonds upon an Event of Default under the Resolution are in many respects dependent upon regulatory and judicial actions that 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 contemplated by the Resolution may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 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.

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 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 application of any moneys or security provided for the payment of the Bonds or the due existence or powers of the Corporation.

RATING

Moody's Investors Service ("Moody's") has assigned a rating of A2 to the Bonds. The rating reflects only the views of Moody's, and an explanation of the significance of such rating may be obtained from Moody's. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised or withdrawn entirely by Moody's, if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of the rating could have an adverse effect on the market prices of the Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Corporation at the aggregate initial public offering price less a discount equal to $212,119.21. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

TAX MATTERS

Generally

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinions 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 Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes from the date of issuance of the Bonds. The Corporation has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax, interest on the Bonds will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of a corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

Bond Counsel is also of the opinion that, under the existing laws of the State of Vermont, the 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.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon the owner's particular tax status or other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the 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, or certain recipients of Social Security or Railroad Retirement benefits, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors concerning their tax consequences of purchasing and holding the Bonds.

Original Issue Discount

The Bonds maturing in 2008, 2010, 2011, 2012, 2013, 2026 and 2034 (collectively, the "Discount Bonds") are being sold at an original issue discount. The difference between the initial public offering prices, as set forth on the inside cover page, of such Discount Bonds and their stated amounts to be paid at maturity, constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Original Issue Premium

The Bonds maturing in 2006 and 2009 (collectively, the “Premium Bonds”) are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal Tax Law

The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Bonds. 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 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. Each purchaser of the Bonds should consult their tax advisor regarding any pending or proposed federal tax legislation. Bond Counsel has expressed no opinion regarding any pending or proposed federal tax legislation.

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Kutak Rock LLP, Bond Counsel to the Corporation. The proposed form of the opinion of Bond Counsel is attached as Appendix C.

Certain legal matters will be passed upon for the Corporation by its General Counsel and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CONTINUING DISCLOSURE

The Corporation will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") for the benefit of the holders of the 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. Section 240.15c2-12) (the "Rule"). The proposed form of the Disclosure Agreement is attached hereto as Appendix D.

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 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 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 negotiable 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 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 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 Official Statement.

FINANCIAL STATEMENTS

The Financial Statements of the Corporation for the fiscal year ended June 30, 2003, were audited by Baker, Newman and Noyes LLC, as set forth in their report dated September 26, 2003. Such financial statements and the report of said auditors are included as Appendix A hereto and represent the most current audited financial information available for the Corporation. Comparative financial statements for the fiscal year ended June 30, 2002, which were audited by KPMG LLP, are also presented in Appendix A.

LEGAL INVESTMENT

The State Act provides that, notwithstanding any other law, the State of Vermont 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 Bonds) and such obligations (including the Bonds) are authorized security for any and all public deposits.

FURTHER INFORMATION

Copies, in reasonable quantity, of the Resolution and other documents herein described may be obtained upon written request from Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404, Attention: President or the Financial Advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022.

MISCELLANEOUS

All quotations from, and summaries and explanations of the State Act, the Federal 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 estimates, 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 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 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 Bonds.

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

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation since the date of this Official Statement, except as expressly stated.

VERMONT STUDENT ASSISTANCE CORPORATION

By: /s/ Donald R. Vickers
Donald R. Vickers, President

APPENDIX A

AUDITED FINANCIAL STATEMENTS

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Vermont Student Assistance Corporation

(A Component Unit of the State of Vermont)

Basic Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2003 and 2002

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

FINANCIAL STATEMENTS

Years Ended June 30, 2003 and 2002

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BAKER NEWMAN & NOYES

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Vermont Student Assistance Corporation

We have audited the accompanying basic financial statements of the Vermont Student Assistance Corporation, a component unit of the State of Vermont, as of and for the year ended June 30, 2003, as listed in the accompanying table of contents. These financial statements are the responsibility of the Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Vermont Student Assistance Corporation for the year ended June 30, 2002, were audited by other auditors whose report, dated September 20, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 2003 basic financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation, as of June 30, 2003, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of Vermont Student Assistance Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2003 information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
September 26, 2003

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VERMONT STUDENT ASSISTANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2003

The Vermont Student Assistance Corporation (VSAC or the Corporation) is a public non-profit corporation created by the State of Vermont to provide opportunities for Vermont residents to pursue post-secondary education. VSAC's mission is to ensure that all Vermonters have the necessary financial and informational resources to pursue their educational goals beyond high school. VSAC awards grants and scholarships, and guarantees, makes, finances and services education loans to students and parents. VSAC also administers student employment programs and outreach services to students and adults seeking post-secondary education opportunities. The Corporation also contracts with several schools and colleges in Vermont to serve as the financial aid office for the institution. Finally, VSAC manages the Vermont Higher Education Investment Plan.

VSAC administers the Vermont State grant program, funded by State appropriations, at no cost to the State. VSAC also administers and awards over 100 scholarship funds, including both scholarship funds held and managed by VSAC, and outside scholarships.

VSAC's education loan programs are financed through issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and reinsured by the U.S. Department of Education through the Federal Family Education Loan Program (FFELP). VSAC also provides certain loan programs that are not guaranteed by the federal government. VSAC education loans are available to Vermont students attending both in-state and out-of-state institutions, and to students of Vermont institutions.

VSAC's outreach services are funded through a variety of Federal grants, including GEAR UP and Talent Search, as well as through State grants, fund-raising and general corporate support.

Fiscal 2003 Highlights and Overall Financial Position

- During the year ended June 30, 2003, VSAC provided over $20.6 million in grants and scholarships to Vermont students.
- VSAC originated over $407.0 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.12 billion in education loans receivable at June 30, 2003.
- VSAC returned over $14.7 million in interest and principal rebates to students in its loan programs during fiscal 2003.
- VSAC expanded its services and offerings to students and families through its Resource Center, outreach counselors, website and through the Vermont Higher Education Investment Plan.
- VSAC's total net assets increased $8.2 million to $79.7 million, primarily strengthening the Corporation's equity position in its student loan bond trust estates. VSAC's net revenue base continued to grow as loan originations, including traditional Stafford and PLUS loans, consolidation loans and alternative loans, increased. While interest rates decreased both gross interest revenues and gross interest expenses, the increase in student loan volume generated consistent net revenues from loans.

The Financial Statements

VSAC's financial statements are a series of reports that detail financial information using accounting methods similar to those used by private businesses, especially financial institutions.

The statement of revenues, expenses and changes in net assets presents the results of VSAC's operations. The statement reports all revenues and expenses, and reconciles the beginning and end of year net asset balances.

The statement of net assets includes all the Corporation's assets and liabilities. The statement also presents the balance of assets in excess of liabilities, or net assets.

The statement of cash flows supplements these statements providing relevant information about cash receipts and payments for the Corporation.

The statement of fiduciary net assets displays the funds where VSAC has custodial responsibilities for others.

The notes to the financial statements are an integral part of the financial statements and contain information necessary to get a complete view of VSAC's financial position.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF REVENUES AND EXPENSES

	2003	2002
	(In Thousands)	
Revenues:		
Interest earned from student loan financing	$ 70,530	$ 71,493
Other loan and guarantee program revenues	4,973	4,254
Investment interest	2,568	5,234
Vermont state appropriations	16,582	15,446
Federal grants	2,550	2,367
Scholarship revenue	3,651	2,503
Other revenue	1,189	1,234
Total operating revenues	102,043	102,531
Expenses:		
Student aid	20,603	18,634
Interest rebated to borrowers	14,664	15,354
Interest on debt	20,043	25,412
Other loan financing costs	12,174	15,576
Corporate operating expenses and depreciation	26,345	24,758
Total operating expenses	93,829	99,734
Excess of revenues over expenses	8,214	2,797
Total net assets, at the beginning of the year	71,475	68,678
Total net assets, at the end of the year	$ 79,689	$ 71,475

Revenues

VSAC's fiscal 2003 operations resulted in an increase in net assets of $8.2 million. All revenues for 2003 are considered operating revenues. VSAC earned $102.0 million in revenues versus incurring $93.8 million in total expenses in 2003. VSAC's revenues include interest income on student loans, as well as various Federal interest subsidies and special allowance payments.

Overall loan revenue to VSAC is closely related to the general interest rate environment. Most student loans held by VSAC have variable interest rates. During 2003, interest revenues and subsidies declined from $71.5 to $70.5 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented $9.0 million in 2003. VSAC also receives special allowance payments when variable interest rates fall below certain levels. Low interest rates accounted for an increase in these special allowance payments from $10.0 to $16.1 million in 2003.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled $5.0 million in 2003, compared to $4.2 million in 2002.

Lower interest rates also resulted in declining interest revenue on investments. Investments include student loan funds temporarily invested in cash and short term investments, and scholarship funds invested for long-term growth and income. Interest on all investments declined from $5.2 million to $2.6 million in 2003, as interest rates declined and the amount invested in cash and cash equivalents on average declined as well. These investments are related to the timing of student loan bond issues.

VSAC has worked closely with the University of Vermont and the Vermont State Colleges to enhance the State's financial support of higher education. The result has been significant increases in State appropriations for each party. VSAC's appropriation increased from $15.4 to $16.6 million. As in prior years, the State's appropriation for the grant program is used entirely to provide grant funds directly to students. VSAC receives no administrative allowance for administering the State grant program.

Federal grants also increased by nearly 13%, to $2.6 million in fiscal 2003.

Scholarship revenues climbed from $2.5 to $3.7 million in fiscal 2003, as more scholarship funds were secured, awarded and invested for the benefit of Vermont students.

Expenses

VSAC has four main types of expenses: student aid; interest costs; other loan financing costs; and costs of operations.

Student Aid – VSAC provided Vermont students with $20.6 million in student aid during fiscal 2003; $16.4 million was provided from State appropriations. An additional $4.2 million was made available through various scholarship programs managed by VSAC. The total aid in 2003 represents an 11% increase over grants and scholarships provided by VSAC in fiscal 2002. Direct aid in the form of grants and scholarships represented 22% of VSAC's operating expenses.

While not strictly a student aid expense, interest rebated to borrowers is an item that helps current and former students and parents manage their education debt. VSAC provided $14.6 million in rebates of interest to borrowers in fiscal 2003, down slightly from 2002, due to the overall decline in interest rates on these loans. These rebates represent 15.6% of VSAC's fiscal 2003 operating expenses.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the $407 million of loans VSAC made available to students and parents in fiscal 2003.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues both tax-exempt and taxable bonds in the public markets. The interest costs of these bonds represent a major expense category for VSAC. Since the vast majority of these bonds are variable rate securities, interest costs vary from year to year as the general interest rate environment changes. The variable nature of these securities matches the variable rate structure of most of our student loans, so revenues and expenses related to the bonds are highly correlated.

With the dramatic decrease in interest rates from fiscal 2002 to 2003, VSAC interest costs fell from $25.4 to $20.0 million, even as overall indebtedness increased from $1.1 to $1.33 billion. Interest costs represented 21.4% of VSAC operating expenses in fiscal 2003.

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the Federal government, and provisions for or recovery of the arbitrage earnings liability to the U.S. Treasury, as well as a variety of other costs incurred in issuing and managing over $1.3 billion in outstanding bonds and notes. These costs totaled $10.7 million in fiscal 2003, representing approximately 11.4% of total operating expenses. Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness, and by changes in the arbitrage liability. Arbitrage liability represents earnings on bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle. VSAC actually experienced a recapture of excess arbitrage in fiscal 2003.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $26.3 million in fiscal 2003, an increase of approximately 6.4% from fiscal 2002. Salaries and benefits were $18.5 million in fiscal 2003, approximately 70% of costs of operations. Overall costs of operations represent 28% of total operating expenses.

Total expenses for 2003 were $93.8 million. Revenues totaled $102.0 million. The excess of revenues over expenses was $8.2 million. The change in total net assets for 2003 was an increase of $8.2 million. The ending balance of net assets was $79.7 million at June 30, 2003, as compared to $71.5 million at June 30, 2002.

Other operating expenses including the provision for loan losses and other general and administrative expenses totaled $1.5 million in 2003.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF NET ASSETS

	2003	2002
	(In Thousands)	
Assets:		
Cash and investments	$ 272,538	$ 167,528
Student loans receivable (plus interest)	1,147,143	1,012,003
Other assets	12,265	10,321
Total assets	$ 1,431,946	$ 1,189,852
Liabilities:		
Bonds & notes payable (plus interest)	$ 1,333,404	$ 1,098,456
U.S. Treasury arbitrage payable	13,007	14,499
Other liabilities	5,846	5,422
Total liabilities	1,352,257	1,118,377
Net assets:		
Restricted	48,681	41,707
Unrestricted	28,144	26,978
Net investment in capital assets	2,864	2,790
Total net assets	79,689	71,475
Total liabilities and net assets	$ 1,431,946	$ 1,189,852

Net Assets

Cash balances increased significantly from June 30, 2002 to 2003, from $143.5 to $261.7 million as a result of fiscal 2003 bond proceeds not fully utilized for loan originations at June 30, 2003. VSAC issued $112.5 million in new bonds in October 2002 and $310.9 million in new bonds in May 2003. Combined cash and investments were $272.5 million at June 30, 2003 an increase of $105 million from June 30, 2002. Refer to the Statement of Cash Flows for further details of changes in cash and investments in 2003.

Student loans and interest receivable totaled $1.15 billion at June 30, 2003, up from $1.01 billion in 2002. The 2003 bond proceeds were used to originate student loans in 2003.

U.S. Treasury arbitrage payable was described in the expense discussion. This liability decreased as of June 30, 2003, to $13.0 million from $14.5 million at June 30, 2002.

Net assets restricted by bond indenture increased $7.0 million. These represent VSAC equity positions in trusts established to provide security for bondholders. Upon maturity of the various bond series, or with permission of bond insurers, these equity positions will be released to VSAC as unrestricted net assets. In the past, these unrestricted net assets have been reinvested in student loans receivable, providing VSAC with continued revenue on these funds, and reducing the need for new borrowings.

Unrestricted net assets include those assets released from bond trusts and used to finance student loans, funds used for corporate working capital and investments in capital assets. Unrestricted net assets invested in student loans totaled $18.6 million at June 30, 2003.

Capital assets increased during the fiscal year, as new acquisitions of $1.4 million exceeded depreciation expense of $1.3 million. The result was an increase in both capital assets, and the corresponding net asset figure to $2.9 million at June 30, 2003.

Changes in Long-Term Debt

Bonds, notes and interest payable increased by $234.9 million to $1.33 billion. The increase resulted from new borrowings exceeding maturities and refundings of existing debt during fiscal year 2003. During the fiscal year, VSAC issued $449.3 million in new bonds and notes. These bonds and notes provided $235 million of new capital, and retired and refunded $214.3 of existing debt.

See note 8 for additional information on bonds and notes payable.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF NET ASSETS

June 30, 2003 and 2002

ASSETS

	2003	2002
	(In Thousands)	
Current assets:		
Cash and cash equivalents (notes 3, 8 and 9)	$ 261,668	$ 143,541
Investments (notes 3, 8 and 9)	10,870	23,987
Receivables:		
Student loans, net (notes 4, 8 and 9)	95,335	81,141
Student loan interest and special allowance (note 10)	23,489	24,895
Investment interest	278	203
Federal administrative and program fees	410	336
Other	800	560
Other assets	1,485	1,226
Total current assets	394,335	275,889
Noncurrent assets:		
Receivables:		
Student loans, net (notes 4, 8 and 9)	1,028,319	905,967
Capital assets (note 7)	2,864	2,790
Deferred bond issuance costs, net	6,428	5,206
Total noncurrent assets	1,037,611	913,963
Total assets	$1,431,946	$1,189,852

LIABILITIES AND NET ASSETS

	2003	2002
	(In Thousands)	
Current liabilities:		
Bonds and notes payable (notes 8 and 9)	$ 40,935	$ 54,300
Accounts payable and other liabilities	3,103	2,750
Deferred revenue	2,743	2,672
Accrued interest on bonds payable	1,211	1,104
Arbitrage earnings rebatable (note 9)	1,260	1,074
Total current liabilities	49,252	61,900
Noncurrent liabilities:		
Bonds and notes payable (notes 8 and 9)	1,291,258	1,043,052
Arbitrage earnings rebatable (note 9)	11,747	13,425
Total noncurrent liabilities	1,303,005	1,056,477
Total liabilities	1,352,257	1,118,377
Commitments and contingencies (notes 12, 13 and 14)		
Net assets:		
Invested in capital assets	2,864	2,790
Restricted:		
Bond resolution	48,288	41,267
Grants and scholarships	393	440
Unrestricted	28,144	26,978
Total net assets	79,689	71,475
Total liabilities and net assets	$1,431,946	$1,189,852

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2003 and 2002

	2003	2002
	(In Thousands)	
Operating revenues:		
U.S. Department of Education (note 10):		
Interest benefits	$ 9,019	$ 11,550
Special allowance	16,099	10,011
Interest on student loans	45,412	49,932
State appropriations	16,582	15,446
Interest on investments	2,568	5,234
Guarantee agency administrative revenues	4,973	4,254
Federal grants	2,550	2,367
Scholarship income	3,651	2,503
Other income	1,189	1,234
Total operating revenues	102,043	102,531
Operating expenses:		
Financing expenses – interest	20,043	25,412
Salaries and benefits (note 11)	18,483	17,082
State grants and scholarships	20,603	18,634
Interest rebated to borrowers	14,664	15,354
Other general and administrative	6,095	5,667
Other guarantee agency expenses	435	455
(Reduction in) excess arbitrage (note 9)	(1,181)	5,120
Credit enhancement and remarketing fees	4,385	4,116
Consolidation and lender paid fees	6,861	5,107
Other loan financing expense	151	86
Provision for losses on student loans (note 4)	1,062	685
Depreciation and amortization	1,332	1,554
Amortization of bond issuance costs	896	462
Total operating expenses	93,829	99,734
Excess of operating revenues over operating expenses	8,214	2,797
Net assets, beginning of year	71,475	68,678
Net assets, end of year	$ 79,689	$ 71,475

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2003 and 2002

	2003	2002
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	$ 305,494	$ 236,042
Cash paid to suppliers for goods and services	(55,095)	(49,297)
Student loans originated	(406,839)	(323,864)
Cash paid to employees for services	(18,838)	(17,080)
Interest received on student loans	47,714	51,130
State appropriations received	16,582	15,446
Net cash used in operating activities	(110,982)	(87,623)
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds/notes payable	449,285	25,380
Payments on bonds/notes payable	(214,300)	(25,380)
Interest paid to bond holders	(20,080)	(26,413)
Net cash provided by (used in) noncapital financing activities	214,905	(26,413)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,406)	(1,127)
Net cash used in capital and related financing activities	(1,406)	(1,127)
Cash flows from investing activities:		
Interest received on investments	2,493	5,393
Redemption/(purchase) of investments, net	13,117	(3,529)
Net cash provided by investing activities	15,610	1,864
Net increase (decrease) in cash and cash equivalents	118,127	(113,299)
Cash and cash equivalents, beginning of year	143,541	256,840
Cash and cash equivalents, end of year	$ 261,668	$ 143,541

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF CASH FLOWS
(CONTINUED)

Years Ended June 30, 2003 and 2002

	2003	2002
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities:		
Excess of operating revenues over operating expenses	$ 8,214	$ 2,797
Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities:		
Depreciation and amortization	1,332	1,554
Provision for losses on student loans	1,062	685
Amortization of bond issuance costs	896	462
Amortization of bond premium	(144)	(129)
Investment interest received	(2,493)	(5,393)
Interest paid to bond holders	20,080	26,413
Changes in operating assets and liabilities:		
(Increase) decrease in investment interest receivable	(75)	159
Increase in student loans receivable	(137,608)	(118,742)
Decrease in student loans interest receivable	1,406	445
Increase in federal administrative and program fees receivable	(74)	(12)
Increase in other receivables	(240)	(121)
Increase in other assets	(259)	(58)
Increase in deferred bond issuance costs	(2,118)	(64)
Increase in accounts payable and other liabilities	353	414
Increase in deferred revenue	71	1,018
Increase (decrease) in accrued interest on bonds payable	107	(873)
(Decrease) increase in arbitrage earnings rebatable	(1,492)	3,822
Total adjustments	(119,196)	(90,420)
Net cash used in operating activities	$(110,982)	$ (87,623)

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2003 and 2002

	Federal Loan Reserve Fund	VHEIP	2003 Total	2002 Total
	(In Thousands)			
ASSETS HELD FOR OTHERS				
Cash and cash equivalents	$ 7,753	$ 147	$ 7,900	$ 9,015
Investments	–	18,428	18,428	10,729
Student loans receivable and accrued student loan interest	–	2,504	2,504	1,090
Investment interest receivable	6	75	81	40
Other assets	1,076	14	1,090	1,792
Total assets	$ 8,835	$ 21,168	$ 30,003	$ 22,666
LIABILITIES				
Accounts payable and other liabilities	$ 171	$ 37	$ 208	$ 446
Note payable	–	2,563	2,563	1,219
Federal advances	538	–	538	538
Amounts held on behalf of investors	–	18,568	18,568	10,815
Return of reserves due to U.S. Department of Education	552	–	552	2,146
Federal loan reserve funds held for U.S. Department of Education	7,574	–	7,574	7,502
Total liabilities	$ 8,835	$ 21,168	$ 30,003	$ 22,666

See accompanying notes to the financial statements.

1. 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. In addition, VSAC manages the Vermont Higher Education Investment Plan (VHEIP).

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 education loans are financed through the issuance of limited obligation bonds and the loans are guaranteed by VSAC as a guarantor and reinsured by the U.S. Department of Education (DE) through the Federal Family Education Loan (FFEL) Program. The bonds and notes 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 and notes. The bonds and notes are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

For financial reporting purposes, 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 of Vermont primarily consists of an annual appropriation designated for grant aid to Vermont students.

The Vermont Student Development Fund, Inc. (the "Fund"), a separate non-profit 501(c)(3) corporation, was established in November of 2000. The primary purpose of the Fund is to receive, hold and manage securities, cash or other property whether real, personal or mixed, acquired by bequest, devise, gift, purchase or loan. These assets are used primarily for scholarships and other financial assistance to benefit qualified individuals seeking a post secondary education. The Fund provides a financial benefit to VSAC, and its Board of Directors is the same as the VSAC Board of Directors, therefore, it is considered a component unit of VSAC and is included in the totals on the financial statements. The operations of the Fund are immaterial.

2. Summary of Significant Accounting Policies

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.

2. Summary of Significant Accounting Policies (Continued)

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, 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.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and 34*, and No. 38, *Certain Financial Statement Note Disclosures*. VSAC reports as a business-type activity, as defined, in GASB No. 34.

Restriction on Net Assets

The restricted net assets of VSAC are restricted by the bond resolutions, state statutes, or various Federal regulations and program agreements and are restricted for the origination of student loans, payment of debt service on bonds and notes payable and grant and scholarship activities. Financial activities and resulting account balances which are not so restricted are presented in the Statements of Net Assets as unrestricted net assets. VSAC's unrestricted net assets are generally reserved for educational purposes.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of VSAC to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates utilized in the preparation of the financial statements of VSAC relate to the allowance for losses on student loans and the arbitrage earnings rebatable liability.

2. Summary of Significant Accounting Policies (Continued)

Student Loans

Student loans consist primarily of guaranteed student loans which are made to post-secondary students attending eligible educational institutions and guaranteed parental loans made to parents of dependent undergraduate students, graduate and professional students, and independent undergraduate students attending eligible educational institutions. Student loans also include consolidation loans which are loans to eligible students that combine two or more existing student loans and extend the repayment period. Student loans are stated at their unpaid principal balance. During the in-school and grace periods, the U.S. Department of Education ("DE") pays interest on behalf of the guaranteed student loan borrower. When the repayment period begins, the borrower is responsible for interest payments. Interest on student loans is recognized as revenue in the period earned.

Allowance for Loan Losses

A substantial portion of student loans are guaranteed by VSAC, as guarantor under the FFEL Program, and substantially all such loans are reinsured by DE. However, there is still the risk that loans may lose their guarantee and become uncollectible under certain circumstances and certain student loans are not guaranteed. Also, loans originated subsequent to October 1, 1993, are only reinsured by DE for 98% of the principal amount. Student loans issued under the FFEL program originated prior to October 1, 1993, are 100% reinsured by DE. At June 30, 2003 and 2002, most of VSAC's student loans are subject to the 98% guarantee from DE. Therefore, management of VSAC has established an allowance for loan losses to provide for these potential losses. The amount of the allowance, which is established through a provision for losses on student loans charged to expense, is based on management's estimation of the probable losses within the portfolio.

Operating Revenue and Expenses

Operating revenues include interest earned on student loans and investments, fees received from providing services, state appropriations, and grant and scholarship revenue. Operating expenses include interest on bonds, the costs of providing services and operating all programs, and grant and scholarship awards.

Cash Equivalents

VSAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents include funds held in an institutional money market fund account.

2. Summary of Significant Accounting Policies (Continued)

Investments

Investment securities primarily consist of guaranteed investment contracts at June 30, 2003. At June 30, 2002, they consisted primarily of guaranteed investment contracts and short-term bonds. Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The cost of the guaranteed investment contracts approximates their fair values as VSAC can withdraw funds at par during the contract period according to the related bond indentures.

Capital Assets

Capital assets are stated at historical cost. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets. Capital asset acquisitions that equal or exceed $2,500 are capitalized. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Bond Issuance Costs

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.

Amortization of Bond Premiums

Bond premiums are amortized using the interest method over the life of the bonds.

Grants

Unrestricted grants are recorded as revenue when received. Restricted grants are recorded as revenue upon compliance with the restrictions. Amounts received for grant programs that are restricted are recorded in deferred revenue until they become unrestricted.

FFEL Program Support

VSAC receives a percentage of the amounts collected on defaulted loans, a portfolio maintenance fee and a default aversion fee from DE as its primary support for the administration of the FFEL Program. These fees are recorded as guarantee agency administrative revenues when earned.

2. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employees may accumulate, subject to certain limitations, 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 and this obligation is accrued.

Income Tax Status

VSAC is exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

Reclassification

Certain items in the 2002 financial statements have been reclassified to conform to the current year presentation.

The most significant reclassifications include the Federal Loan Reserve Fund and the Vermont Higher Education Investment Plan Fund being reported as *Fiduciary Funds* in the Statement of Fiduciary Net Assets. At June 30, 2002, the assets and liabilities of these funds were included in VSAC's Statement of Net Assets. The change in 2003 was made to better reflect VSAC's fiduciary role over these Funds as VSAC acts in a custodial capacity for these Funds. The resources in these Funds cannot be used to support VSAC's operations. This reporting change did not result in any change to net assets as previously reported.

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.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of June 30, 2003 and 2002:

	2003		2002	
	Balance	Amount Insured or Collateralized	Balance	Amount Insured or Collateralized
Cash	$ 253	$ 100	$ 156	$ 102
Repurchase agreements	3,194	3,194	2,883	2,883
Money market accounts	258,221	See Below	140,502	See Below
	$261,668		$143,541	

At June 30, 2003 and 2002, cash and repurchase agreements are comprised of various bank accounts and principal cash held by a bank trust department. The bank balances at June 30, 2003, were $4,033 and the bank balances at June 30, 2002, were $3,444. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $100 and $102 of the bank balances at June 30, 2003 and 2002, respectively, were covered by Federal depository insurance and $3,194 and $2,883, respectively, were collateralized by repurchase agreements for which the securities held are held by the bank's trustee in VSAC's name. The remainder of bank balances of $739 and $459 at June 30, 2003 and 2002, respectively, were uninsured and uncollateralized.

At June 30, 2003 and 2002, the money market accounts are primarily invested in the Federated Prime Cash Obligations Fund. The Fund objective is to provide current income consistent with stability of principal and liquidity. The Prime Cash Obligations Fund invests primarily in a portfolio of short-term, high quality fixed income securities insured by banks, corporations and the U.S. Government. The underlying assets are not held in the name of VSAC.

Investments

VSAC categorizes its investments to give an indication of the level of credit risk assumed by VSAC at year end. The categories are as follows:

(1) Insured or collateralized with securities held by VSAC or by its agent in VSAC's name.
(2) Collateralized with securities held by the pledging financial institution's trust department or agent in VSAC's name.
(3) Uncollateralized.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Investment securities and the level of credit risk assumed by VSAC were as follows at June 30, 2003 and 2002:

	2003	2002
Guaranteed investment contracts – Category 3	$10,775	$18,892
Certificates of deposit – Category 1	95	95
Short-term bonds – Category 2	–	5,000
	$10,870	$23,987

The bank and book balances of investments at June 30, 2003 and 2002, were the same.

A significant portion of cash, cash equivalents and investments are limited to their use for the repayment of bond and note obligations, and to satisfy certain reserve requirements specified by the bond and note indentures.

4. Student Loans Receivable

Student loans with annual interest rates ranging from 2.67% to 12.0% are insured by DE and the U.S. Department of Health and Human Services. Most of VSAC's borrowers are located in the New England states, primarily in the State of Vermont.

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.

Student loans receivable as of June 30, 2003 and 2002, are summarized as follows:

	2003	2002
Status:		
Interim status	$ 258,982	$224,140
Deferral status	195,002	171,958
Repayment status	670,749	591,614
Less: Allowance for loan losses	(1,079)	(604)
Total student loans receivable	1,123,654	987,108
Less: noncurrent student loans receivable	1,028,319	905,967
Current student loans receivable	$ 95,335	$ 81,141

(Dollars in Thousands)

4. Student Loans Receivable (Continued)

	2003	2002
Guarantee type:		
U.S. Department of Education	$1,058,858	$932,972
U.S. Department of Health and Human Services	20,277	20,621
Other – nonguaranteed	45,598	34,119
Less: Allowance for loan losses	(1,079)	(604)
Total student loans receivable	1,123,654	987,108
Less: noncurrent student loans receivable	1,028,319	905,967
Current student loans receivable	$ 95,335	$ 81,141

The student loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended June 30, 2003 and 2002, were as follows:

	2003	2002
Balance July 1	$ 604	$ 340
Net loans charged off	(587)	(421)
Provision for losses on student loans	1,062	685
Balance June 30	$ 1,079	$ 604

5. Net Assets Held for the U.S. Department of Education

Under the Higher Education Act Amendments of 1998, all liquid and nonliquid assets related to the FFEL Program guaranty functions were transferred to the Federal Loan Reserve Fund on October 1, 1998. The Federal Loan Reserve Fund is administered by VSAC on behalf of DE and is the property of the Federal government. VSAC also established the Guarantee Agency Operating Fund on October 1, 1998, in accordance with the Higher Education Act Amendments of 1998. The Guarantee Agency Operating Fund, which is included within the Statements of Net Assets, is the property of VSAC and is used to account for the activities under the FFEL Program that fall outside of the Federal Loan Reserve Fund.

(Dollars in Thousands)

5. Net Assets Held for the U.S. Department of Education (Continued)

Changes in Federal loan reserve funds held for DE for the years ended June 30, 2003 and 2002, were as follows:

	2003	2002
Additions:		
Reimbursement from DE on default loan purchases	$11,411	$10,185
Default loan collections	40	22
Loan administrative fees	1,821	1,632
Investment income	88	187
Total additions	13,360	12,026
Deductions:		
Purchases of default loans from lenders	11,655	10,375
Default aversion fee	507	432
Other disbursements	1,126	89
Total deductions	13,288	10,896
Federal loan reserve funds held, at beginning of year	7,502	6,372
Federal loan reserve funds held, at end of year	$ 7,574	$ 7,502

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. The Higher Education Act Amendments of 1998 require VSAC to maintain reserves equal to .25% of student loans guaranteed. During 2003 and 2002, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding guarantees issued under the FFEL Program were $1,058,858 and $932,972 at June 30, 2003 and 2002, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

(Dollars in Thousands)

6. Net Assets Held for Vermont Higher Education Investment Plan (VHEIP)

VHEIP was established by the Vermont Legislature in April 1998. VHEIP encourages Vermont residents to save for college or other post-secondary education through tax favorable investments. The program has been designed to comply with the requirements for treatment as a "Qualified Tuition Program" under Section 529 of the Internal Revenue Code. There are two plans available: the Managed Allocation Option, and the Interest Income Option. The Managed Allocation Option is managed by TFI. TFI is part of TIAA-CREF, a New York-based financial services organization. Funds in the Managed Allocation Option are directed into special investment portfolios based on the age of the beneficiary. Investments in this option are not guaranteed. The Interest Income Option is managed by VSAC. Funds in the Interest Income Option are invested in an interest-bearing note to VSAC, which is expected to return at least the 91-day U.S. Treasury Bill rate. VSAC uses the proceeds from the note to make federally guaranteed education loans.

The changes in assets held on behalf of investors for the years ended June 30, 2003 and 2002, were as follows:

	2003	2002
Additions:		
Investment income	$ 327	$ 223
Net realized and unrealized gains (losses)	686	(950)
Student loan interest income	92	51
Net participant subscriptions/redemptions	6,674	7,149
Total additions	7,779	6,473
Deductions:		
Operational expenses	26	7
Total deductions	26	7
Assets held on behalf of investors, at beginning of year	10,815	4,349
Assets held on behalf of investors, at end of year	$ 18,568	$ 10,815

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2003 and 2002, were as follows:

	Estimated Lives	Balance July 1, 2001	Acquisitions	Balance June 30, 2002	Acquisitions	Disposals	Balance June 30, 2003
Furniture and equipment	3 – 5 Years	$ 3,928	$ 716	$ 4,644	$ 998	$ (2,982)	$2,660
Leasehold improvements	5 Years	929	–	929	–	(208)	721
Software	3 – 5 Years	4,285	135	4,420	64	(2,730)	1,754
Construction in process		10	276	286	344	–	630
		9,152	1,127	10,279	1,406	(5,920)	5,765
Less accumulated depreciation		5,935	1,554	7,489	1,332	(5,920)	2,901
Capital assets, net		$ 3,217	$ (427)	$ 2,790	$ 74	$ –	$2,864

Depreciation charged to operations for the years ended June 30, 2003 and 2002, was $1,332 and $1,554, respectively.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2003 and 2002, which were issued to finance the origination of student loans:

	2003	2002
Bonds Payable:		
1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds with the balance maturing in January 2008; interest is payable monthly at variable rates which ranged from 1.1% to 1.8% during fiscal year 2003 (1.15% at June 30, 2003).	$ 40,900	$ 40,900
1992 Series A-2 and A-3, dated June 15, 1992. Series A-2 bonds were comprised of auction rate bonds that were advance refunded by the 2003 Series EE bonds in 2003; interest was paid every 35 days at rates that ranged from 1.1% to 1.7% during fiscal 2003. Series A-3 bonds are comprised of serial rate bonds maturing in increments through December 2005; interest is paid semi-annually at fixed rates ranging from 5.8% to 6.5%.	17,165	48,270

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2003	2002
1992 Series B and C, dated July 15, 1992. Series B bonds are comprised of term and serial variable rate bonds maturing in increments through December 2012; interest on Series B bonds is paid semi-annually at fixed rates ranging from 6.0% to 6.7%. Series C bonds were advance refunded in 2003, by the 2003 Series FF bonds; interest was paid every 35 days at rates which ranged from 1.118% to 1.6% during fiscal year 2003.	$ 24,085	$ 50,000
1993 Series D and E, dated June 22, 1993; comprised of term, serial and auction rate bonds maturing in increments between December 2003 and June 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 1.1% to 1.68% during fiscal year 2003. The Series E bonds were advance refunded in 2003.	40,000	80,000
1993 Series F, G, H, I and J dated September 27, 1993. The Series F and G bonds were advance refunded in 2003, by the 2003 Series HH bonds, and the Series J bonds were refunded in 2003, by the 2003 Series EE bonds. Interest was reset every 35 days and payable semi-annually at rates which ranged from 1.1% to 1.75% during fiscal year 2003. Series H and I bonds are comprised of auction rate bonds maturing December 2015; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.98% to 1.75% during fiscal year 2003 (0.98% at June 30, 2003).	50,000	122,500
1995 Series A, B, C and D, dated June 27, 1995; comprised of auction rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.03% to 1.7% during fiscal year 2003 (1.03% to 1.11% at June 30, 2003).	96,000	96,000
1995 Series E, dated October 17, 1995; comprised of auction rate bonds which matured December 2002; interest was reset every 35 days and payable semi-annually at rates which ranged from 1.25% to 1.7% during fiscal year 2003.	–	5,300
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.95% to 1.75% during fiscal year 2003 (0.95% to 1.15% at June 30, 2003).	100,000	100,000

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2003	2002
1996 Series J, dated October 23, 1996; comprised of auction rate bonds which matured December 2002; interest was reset every 35 days and payable semi-annually at rates which ranged from 1.4% to 1.5% during fiscal year 2003.	$ –	$ 3,100
1998 Series K-O, dated June 16, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.0% to 1.7% during fiscal year 2003 (1.0% to 1.10% at June 30, 2003).	165,000	165,000
2000 Series P and Q, dated May 31, 2000; comprised of auction rate bonds maturing in December 2005. Interest is reset every 35 days and payable semi-annually; rates ranged from 1.05% to 1.65% during fiscal year 2003 (1.05% at June 30, 2003).	11,950	22,950
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction rate bonds maturing December 2034. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.94% to 1.8% during fiscal year 2003 (0.94% to 1.12% at June 30, 2003).	172,550	172,550
2001 Series V, W and Z dated June 27, 2001; comprised of auction rate bonds maturing December 2035. Interest is reset every 35 days for Series V and W, and every 7 days for Series Z. Interest is payable semi-annually at rates which ranged from 0.603% to 1.75% during fiscal year 2003 (1.0% to 1.13% at June 30, 2003).	84,750	84,750
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA. Interest rates ranged from 1.02% to 1.96% during fiscal year 2003 (1.02% to 1.34% at June 30, 2003).	80,000	80,000
2002 Series BB, CC and DD dated October 8, 2002; comprised of auction rate bonds maturing December 2036. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.99% to 1.75% during fiscal year 2003 (0.99% to 1.05% at June 30, 2003).	112,500	–

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2003	2002
2003 Series EE dated May 30, 2003; comprised of auction rate bonds maturing December 2005; interest is reset every 35 days and payable semi-annually; initial rate was 1.15%.	$ 45,000	$ –
2003 Series FF, GG and HH dated May 30, 2003; comprised of auction rate bonds with maturity dates ranging from June 2009 through December 2014; interest is reset every 35 days and payable semi-annually; initial rates were 1.15%.	115,900	–
2003 Series II, JJ and KK dated May 30, 2003; comprised of auction rate bonds maturing December 2037; interest is reset every 35 days and payable semi-annually; initial rates were 1.15%.	150,000	–
Notes Payable:		
2001 Series A-XIII, dated December 15, 2001, matured December 2002. Interest at 2.25%, was paid June 15, 2002 and at maturity.	–	8,520
2002 Series A-XIV, dated June 15, 2002, matured December 2002. Interest at 1.95% was paid at maturity.	–	16,860
2002 Series A-XV, dated December 16, 2002, is due December 2003, and interest at 1.8% is paid semi-annually.	21,515	–
2003 Series A-XVI, dated June 16, 2003, is due December 2003, and interest at 1.35% is due at maturity.	4,370	–
Total bonds and notes payable	1,331,685	1,096,700
Plus: premium	508	652
Total bonds and notes payable	1,332,193	1,097,352
Less current portion of bonds and notes payable	40,935	54,300
Noncurrent portion bonds and notes payable	$1,291,258	$1,043,052

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

All bonds are limited obligations of VSAC and are secured, as provided in the 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 thereon and the guarantee thereof, including the insurance of certain student loans by DE. In addition, a significant portion of cash, cash equivalents and investments (including debt service reserve accounts which may be used to replenish any deficiency in funds required to pay principal and interest due on the bonds) are held in trust to secure the bonds.

The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by State Street Bank. The 1992 Series A-3, 1992 Series B, 1993 Series D and E, and 1993 Series H and I bonds are secured for credit-worthiness by Financial Security Assurance Corporation. The 1995 Series A-D and E, 1996 Series F-I and J, 1998 Series K-N, 2000 Series P-Q, 2000 Series R-U, 2001 Series V, W and Z, 2001 Series X, Y and AA, 2002 Series BB-DD, 2003 Series EE, 2003 Series FF-HH and 2003 Series II-KK bonds are secured for credit-worthiness by AMBAC Assurance Corporation. The 2003 and 2002 Series notes payable and the 1998 Series O bonds payable have no credit support.

All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2003, all bonds authorized under the underlying bond resolutions have been issued, except the $50,000 2003 Series LL, which was issued in September 2003.

Proceeds from issuance of the bonds payable and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses.

The debt service requirements, which are based on the interest rates at June 30, 2003, through 2010 and in five-year increments thereafter to maturity for VSAC, are as follows:

Year ending June 30,	Principal	Interest	Total
2004	$ 40,935	$ 18,075	$ 59,010
2005	14,860	16,978	31,838
2006	70,175	15,714	85,889
2007	7,920	14,798	22,718
2008	48,200	14,119	62,319
2009	7,575	13,458	21,033
2010	5,890	13,046	18,936
2011 – 2015	125,330	59,074	184,404
2016 – 2020	50,000	51,747	101,747
2021 – 2025	–	51,523	51,523
2026 – 2030	96,000	46,835	142,835
2031 – 2035	337,550	40,949	378,499
2036 – 2040	527,250	9,187	536,437
Total	$ 1,331,685	$ 365,503	$ 1,697,188

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

The actual maturities and interest may differ due to changes in interest rates or other factors.

The following summarizes the debt activity for VSAC for the years ended June 30, 2003 and 2002:

	2003	2002
Balance at beginning of year	$ 1,097,352	$ 1,097,481
Issuance	449,285	25,380
Redemptions and refundings	(214,300)	(25,380)
Amortization of premiums	(144)	(129)
Balance at end of year	$ 1,332,193	$ 1,097,352

In May 2003, VSAC issued $310,900 in education loan revenue bonds, 2003 Series EE-KK. The primary purpose was to finance the origination of qualifying student loans. The bonds were also issued to advance refund certain 1993 and 1992 Series bonds, totaling $160,900. $120,900 of the 2003 Series EE-KK proceeds were use to advance refund certain 1993 and 1992 Series bonds prior to June 30, 2003. $40,000 of the proceeds of the 2003 Series EE-KK bonds were deposited into an irrevocable trust with the trustee to provide for all future debt service payments for the 1993 E Series bonds. As a result, the 1993 E Series of bonds are considered to be defeased and the bonds payable and the amounts held in trust have been removed from VSAC's Statement of Net Assets at June 30, 2003.

There was no early call premium paid on any of the refunded bonds. The deferred loss on refunding was immaterial to VSAC, as well as any economic gain. VSAC completed the advance refunding to further consolidate its credit enhancement providers.

9. Arbitrage Earnings Rebatable

The bonds issued by VSAC are subject to Internal Revenue Service regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the Federal government. VSAC has estimated that there is an arbitrage liability at June 30, 2003 and 2002, of $13,007 and $14,499, respectively. VSAC has estimated the current portion to be $1,260 and $1,074 at June 30, 2003 and 2002, respectively.

10. Student Loan Interest and Special Allowance Revenues

DE 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 nine months after the expiration date of an interim period.

DE provides a special allowance to lenders participating in the Stafford, PLUS, SLS, and Consolidation student loan programs. Special allowance is paid based on a rate that is established quarterly. For loans first disbursed before January 1, 2000, the rate is based on the average rate established in the auction of the thirteen-week U.S. Treasury bill, plus a pre-determined factor, less the interest rate on the loan. For loans first disbursed on or after January 1, 2000, financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of three-month Financial Commercial Paper, plus a pre-determined factor, less the interest rate on the loan. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993, are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans originated or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993, are eligible for full special allowance and are not subject to a minimum return.

11. 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, 2003 and 2002, amounted to $12,666 and $12,379, respectively; VSAC's total payroll was $13,191 and $12,611, respectively. Total contributions by VSAC amounted to $1,267 and $1,238 in 2003 and 2002, respectively, which represented 10% of the covered payroll.

(Dollars in Thousands)

12. Commitments Under Operating Lease

VSAC has two noncancelable operating leases for its office facilities that expire in 2005. Both leases provide for renewal options. Rental expense for the years ended June 30, 2003 and 2002, amounted to $676 and $650, respectively. Future minimum rental commitments under these noncancelable operating leases as of June 30, 2003, are as follows:

Year ending June 30,	
2004	$ 654
2005	299
	$ 953

13. 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 through self insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced or settled claims resulting from these risks which have exceeded its commercial insurance coverage. In addition, VSAC has purchased stop-loss insurance for its self-insurance programs and has transferred the risk of loss to the commercial insurance carrier.

A summary of the reserve for self-insured medical and dental liabilities for the years ended June 30, 2003 and 2002, is as follows:

	2003	2002
Balance, beginning of year	$ 136	$ 144
Claims paid	(2,637)	(2,097)
Adjustment to reserve	2,759	2,089
Balance, end of year	$ 258	$ 136

14. Loan Commitments

At June 30, 2003, VSAC had commitments to extend credit for student loans of approximately $31,000. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. VSAC uses the same credit policies in making commitments as it does for student loans receivable.

15. Subsequent Event

In September of 2003, VSAC issued 2003 Series LL auction rate bonds, in the amount of $50,000.

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APPENDIX B

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

Introduction

The following descriptions of the Federal Family Education Loan Program (the "FFELP," formerly known as the Guaranteed Student Loan Program, including the Stafford Student Loan Program, the Supplemental Loans for Students (SLS) Program, Parent Loans for Undergraduate Students (PLUS) Program, and Consolidation Loan Program as authorized under Title IV, part B of the Federal Act) are presented in order to describe the risks associated with the revenues derived from the FFELP loan programs. These descriptions are qualified in their entirety by reference to the Federal Act. Since its original enactment in 1965, the Federal Act has been amended and re-authorized several times, including by the Higher Education Amendments of 1986, 1990, 1992, 1993, 1994, 1997 and 1998. There can be no assurance that the Federal Act, or other relevant federal or state laws, rules and regulations, will not be changed in the future in a manner that will adversely impact the programs described below and the student loans (the "Guaranteed Student Loans") made thereunder. In particular, the enacted legislation and other measures described under "Legislative and Administrative Matters" below, or future measures, may adversely affect these programs.

Legislative and Administrative Matters

General. Both the Federal Act and the regulations promulgated thereunder have been the subject of extensive amendments in recent years and there can be no assurance that further amendments will not materially change the provisions described herein or the effect thereof. The Federal Act was amended by enactment of the Higher Education Amendments of 1986 (the "1986 Amendments"), the general provisions of which took effect on October 17, 1986 and which extended the principal provisions of the FFELP to September 30, 1992 (or in the case of borrowers who have received loans prior to that date, September 30, 1997). The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) (the "1990 Reconciliation Act") also contained major revisions to the Federal Act and the Congressional Budget Act affecting the FFELP. These changes include the Credit Reform Act of 1990, revisions to the budget process and new restrictions on the eligibility of education institutions in the FFELP. On July 23, 1992, the President signed into law P.L. 102-325 (the "1992 Reauthorization Bill") that re-authorized the FFELP through October 1, 1998 and made a number of revisions thereto. On August 10, 1993, the President signed into law the Student Loan Reform Act of 1993 which further amended the Federal Act (the "1993 Amendments") by revising a number of provisions to the FFELP and enacted a Federal Direct Student Loan Program.

Fiscal Year 1998 Budget. In the 1997 Budget Reconciliation Act (P.L. 105-33), several changes were made to the Federal Act that impacted the FFELP. These provisions included, among other things, requiring federal guarantors to return $1 billion of their reserves to the U.S. Treasury by March 1, 2004 (to be paid in annual installments), greater restrictions on use of reserves by federal guarantors and a continuation of the Administrative Cost Allowance payable to federal guarantors (which is a fee paid to federal guarantors equal to 0.85% of new loans guaranteed).

1998 Amendments. On May 22, 1998, Congress passed, and on June 9, 1998, the President signed into law, a temporary measure relating to the Federal Act and FFELP loans as part of the Intermodal Surface Transportation Efficiency Act of 1998 (the "1998 Amendments") that revised interest rate changes under the FFELP that were scheduled to become effective on July 1, 1998. For loans made during the period July 1, 1998 through September 30, 1998, the borrower interest rate for Stafford Loans and Unsubsidized Stafford Loans is reduced to a rate of 9l-day Treasury Bill rate plus 2.30% (1.70% during school, grace and deferment), subject to a maximum rate of 8.25%. As described below, the formula for Special Allowance Payments on Stafford Loans and Unsubsidized Stafford Loans is calculated to produce a yield to the loan owner of 91-day Treasury Bill rate plus 2.80% (2.20% during school, grace and deferment).

1998 Reauthorization Bill. On October 7, 1998, President Clinton signed into law the Higher Education Amendments of 1998 (the "1998 Reauthorization Bill"), which enacted significant reforms in the FFELP. The major provisions of the 1998 Reauthorization Bill include the following:

(a) All references to a "transition" to full implementation of the Federal Direct Student Loan Program were deleted from the FFELP statute.

(b) Guarantor reserve funds were restructured so that federal guarantors are provided with additional flexibility in choosing how to spend certain funds they receive.

(c) Additional recall of reserve funds by the Secretary of Education (the "Secretary") was mandated, amounting to $85 million in fiscal year 2002, $82.5 million in fiscal year 2006, and $82.5 million in fiscal year 2007. However, certain minimum reserve levels are protected from recall.

(d) The Administrative Cost Allowance was replaced by two new payments, a Guaranteed Student Loan processing and issuance fee equal to 65 basis points (40 basis points for loans made on or after October 1, 2003) paid on a quarterly basis, and an account maintenance fee of 12 basis points (10 basis points for fiscal years 2001-2003) paid annually on outstanding Guaranteed Student Loans.

(e) The percentage of collections on defaulted Guaranteed Student Loans a federal guarantor is permitted to retain is reduced from 27% to 24% (23% beginning on October 1, 2003) plus the complement of the reinsurance percentage applicable at the time a claim was paid to the lender on the Guaranteed Student Loan.

(f) Federal reinsurance provided to federal guarantors is reduced from 98% to 95% for Guaranteed Student Loans first disbursed on or after October 1, 1998.

(g) The delinquency period required for a loan to be declared in default is increased from 180 days to 270 days for loans on which the first day of delinquency occurs on or after the date of enactment of the 1998 Reauthorization Bill.

(h) Interest rates charged to borrowers on Stafford Loans, and the yield for Stafford Loan owners established by the 1998 Amendments, were made permanent.

(i) Federal Consolidation Loan interest rates were revised to equal the weighted average of the loans consolidated rounded up to the nearest one-eighth of 1%, capped at 8.25%. When the 91-day Treasury Bill rate plus 3.1% exceeds the borrower's interest rate, Special Allowance Payments are made to make up the difference.

(j) The lender-paid offset fee on Federal Consolidation Loans of 1.05% is reduced to 62% for Loans made pursuant to applications received on or after October 1, 1998 and on or before January 31, 1999.

(k) The Federal Consolidation Loan interest rate calculation was revised to reflect the rate for Federal Consolidation Loans, and will be effective for loans on which applications are received on or after February l, 1999.

(1) Lenders are required to offer extended repayment schedules to new borrowers after the enactment of the 1998 Reauthorization Bill who accumulate after such date outstanding loans under FFELP totaling more than $30,000. Under these extended schedules the repayment period may extend up to 25 years subject to certain minimum annual repayment amounts.

(m) During fiscal years 1999, 2000 and 2001, the Secretary is authorized to enter into six voluntary flexible agreements with federal guarantors under which various statutory and regulatory provisions can be waived or modified.

(n) Federal Consolidation Loan lending restrictions are revised to allow lenders who do not hold one of the borrower's underlying Guaranteed Student Loans to issue a Federal Consolidation Loan to a borrower whose underlying Guaranteed Student Loans are held by multiple owners.

(o) Inducement restrictions were revised to permit federal guarantors and lenders to provide assistance to schools comparable to that provided to schools by the Secretary under the Federal Direct Student Loan Program.

(p) The Secretary is now required to pay off Guaranteed Student Loan amounts owed by borrowers due to failure of the borrower's school to make a tuition refund allocable to the Guaranteed Student Loan.

(q) Discharge of FFELP and certain other Guaranteed Student Loans in bankruptcy is now limited to cases of undue hardship regardless of whether the Guaranteed Student Loan has been due for more than seven years prior to the bankruptcy filing.

The new recall of reserves and reduced reinsurance for federal guarantors increases the risk that resources available to the Guaranty Agencies to meet their guaranty obligations will be significantly reduced.

Financial Status of Guaranty Agencies. The 1992 Reauthorization Bill amended and reauthorized the Federal Act effective through October 1, 1998. The 1998 Reauthorization Bill amended and reauthorized the Federal Act effective through June 30, 2003. Pursuant to the 1992 Reauthorization Bill and additional changes made in 1997 and 1998, each Guaranty Agency is required to maintain a current minimum reserve level of at least .25% of the aggregate principal amount of all outstanding Federal Loans guaranteed by the Guaranty Agency. For purposes of the .25% determination, the total attributable amount of all outstanding Federal Loans guaranteed by the Guaranty Agency will not include amounts of outstanding loans transferred to the Guaranty Agency by the Secretary due to the insolvency of another Guaranty Agency. Annually, the Secretary will collect information from each Guaranty Agency to determine the amount of such Guaranty Agency's reserve and other information regarding its solvency. If (a) the Guaranty Agency's current reserve level falls below the required minimum for any two consecutive years, (b) the Guaranty Agency's annual claims rate exceeds 5%, or (c) the Secretary determines that the administrative or financial condition of a Guaranty Agency jeopardizes such Guaranty Agency's continued ability to perform its responsibilities, then the Guaranty Agency must submit and implement a management plan acceptable to the Secretary. The 1992 Reauthorization Bill also provides that under certain circumstances, the Secretary may, on terms and conditions satisfactory to the Secretary, but is not obligated to, terminate the Guaranty Agency's reimbursement contract with the Secretary. In that event, however, the Secretary is required to assume the functions of such Guaranty Agency and in connection therewith is authorized to do one or more of the following: to assume the guarantee obligations of, to assign to other guarantors the guarantee obligations of, or to make advances to, another Guaranty Agency in order to assist such Guaranty Agency in meeting its immediate cash needs and to ensure uninterrupted payment of default claims to lenders or to take any other action the Secretary deems necessary to ensure the continued availability of student loans and the full honoring of guarantee claims thereunder. If the Secretary has determined that a Guaranty Agency is unable to meet its insurance obligations, the holder of Federal Loans insured by the Guaranty Agency may submit insurance claims directly to the Secretary and the Secretary will pay to the holder the full insurance obligation of the Guaranty Agency, in accordance with insurance requirements no more stringent than those of the Guaranty Agency. Such arrangements will continue until the Secretary is satisfied that the insurance obligations have been transferred to another Guaranty Agency who can meet those obligations or until a successor Guaranty Agency will assume the outstanding insurance obligations. There can be no assurance, however, that the Secretary would, under any circumstances, assume such obligation to ensure satisfaction of a guarantee obligation by exercising its right to terminate a reimbursement agreement with a Guaranty Agency or by making a determination that such Guaranty Agency is unable to meet its guarantee obligations.

Federal Direct Student Loan Program. Commencing in academic year 1994-1995, the 1993 Amendments initiated a Federal Direct Student Loan Program ("FDSLP"). The Secretary set goals for participation agreements with institutions of higher education and student loan volume as a percentage of loan volume under both the FDSLP and the FFELP. Loans made under the FDSLP accounted for approximately 7% of the total volume under both the FDSLP and the FFELP for the academic year beginning in 1994, approximately 30% for the academic year beginning in 1995, approximately 36% for the academic year beginning in 1996, and approximately 35% for the academic year beginning in 1998, which percentages are below the goals set by the Secretary for each of these years. In early 1997, there were approximately 1,576 schools participating in the FDSLP, which is approximately 25% of all schools participating in the FDSLP and FFELP. The Secretary may exceed the goals established for academic years commencing after 1999-2000 if the Secretary determines that a higher percentage is warranted by the number of institutions of higher education that desire to participate in the FDSLP and meet the eligibility requirements. Generally, student loans made under the FDSLP have parallel terms and conditions, benefits and amounts as the Stafford Loans, PLUS Loans and Unsubsidized Stafford Loans described below. The FDSLP provides a variety of flexible repayment plans, including extended, graduated and income contingent plans, forbearance of payments during periods of national service and consolidation of FDSLP loans with FFELP loans.

Prepayment in Connection with Federal Direct Consolidation Loan. The 1993 Amendments also initiated a Federal Direct Consolidation Loan Program to allow the Secretary to provide borrowers with a consolidation loan at interest rates below those which would be offered by FFELP lenders and under income contingent repayment terms that are not available from FFELP lenders. The availability of such loans may increase the likelihood that a Guaranteed Student Loan will be prepaid through the issuance of such a loan. The volume of existing student loans that may be prepaid in this fashion is not determinable at this time.

Risk Sharing Provisions. Under the 1993 Amendments, effective for FFELP loans disbursed after October 1, 1993, (a) the federal reinsurance paid to Guaranty Agencies were reduced from 100%, 90% and 80% for claims rates of 0%-5%, 5%-9% and greater than 9%, respectively, to 98%, 88% and 78%, respectively, and (b) guaranty payments to Guaranty Agencies were reduced from 100% to 98%. Under the 1998 Reauthorization Bill, effective for FFELP loans disbursed on or after October 1, 1998, the federal reinsurance paid to Guaranty Agencies was further reduced from 98% to 95% for claims rates of 0% to 5%, from 88% to 85% for claims rates between 5% and 9%, and from 78% to 75% for claims rates greater than 9%.

Guaranty Agency and Lender Provisions. In addition to the changes discussed under "Risk Sharing Provisions" above, the 1993 Amendments and the 1998 Reauthorization Bill include certain other amendments affecting Guaranty Agencies and lenders. Most notably, the Secretary was granted authority to recover and restrict the use of reserve funds of any Guaranty Agency as well as any assets purchased with such reserve funds if the Secretary determines that it is in the best interests of the FFELP or an orderly transition to complete reliance on the FDSLP to do so. These and other amendments could adversely affect the ability of a Guaranty Agency to remain solvent. Such other amendments include reducing the Guaranty Agency default collection retention rate from 30% to 27% (and reduced further to 24% under the 1998 Reauthorization Bill, or 23% beginning October 1, 2003), reducing the maximum insurance premium charged by a Guaranty Agency from 3% to 1% and authorizing the Secretary to terminate a Guaranty Agency's reinsurance agreement if the Secretary determines such action is necessary to protect federal fiscal interests. The Administrative Cost Allowance ("ACA") was eliminated and the Department was given discretion to reduce such payments below the level previously mandated. In the 1998 Reauthorization Bill, the ACA was replaced by two new payments, a Guaranteed Student Loan processing fee of 65 basis points for loans originated on or after October 1, 1998 and before October 1, 2003 (40 basis points for loans made on or after October 1, 2003) paid on a quarterly basis, and an account maintenance fee of 12 basis points (10 basis points for fiscal years 2001-2003) paid annually on outstanding Guaranteed Student Loans. For Stafford Loans disbursed on or after July 1, 1995 and prior to July 1, 1998, the Lender yield on Guaranteed Student Loans during in-school, grace and deferment periods was reduced from the 91-day Treasury Bill rate plus 3.1% to 91-day Treasury Bill rate plus 2.5% (not to exceed 8.25%). Stafford Loans disbursed on or after July 1, 1998 bear interest at a variable rate equal to the bond equivalent of 9 1-day Treasury Bill plus 1.7% while borrowers are in-school, grace or deferment status, and at a rate of 91-day Treasury Bill plus 2.3% during repayment periods, with a cap of 8.25%. Holders of consolidated loans also pay a 1.05% annual interest payment rebate fee to the Secretary on the principal plus accrued but unpaid interest of all Consolidation Loans made on or after October 1, 1993. However, the 1998 Amendments and the 1998 Reauthorization Bill established a reduction in the 1.05% per annum fee to .62% per annum for loans on which applications are received between October 1, 1998 and January 31, 1999. On February 1, 1999, the annual rebate fee returned to 1.05% per annum. Interest rates on Consolidation Loans disbursed on or after July 1, 1998 are equal to the weighted average of the loans consolidated rounded up to the nearest one-eighth of 1%, capped at 8.25%. Also effective for Guaranteed Student Loans (including Consolidation Loans) first disbursed on or after October 1, 1993, Lenders are assessed an up-front, user/origination fee equal to .5% of the principal amount of the Guaranteed Student Loan.

In the 1998 Budget and the 1998 Reauthorization Bill, Congress mandated the recall of additional reserves from guarantors through fiscal year 2000. There can be no assurance that these reductions will not adversely affect the financial status of the Guaranty Agencies, or that future legislation to reduce spending in the FFELP will not be enacted.

Servicer Provisions. The 1992 Reauthorization Bill authorized the Secretary to regulate servicers, including the regulation of their financial responsibility. On April 29, 1994, the Secretary of the Department of Education published interim final regulations regarding the Student Assistance General Provisions and FFELP regulations. These regulations (which were published in final form on November 29, 1994), among other things, establish requirements governing contracts between institutions and third-party servicers, strengthen sanctions against institutions for violations of the program requirements of the Federal Act, establish similar sanctions for third-party servicers and establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a guaranty agency's or lender's participation in the FFELP. Under these regulations, third-party servicers such as the Servicers are jointly and severally liable with their client lenders for liabilities to the Secretary arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the new regulations, or violates other FFELP requirements, the new regulations authorize the Secretary to fine the servicer and/or limit, suspend or terminate the servicer's eligibility to contract to service FFELP loans. The effect of such a limitation or termination on the servicer's eligibility to service loans already on the system or new loans for servicing under existing contracts is unclear.

Eligibility Requirements for Stafford Loans

The Federal Act provides for federal (a) insurance or reinsurance of eligible Stafford Loans (described below), (b) interest subsidy payments ("Interest Subsidy Payments") to eligible lenders with respect to certain eligible Stafford Loans, and (c) special allowance payments ("Special Allowance Payments") representing an additional subsidy paid by the Secretary to such holders of eligible Guaranteed Student Loans.

Stafford Loans are eligible for reinsurance under the Federal Act if the eligible student to whom the loans are 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 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 PLUS Program. The Secretary has authorized higher limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subject to these limits, Stafford Loans are available to eligible borrowers in amounts not exceeding their unmet need for financing as determined as provided in the Federal Act. Provisions addressing the implementation of needs analysis and the relationship between unmet need for financing and the availability of Stafford Loan program funding have been the subject of frequent and extensive amendments in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Stafford Loan funding to borrowers or the availability of Stafford Loans for secondary market acquisition. As used in this summary, a new borrower is an individual who has no outstanding balance due upon prior loans under the FFELP.

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, (d) meets the applicable "needs" requirements and (e) if they are an undergraduate enrolled in an institution participating in the Pell Grant Program, then their eligibility or ineligibility for the Pell Grant Program has been determined. 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. Stafford Loans bear interest at a rate not in excess of 7% per annum if made to a borrower 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 Guaranteed Student Loans under the FFELP for which the interest rate does not exceed 7%. Stafford Loans made between January 1, 1981 and September 13, 1983 bear interest at a rate of 9% per annum and, for Stafford Loans made beginning on or after September 13, 1983, the rate is 8% per annum. Further, loans to first time borrowers made on or after July 1, 1988, bear interest at the rate of 8% per annum from disbursement through four years alter repayment commences and at a variable rate reset each July 1 equal to the 91-day Treasury Bill rate plus 3.25%, or for loans made after July 23, 1992, 3.10%, not to exceed 10% per annum thereafter. However, pursuant to the Higher Education Technical Amendments of 1993, which was signed into law by the President on December 20,1993, lenders converted all loans subject to this provision to a variable rate equal to the 91-day Treasury Bill rate plus 3.25% or, in the case of a loan made to a borrower with outstanding Guaranteed Student Loans under the FFELP after October 1, 1993, the 91-day Treasury Bill rate plus 3.1%, such conversion having taken place on or about January 1, 1995.

Stafford Loans to new borrowers made on or after October 1, 1992 but prior to October 1, 1994 bear interest at a variable rate adjusted annually based on 91-day Treasury Bill plus 3.1%, or 9%, whichever is less Stafford Loans disbursed on or after October 1, 1992 to borrowers with outstanding Guaranteed Student Loans bear interest at a variable rate equal to 91-day Treasury Bill plus 3.10%, with a maximum ranging from 7% to 10% based upon the borrower's outstanding loans and how long the new Stafford Loan has been in repayment. Stafford Loans first disbursed on or alter July 1, 1995 and prior to July 1, 1998 bear interest at a rate equal to 91-day Treasury Bill plus 2.5% while the borrowers are in-school, grace or deferment status and at a rate equal to 91-day Treasury Bill plus 3.1% during periods in which the loan does not qualify for Interest Subsidy Payments. Stafford Loans disbursed on or after July 1, 1998 bear interest at a variable rate equal to the bond equivalent yield of 9l-day Treasury Bill plus 1.7% while borrowers are in-school, grace, or deferment status, and at a rate equal to the bond equivalent rate of 91-day Treasury Bill plus 2.3% while borrowers are in repayment with a cap of 8.25%.

Interest Rates. Subsidized Stafford Loans and Unsubsidized Stafford Loans made after October 1, 1998 and before July 1, 2006 bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.3%, with a maximum rate of 8.25%. Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 and before July 1, 2006 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.7%, with a maximum rate of 8.25%. The rates are adjusted annually on July 1. The Federal Act currently provides that for Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, the interest rate will be equal to 6.8% per annum. PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.1%, with a maximum rate of 9%. The rate is adjusted annually on July 1. The Federal Act currently provides that for PLUS Loans made on or after July 1, 2006, the interest rate will be equal to 7.9% per annum. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

Disbursement Requirements and Maximum Loan Amounts. The Federal Act now requires that virtually all Stafford Loans, PLUS Loans and SLS Loans be disbursed by eligible lenders in at least two separate installments. The proceeds of a loan made to any undergraduate first-year student borrowing for the first time under the program must be delivered to the student no earlier than thirty days alter the enrollment period begins. However, a school is exempt from the 30-day delayed delivery requirement for first-year students if the institution's cohort default rate is less than 10% for the three most recent fiscal years. The annual Stafford limits for first year students is $2,625 (except that lower limits apply to certain short-term courses of study) but increase to $3,500 for second-year students, $5,500 for third and fourth-year students, and $8,500 for graduate and professional students. The aggregate limit is at $23,000 for undergraduates and $65,500 for graduate and professional students.

Repayment. Repayment of principal on a 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 such loan must be scheduled for repayment over a period of not more than ten years (excluding any Deferment Period or Forbearance Period as defined in the Federal Act) after the commencement of repayment. The Federal Act currently requires minimum annual payments of $600 including principal and interest (but in no event less than the accrued 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 of combined payments for such a couple may not be less than $600 per year. For Stafford Loans first disbursed on or after July 1, 1993 to a borrower who has no outstanding Federal Loans on the date such loan is made, the borrower must be offered the opportunity to repay the loan according to a graduated or income-sensitive repayment schedule established in accordance with Department of Education regulations. For Stafford Loans entering repayment on or after October 1, 1995, borrowers may choose among several repayment options, including the option to make interest only payments for limited periods.

Grace Period, Deferment Periods and Forbearance. Repayment of principal of an insured student loan must generally commence following a period of (a) not less than nine months or more than twelve 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 other than 7%) 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 student has returned to an eligible educational institution on at least a half-time basis or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily totally disabled, or during which the borrower is unable to secure employment, or when the borrower is experiencing economic hardship (the "Deferment Periods"). The lender may also, and in some cases must, allow periods of forbearance during which the borrower may defer principal and/or interest payments because of temporary financial hardship (a "Forbearance Period"). The 1992 Reauthorization Bill simplified the deferment categories for new loans and expanded the opportunities for students to obtain forbearance from lenders due to temporary financial hardship.

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

Interest Subsidy Payments

Interest Subsidy Payments are interest payments paid during certain periods by the Secretary with respect to Guaranteed Stafford Loans which meet certain requirements. With respect to loans for which the eligible institution has completed its portion of the loan application after September 30, 1981, Interest Subsidy Payments are available only if certain income and need criteria are met by the borrower. Interest Subsidy Payments will be paid (a) during a period in which the borrower is enrolled at least half-time in an eligible institution, (b) during a six-month grace period pending commencement of repayment of the loans, (c) during certain deferment periods and (d) in the case of loans initially disbursed prior to October 1, 1981, during a six-month grace period following any authorized deferment period before repayment is required to resume.

The Secretary makes Interest Subsidy Payments quarterly on behalf of the borrower to the holder of the loan in an amount equal to the interest accruing on the unpaid principal amount of the loan during the applicable period. The Federal Act provides that the holder of a loan meeting the specified criteria has a contractual right, as against the United States, to receive Interest Subsidy Payments from the Secretary (including the right to receive interest on Interest Subsidy Payments not timely paid). Receipt of Interest Subsidy Payments is conditioned on compliance with the Federal Act, including continued eligibility of the loan for insurance or reinsurance benefits. Such eligibility may be lost if the requirements of the Federal Act or applicable guarantee agreements relating to the servicing and collection of the loans are not met. If Interest Subsidy Payments have not been paid within 30 days after the Secretary receives an accurate, timely and complete request therefore, the Secretary must pay interest on the amounts due beginning on the thirty-first day at the Special Allowance Payment rate plus the rate of interest applicable to the affected loans.

Special Allowance Payments

The Federal Act provides, subject to certain conditions, for Special Allowance Payments to be made quarterly by the Secretary to holders of qualifying Guaranteed Loans.

The rate of Special Allowance Payments for a particular loan is dependent on a number of factors including when the loan was disbursed and for what period of enrollment the loan covers costs. Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be between 3.1 and 3.5 percentage points above the average of bond equivalent rates of 91-day Treasury Bills auctioned for that quarter. Under the 1992 Reauthorization Bill, the Special Allowance Payment is calculated based on the bond equivalent rate of the 91-day Treasury Bill plus 3.1% for loans made on or after October 1, 1992, except that under the 1993 Amendments, Stafford Loans made on or after July 1, 1995 qualify for Special Allowance Payments based on the 91-day Treasury Bill rate plus 2.5% while the borrower is in-school, grace or deferment status. In the case of certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations originally issued prior to October 1, 1993, the Special Allowance Payments are reduced by approximately one-half, but not less than certain minimums provided in the Federal Act. The rate of Special Allowance Payments is subject to reduction by the amount of certain origination fees charged to borrowers and may be reduced as a result of certain federal budget deficit reduction measures. For Stafford Loans disbursed on or after July 1, 1998, but prior to January 1,2000, Special Allowance Payments were based on the bond equivalent yield of 91-day Treasury Bills auctioned for such quarter plus 2.2% while borrowers are in-school, grace or deferment status, or 2.8% while borrowers are in repayment periods. For Stafford Loans first disbursed on or after January 1, 2000, Special Allowance Payments will be based on the bond equivalent yield of the 3-month commercial paper rate reported by the Federal Reserve for such quarter plus 1.74% while borrowers are in-school, grace or deferment status, or 2.34% while borrowers are in repayment periods.

The Federal Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States, during the life of the loan, to receive those Special Allowance Payments. Receipt of Special Allowance Payments, however, is conditioned on compliance with the Federal Act, including continued eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of the Federal Act or applicable guarantee agreements specifying servicing and collection of the loan in the event of delinquency. The Federal Act also provides that if Special Allowance Payments have not been made within 30 days after the Secretary of Education receives an accurate, timely and complete request therefore, the Secretary must pay interest on the amounts due beginning on the thirty-first day at the Special Allowance Payment rate plus the rate of interest applicable to the affected loans.

Unsubsidized Stafford Loan Program

Under the 1992 Reauthorization Bill, a new type of Stafford Loan was created for students who do not qualify for the full subsidized Stafford Loan after application of the need analysis methodology. Such students are entitled to borrow the difference between the Stafford Loan maximum and their Stafford eligibility through the new program. The new unsubsidized Stafford Loan is substantially identical to other Stafford Loans, except that the interest accruing on the loan while the student is in school or in grace or deferment is capitalized or paid by the student, rather than paid by the Secretary through the Interest Subsidy. On August 15, 1996, the Secretary authorized higher annual (but not aggregate) unsubsidized Stafford Loan limits for certain new health professions student borrowers to compensate for restrictions recently enacted by Congress on the ability of those students to borrow under other Federal Loan programs.

PLUS and SLS Loans

Under the 1980 amendments to the Federal Act, Congress established a program to provide loans to parents of dependent undergraduate students. Loans under this program were designated “PLUS Loans.” The 1981 amendments to the Federal Act revised and expanded the initial program to also provide loans to graduate and professional students and independent undergraduate students. Loans under this program are designated “Supplemental Loans to Students” or “SLS.” The basic provisions applicable to PLUS and SLS Loans are similar to those of Stafford Loans with respect to the involvement of guaranty agencies and the Secretary in providing federal insurance on the loans. However, PLUS and SLS Loans differ significantly from Stafford Loans, particularly because federal Interest Subsidy Payments are not available under the PLUS and SLS programs and Special Allowance Payments are more restricted.

Under the 1980 amendments, PLUS and SLS Loans are limited to $4,000 per academic year (or $10,000 for loans first disbursed on or after July 1, 1993) (except for SLS Loans for attendance at certain specified short-term courses of study in which case the limit is lower) with a maximum aggregate amount of $20,000 (or $73,000 for loans first disbursed on or after July 1, 1993). PLUS and SLS Loans are also limited, generally, to the cost of attendance minus other financial aid for which the student is eligible. A determination of a student’s eligibility for the Pell Grant and the Stafford Loan Program is a condition of the student’s receipt of a SLS Loan. Under the 1992 Reauthorization Bill, there are no annual or aggregate limits applicable to PLUS loans, except that parents continue to be prohibited from borrowing amounts in excess of the student’s cost of attendance, SLS loan limits remain constant for first-year and second-year students, but increase to $5,000 for third-year and fourth-year students, and to $10,000 for graduate and professional students. Aggregate limits increase to $23,000 for undergraduate students and $73,000 for graduate and professional students.

Interest rates on PLUS and SLS Loans are higher than those on Stafford Loans. 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 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 PLUS and SLS Loans made and disbursed on or after July 1, 1987 or made to refinance PLUS Loans pursuant to the Federal Act. This 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 will be equal to the sum of 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% (3.10% for loans first disbursed on and after October 1, 1992 but prior to July 1, 1994), with a maximum rate of 12% per annum (11% for SLS Loans first disbursed on or after October 1, 1992 and 10% for Plus Loans first disbursed on or after October 1, 1992). Special Allowance Payments are available on variable rate PLUS and SLS Loans only if the rate determined by the formula above exceeds the applicable maximum borrower interest rate. For PLUS Loans first disbursed on or after July 1, 1994, the cap has been further reduced to 9%. For PLUS Loans disbursed on or after July 1, 1998, the interest rate will be based on 91-day Treasury Bills plus 3.1% not to exceed 9%. Special Allowance Payments are available if the interest rate calculated under the new formula would exceed the applicable cap. Commencing July 1, 1994, however, the SLS Loan program was merged into 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.

Repayment of principal of PLUS and SLS Loans is required to commence no later than 60 days after the date of the last disbursement of such loan, subject to certain deferral provisions. The deferral provisions which apply are more limited than those which apply to Stafford Loans.

Whereas federal Interest Subsidy Payments are not available for such deferments, the Federal Act provides an opportunity for the capitalization of interest during such periods upon agreement of the lender and borrower. The applicable annual loan limit is not violated by any decision to capitalize interest.

A borrower may refinance all outstanding PLUS Loans under a single repayment schedule for principal and interest, with a new repayment period calculated from the date of repayment of the most recent included loan. The interest rate of such a combined PLUS Loan is the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a PLUS Loan 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 PLUS Loans on and after July 1, 1987. If a lender is unwilling to reissue the original PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate. Substantially identical combined repayment and refinancing options are also available for SLS Loans.

Consolidation Loans

Under the 1986 amendments to the Federal Act, Congress established a program to provide loans to eligible borrowers for consolidating their Guaranteed Student Loans. The 1992 Reauthorization Bill, the 1993 Amendments and the 1998 Reauthorization Bill amended certain provisions of the Consolidation Loan program. Under the program, an eligible borrower means a borrower with an outstanding indebtedness of at least $7,500, who is in repayment status or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation. The $7,500 threshold is eliminated for loans consolidated on or after July 1, 1994. The loans under this program are designated "Consolidation Loans." Under this program, a lender may make a Consolidation Loan to an eligible borrower at the request of the borrower if the lender holds an outstanding Federal Loan of the borrower or the borrower certifies that he has been unable to obtain a Consolidation Loan from any of the holders of the outstanding loans of the borrower.

Consolidation Loans bear an interest rate equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent; for loans consolidated prior to July 1, 1994, such rate may not be less than 9% per annum. However, Consolidation Loans made on or after November 13, 1997 through September 30, 1998 bear interest at the annual variable rate applicable to Stafford Loans. Consolidation Loans for which the application is received on or after October 1, 1998 and before July 1, 2003 bear interest at a rate equal to the weighted average interest rate of the loans consolidated, rounded up to the nearest one-eighth percent and capped at 8.25%. Lenders of Consolidation Loans made on or after July 1, 1994 are required to offer borrowers income-sensitive repayment schedules. Effective July 1, 1994, Consolidation Loans for less than $7,500 have a repayment schedule of not more than ten years. Repayment must commence within 60 days after all holders have discharged the liability of the borrower on the loans selected for consolidation. Effective for Consolidation Loan applications received by lenders on or after August 10, 1993, the Secretary will not make federal Interest Subsidy Payments on Consolidation Loans other than those loans which consolidate only subsidized Stafford Loans. Special Allowance Payments are made on Consolidation Loans whenever the rate charged the borrower is limited by the 9/8.25% cap. However, for applications received on or after October 1, 1998, and before January 1, 2000, Special Allowance Payments are paid in order to afford the lender a yield equal to the 91-day Treasury Bill plus 3.1% whenever the formula exceeds the borrower's interest rate, and for applications received on or after January 1, 2000, and before July 1, 2003, Special Allowance Payments are paid in order to afford the lender a yield equal to the 3-month commercial paper rate reported by the Federal Reserve plus 2.64% whenever the formula exceeds the borrower's interest rate.

The 1998 Reauthorization Bill made various changes to Consolidation Loans. These changes included, among other things, a reduction in the 1.05% per annum Consolidation Loan Rebate to .62% per annum for loans for which applications are received between October 1, 1998 and January 31, 1999.

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 September 30, 2000. Under this Insurance Contract, the Secretary of HHS has agreed to reimburse the Corporation for 98 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 September 30, 2000. 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, 2000. 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 Federal 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 life 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 Federal 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 postsecondary education where other sources of credit have been exhausted or are otherwise unavailable, consistent with providing for payment of the Corporation's obligations, including the Bonds. The terms and features of the Statutory Loan Program are, however, subject to change at any time, subject in certain cases to the approval of the credit providers for the Corporation's Education Loan Program Bonds, without notice to or consent of the Owners of the Bonds.

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 therefore 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. Brief summaries of these three programs and the Statutory Loans made thereunder are available on the Corporation's web site, www.vsac.org. 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 is exclusively derived from the creditworthiness of the borrower and any co-signer. The Statutory Loan borrowers may be required to pay a borrowing or origination fee which may be held by the Corporation. Any surplus revenues generated by the Statutory Loans over and above the expenses involved therewith may be Available Revenues.

The current specific terms and conditions of the Statutory Loans are available from the Corporation.

APPENDIX C

FORM OF BOND COUNSEL OPINION

December 9, 2003

$22,155,000
VERMONT STUDENT ASSISTANCE CORPORATION
GENERAL OBLIGATION BONDS
SERIES 2003

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 $22,155,000 aggregate principal amount of its General Obligation Bonds, Series 2003 (the "Bonds").

The Bonds have been authorized and issued pursuant to Section 2823(f) of Chapter 87, Title 16, Vermont Statutes Annotated, as amended, and a resolution of the Corporation with respect to the Bonds adopted by the Corporation's Board of Directors on November 5, 2003 (the "Resolution"), and the issuance of the Bonds has been approved in writing by the Governor of the State of Vermont. The Resolution provides that the Bonds are to be issued to provide funds to the Corporation to further its governmental and public purposes, including the acquisition of certain land and the construction, renovation, reconstruction, rehabilitation, improvement, furnishing and equipping of office or other business space on such land to be owned and used by the Corporation as its headquarters and principal place of operations, and to pay certain costs and other expenses of the Corporation associated with the issuance of the 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 Bonds are dated, mature on the dates and in the principal amounts, bear interest at the rates, are payable and are subject to redemption 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 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 Chapter 87, Title 16, Vermont Statutes Annotated, as amended (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 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.

3. The Bonds have been duly authorized, executed and delivered by the Corporation and are general obligations of the Corporation, payable from the Available Revenues of the Corporation.

4. The Bonds do not constitute a debt or liability of the State of Vermont or of any political subdivision of the State, nor do they constitute a pledge of the faith and credit of the State or any political subdivision thereof.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income of the recipients thereof for federal income tax purposes. Further, we are of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax for individuals or corporations; however, such interest is included in the adjusted current earnings of certain corporations when calculating their corporate alternative minimum taxable income. The Corporation has covenanted in the Resolution and certain tax documents in connection with the Bonds to comply with certain guidelines designed to assure that interest on the Bonds will not become includable in gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income from the date of issuance of the Bonds. Our opinion assumes continuing compliance with such covenants.

The accrual or receipt of interest on the 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 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 Bonds and the Resolution and the rights of the registered owners of the 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,

APPENDIX D

FORM OF 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, Burlington, Vermont, as Paying Agent (the "Paying Agent"), in connection with the issuance of $22,155,000 Vermont Student Assistance Corporation General Obligation Bonds, Series 2003 (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:

Section 1. Purpose; Beneficiaries. This Disclosure Agreement is entered into solely to assist the Participating Underwriter (defined below) in complying with subsection (b)(5) of the Rule (defined below). This Disclosure Agreement constitutes a written undertaking for the benefit of the beneficial owners (within the meaning of the Rule) of the Bonds (such beneficial owners being sometimes called herein "owners").

Section 2. Definitions. The following words and terms used in this Disclosure Agreement shall have the following respective meanings:

(a) "Annual Report" shall mean any Annual Report provided by the Corporation and consistent with the requirements of Sections 3 and 4 of this Disclosure Agreement.

(b) "Dissemination Agent" shall mean any Dissemination Agent designated by the Corporation.

(c) "MSRB" means the Municipal Securities Rulemaking Board.

(d) "NRMSIR" means, at any time, a then-existing, nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Disclosure Agreement are listed on Exhibit A hereto.

(e) "Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

(f) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Disclosure Agreement, including any official interpretation thereof.

(g) "SEC" means the United States Securities and Exchange Commission.

(h) "SID" means, at any time, a then-existing, state information depository, if any, as operated or designated as such by or on behalf of the State of Vermont for the purposes referred to in the Rule. As of the date of this Disclosure Agreement, there is no SID.

All capitalized words and terms used in this Disclosure Agreement and not otherwise defined herein shall have the meaning ascribed to such words and terms in the Official Statement dated November 20, 2003 pertaining to the Bonds (the "Official Statement").

Section 3. Provision of Annual Reports. The Corporation shall provide, or shall cause the Dissemination Agent to provide, 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 fiscal year 2002, to each NRMSIR and the SID the Corporation's Annual Report. If said Annual Report does not contain the Corporation's audited financial statements for the fiscal year of the Annual Report, then the Corporation shall, in any event, provide to each NRMSIR and the SID said audited financial statements as soon as possible after they become available.

Section 4. Content of Annual Reports. The Annual Report shall contain financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the Corporation, in each case substantially in the same level of detail as is found in the referenced Official Statement, including in any event:

(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 "The Corporation" in the Official Statement, including the following:

(a) Composition of the Board of Directors and officers of the Corporation.

(b) Outstanding debt of the Corporation.

(c) Summary of Available Revenues for the Bonds for the preceding five fiscal years.

(d) Summary balance sheet (General Fund and Loan Finance Fund or their equivalent) for the preceding five fiscal years.

(e) Statement of Revenues, Expenses and Changes in Fund Balances for the preceding five fiscal years.

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Corporation or official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been submitted to each NRMSIR, or the SEC. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the MSRB. The Corporation's annual financial statements for each fiscal year shall consist of the balance sheet of the Corporation and the related statements of revenue, expenses and changes in fund balances and statement of cash flows prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Corporation.

Section 5. Reporting of Significant Events. (a) Whenever the Corporation obtains knowledge of the occurrence of any of the following listed events with respect to the Bonds, the Corporation shall give, or cause to be given on behalf of the Corporation and in a timely manner, notice of such occurrence, to the MSRB and the SID:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to rights of security holders;

(viii) bonds calls;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities; and

(xi) 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.

Section 6. Enforceability of the Disclosure Agreement; Termination. To the extent permitted by law, the provisions of this Disclosure Agreement are enforceable against the Corporation in accordance with the terms hereof by any owner of a Bond, including any beneficial owner acting as a third party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Corporation). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of the Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Corporation and to compel the Corporation and any of its officers, agents or employees to perform and carry out their duties under such provisions of this Disclosure Agreement; provided, however, that the sole remedy for a violation of this Disclosure Agreement shall be limited to an action to compel specific performance of the obligations of the Corporation under this Disclosure Agreement and shall not include any rights to monetary damages. This Disclosure Agreement shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer in effect, whichever occurs first.

Section 7. Amendments. This Disclosure Agreement may be amended, changed or modified by the Corporation, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the SEC or its staff (whether required or optional), (b) to add to the covenants of the Corporation for the benefit of the owners of the Bonds, (c) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (d) to otherwise modify the undertaking of the Corporation in this Disclosure Agreement in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (c) or (d), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Corporation (such as the firm serving at the time as bond counsel to the Corporation) or by the vote or consent of the Registered Owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment, which consent shall be obtained as provided in this Disclosure Agreement with respect to consents of Registered Owners. Any amendment, change or modification to this Disclosure Agreement shall be in writing.

If this Disclosure Agreement is amended with respect to the annual financial information to be submitted by the Corporation hereunder, the annual financial information containing the amended financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information being provided. If this Disclosure Agreement is amended with respect to the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and the financial statements or information prepared on the basis of the former accounting principles. Such comparison will 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 will also be quantitative. The Corporation shall give notice or cause such notice to be given of any change in the accounting principles to each NRMSIR and the SID as promptly as practicable after such change has been determined.

Section 8. Disclaimer. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of 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 Report or notice of occurrence of a Significant Event, in addition to that which is required by this

Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Significant 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 Report or notice of occurrence of a Significant Event.

Section 9. 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.

Section 10. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Vermont and applicable law of the United States of America.

Section 12. Titles of Sections. The titles of sections in this Disclosure Agreement shall have no effect in construing this Disclosure Agreement.

Section 13. Actions to be Performed on Non-Business Days. Any action required by this Disclosure Agreement to be taken on a Saturday, Sunday or holiday within the State of Vermont may be taken on the next business day with the same force and effect as if taken on the day so required.

IN WITNESS WHEREOF, THE VERMONT STUDENT ASSISTANCE CORPORATION and Chittenden Trust Company, as Paying Agent, have executed this Disclosure Agreement, under seal, all as of the day and year first above written.

VERMONT STUDENT ASSISTANCE CORPORATION

By:____
Title:

Accepted on behalf of the owners of
the Bonds by Chittenden Trust Company,
as Paying Agent

____
Title:

Exhibit A

NRMSIRs

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
PH: (609) 279-3225
FAX: (609) 279-5962
Internet: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
PH: (201) 346-0701
FAX: (201) 947-0107
Internet: nrmsir@dpcdata.com

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
PH: (212) 438-4595
FAX: (212) 438-3975
Internet: nrmsir_repository@sandp.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
PH: (212) 771-6999
FAX: (212) 771-7390
Internet: NRMSIR@FTID.com

MSRB

Municipal Securities Rulemaking Board
1150 18th St., NW, Suite 400
Washington, DC 20036
PH: (202) 223-9347
FAX: (202) 872-0347

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