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 with certain covenants, interest on the Senior Series 2005QQ Bonds is excluded from gross income for federal income tax purposes. However, interest on the Senior Series 2005QQ Bonds is a specific preference item for purposes of the federal alternative minimum tax. Interest on the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds is not excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended. Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2005 Bonds (as defined below) and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes. For a more complete description, see "Tax Matters" herein.

NEW ISSUE - Book-Entry Only

Ratings: Moody's: Applied For
S&P: Applied For
See "Ratings" herein.

$239,985,000
Vermont Student Assistance Corporation

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

Education Loan Revenue Bonds

$120,385,000 Senior Series 2005QQ (Variable Rate)	$59,800,000 Senior Series 2005RR (Taxable Auction Rate Notes)	$59,800,000 Senior Series 2005SS (Taxable Auction Rate Notes)
Dated: Date of Delivery	**Price:** 100%	**Due:** December 15, 2039

The Vermont Student Assistance Corporation (the "Corporation") will issue its Education Loan Revenue Bonds, Senior Series 2005QQ in the aggregate principal amount of $120,385,000 (the "Senior Series 2005QQ Bonds"), its Education Loan Revenue Bonds, Senior Series 2005RR in the aggregate principal amount of $59,800,000 (the "Senior Series 2005RR Bonds") and its Education Loan Revenue Bonds, Senior Series 2005SS in the aggregate principal amount of $59,800,000 (the "Senior Series 2005SS Bonds" and, together with the Senior Series 2005RR Bonds, the "2005 Taxable Bonds") pursuant to the Corporation's 1995 Education Loan Revenue Bond Resolution as adopted on June 16, 1995 (the "General Resolution") and the 2005 Eleventh Series Resolution as adopted on May 27, 2005 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution").

The Senior Series 2005QQ Bonds and the 2005 Taxable Bonds (collectively, the "2005 Bonds") are issuable only as fully registered bonds and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as securities depository for the 2005 Bonds. Purchasers of the 2005 Bonds will not receive certificates representing their beneficial ownership interests in the 2005 Bonds. Purchases and sales by the beneficial owners of the 2005 Bonds shall be made in book-entry form in the principal amount of, with respect to Senior Series 2005QQ Bonds, $100,000 or any integral multiple thereof and, with respect to the 2005 Taxable Bonds, $25,000 or any integral multiple thereof. Payments of principal, redemption price and interest with respect to the 2005 Bonds are to be made directly to DTC by the Chittenden Trust Company, Burlington, Vermont (the "Trustee") or its successor Trustee, so long as DTC or Cede & Co. is the registered owner of such 2005 Bonds. Disbursements of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants as more fully described herein. See "THE 2005 BONDS -- Book-Entry Only System."

The Senior Series 2005QQ Bonds will initially bear interest at a rate to be determined prior to the issuance of the Senior Series 2005QQ Bonds and to be in effect during the Initial Rate Period, which shall commence on June 21, 2005 and continue to (but not include) June 29, 2005. Thereafter, the Senior Series 2005QQ Bonds will bear interest at a Weekly Rate and the interest on the Senior Series 2005QQ Bonds will be determined on Tuesday (and made effective on Wednesday) of each week by UBS Financial Services Inc., as the Remarketing Agent. The Senior Series 2005QQ Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the Corporation and subject to satisfaction of certain conditions precedent in the Resolution, the interest rate on the Senior Series 2005QQ Bonds is changed to another type of interest rate. The Senior Series 2005QQ Bonds are subject to optional and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "THE SENIOR SERIES 2005QQ BONDS" herein.

The 2005 Taxable Bonds are being issued as Taxable Auction Rate Notes. Interest on the 2005 Taxable Bonds, prior to a change in the Interest Payment Date as described herein, is payable on the Business Day following the end of each Interest Period as described herein until maturity or earlier redemption. The Applicable ARNs Rates and the Auction Periods shall be established from time to time pursuant to the Auction Procedures described herein. The 2005 Taxable Bonds are subject to redemption, acceleration and mandatory tender as described herein.

Payment of the principal of and interest on the 2005 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the 2005 Bonds.

If other funds are insufficient therefore, subject to the provisions of the Resolution and the Liquidity Facility, including provisions allowing for termination or suspension in certain events, the purchase price of properly tendered Senior Series 2005QQ Bonds will be paid from funds provided under a Liquidity Facility issued by The Bank of New York (the "Liquidity Provider").

The Liquidity Facility to be issued by the Liquidity Provider with respect to the Senior Series 2005QQ Bonds provides for the purchase by the Liquidity Provider of Senior Series 2005QQ Bonds required to be purchased thereunder at a price equal to the par amount thereof plus up to 187 days of interest accrued thereon. **The Liquidity Facility provides for the payment of the purchase price of the Senior Series 2005QQ Bonds tendered for purchase as described herein, and does not secure or provide for payment of the principal of, premium, if any, or interest on the 2005 Taxable Bonds.** See "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER" herein.

The 2005 Bonds are to be issued for the purpose of (a) financing the origination or purchase of: (i) loans which are guaranteed by the Corporation acting pursuant to Vermont law as State Guarantor to the extent required by applicable federal law and reinsured by the Secretary of the United States Department of Education, pursuant to, and to the extent authorized by, the United States Higher Education Act of 1965, as amended, (ii) loans insured by the Secretary of the United States Department of Health and Human Services, and (iii) other loans permitted under the State Act; and (b) paying the costs associated with the issuance of the 2005 Bonds and related expenses, a portion of which will be used to purchase a surety bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2005 Bonds.

THE CORPORATION HAS NO TAXING POWER. THE 2005 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2005 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION OF THE STATE OF VERMONT IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE 2005 BONDS. THE 2005 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 2005 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality by Kutak Rock LLP, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its in-house General Counsel, for the Liquidity Provider by its counsel, Fulbright & Jaworski L.L.P. and for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. Government Finance Associates, Inc. serves as Financial Advisor to the Corporation. The 2005 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC on or about June 21, 2005.

UBS Financial Services Inc. **Goldman, Sachs & Co.**

Dated: June 13, 2005

UBS Financial Services Inc. will serve as the initial Remarketing Agent with respect to the Senior Series 2005QQ Bonds. Goldman, Sachs & Co. will serve as the initial Broker-Dealer with respect to the 2005 Taxable Bonds.

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

No dealer, broker, salesman or other person has been authorized by the Corporation, the Bond Insurer, the Liquidity Provider or the Underwriters to give any information or to make any representations, other than the information and representations contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. All other information set forth herein has been obtained from the Corporation, the Bond Insurer, the Liquidity Provider and other sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation, the Bond Insurer or the Liquidity Provider subsequent to the date of this Official Statement.

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

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE BOND INSURER CONTAINED HEREIN UNDER THE CAPTION "INSURANCE ON THE 2005 BONDS" OR IN APPENDIX E ENTITLED "AMBAC ASSURANCE CORPORATION", NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOND INSURER AND THE BOND INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE 2005 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE SENIOR SERIES 2005QQ BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement. The offering of the 2005 Bonds to potential investors is made only by means of this Official Statement. No person is authorized to detach or otherwise deliver or use this Summary Statement without the entire Official Statement. Terms used in this summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Issuer	Vermont Student Assistance Corporation (the "Corporation") is a non-profit public corporation organized pursuant to the laws of the State of Vermont. The Corporation acts as a lender, servicer and guarantor under the student loan program authorized by and in compliance with the provisions of the Higher Education Act of 1965, as amended (the "Act" or the "Higher Education Act"). The Corporation also operates various other student assistance programs authorized by Vermont law, including the acquisition and origination of student loans which are not made under the Higher Education Act.
The Offering	The Corporation is offering hereby its Education Loan Revenue Bonds consisting of $120,385,000 aggregate principal amount of Senior Series 2005QQ Bonds (the "Senior Series 2005QQ Bonds"), $59,800,000 aggregate principal amount of Senior Series 2005RR Bonds (the "Senior Series 2005RR Bonds") and $59,800,000 aggregate principal amount of Senior Series 2005SS Bonds (the "Senior Series 2005SS Bonds" and collectively with the Senior Series 2005QQ Bonds and the Senior Series 2005RR Bonds, the "2005 Bonds"). The Senior Series 2005QQ Bonds will be issued as Weekly Rate Bonds as described herein. The Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds (collectively, the "2005 Taxable Bonds") will be issued as Taxable Auction Rate Notes.
Remarketing Agent	UBS Financial Services Inc. will serve as the initial Remarketing Agent with respect to the Senior Series 2005QQ Bonds.
Broker-Dealer	Goldman, Sachs & Co. will serve as the initial Broker-Dealer with respect to the 2005 Taxable Bonds.
Priority	There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of $1,458,650,000, being comprised of Senior Series 1995 A, B, C and D Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H and I Bonds (collectively, the "1996 Bonds"), Senior Series 1998 K, L, M and N Bonds (the "Senior 1998 Bonds"), Subordinate Series 1998O Bonds (the "Subordinate 1998O Bonds" and collectively with the Senior 1998 Bonds, the "1998 Bonds"), Senior Series 2000 Q, R, S, T and U Bonds (the "2000 Bonds"), Senior Series 2001 V, W, X, Y, Z and AA Bonds (the "2001 Bonds"), Senior Series 2002 BB, CC and DD Bonds (the "2002 Bonds"), Senior Series 2003 EE, FF, GG, HH, II, JJ, KK and LL (the "2003 Bonds") and Senior Series 2004 MM, NN, OO and PP (the "2004 Bonds"). The 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the Senior 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any bonds issued on a parity therewith and outstanding under the Resolution in the future (collectively, the "Senior Bonds") are

secured equally and ratably by the security provided thereunder and are secured on a superior basis to the Subordinate 1998O Bonds. Failure of the Corporation to pay principal or interest on the Subordinate 1998O Bonds or any other Subordinate Bonds shall not be an Event of Default under the Resolution if any Senior Bonds are outstanding on which no payment default has occurred and is continuing. Additional Bonds may be issued under the Resolution if (a) each Rating Agency confirms that the issuance of the Additional Bonds will not cause such Rating Agency to withdraw or downgrade the rating on any Bonds and (b) the Bond Insurer consents to the issuance of the Additional Bonds.

Global Bond; Securities Depository

The 2005 Bonds shall be issued for each Series as one fully registered bond in the aggregate principal amounts and with the maturities set forth on the cover page hereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, the Securities Depository.

Purpose of Issuances

The 2005 Bonds will be issued for the purpose of (a) financing the origination or purchase of Eligible Education Loans, which generally include (i) loans qualifying under the Act and guaranteed and reinsured to the extent authorized under the Act ("Federal Act Loans"), (ii) loans insured by the Secretary of the United States Department of Health and Human Services ("HEAL Loans") and (iii) other loans permitted under the State Act and the Resolution ("Statutory Loans") and (b) paying the costs associated with the issuance of the 2005 Bonds and related expenses, a portion of which will be used to purchase a surety bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2005 Bonds.

Senior Series 2005QQ Bonds

General. The Senior Series 2005QQ Bonds will be issued in denominations of $100,000 or any integral multiple thereof and will mature as indicated on the cover page hereof. The Senior Series 2005QQ Bonds will bear interest through (but not including) June 29, 2005 at a rate to be determined prior to the issuance of the Senior Series 2005QQ Bonds. Thereafter, the Senior Series 2005QQ Bonds will bear interest at a Weekly Rate and the interest rate on the Senior Series 2005 Bonds will be determined on Tuesday (and made effective on Wednesday) of each week by UBS Financial Services Inc., as the Remarketing Agent. The Senior Series 2005QQ Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the Corporation and subject to the satisfaction of certain conditions precedent in the Resolution, the interest rate on the Senior Series 2005QQ Bonds is changed to another type of interest rate. While Senior Series 2005QQ Bonds bear interest at a Weekly Rate, interest is payable on June 15 and December 15 of each year, commencing December 15, 2005. **This Official Statement describes terms and provisions applicable to the Senior Series 2005QQ Bonds only while they are in Weekly Mode. In the event of a conversion to another Mode, potential purchasers of the Senior Series 2005QQ Bonds will be provided with separate offering materials containing descriptions of the terms applicable to the Senior Series 2005QQ Bonds being converted.**

Purchase of Senior Series 2005QQ Bonds on Demand of Owners during Weekly Mode. While the Senior Series 2005QQ Bonds bear

interest at a Weekly Rate and the Liquidity Facility is in effect, any Senior Series 2005QQ Bond is subject to purchase on demand of the Owner thereof on any Business Day on seven days of notice to the Trustee and subject to the conditions as described herein. See "THE SENIOR SERIES 2005QQ BONDS -- Tender Provisions" herein. Upon the happening of certain events the Liquidity Facility may be terminated or suspended without the Owner having a right to tender. In such event, the Senior Series 2005QQ Bonds will no longer be subject to purchase on the demand of the Owners thereof. See "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER -- The Liquidity Facility" herein.

Mandatory Tender and Purchase of Senior Series 2005QQ Bonds during Weekly Mode. The Senior Series 2005QQ Bonds bearing interest at a Weekly Rate are subject to mandatory tender to the Trustee for purchase (a) upon conversion of the interest rate on such Bonds to any other interest rate mode, (b) upon the substitution of the Liquidity Facility, (c) on the seventh Business Day prior to any expiration or termination of the Liquidity Facility, (d) on the twenty-fifth day after the Liquidity Provider has given a notice of termination of the Liquidity Facility and requested a mandatory tender of the Senior Series 2005QQ Bonds, provided such notice has not been rescinded by the Liquidity Provider prior to the Trustee giving notice of the mandatory tender to the Bondholders, and (e) under other circumstances described herein. See "THE SENIOR SERIES 2005QQ BONDS -- Tender Provisions" herein.

Purchase of Senior Series 2005QQ Bonds during Weekly Mode. The Trustee is to purchase properly tendered Senior Series 2005QQ Bonds at a price equal to the principal amount thereof plus accrued and unpaid interest, if any, with first, proceeds from the remarketing of the Senior Series 2005QQ Bonds which have been tendered, and second, from funds provided by the Liquidity Provider pursuant to the Liquidity Facility. The Corporation has no obligation to purchase tendered Senior Series 2005QQ Bonds.

Redemption. While the Senior Series 2005QQ Bonds bear interest at a Weekly Rate, the Senior Series 2005QQ Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein under the heading "THE SENIOR SERIES 2005QQ BONDS -- Optional Redemption," "Extraordinary Mandatory Redemption" and "Redemption of Liquidity Facility Issuer Bonds."

2005 Taxable Bonds

General. While outstanding as Taxable Auction Rate Notes ("ARNs"), the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds (collectively, the "2005 Taxable Bonds") will be issued in denominations of $25,000 or any integral multiple thereof and will mature as indicated on the cover page hereof. The 2005 Taxable Bonds will bear interest at the rates established from time to time as set forth herein.

The 2005 Taxable Bonds will be issued as Taxable ARNs and are subject to conversion to bear interest at a Tax-Exempt Auction Rate as described herein. **This Official Statement describes terms and provisions applicable to the 2005 Taxable Bonds Outstanding as**

Taxable ARNs. In the event of a conversion to Tax-Exempt ARNs, purchasers of the Bonds will be provided with separate offering materials containing descriptions of the terms applicable to the Bonds being converted. Interest on the 2005 Taxable Bonds is payable as described herein. Each of the Applicable ARNs Rates and ARNs Auction Periods shall be established from time to time as described herein.

Mandatory Tender Upon Conversion of Taxable Bonds to Tax-Exempt Bonds. Each series of the 2005 Taxable Bonds may be converted to bear interest at a Tax-Exempt Auction Rate under the circumstances described herein and is subject to mandatory tender for purchase as described herein. See Appendix D – "MECHANISM FOR CONVERSION OF TAXABLE AUCTION RATE NOTES TO TAX-EXEMPT AUCTION RATE NOTES."

Redemption. The 2005 Taxable Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2005 Taxable Bonds are also subject to extraordinary mandatory redemption prior to maturity under certain specified circumstances as described herein.

Security for the Bonds

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

Bond Insurance

The scheduled payment of the principal of and interest on the 2005 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") concurrently with the delivery of the 2005 Bonds.

Liquidity Facility

The Trustee, for the benefit of the Owners of the Senior Series 2005QQ Bonds, is permitted by the terms of the Liquidity Facility and subject to limitations contained therein, to draw up to 100% of the aggregate principal amount of the Senior Series 2005QQ Bonds plus 187 days of accrued interest on the Senior Series 2005QQ Bonds, to purchase Senior Series 2005QQ Bonds properly tendered to the Trustee. **The Liquidity Facility provides for the payment of the purchase price of the Senior Series 2005QQ Bonds tendered for purchase as described herein, and does not secure or provide for payment of the principal of, premium, if any, or interest on the 2005 Taxable Bonds.** See "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER" herein.

Guarantee and Reinsurance

Federal Act Loans pledged under the Resolution are to be guaranteed to the extent required by federal law by the Corporation acting pursuant to Vermont law as State Guarantor, or any other permitted guarantor under the Resolution, and reinsured pursuant to, and to the extent authorized by, the Act. HEAL Loans are to be insured by the Department of Health and Human Services to the extent required by

federal law. Other Education Loans are not guaranteed or insured but are permitted under the State Act. See Appendix F -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Initial Collateralization

Upon the issuance of the 2005 Bonds and completion of the application of proceeds, it is anticipated that the value of the assets pledged under the Resolution to secure the Outstanding Bonds will equal (i) approximately 103.3% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 102.7% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding.

Changes to the Federal Family Education Loan Program

The programs under the Higher Education Act have been the subject of numerous statutory and regulatory changes that have resulted in material modifications to such programs, and the Higher Education Act must be reauthorized (or extended) by October 1, 2005 in order for additional loans to be made thereunder on and after such date. It is possible that relevant laws, including the Higher Education Act, will be further changed in the future in a manner which might adversely affect the availability or volume of Eligible Loans which can be acquired by the Corporation, the rate of return on such Eligible Loans or the various federal benefits available with respect thereto. See "CERTAIN INVESTMENT CONSIDERATIONS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program – *Future Changes in Relevant Law*" and Appendix F -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Certain Investment Considerations

Investment in the 2005 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading "CERTAIN INVESTMENT CONSIDERATIONS."

THE 2005 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON SUCH BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. SUCH BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON SUCH BONDS.

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OFFICIAL STATEMENT
of the

VERMONT STUDENT ASSISTANCE CORPORATION

relating to its

$239,985,000

Education Loan Revenue Bonds

$120,385,000 Senior Series 2005QQ (Variable Rate)	$59,800,000 Senior Series 2005RR (Taxable Auction Rate Notes)	$59,800,000 Senior Series 2005SS (Taxable Auction Rate Notes)

This Official Statement, which includes the cover page, the Summary Statement and the Appendices hereto, provides information in connection with the issuance by the Vermont Student Assistance Corporation (the "Corporation") of its $239,985,000 Education Loan Revenue Bonds, consisting of the following series of Bonds: Senior Series 2005QQ in the principal amount of $120,385,000 initially issued as Weekly Rate Bonds as described herein, Senior Series 2005RR in the principal amount of $59,800,000 initially issued as Taxable Auction Rate Notes as described herein and Senior Series 2005SS in the principal amount of $59,800,000 initially issued as Taxable Auction Rate Notes as described herein (collectively, the "2005 Bonds"). The 2005 Bonds are being issued pursuant to the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted on June 16, 1995 (the "General Resolution") and the 2005 Eleventh Series Resolution adopted on May 27, 2005 (collectively, together with all other supplements and amendments thereto, the "Resolution"). There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of $1,458,650,000, being comprised of Senior Series 1995 A, B, C and D Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H and I Bonds (collectively, the "1996 Bonds"), Senior Series 1998 K, L, M and N Bonds (collectively, the "Senior 1998 Bonds"), Subordinate Series 1998O Bonds (the "Subordinate 1998 Bonds" and collectively with the Senior 1998 Bonds, the "1998 Bonds"), Senior Series 2000 Q, R, S, T and U Bonds (the "2000 Bonds"), Senior Series 2001 V, W, X, Y, Z and AA Bonds (the "2001 Bonds"), Senior Series 2002 BB, CC and DD Bonds (the "2002 Bonds"), Senior Series 2003 EE, FF, GG, HH, II, JJ, KK and LL Bonds (the "2003 Bonds") and Senior Series 2004 MM, NN, OO and PP Bonds (the "2004 Bonds"). The term "Bonds" as used herein shall refer to the 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any Additional Bonds issued under the Resolution in the future.

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

INTRODUCTION

The Corporation is a non-profit public corporation created in 1965 and existing under and by virtue of 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 awarding grants and guaranteeing, making, financing and servicing loans to borrowers qualifying under the State Act. The Corporation, acting as a loan originator or secondary market, originates education loans and purchases education loans previously originated by other lenders. Such loans include Federal Act Loans, HEAL Loans and Statutory Loans (as defined below). The Corporation, serving as a guarantor (the "State Guarantor") guarantees, to the extent required by applicable federal law, Federal Act Loans. In addition, the Corporation administers a program of grants, scholarships, work study and outreach services and career, education and financial aid counseling, related information services and a Section 529 savings plan.

The 2005 Bonds will be issued for the purposes of (a) financing (i) loans qualifying under the Higher Education Act of 1965, as amended (the "Act" or the "Higher Education Act"), which are guaranteed by a permitted guarantor such as the Corporation to the extent required by the Act and reinsured by the Secretary of the United

States Department of Education (the "Secretary") pursuant to, and to the extent authorized by, the Act ("Federal Act Loans"), (ii) loans permitted under the State Act and insured by the Secretary of the United States Department of Health and Human Services (referred to herein as "HEAL Loans"), and (iii) other loans permitted under the State Act and the Resolution (referred to herein as "Statutory Loans"), and (b) paying the costs associated with the issuance of the 2005 Bonds and related expenses, a portion of which will be used to purchase a surety bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2005 Bonds.

The 2005 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, (a) the Senior Series 2005QQ Bonds will bear interest at a Weekly Rate, and (b) the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds will be issued as Taxable ARNs. Interest on each Series of 2005 Bonds will be payable as described herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2005 BONDS, DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE BONDS.

Payment of the principal of and interest on the 2005 Bonds when due will be insured by a Financial Guaranty Insurance Policy (as hereafter defined) to be issued by Ambac Assurance Corporation (the "Bond Insurer").

In order to ensure the availability of funds for the timely purchase of the Senior Series 2005QQ Bonds, The Bank of New York (the "Liquidity Provider"), the Corporation and the Trustee expect to enter into a Standby Bond Purchase Agreement (the "Liquidity Facility"), pursuant to which the Liquidity Provider agrees, subject to the provisions of the Liquidity Facility, including provisions allowing for termination or suspension in certain events (see "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER" herein), to purchase properly tendered Senior Series 2005QQ Bonds for a purchase price not to exceed an amount equal to the aggregate principal amount of the Senior Series 2005QQ Bonds plus 187 days' accrued interest at a rate per annum not greater than 12% on the Senior Series 2005QQ Bonds. Under the Resolution, the Trustee is required to make a claim on the Liquidity Facility to pay the purchase price of the Senior Series 2005QQ Bonds properly tendered to the Trustee for purchase and not remarketed by the Remarketing Agent. The Liquidity Facility is initially scheduled to expire on June 20, 2012, but may be extended pursuant to its terms or may terminate or be replaced prior to such expiration. The Senior Series 2005QQ Bonds are subject to mandatory tender for purchase prior to the occurrence of certain events that terminate the Liquidity Facility, in accordance with its terms. See "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER" herein.

The descriptions of the Act, the Public Health Services Act, the State Act, the Resolution and the 2005 Bonds contained herein do not purport to be definitive or comprehensive. All descriptions of such documents, statutes and any legislative bills contained herein are qualified in their entirety by reference to such documents, statutes and legislative bills. Copies of the Resolution may be obtained upon written request during the initial offering period of the 2005 Bonds from UBS Financial Services Inc., 1285 Avenue of the Americas, 15th Floor, New York, New York 10019, Attention: Education Loan Group, and thereafter from the Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404-2601, Attention: President or to the Corporation's financial advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022.

THE 2005 BONDS

General

The 2005 Bonds will bear interest from their date of issue and will mature as indicated on the cover page hereof. The 2005 Bonds are issuable only in fully registered form, registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). The principal at maturity of each 2005 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2005 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 2005 Bonds is payable by the Trustee to Cede & Co. as nominee for DTC, as Owner of record. Interest on and principal upon redemption of the 2005 Bonds is payable to beneficial owners of the 2005 Bonds according to the procedures described under "THE 2005 BONDS -- Book-Entry Only System." Should the Corporation discontinue the book-entry-only system for any Series of 2005 Bonds and issue certificates to the beneficial owners, interest will be payable by check or draft of the Trustee mailed to the persons in whose name such Bonds are registered at the close of business on the Record Date, or by wire transfer at the written request of a registered owner of $1,000,000 or more in aggregate principal amount of any such 2005 Bonds, which request may provide that it will remain in effect unless and until changed or revoked in writing.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from DTC, and neither the Corporation nor the Underwriters assumes any responsibility for the accuracy thereof.

DTC, New York, New York, will act as securities depository for the 2005 Bonds. The 2005 Bonds are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as requested by an authorized representative of DTC. One fully registered bond certificate is to be issued for each maturity of each series of the 2005 Bonds, as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2005 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each offered Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into

the transaction. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Bonds, except in the event that use of the book-entry system for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 2005 Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2005 Bonds such as redemptions, tenders, defaults, and proposed amendments to the 2005 Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the 2005 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC, nor Cede & Co. (nor any other DTC nominee), will consent or vote with respect to the 2005 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2005 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2005 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2005 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2005 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2005 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2005 Bonds in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the 2005 Bonds are transferred by Direct Participants on DTC's records and followed by book-entry credit of tendered 2005 Bonds to Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2005 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

In the event the book-entry-only system is discontinued for any series of the 2005 Bonds, the Beneficial Owners of such 2005 Bonds should be aware of the following restrictions on transfer and exchange which will then apply; the Corporation will not be obligated to (a) register the transfer or exchange any such 2005 Bonds during a period beginning on the date 2005 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2005 Bonds selected for redemption; (b) register the transfer of or exchange any such 2005 Bonds selected for redemption in whole or in part, except the unredeemed portion of a 2005 Bond being redeemed in part; or (c) make any exchange or transfer of any 2005 Bond during the period beginning on the Record Date and ending on the Interest Payment Date.

The Corporation and the Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of DTC or any DTC Participant with respect to any beneficial ownership interest in the 2005 Bonds, (b) the delivery to any beneficial owner of the 2005 Bonds or other person, other than DTC, of any notice with respect to the 2005 Bonds, or (c) the payment to any beneficial owner of the 2005 Bonds or other person, other than DTC, of any amount with respect to the principal of or interest on the 2005 Bonds. Neither the Corporation nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the Owners.

No assurance can be given by the Corporation or the Trustee that DTC will distribute to the Participants or the Participants and Indirect Participants will distribute to the beneficial owners (a) payments of debt service on the 2005 Bonds paid to DTC or its nominee, as Registered Owner, or (b) any redemption or other notices, or that DTC or the Participants will serve and act on a timely basis or in a manner described in this Official Statement.

Reference to Owners

So long as DTC or its nominee is the Owner, references herein to the Owners or registered owners of the 2005 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 2005 Bonds.

THE SENIOR SERIES 2005QQ BONDS

The Senior Series 2005QQ Bonds will be issued in the aggregate amount of $120,385,000 and will mature on December 15, 2039, subject to prior redemption. The Senior Series 2005QQ Bonds shall bear interest as described below. Capitalized terms not otherwise defined in this section have the meanings ascribed to them in APPENDIX A -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION -- Certain Definitions."

This Official Statement describes terms and provisions applicable to the Senior Series 2005QQ Bonds only while they are in the Weekly Mode. In the event the Senior Series 2005QQ Bonds are converted to another Mode, such Bonds will be subject to mandatory tender. Potential purchasers of those converted Senior Series 2005QQ Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Mode to which the Bonds are being converted.

General

Authorized Denominations. Initially, the Senior Series 2005QQ Bonds will be issued in denominations of $100,000 and integral multiples thereof. The authorized denominations are subject to change if the interest Mode is converted to other than the Weekly Mode.

Calculation of Interest. While the Senior Series 2005QQ Bonds bear interest at a Weekly Rate, interest will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed at the applicable Weekly Rate. Initially, the Senior Series 2005QQ Bonds will bear interest at a Weekly Rate; provided, that from the date of issuance of the Senior Series 2005QQ Bonds to, but not including June 29, 2005, the Senior Series 2005QQ Bonds will bear interest at a per annum rate to be established prior to the issuance of the Senior Series 2005QQ Bonds. The interest rate for the Senior Series 2005QQ Bonds in the Weekly Mode is the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Senior Series 2005QQ Bonds at a price equal to the principal amount thereof, plus

interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. Initially, the Rate Determination Date for the Senior Series 2005QQ Bonds in the Weekly Mode is each Tuesday, or the immediately preceding Business Day if Tuesday is not a Business Day, to go into effect the following Wednesday.

The Remarketing Agent is required to establish each Weekly Rate by 4:30 p.m., New York City time, on the applicable Rate Determination Date, and to make the new rate available by telephone or other means specified in the Resolution to the Corporation, the Trustee and to any Owner requesting such rate after 5:00 p.m. New York City time. If the Remarketing Agent fails for any reason to determine the Weekly Rate for the Senior Series 2005QQ Bonds, then the Senior Series 2005QQ Bonds shall bear interest during each subsequent Weekly Rate Period at the Alternate Rate in effect on the first day of such Weekly Rate Period.

The Alternate Rate for the Senior Series 2005QQ Bonds is 150% of the Bond Market Association Municipal Swap Index, as the same may be adjusted from time to time, or if such index is no longer available, the comparable index of tax-exempt seven-day tender municipal bonds.

In no circumstances, may interest on the Senior Series 2005QQ Bonds (other than Senior Series 2005QQ Bonds held by the Liquidity Provider or its assignees) exceed the lesser of (a) 12% per annum or (b) the maximum lawful nonusurious interest rate allowed by applicable law.

Interest Payment Dates. Interest on the Senior Series 2005QQ Bonds in the Weekly Mode will be paid on each June 15 and December 15, commencing December 15, 2005, in an amount equal to the interest accrued during the Interest Accrual Period preceding the applicable Interest Payment Date. If June 15 or December 15 is not a Business Day, interest will be paid on the next Business Day.

Each Interest Accrual Period commences on an Interest Payment Date and ends on the day preceding the succeeding Interest Payment Date. The interest paid on the Senior Series 2005QQ Bonds on each June 15 (or next Business Day) is the interest accrued through the preceding June 14, and the interest paid on the Senior Series 2005QQ Bonds on each December 15 (or next Business Day) is the interest accrued through the preceding December 14.

Trustee. Chittenden Trust Company will serve as Trustee for the Senior Series 2005QQ Bonds. Chittenden Trust Company may resign or be removed as Trustee; provided, however the resignation or removal will not be effective until a successor has been appointed and has accepted the appointment. All notices required to be delivered to the Trustee shall be delivered by mail delivery/overnight mail to: Institutional Trust Services, Chittenden Trust Company, Two Burlington Square, Burlington, Vermont 05401; phone (802) 660-1497.

Remarketing Agent. UBS Financial Services Inc. has been appointed to serve as the initial remarking agent (the "Remarketing Agent") for the Senior Series 2005QQ Bonds. UBS Financial Services Inc. may resign or be removed as Remarketing Agent and a successor may be appointed in accordance with the Resolution. The office of UBS Financial Services Inc. for purposes of its duties as Remarketing Agent is 1285 Avenue of the Americas, 15th Floor, New York, New York 10019; phone (212) 713-4692.

Interest Rate Modes; Conversion

The Resolution permits the Corporation, by complying with certain conditions, to convert the interest rate on the Senior Series 2005QQ Bonds from a Weekly Rate to another interest rate, including to a different form of adjustable rate, or a rate that is fixed to the maturity of the Senior Series 2005QQ Bonds. Upon conversion of the Senior Series 2005QQ Bonds to any Mode, Owners will be required to tender their Senior Series 2005QQ Bonds for purchase at the principal amount thereof plus unpaid accrued interest to the tender date, as described under the caption "Tender Provisions—*Mandatory Tenders*." Owners will receive notice of such conversion at least 15 days prior to the Mode Change Date. Owners will not have the option to retain Senior Series 2005QQ Bonds that are required to be tendered due to such a Mode Change.

Tender Provisions

In order to provide for the payment of the purchase price of tendered Senior Series 2005QQ Bonds, the Corporation has entered into a Standby Bond Purchase Agreement (the "Liquidity Facility") with The Bank of New York (the "Liquidity Provider") and the Trustee. Subject to the conditions set forth in the Liquidity Facility, during the term of the Liquidity Facility the Liquidity Provider has agreed to purchase Senior Series 2005QQ Bonds which are tendered to the Trustee pursuant to the Resolution, but not remarketed by the Remarketing Agent, at a purchase price equal to 100% of the principal amount plus unpaid accrued interest thereon to the date of tender (the "Purchase Price"). See "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER—The Liquidity Facility" herein. The Senior Series 2005QQ Bonds are not subject to optional or mandatory tender for purchase if the Liquidity Provider is not obligated to purchase Senior Series 2005QQ Bonds under the Liquidity Facility.

THE OBLIGATION OF THE LIQUIDITY PROVIDER TO PURCHASE TENDERED SENIOR SERIES 2005QQ BONDS MAY BE TERMINATED OR SUSPENDED WITHOUT NOTICE UNDER CERTAIN CIRCUMSTANCES. See "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER—The Initial Liquidity Facility" herein. If there should occur any event resulting in the immediate termination or suspension of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds under the terms of any Liquidity Facility, then the Trustee shall as soon as practicably possible thereafter notify the Bond Insurer, the Remarketing Agent and the Owners of the Senior Series 2005QQ Bonds then Outstanding that: (i) the Liquidity Facility has been terminated or suspended, as the case may be, (ii) the Trustee will no longer be able to purchase Senior Series 2005QQ Bonds with moneys available under the Liquidity Facility, (iii) the Liquidity Provider is under no obligation to purchase Senior Series 2005QQ Bonds or to otherwise advance moneys to fund the purchase of Senior Series 2005QQ Bonds, and (iv) the Owners of the Senior Series 2005QQ Bonds shall have no right to optionally tender their Senior Series 2005QQ Bonds (as described below) unless and until the Available Commitment under the Liquidity Facility is reinstated or an Alternate Liquidity Facility is provided with respect to the Senior Series 2005QQ Bonds. There can be no assurance that, in the event of any such termination or suspension of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds, an Alternate Liquidity Facility will be provided or the Liquidity Facility will be reinstated with respect to the Senior Series 2005QQ Bonds.

Optional Tender. So long as the Liquidity Provider is obligated to purchase Senior Series 2005QQ Bonds pursuant to the Liquidity Facility and the Senior Series 2005QQ Bonds bear interest at a Weekly Rate, the Owners of the Senior Series 2005QQ Bonds may tender their Senior Series 2005QQ Bonds to the Trustee for purchase at the Purchase Price as summarized below in the table under the caption "Summary of Certain Provisions of the Senior Series 2005QQ Bonds."

The Trustee will pay the Purchase Price of Senior Series 2005QQ Bonds which are tendered to the Trustee as described herein, but solely from and to the extent of the funds described below under the caption "Remarketing and Purchase."

Interest on any Senior Series 2005QQ Bond that the Owner thereof has elected to tender for purchase and that is not tendered on the tender date, but for which there has been irrevocably deposited with the Trustee an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the tender date. The Owner of such untendered Senior Series 2005QQ Bond will not be entitled to any payment other than the Purchase Price for such Senior Series 2005QQ Bond, and such untendered Senior Series 2005QQ Bond will no longer be outstanding or entitled to the benefits of the Resolution, except for payment of the Purchase Price from money held by the Trustee for such payment.

If there should occur any event resulting in the immediate termination or suspension of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds under the terms of the Liquidity Facility, then the Registered Owners of Senior Series 2005QQ Bonds shall not have the right to have their Senior Series 2005QQ Bonds purchased as described above unless and until the Available Commitment under the Liquidity Facility is reinstated or an Alternate Liquidity Facility is provided with respect to the Senior Series 2005QQ Bonds.

Mandatory Tender. The Senior Series 2005QQ Bonds are required to be tendered to the Trustee for purchase at the Purchase Price, without the right of retention, on each of the following dates, but only if the Senior Series 2005QQ Bonds are in a Weekly Mode and the Liquidity Provider is then obligated to advance funds under the

Liquidity Facility to pay the Purchase Price of such Senior Series 2005QQ Bonds (each a "Mandatory Tender Date"):

(i) each Mode Change Date;

(ii) any date on which an Alternate Liquidity Facility is substituted for the existing Liquidity Facility;

(iii) the seventh Business Day prior to the stated expiration date of the Liquidity Facility as it may be extended from time to time (but there will be no separate mandatory tender in respect of such an expiration if notice has been given to the Owners of a mandatory tender that will occur prior to such expiration date and the Senior Series 2005QQ Bonds are not to be subsequently remarketed under the expiring Liquidity Facility);

(iv) the Business Day specified by the Trustee as the twenty-fifth day after the Liquidity Provider has given a notice of termination to the Trustee, the Corporation and the Bond Insurer requesting a mandatory tender of the Senior Series 2005QQ Bonds pursuant to the Liquidity Facility, provided such notice has not been rescinded by the Liquidity Provider prior to the Trustee giving notice of the mandatory tender to the Bondholders; and

(v) each date established by the Corporation for mandatory tender as permitted by the Resolution.

The Trustee is required to mail notice of mandatory tender to the affected Owners of the Senior Series 2005QQ Bonds. If the Trustee gives such notice, the failure of an Owner to receive such notice shall not affect, or relieve any Owner of, such Owner's obligation to tender Senior Series 2005QQ Bonds. See the caption "Summary of Certain Provisions of the Senior Series 2005QQ Bonds" below.

The Trustee will pay the Purchase Price of Senior Series 2005QQ Bonds which are tendered to the Trustee as described herein, but solely from and to the extent of the funds described below under the caption "Remarketing and Purchase."

Interest on any Senior Series 2005QQ Bond that is not tendered on a Mandatory Tender Date, but for which there has been irrevocably deposited with the Trustee an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the Mandatory Tender Date. The Owners of such untendered Senior Series 2005QQ Bonds will not be entitled to any payment other than the Purchase Price for such Senior Series 2005QQ Bond, and such untendered Senior Series 2005QQ Bonds will no longer be outstanding or entitled to the benefits of the Resolution, except for payment of the Purchase Price from money held by the Trustee for such payment.

Remarketing and Purchase. In the event an Owner exercises its option to tender Senior Series 2005QQ Bonds, or if any Senior Series 2005QQ Bond becomes subject to mandatory tender, the Remarketing Agent is required to use its best efforts to sell such Senior Series 2005QQ Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory tender date, provided the Liquidity Facility is in effect and subject to certain conditions specified in the Remarketing Agreement with the Corporation. The Remarketing Agent will cause the Purchase Price of tendered Senior Series 2005QQ Bonds that have been successfully remarketed to be paid to the Trustee for deposit to the Remarketing Proceeds Account of the Purchase Fund. On each tender date, if the Trustee has not received notice that the Remarketing Agent has remarketed all of the Senior Series 2005QQ Bonds subject to purchase, the Trustee will, to the extent permitted by the Liquidity Facility, make a demand for the purchase of tendered Senior Series 2005QQ Bonds that have not been successfully remarketed. Upon receipt from the Liquidity Provider of immediately available funds to pay the Purchase Price of Senior Series 2005QQ Bonds, the Trustee will deposit such money in the Liquidity Facility Purchase Account for application to the Purchase Price of the Senior Series 2005QQ Bonds to the extent that the moneys on deposit in the Remarketing Proceeds Account are not sufficient.

The Purchase Price of Senior Series 2005QQ Bonds tendered for purchase is required to be paid by the Trustee solely from and to the extent of the following sources in the order of priority indicated: (a) first, from immediately available funds on deposit in the Remarketing Proceeds Account; and (b) second, from immediately available funds on deposit in the Liquidity Facility Purchase Account. If sufficient funds from these two sources are not available for the purchase of all tendered Senior Series 2005QQ Bonds and the insufficiency is due to reasons

other than a default by the Remarketing Agent, then the Trustee will not apply any remarketing proceeds from the Remarketing Proceeds Account to purchase tendered Senior Series 2005QQ Bonds until such deficiency is cured. If a deficiency exists due to a default by the Remarketing Agent, the Trustee will apply the money available to pay, on a pro rata basis, the Purchase Price of portions of the Senior Series 2005QQ Bonds tendered and will take all actions available to it to obtain sufficient funds from the Remarketing Agent and the Liquidity Provider to purchase all of the Senior Series 2005QQ Bonds on the next succeeding Business Day. Until the purchase of the entire principal amount of tendered Senior Series 2005QQ Bonds is consummated and the full Purchase Price paid (which includes interest on the unpaid principal portion to the date of payment), the Trustee will, at the expense of the Corporation, hold the tendered but unpurchased Senior Series 2005QQ Bonds for the account of the tendering Owners. The Corporation is not obligated to purchase tendered Senior Series 2005QQ Bonds.

Summary of Certain Provisions of the Senior Series 2005QQ Bonds

The table below summarizes the following information with respect to Senior Series 2005QQ Bonds bearing interest at a Weekly Rate:

(a) the dates on which interest will be paid (the "Interest Payment Dates");

(b) the date each interest rate will be determined (the "Rate Determination Date");

(c) the date each interest rate will become effective (the "Effective Date of Rate"), and the period of time each interest rate will be in effect (the "Rate Period");

(d) the dates on which Registered Owners may, at their option, tender their Senior Series 2005QQ Bonds for purchase to the Trustee and the notice requirements therefor (the "Optional Tender Dates; Owner's Notice of Optional Tender");

(e) the requirements for physical delivery of tendered Senior Series 2005QQ Bonds and payment provision therefor ("Physical Delivery of and Payment for Senior Series 2005QQ Bonds Subject to Optional and Mandatory Tender"), which are not applicable while the Senior Series 2005QQ Bonds are in book-entry only form;

(f) the notice requirements in order to change from one interest rate Mode to a different interest rate Mode ("Written Notice of Rate Mode Change"); and

(g) the notice requirements for any mandatory tender of the Senior Series 2005QQ Bonds ("Notice of Mandatory Tender").

All times shown are New York City time. A "Business Day," with respect to Senior Series 2005QQ Bonds outstanding in any Mode other than an Auction Mode, is defined in the Resolution to be any day on which banks located (a) in the city in which the principal corporate trust office of the Trustee is located, (b) in the city in which the office of the Bond Insurer at which drawings under the Financial Guaranty Insurance Policy are to be honored (initially, New York, New York) is located, (c) in the city in which the office of the Liquidity Provider at which demands for payment under the Liquidity Facility are to be honored is located (initially, New York, New York), and (d) in the city in which the principal office of the Remarketing Agent is located, are generally open for business and on which the New York Stock Exchange is open.

	Weekly Rate
Interest Payment Dates	Each June 15 and December 15.
Rate Determination Date	By 4:30 p.m. Tuesday, or if Tuesday is not a Business Day, the immediately preceding Business Day.
Effective Date of Rate; Rate Period	Each Wednesday; Weekly Rate effective through (but not including) Wednesday of next week.

	Weekly Rate
Owner's Notice of Optional Tender; Optional Tender Dates	Written notice to Trustee by owner at or prior to 3:00 PM on any Business Day not less than 7 calendar days prior to optional tender date; optional tender must be on a Business Day.
Written Notice of Mode Change Date	15 days prior to Mode Change Date
Notice of Mandatory Tender	15 days prior to designated purchase date, except for certain credit or default related mandatory tenders for which only 5 days' notice will be provided.

Optional Redemption

While in a Weekly Mode, any Senior Series 2005QQ Bond may be redeemed in whole or in part on any day at the option of the Corporation, at a redemption price equal to the outstanding principal and accrued and unpaid interest thereon, if any, to the date of redemption.

Extraordinary Mandatory Redemption

The Senior Series 2005QQ Bonds shall be subject to extraordinary mandatory redemption, and shall be redeemed in Authorized Denominations, from certain amounts in the Loan Account, the Revenue Account or the Debt Service Reserve Account, as described herein and more fully set forth in the Resolution. Any such redemption shall be in whole or in part at any time and at a price equal to the principal amount of the Senior Series 2005QQ Bonds being redeemed, without premium, together with interest accrued to the Redemption Date, unless the Redemption Date is an Interest Payment Date, in which case interest will be paid in the ordinary fashion.

The Resolution provides that in the event that the Corporation shall, by law or otherwise, become, for more than a temporary period, unable to finance Eligible Education Loans pursuant to the Resolution or shall suffer unreasonable burdens or excessive liabilities in connection therewith, the Corporation shall with all reasonable dispatch deliver to the Trustee a Certificate of an Authorized Officer stating the occurrence of such an event and setting forth the amount, if any, required to be retained in the Loan Account for the purpose of meeting any existing obligations of the Corporation payable therefrom, and the Trustee, after reserving therein the amount stated in such Certificate, shall transfer any balance remaining in the Loan Account (without regard to the origin of the funds) to the Revenue Account for the purpose, together with certain other moneys therein, of purchasing, redeeming or otherwise retiring Bonds, including Senior Series 2005QQ Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the Senior Series 2005QQ Bonds and all Principal Receipts and any amounts which are required to be deposited therein pursuant to the Resolution or any Supplemental Resolution and any other amounts available therefor and determined by the Corporation to be deposited therein. Amounts on deposit in the Loan Account representing proceeds of the sale of Senior Series 2005QQ Bonds or any other Bonds may be used to finance Eligible Education Loans until July 1, 2006 and, except upon the occurrence and continuation of a Recycling Suspension Event, amounts on deposit in the Loan Account representing Principal Receipts and amounts on deposit in the Extraordinary Reserve Account consisting of cash and investments may be used to finance Eligible Education Loans until July 1, 2007; provided, however, that an extension of such time period may be permitted upon approval from the Bond Insurer following submission of a Cash Flow Statement to the Bond Insurer and upon receipt of an Affirmation. At the end of any such period, such amounts shall be used to redeem Senior Series 2005QQ Bonds. Notwithstanding the foregoing, no Eligible Education Loans will be financed upon the notice to the Corporation and the Trustee by the Bond Insurer of the occurrence of a Recycling Suspension Event. In the event that a Recycling Suspension Event is cured (such cure to be evidenced by the written approval of the Bond Insurer), the financing of Eligible Education Loans may resume. Upon the expiration of the ninety (90) day period following the date on which financing of Eligible Education Loans is no longer permitted in accordance with this provision (or such longer period as may be approved in writing by the Bond Insurer), the Corporation shall direct the Trustee to use amounts in the Loan Account representing proceeds of sale of the Bonds and Principal Receipts to redeem or purchase for cancellation Bonds (including Senior Series 2005QQ Bonds) as soon as possible in accordance with the Resolution at a price not in excess of the principal amount of such Bonds plus accrued interest thereon. If the

Corporation obtains the approval of the Bond Insurer during the period referenced above to resume the financing of Eligible Education Loans, the Corporation shall not be required to redeem Senior Series 2005QQ Bonds.

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

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

Redemption of Liquidity Facility Issuer Bonds

So long as Liquidity Facility Issuer Bonds are Outstanding, the Corporation shall, after making the payments or deposits required pursuant to the Resolution, direct the Trustee to transfer any amounts remaining in the Revenue Account to the Loan Account and use such amounts in the Loan Account to redeem Liquidity Facility Issuer Bonds as soon as possible. Further, so long as Liquidity Facility Issuer Bonds are Outstanding and a Recycling Suspension Event shall have occurred, the Corporation shall direct the Trustee to use amounts in the Loan Account to redeem Liquidity Facility Issuer Bonds as soon as possible.

The Senior Series 2005QQ Bonds which are Liquidity Facility Issuer Bonds are subject to mandatory redemption in full by the Corporation at par plus accrued unpaid interest thereon on the Amortization End Date. The Amortization End Date means, with respect to Liquidity Facility Issuer Bonds, the date which is 5 years after the last day of the Commitment Period under the Liquidity Facility.

Priority of Redemption of Liquidity Facility Bonds

In the event that there are Liquidity Facility Issuer Bonds, such Liquidity Facility Issuer Bonds shall be redeemed prior to any Bond outstanding under the Resolution that is not a Liquidity Facility Issuer Bond.

Selection of Senior Series 2005QQ Bonds to be Redeemed

The Senior Series 2005QQ Bonds or portions of the Senior Series 2005QQ Bonds to be redeemed shall be selected by the Corporation. If less than all of the Senior Series 2005QQ Bonds is to be redeemed, the Senior Series 2005QQ Bonds to be redeemed shall be selected by lot by the Trustee or in such other manner as the Trustee in its discretion may deem appropriate.

Notice of Redemption

The Trustee shall mail a notice of redemption, postage prepaid, not less than 10 days before the redemption date while the Senior Series 2005QQ Bonds are Outstanding as Weekly Rate Bonds to the Owner of any Senior Series 2005QQ Bonds designated for redemption in whole or in part, as its address as the same shall last appear upon the registration books.

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

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any Interest Payment Date on Senior Series 2005QQ Bonds bearing interest at a Weekly Rate, means the Business Day immediately preceding the Interest Payment Date. The Trustee will establish a Special Record Date whenever money becomes available for payment

of defaulted interest. Notice of the Special Record Date will be given to the registered owners of the Senior Series 2005QQ Bonds not less than 10 days prior thereto by first-class mail to each such registered owner as shown on the Trustee's registration books on the date selected by the Trustee, stating the date of the Special Record Date and the date fixed for the payment of defaulted interest, which payment date will be not more than 15 nor less than 10 days subsequent to the Special Record Date.

Interest Payment Method

Other than as provided in the Resolution with respect to the Senior Series 2005QQ Bonds held in the Book-Entry System, interest shall be paid with respect to Senior Series 2005QQ Bonds in the Weekly Mode (i) by federal funds wire transfer by the Trustee to any account within the continental United States upon written instruction from the Owner of at least $1,000,000 in principal amount of the Senior Series 2005QQ Bonds, (ii) by check or draft mailed on the Interest Payment Date and mailed by first class mail, postage prepaid, by the Paying Agent to each Owner at his address as it last appears on the registration books kept by the Trustee at the close of business on the regular Record Date for such Interest Payment Date or (iii) by such other customary banking arrangement acceptable to the Trustee at the request of and at the risk and expense of the Owner.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System is discontinued, the Senior Series 2005QQ Bonds may be transferred and exchanged on the books of the Corporation, which shall be kept for such purpose at the corporate trust office of the Trustee, by the Owner only upon presentation and surrender thereof to the Trustee. Senior Series 2005QQ Bonds are transferable upon the surrender thereof together with a written instrument of transfer satisfactory to the Trustee. While the Senior Series 2005QQ Bonds are in a Weekly Mode, new Senior Series 2005QQ Bonds registered and delivered in an exchange or transfer will be in denominations of $100,000 and any integral multiple thereof for a like aggregate principal amount as the Senior Series 2005QQ Bonds surrendered for exchange or transfer. The Corporation is required to execute and the Trustee is required to authenticate and deliver such new Senior Series 2005QQ Bonds. See "THE 2005 BONDS -- Book-Entry Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Senior Series 2005QQ Bonds.

TAXABLE AUCTION RATE NOTES

General

The Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds will initially be issued as Taxable Auction Rate Notes (referred to collectively as "Taxable ARNs"), shall be dated the date of initial delivery thereof and shall mature on the date set forth on the cover page of this Official Statement. If the Senior Series 2005RR Bonds or the Senior Series 2005SS Bonds are converted to a Tax-Exempt Auction Rate as described in Appendix D, the terms described in this section relating to Taxable ARNs shall not apply to the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds so converted. Certain capitalized terms used herein with respect to the Taxable ARNs are defined in Appendix B to this Official Statement.

The Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds may be converted, at the option of the Corporation, to bear interest at a Tax-Exempt Auction Rate under the circumstances described herein. See Appendix D – "MECHANISM FOR CONVERSION OF TAXABLE ARNS TO TAX-EXEMPT ARNS" hereto. **This Official Statement describes terms and provisions applicable to the 2005 Taxable Bonds Outstanding as Taxable ARNs. In the event of a conversion to Tax-Exempt ARNs, purchasers of the Bonds will be provided with separate offering materials containing descriptions of the terms applicable to the Bonds being converted.** The exercise of the Corporation's option to convert the Senior Series 2005RR Bonds or the Senior Series 2005SS Bonds to bear interest at a Tax-Exempt Auction Rate will depend on various factors, including the allocation or reallocation of the State of Vermont volume cap for tax-exempt private activity bonds. The Corporation is not required under any circumstances to convert the Senior Series 2005RR Bonds or the Senior Series 2005SS Bonds to bear interest at a Tax-Exempt Auction Rate and may choose to issue other tax-exempt bonds in the future without converting the Senior Series 2005RR Bonds or the Senior Series 2005SS Bonds to a Tax-Exempt Auction Rate. There can therefore be no assurances that the Corporation will elect to convert the Senior Series 2005RR Bonds or the Senior Series 2005SS Bonds. If the Senior Series 2005RR Bonds or the Senior Series 2005SS Bonds are

converted to bear interest at a Tax-Exempt Auction Rate, then all Senior Series 2005RR Bonds and Senior Series 2005SS Bonds being converted are subject to mandatory tender for purchase as described herein without right of retention.

Interest

***Interest Payments*.** Interest on the Taxable ARNs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. Initially, the term "Interest Payment Date" means July 21, 2005, with respect to the Senior Series 2005RR Bonds, and July 25, 2005, with respect to the Senior Series 2005SS Bonds, and thereafter the Business Day following the last day of each Interest Period, provided, however, that (i) if the duration of the Interest Period is one day, then the Interest Payment Date shall be the first Business Day of the month immediately succeeding such Interest Period, and (ii) if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 15 and December 15 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Taxable ARNs, or if such maturity date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date). Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods or in certain other events. See "Changes in Auction Periods or Auction Date -- Changes in Auction Period or Periods" below. An Interest Period means (a) the period commencing on the date of delivery of the Taxable ARNs through and including July 20, 2005, with respect to the Senior Series 2005RR Bonds, and July 22, 2005, with respect to the Senior Series 2005SS Bonds, and each successive period of generally 28 days thereafter, respectively, commencing (1) with respect to the Senior Series 2005RR Bonds, on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day) and (2) with respect to the Senior Series 2005SS Bonds, on a Monday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Friday) and ending on (and including) a Friday (unless such Friday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if changed as described below under "Changes in Auction Periods or Auction Date -- Changes in Auction Period or Periods," each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date and in the case of a daily Auction Period, each Business Day.

The amount of interest distributable to holders of Taxable ARNs in respect of each $25,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARNs Rate for such Interest Period or part thereof, to the principal amount of $25,000, multiplying such product by the actual number of days in the Interest Period or part thereof, divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the Taxable ARNs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that, for any such calculation with respect to an Interest Payment Date occurring after January 1 of any year preceding a leap year through December 31 of such year (being the leap year), such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. The Trustee shall make the calculation described above not later than the close of business on each Auction Date.

Interest payments on the Taxable ARNs are to be made by the Trustee to DTC as the Registered Owner of the Taxable ARNs, as of the Record Date preceding each Interest Payment Date. Initially, the Taxable ARNs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Taxable ARNs. See "Book-Entry-Only System" above for a description of how DTC, as Registered Owner, is expected to disburse such payments to the Beneficial Owners.

Applicable ARNs Rate. The rate of interest on the Taxable ARNs for each Interest Period subsequent to the first Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix B hereto (the "Auction Rate") unless the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the Taxable ARNs for such Interest Period shall be the Maximum Rate, or unless the Maximum Rate shall actually be lower than the All-Hold Rate, in which case, the rate of interest on the Taxable ARNs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall equal the

Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be 28 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than generally 28 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period. Notwithstanding the foregoing, (a) if the ownership of the Taxable ARNs is no longer maintained in book-entry form by DTC, Auctions will be suspended and the rate of interest on the Taxable ARNs for any Interest Period commencing after the delivery of certificates representing Taxable ARNs as described above shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period; (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARNs Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Non-Payment Rate; or (c) if a proposed conversion of Taxable ARNs to Tax-Exempt ARNs shall have failed, as provided in Appendix D to this Official Statement, and the next succeeding Auction Date shall be two or fewer Business Days after (or on) any such failed Tax-Exempt Conversion Date, then an Auction shall not be held on such Auction Date and the rate of interest on the Taxable ARNs subject to the failed conversion for the next succeeding Interest Period shall be equal to the Maximum Rate calculated as of the first Business Day of such Interest Period and the Auction Period shall be a 7-day Auction Period.

The rate per annum at which interest is payable on the Taxable ARNs for any Interest Period is herein referred to as the "Applicable ARNs Rate." Notwithstanding anything herein to the contrary, the Applicable ARNs Rate cannot exceed the Maximum Rate unless the Applicable ARNs Rate is the Non-Payment Rate, in which case the Non-Payment Rate may exceed the Maximum Auction Rate but cannot exceed the Maximum Interest Rate.

Notwithstanding anything herein to the contrary, if any Taxable ARN or portion thereof has been selected to be redeemed during the next succeeding Interest Period, such Taxable ARN or portion thereof, will not be included in the Auction preceding such Redemption Date, and said Taxable ARN or portion thereof will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction; provided, that after any optional redemption of the Taxable ARNs there shall be not less than $10,000,000 in aggregate principal amount of Taxable ARNs Outstanding unless otherwise consented to by the Broker-Dealer.

Carry-over Amounts. If the Auction Rate for the Taxable ARNs is greater than the Maximum Rate, then the interest rate applicable for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Taxable ARNs at the Auction Rate over the amount of interest actually accrued at the Maximum Rate will accrue and be designated as the Carry-over Amount. The Carry-over Amount will bear simple interest calculated at a rate equal to One-Month LIBOR (as determined by the Auction Agent, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and if the Trustee has not, then as determined by the Trustee) from the Interest Payment Date for the Auction Period with respect to which such Carry-over Amount was calculated, until paid. Any payment in respect of any Carry-over Amount shall be applied, first, to any accrued interest payable thereon and thereafter in reduction of such Carry-over Amount. As used in the Resolution, the terms "principal" and "interest" do not include within the meanings of such terms the Carry-over Amount or any interest accrued on any Carry-over Amount. The Carry-over Amount will be calculated for each Taxable ARN by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice to each Registered Owner of a Taxable ARN of such Carry-over Amount as described in the following sentence. On the Interest Payment Date for an Auction Period during which a Carry-over Amount has accrued, the Trustee will give written notice to each Registered Owner of a Taxable ARN on which a Carry-over Amount has accrued of such Carry-over Amount, which written notice may accompany the payment of interest by check made to each such Registered Owner on such Interest Payment Date, or otherwise will be mailed on such Interest Payment Date by first-class mail, postage prepaid, to each such Registered Owner at such Registered Owner's address as it appears on the books of registry maintained by the Trustee. Such notice will state, in addition to such Carry-over Amount, that, unless and until such Taxable ARN has been redeemed or has been deemed no longer Outstanding under the

Resolution (after which all accrued Carry-over Amount (and all accrued interest thereon) that remains unpaid will be extinguished and no Carry-over Amount (or interest accrued thereon) will be paid with respect to such Taxable ARN), (i) the Carry-over Amount (and interest accrued thereon, calculated at a rate equal to One-Month LIBOR) will be paid by the Trustee in part or in whole, on the first occurring Interest Payment Date for such Taxable ARN, and on each succeeding Interest Payment Date until paid, but solely (a) to the extent that during an Auction Period which follows the Auction Period in which such Carry-over Amount accrued no additional Carry-over Amount is accruing on such Taxable ARN, and if paid, such Carry-over Amount is paid solely to the extent that during such Auction Period the amount of interest that would be payable on such Taxable ARN at the Maximum Rate exceeds the amount of interest that would otherwise be payable during such Auction Period on such Taxable ARN at the interest rate in effect for such Auction Period and (b) money is available pursuant to the terms of the Resolution on any such Interest Payment Date in an amount sufficient to pay all or a portion of the amount of such excess calculated pursuant to the preceding clause (a), and (c) the sum of the Value of (i) the financed Eligible Education Loans credited to the Loan Account and (ii) all cash and Investment Securities held in the Accounts (but excluding amounts irrevocably set aside pursuant to the Resolution and amounts on deposit in the Operating Account including accrued but unpaid Program Expenses) is at least equal to 101% of the sum of the aggregate principal amount of and accrued interest on all Obligations Outstanding and other liabilities due and owing under the Resolution (or 102% if no Subordinate Bonds are then Outstanding). The right to receive the Carry-over Amount payable with respect to any Taxable ARN may not be assigned or transferred apart from such Taxable ARN, and the Carry-over Amount due on any Interest Payment Date with respect to any Taxable ARN shall be payable solely to the Registered Owner of such Taxable ARN on the applicable Record Date for such Interest Payment Date.

The Carry-over Amount with respect to the Taxable ARNs shall be paid by the Trustee in part or in whole at the times and to the extent recited in such notice, as specified above, in the same manner as the Trustee pays interest with respect to Taxable ARNs, with funds disbursed from the Revenue Account in accordance with the Resolution as described above. In addition, any Carry-over Amount (and any interest accrued thereon) on a Taxable ARN which is due and payable on an Interest Payment Date on which the Taxable ARN is to be redeemed or on which it will cease to be Outstanding shall be paid to the Registered Owner thereof on said Interest Payment Date, but solely to the extent that moneys are available therefor in accordance with the provisions of the Resolution; provided, however, that any Carry-over Amount or portion thereof (and any interest accrued thereon) which is not yet due and payable, or for the payment of which on such Interest Payment Date sufficient money is not available, on said Interest Payment Date will be canceled with respect to said Taxable ARN that is to be redeemed or will cease to be Outstanding on said Interest Payment Date and shall not be paid on any succeeding Interest Payment Date. To the extent that any portion of the Carry-over Amount remains unpaid after payment of a portion thereof, such unpaid portion of the Carry-over Amount shall be paid in whole or in part until fully paid by the Trustee on the next occurring Interest Payment Date or Dates, as necessary, for a subsequent Interest Period or Periods, if and to the extent that the conditions in the Resolution are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Taxable ARN the Trustee will give written notice in the manner set forth in the immediately preceding paragraph to the Registered Owner of such Taxable ARN receiving such partial payment of the Carry-over Amount remaining unpaid on such Taxable ARN.

Whether the Carry-over Amount for the Taxable ARNs will be paid on any particular Interest Payment Date in each subsequent Auction Period will be determined as described above and the Trustee will make payment of the Carry-over Amount in the same manner as, and from the same Account from which, it pays interest on the Taxable ARNs on any Interest Payment Date.

ANY UNPAID CARRY-OVER AMOUNT ON A TAXABLE ARN NOT DUE AND PAYABLE ON THE REDEMPTION DATE WITH RESPECT TO SUCH TAXABLE ARN WILL BE EXTINGUISHED UPON THE MATURITY OR OPTIONAL REDEMPTION OF SUCH TAXABLE ARN. THE CARRY-OVER AMOUNT WILL OTHERWISE CONTINUE TO ACCRUE ON OUTSTANDING TAXABLE ARNS.

Auction Participants

Existing Owners and Potential Owners. Participants in each Auction will include (a) "Existing Owners," which shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, any Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day preceding the Auction Date for such Auction, and (ii) with respect to and for the purpose of dealing

with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Taxable ARNs; and (b) "Potential Owners," which shall mean any Person (including any Existing Owner that is (i) a Broker-Dealer when dealing with an Auction Agent and (ii) a potential owner when dealing with a Broker-Dealer), who may be interested in acquiring Taxable ARNs (or, in the case of an Existing Owner thereof, an additional principal amount of Taxable ARNs).

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

Auction Agent. The Bank of New York has been appointed by the Corporation as the initial Auction Agent for the Taxable ARNs. The Trustee is directed by the Corporation in the Resolution to enter into the initial Auction Agency Agreement with the Bank of New York. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least $40,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $40,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Resolution by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Taxable ARNs by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

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

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

Broker-Dealer. Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer" including Goldman, Sachs & Co. as the sole initial Broker-Dealer for the Taxable ARNs or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (i.e., a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (c) has entered into a

Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage over other bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of orders submitted by other Broker-Dealers (if any) in that Auction. As a result of bidding by a Broker-Dealer in an Auction, the Auction Rate may be lower than the rate that would have prevailed had the Broker-Dealer not bid. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of ARNs that the Auction Rate that will apply in an "all-hold" Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by existing holders that would avoid the occurrence of an "all-hold" Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, all Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

Market Agent. The "Market Agent," initially Goldman, Sachs & Co., acting pursuant to the Market Agent Agreement, and in connection with the Taxable ARNs, shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners.

Auctions

Auctions to establish the Applicable ARNs Rate are to be held on each Auction Date, except as described above under "Interest -- *Applicable ARNs Rate*," by application of the Auction Procedures described in Appendix B. "Auction Date" shall mean initially July 20, 2005, with respect to the Senior Series 2005RR Bonds, and July 22, 2005, with respect to the Senior Series 2005SS Bonds, and thereafter, the Business Day immediately preceding the first day of each Interest Period, other than: (a) each Interest Period commencing after the ownership of the Taxable ARNs is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under "Changes in Auction Periods or Auction Date -- *Changes in the Auction Date*".

The Auction Agent shall determine the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate on each Auction Date. The determination by the Auction Agent of the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the Taxable ARNs is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period commencing after delivery of certificates representing the Taxable ARNs. If a Payment Default shall have occurred, the Trustee shall calculate the Non-Payment Rate on the first day of (a) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (b) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

For any Interest Period for which any Carry-over Amount exists, the Auction Agent shall calculate One Month LIBOR.

So long as ownership of the Taxable ARNs is maintained in book-entry form, an Existing Owner may sell, transfer or otherwise dispose of Taxable ARNs only pursuant to a Bid or Sell Order (as defined in Appendix B hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in

the manner described in Appendix B hereto. A description of the Settlement Procedures to be used with respect to Auctions for the Taxable ARNs is contained in Appendix C hereto.

Changes in Auction Periods or Auction Date

Changes in Auction Period or Periods. The Market Agent:

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

(b) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Taxable ARNs and with the written consent of an Authorized Officer of the Corporation, may

change, from time to time, the length of one or more Auction Periods, subject to its delivery of a Rating Confirmation. In connection with any such change, or otherwise, but for the same stated purpose, the Market Agent:

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

(b) with the written consent of an Authorized Officer of the Corporation, may

change the Interest Payment Dates; and any such change will be considered a "change in the length of one or more Auction Periods" for the Resolution. The Authorized Officer of the Corporation shall not consent to such change in the length of the Auction Period, if such consent is required as described above, unless he or she shall have received from the Market Agent not less than 3 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Auction Agent, the Corporation and DTC at least 10 days prior to the Auction Date for such Auction Period.

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

Changes in the Auction Date. The Market Agent:

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

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

specify an earlier Auction Date (but in no event more than 5 Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. The Authorized Officer shall not consent to such change in the Auction Date, if such consent is required as described above, unless he or she shall have received from the Market Agent not less than 3 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the Auction Date by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date for such Auction Period to the Trustee, the Auction Agent, the Corporation and DTC.

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

Redemption

Optional Redemption. Bonds of any Series of 2005 Taxable Bonds that are outstanding as ARNs are subject to redemption in whole or in part in Authorized Denominations, at any time, at the option of the Corporation, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon to the Redemption Date, unless the Redemption Date is an Interest Payment Date, in which case interest will be paid in the ordinary fashion. Optional redemptions of the 2005 Taxable Bonds may be made from (i) amounts held in the Loan Account, the Debt Service Reserve Account, the Extraordinary Reserve Account or, after providing for the payment of certain amounts required under the Resolution, the Revenue Account, or (ii) other moneys that prior to the determination to use such moneys for redemption were not subject to the pledge set forth in the Resolution; provided, however, that in the case of the 2005 Taxable Bonds, such moneys may be used to redeem 2005 Taxable Bonds only if such moneys constitute Available Moneys.

Extraordinary Mandatory Redemption. Each Series of 2005 Taxable Bonds shall be subject to extraordinary mandatory redemption, and shall be redeemed in Authorized Denominations, from certain amounts in the Loan Account, the Revenue Account or the Debt Service Reserve Account, as described herein and more fully set forth in the Resolution. Any such redemption shall be in whole or in part at any time and at a price equal to the principal amount of the 2005 Taxable Bonds being redeemed, without premium, together with interest accrued to the Redemption Date, unless the Redemption Date is an Interest Payment Date, in which case interest will be paid in the ordinary fashion.

The Resolution provides that in the event that the Corporation shall, by law or otherwise, become, for more than a temporary period, unable to finance Eligible Education Loans pursuant to the Resolution or shall suffer unreasonable burdens or excessive liabilities in connection therewith, the Corporation shall with all reasonable dispatch deliver to the Trustee a Certificate of an Authorized Officer stating the occurrence of such an event and setting forth the amount, if any, required to be retained in the Loan Account for the purpose of meeting any existing obligations of the Corporation payable therefrom, and the Trustee, after reserving therein the amount stated in such Certificate, shall transfer any balance remaining in the Loan Account (without regard to the origin of the funds) to the Revenue Account for the purpose, together with certain other moneys therein, of purchasing, redeeming or otherwise retiring Bonds, including 2005 Taxable Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 2005 Taxable Bonds and all Principal Receipts and any amounts which are required to be deposited therein pursuant to the Resolution or any Supplemental Resolution and any other amounts available therefor and determined by the Corporation to be deposited therein. Amounts on deposit in the Loan Account representing proceeds of the sale of 2005 Taxable Bonds or any other Bonds may be used to finance Eligible Education Loans until July 1, 2006 and, except upon the occurrence and continuation of a Recycling Suspension Event, amounts on deposit in the Loan Account representing Principal Receipts and amounts on deposit in the Extraordinary Reserve Account consisting of cash and investments may be used to finance Eligible Education Loans until July 1, 2007; provided, however, that an extension of such time period may be permitted upon approval from the Bond Insurer following submission of a Cash Flow Statement to the Bond Insurer and upon receipt of an Affirmation. At the end of any such period, such amounts shall be used to redeem 2005 Taxable Bonds. Notwithstanding the foregoing, no Eligible Education Loans will be financed upon the notice to the Corporation and the Trustee by the Bond Insurer of the occurrence of a Recycling Suspension Event. In the event that a Recycling Suspension Event is cured (such cure to be evidenced by the written approval of the Bond Insurer), the financing of Eligible Education Loans may resume. Upon the expiration of the ninety (90) day period following the date on which financing of Eligible Education Loans is no longer permitted in accordance with this provision (or such longer period as may be approved in writing by the Bond Insurer), the Corporation shall direct the Trustee to use amounts in the Loan Account representing proceeds of sale of the Bonds and Principal Receipts to redeem or purchase for cancellation Bonds (including 2005 Taxable Bonds) as soon as possible in accordance with the Resolution at a price not in excess of the principal amount of such Bonds plus accrued interest thereon. If the Corporation obtains the approval of the Bond Insurer during the period referenced above to resume the financing of Eligible Education Loans, the Corporation shall not be required to redeem 2005 Taxable Bonds.

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

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

Selection of 2005 Taxable Bonds to be Redeemed. The 2005 Taxable Bonds or portions of the 2005 Taxable Bonds to be redeemed shall be selected by the Corporation. If less than an entire Series of the 2005 Taxable Bonds is to be redeemed, the 2005 Taxable Bonds of such Series to be redeemed shall be selected by lot by the Trustee or in such other manner as the Trustee in its discretion may deem appropriate.

Notice of Redemption. The Trustee shall mail a notice of redemption, postage prepaid, not less than ten days before the redemption date while the 2005 Taxable Bonds are Outstanding as ARNs to the Owner of any Bonds designated for redemption in whole or in part, as its address as the same shall last appear upon the registration books.

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

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

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

SECURITY FOR THE BONDS

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

The Corporation has Outstanding under the Resolution $1,448,650,000 aggregate principal amount of its Bonds which will rank on a parity with the 2005 Bonds, and which, together with the 2005 Bonds, will be secured on a basis superior to the Subordinate Series 1998 Bonds. The security for the Bonds under the Resolution is pledged equally and ratably first, to the payment of the principal of and interest on all Senior Bonds (including the 2005 Bonds), and second, to the payment of the principal of and interest on the Subordinate Bonds. In addition, the Resolution permits the authorization of additional Senior Bonds and additional Subordinate Bonds. Failure to pay principal of or interest on the Subordinate Bonds will not constitute an Event of Default so long as Senior Bonds are Outstanding, and no Event of Default shall have occurred with respect thereto.

Upon the issuance of the 2005 Bonds and completion of the application of proceeds, it is anticipated that the value of the assets pledged under the Resolution to secure the Outstanding Bonds will equal (i) approximately

103.3% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 102.7% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding.

Under the Resolution there is established a Debt Service Reserve Account to be held by the Trustee which is available to make payments of principal and interest due on the Bonds (first to Senior Bonds and then to Subordinate Bonds), to the extent other sources are insufficient, to redeem Bonds and to make certain other payments required under the Resolution to the extent other sources are insufficient or the balance on deposit in the Debt Service Reserve Account is then in excess of the Debt Service Reserve Requirement. The Debt Service Reserve Account is to be funded in the amount of the Debt Service Reserve Requirement, but in no event in an amount that would subject interest on any Bond or Bonds to taxation for federal income tax purposes and, with respect to a particular Series of Bonds, such greater or lesser amount as may be established in the Series Resolutions pursuant to which particular Series of Bonds may thereafter be issued. The Debt Service Reserve Requirement need not be funded by cash or securities but may be funded by a surety, insurance policy, letter of credit, or other similar obligation (in all cases either issued by the Bond Insurer or approved by the Bond Insurer) (a "Funding Instrument"). The Corporation has established Debt Service Reserve Requirements for each Series of the 1995 Bonds, the 1996 Bonds, the 1998 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, the 2004 Bonds and the 2005 Bonds at 2% of the par amount of the Bonds of such Series Outstanding, provided, however, that while any of the 2005 Bonds are Outstanding, the Debt Service Reserve Requirement with respect to all Bonds Outstanding shall not be less than $500,000. The Corporation has elected to provide a Funding Instrument to satisfy the Debt Service Reserve Requirement for the 2005 Bonds as described below. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" attached hereto as Appendix A.

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

The Bond Insurer has previously issued surety bonds (the "Prior Surety Bonds") for the purpose of funding the Debt Service Reserve Requirement with respect to the 2001 Bonds, the 2002 Bonds, the 2003 Bonds and the 2004 Bonds. The Bond Insurer has made a commitment to issue a surety bond (the "2005 Surety Bond" and together with the Prior Surety Bonds, the "Surety Bond") for the purpose of funding the Debt Service Reserve Requirement with respect to the 2005 Bonds, and the 2005 Surety Bond shall constitute a Funding Instrument. The 2005 Bonds will only be delivered upon the issuance of such 2005 Surety Bond. The entire premium on the 2005 Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2005 Bonds. The 2005 Surety Bond provides that upon the later of (a) one (1) day after receipt by the General Counsel of the Bond Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on any of the Bonds, including the 2005 Bonds, when due has not been made to the Trustee or (b) the interest payment date specified in the demand for payment submitted by the Trustee to the General Counsel of the Bond Insurer, the Bond Insurer will make a deposit of funds in an account with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, including the 2005 Bonds, but in no event exceeding the Surety Bond Coverage. The Surety Bond coverage is equal to 2% of the principal of the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, the 2004 Bonds and the 2005 Bonds then outstanding. If the amount on deposit in, or credited to, the Debt Service Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a Funding Instrument other than the Surety Bond (an "Additional Funding Instrument"), draws on the Surety Bond and any Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Bond Insurer under the terms of such Surety Bond and the Corporation is required to reimburse the Bond Insurer for any draws under such Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Corporation is a limited obligation of the Corporation, is subordinate to the Corporation's obligations with respect to the 2005 Bonds and payable only from

amounts on deposit under the Resolution as described in Appendix A hereto under the caption "Pledge of Resolution; Accounts -- Revenue Account." Under certain circumstances the Surety Bond Coverage will automatically terminate and the Corporation must fund the Debt Service Reserve Requirement.

In the event the amount on deposit, or credited to the Debt Service Reserve Account, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. The Resolution provides that the Debt Service Reserve Account shall be replenished in the following priority: (a) principal and interest on the Surety Bond shall be paid from first available Revenues (along with, on a pro rata basis, amounts owing with respect to any Additional Funding Instrument); and (b) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Account to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available Revenues.

Subject to the limitation described in Appendix A under the caption "Pledge of Resolution; Accounts -- Extraordinary Reserve Account," amounts on deposit in the Revenue Account may be transferred from the Revenue Account free of the lien and pledge of the Resolution provided that prior to giving effect to such transfer the Corporation shall have provided (a) to the Bond Insurer (i) evidence satisfactory to it that the Senior Parity Percentage is at least 103% and the Parity Percentage is at least 101%, and will be at least 103% and 101%, respectively, for the remainder of the life of the Bonds and that there exists a minimum aggregate surplus of Accrued Assets minus Accrued Senior Liabilities of at least $1,500,000 in all Accounts at such time and for the remainder of the life of the Bonds, and (ii) a Cash Flow Statement showing that after giving effect to such transfer the resulting Senior Parity Percentage and Parity Percentage will be at least 103% and 101%, respectively, for the remainder of the life of the Bonds and that there will be a minimum aggregate surplus of Accrued Assets minus Accrued Senior Liabilities of at least $1,500,000 for the remainder of the life of the Bonds, (b) to the Trustee evidence reasonably satisfactory to it of the Bond Insurer's satisfaction of the conditions described above and (c) to the Rating Agencies notice of such transfer.

Under the Resolution there is also established an Extraordinary Reserve Account to be held by the Trustee which is available to make payments of principal and interest due on the Bonds (first to Senior Bonds and then to Subordinate Bonds), to the extent all other sources are insufficient. See Appendix A -- "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Pledge of Resolution; Accounts -- Extraordinary Reserve Account."

THE 2005 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2005 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2005 BONDS, DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE 2005 BONDS.

INSURANCE ON THE 2005 BONDS

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

The Bond Insurer has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the 2005 Bonds effective as of the date of issuance of the 2005 Bonds. A specimen copy of the Financial Guaranty Insurance Policy is attached hereto as Appendix H. Under the terms of the Financial Guaranty Insurance Policy, the Bond Insurer will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2005 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the

Financial Guaranty Insurance Policy). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the 2005 Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2005 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2005 Bonds, the Bond Insurer will remain obligated to pay principal of and interest on outstanding 2005 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2005 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on a 2005 Bond which has become Due for Payment and which is made to a 2005 Bondholder by or on behalf of the Corporation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

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

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

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

4. loss relating to payments made in connection with the sale of 2005 Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell.

5. loss relating to payments of the purchase price of 2005 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of 2005 Bonds upon tender by a registered owner thereof.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the 2005 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2005 Bonds to be registered in the name of the Bond Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the subject 2005 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2005 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER

Initial Liquidity Facility

General. The Corporation, Chittenden Trust Company, as Trustee (the "Trustee"), and The Bank of New York (the "Liquidity Provider"), have entered into the Standby Bond Purchase Agreement, dated as of June 1, 2005 (the "Initial Liquidity Facility"). This summary of the Initial Liquidity Facility is a summary only and reference is

made to the Initial Liquidity Facility for a full understanding of its terms. For further information regarding the Liquidity Provider, see "-- The Liquidity Provider."

Initial Liquidity Facility. Subject to certain conditions described below, the Initial Liquidity Facility requires the Liquidity Provider to purchase Senior Series 2005QQ Bonds that have been tendered and not remarketed at a price (the "Purchase Price") equal to the par amount thereof plus up to 187 days of interest accrued thereon at a per annum rate up to 12%. The Senior Series 2005QQ Bonds purchased under the Liquidity Facility and held by the Liquidity Provider ("Liquidity Provider Bonds") shall bear interest at the Bank Rate in accordance with the Initial Liquidity Facility.

The obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds under the Initial Liquidity Facility shall terminate on the earliest to occur of (i) the close of business on the day prior to the seventh anniversary of the issuance of the Senior Series 2005QQ Bonds unless such date is extended pursuant to the terms of the Initial Liquidity Facility, (ii) the date on which no Senior Series 2005QQ Bonds are Outstanding, (iii) the close of business on the date on which the Senior Series 2005QQ Bonds have been converted to a Mode other than a Variable Mode, (iv) the close of business on the thirtieth (30th) day (or, if such day is not a Business Day, the next following Business Day) following the date on which the Corporation and the Trustee receive a Notice of Termination Date (as defined below) in connection with an Event of Default as described below under "***Events of Default Under the Initial Liquidity Facility***" and "***Remedies of the Liquidity Provider***" or (v) the date on which the Available Commitment (as defined in the Initial Liquidity Facility) has been terminated in its entirety or reduced to zero pursuant to the terms of the Initial Liquidity Facility.

On each Purchase Date on which the Senior Series 2005QQ Bonds are to be purchased by the Trustee, by no later than 1:00 p.m., New York City time, the Trustee shall give the Liquidity Provider notice by facsimile and in writing of the aggregate Purchase Price of the tendered Senior Series 2005QQ Bonds required to be purchased by the Liquidity Provider pursuant to the Initial Liquidity Facility, and the amount of principal and interest constituting such Purchase Price. Upon receipt of the notice set forth above, the Liquidity Provider, unless it determines that its obligation to purchase pursuant to the Initial Liquidity Facility has been terminated in accordance therewith, shall, by no later than 3:00 p.m., New York City time, make available to the Trustee, in immediately available funds, such Purchase Price, to be deposited in accordance with the Resolution. As soon as such funds become available, the Trustee is required to purchase therewith, for the account of the Liquidity Provider, that portion of the tendered Senior Series 2005QQ Bonds for the purchase of which immediately available funds are not otherwise then available for such purposes under the Resolution. The Trustee is required to remit immediately to the Liquidity Provider such funds which are not so used to purchase tendered Senior Series 2005QQ Bonds.

Events of Default Under the Initial Liquidity Facility. The following events constitute Events of Default under the Initial Liquidity Facility.

(1) Payment on the Bonds. Any principal of, or interest on, any Variable Rate Bond (including any Liquidity Provider Bond) shall not be paid when due; or

(2) Fee Payments. The Corporation shall fail to pay any scheduled fees owing to the Liquidity Provider under the Initial Liquidity Facility within fifteen (15) days after the same shall become due and the Bond Insurer has been provided written notice of such failure to pay; or

(3) Representations. Any representation or warranty made by or on behalf of the Corporation in the Initial Liquidity Facility or in any Related Document or in any certificate or statement delivered under the Initial Liquidity Facility or any Related Document shall be incorrect or untrue in any material respect when made or deemed to have been made ("Related Documents" for this purpose means the Senior Series 2005QQ Bonds, the Bond Insurance Policy, the Liquidity Provider Bond Custody Agreement, the Resolution, the Purchase Contract and the Remarketing Agreement); or

(4) Certain Covenants. The Corporation shall default in the due performance or observance of any of certain specified covenants made in the Initial Liquidity Facility, or

(5) Other Covenants. The Corporation shall default in the due performance or observance of any other term, covenant or agreement contained in the Initial Liquidity Facility (other than those referred to in paragraphs (1), (2), (3) and (4) above) and such default shall remain unremedied for a period of thirty (30) days after the Liquidity Provider shall have given written notice thereof to the Corporation; or

(6) Insolvency of the Corporation. (i) The Corporation shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Corporation shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Corporation any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Corporation, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Corporation shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Corporation shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

(7) Other Documents. Any Event of Default under the Resolution or any "event of default" which is not cured within any applicable cure period under any of the Related Documents shall occur which, if not cured, would give rise to remedies available thereunder; or

(8) Invalidity. Any material provision of the Initial Liquidity Facility or any Related Document (other than the Bond Insurance Policy) shall at any time for any reason cease to be valid and binding on the Corporation or any other party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Corporation or such other party thereto or by any governmental agency having jurisdiction, or the Corporation or such other party shall deny that it has any or further liability or obligation under any such document; or

(9) Bond Insurer Event of Insolvency. There shall have occurred and be continuing one or more of the following events: (a) the issuance of an order of rehabilitation, liquidation or dissolution of the Bond Insurer; (b) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its Debts under any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (c) the commencement against the Bond Insurer of any involuntary case or other proceeding seeking any relief referred to in the preceding clause (b) and such case or proceeding shall not have been dismissed within ninety (90) days following the commencement thereof; (d) the making by the Bond Insurer of an assignment for the benefit of creditors; (e) the failure of the Bond Insurer to generally pay its Debts (provided for purposes of this definition, "Debts" shall not include any obligation of the Bond Insurer under any insurance policy or surety bond) as they become due; or (f) the initiation by the Bond Insurer of any actions to authorize any of the foregoing.

(10) Bond Insurer Default. The Bond Insurer shall fail, wholly or partially, to make a payment when due of principal or interest to the Trustee as required under the Bond Insurance Policy; or

(11) Bond Insurer Contest of Validity. The Bond Insurer shall, in writing, claim that the Bond Insurance Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Bond Insurer, and repudiate the obligations of the Bond Insurer under the Bond Insurance Policy, with respect to payment of principal of and interest on the Bonds, or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that the Bond Insurance Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Bond Insurer; or

(12) Invalidity of Bond Insurance Policy. Any Governmental Agency with jurisdiction to rule on the validity of the Bond Insurance Policy shall announce, find or rule that the Bond Insurance Policy or any provision thereof regarding the obligation of the Bond Insurer to make a payment with respect to the Senior Series 2005QQ Bonds is not valid and binding on the Bond Insurer; or

(13) Termination. The Bond Insurance Policy is canceled or terminated for any reason, or amended or modified in any material respect without the prior written consent of the Liquidity Provider; or

(14) Ratings Downgrade. The claims-paying ability or financial strength rating assigned to the Bond Insurer by Moody's and S&P shall be withdrawn or suspended or shall fall below "Baa3," and "BBB-," respectively; or

(15) Bond Insurer Default on other Policies. Any default by the Bond Insurer in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of any other bond insurance policy issued by the Bond Insurer insuring publicly–rated bonds unless the obligation of the Bond Insurer to pay is being contested by the Bond Insurer in good faith by appropriate proceedings; or

(16) Corporation Default on Other Debt. The Corporation shall default in any payment of principal of or premium, if any, or interest on any general obligation of the Corporation for borrowed money in excess of $10,000,000 and such default shall continue beyond the expiration of the applicable grace period, if any; or

(17) Judgment. A final judgment or order for the payment of money in excess of $5,000,000 shall have been rendered against the Corporation and such judgment or order shall not have been satisfied, stayed or bonded pending appeal within a period of sixty (60) days from the date on which it was first so rendered.

(18) Bonds Found Taxable. A final non-appealable order of a court or agency of competent jurisdiction shall have declared the interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes.

Remedies of the Liquidity Provider. Following the occurrence of the above referenced Events of Default, the Liquidity Provider may take the following specified actions.

(a) In the case of any Event of Default specified in paragraphs (10), (13), (14) or (15) above, and in the case of an Event of Default specified in paragraph (12) above in which the referenced announcement, finding or ruling is final and nonappealable, the Available Commitment and the obligation of the Liquidity Provider to purchase Bonds shall immediately terminate without notice or demand to any person, and thereafter the Liquidity Provider shall be under no obligation to purchase Senior Series 2005QQ Bonds. Promptly upon such Event of Default, the Liquidity Provider is to give written notice thereof to the Corporation, the Trustee and the Remarketing Agent; provided, that the Liquidity Provider shall not incur any liability or responsibility whatsoever by reason of the Liquidity Provider's failure to give such notice and such failure shall in no way affect the termination of the Liquidity Provider's Available Commitment and of its obligation to purchase Senior Series 2005QQ Bonds pursuant to the Initial Liquidity Facility. The Corporation is to cause the Trustee to notify all Bondowners of the termination of the Available Commitment and the termination of the obligations of the Liquidity Provider to purchase the Bonds.

(b) ***Suspension of Obligation to Purchase Bonds.*** Upon the occurrence of an Event of Default as specified in paragraphs (9), (11) or (12) above (other than the occurrence of a final, nonappealable order in the case of an Event of Default specified in paragraph (12) covered in subsection (a), above), the obligations of the Liquidity Provider under the Liquidity Facility to purchase Senior Series 2005QQ Bonds shall be immediately and automatically suspended, without notice, and the Liquidity Provider shall be under no further obligation hereunder to purchase Senior Series 2005QQ Bonds unless and until the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds is reinstated as described below. Promptly upon obtaining knowledge of any such Event of Default (whether from the Corporation, the Trustee or otherwise), the Liquidity Provider shall give the Corporation, the Trustee, the Bond Insurer and the Remarketing Agent written notice of such Event of Default; provided that the Liquidity Provider shall not incur any liability or responsibility whatsoever by reason of its failure

to give such notice and such failure shall in no way affect the suspension of the Available Commitment and of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds pursuant to the Liquidity Facility. The Corporation shall promptly direct the Trustee to notify all Owners of any suspension of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds as a result of the occurrence of such an Event of Default. If at any time prior to the earlier of (i) the scheduled Expiration Date and (ii) the date that is one year following the suspension of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds, (x) the Event of Default which gave rise to such suspension is cured or ceases to be continuing and (y) the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds under the Liquidity Facility has not otherwise terminated, then, upon written notice from the Corporation to the Liquidity Provider to such effect, the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds under the Liquidity Facility shall be reinstated. If the Event of Default which gave rise to the suspension of the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds under the Liquidity Facility has not been cured or has not ceased to exist prior to the first year anniversary of such occurrence, then the obligation of the Liquidity Provider to purchase Senior Series 2005QQ Bonds shall be terminated upon written notice from the Liquidity Provider to the Corporation, the Trustee, the Bond Insurer and the Remarketing Agent, and thereafter the Liquidity Provider shall have no further obligation to purchase any Senior Series 2005QQ Bonds.

(c) In the case of an Event of Default specified in paragraphs (2) or (4) above, and in the case of the lapse of 14 or more days after the occurrence of an Event of Default specified in paragraph (18) above, the Liquidity Provider may give written notice of such Event of Default and termination of the Agreement (a "Notice of Termination Date") to the Trustee, the Corporation, the Bond Insurer and the Remarketing Agent requesting a Default Tender. The obligation of the Liquidity Provider to purchase Bonds shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Trustee and on such date the Available Commitment shall terminate and the Liquidity Provider shall be under no obligation under the Initial Liquidity Facility to purchase Bonds. In the case of an Event of Default specified in paragraph (4) above that consists of a breach of the covenant of the Corporation to take all actions necessary to maintain a rating on the Senior Series 2005QQ Bonds equal to or higher than "Aa3" by Moody's and "AA-" by Standard & Poor's, the Liquidity Provider agrees to rescind the Notice of Termination Date, if, within 20 days of the delivery of the Notice of Termination Date, the ratings on the Bonds are restored to "Aaa" (Moody's) and "AAA" (S&P).

(d) Upon the occurrence of any Event of Default, the Liquidity Provider may declare due and payable all amounts payable under the Initial Liquidity Facility (other than payments of principal of and interest on Liquidity Provider Bonds, acceleration rights with respect to which are governed by the Resolution), and the Liquidity Provider shall have all remedies provided at law or equity, including, without limitation, specific performance; provided, however, the Liquidity Provider agrees to purchase Senior Series 2005QQ Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the occurrence of an Event of Default that does not result in the termination or suspension of its obligation to purchase Senior Series 2005QQ Bonds pursuant to paragraphs (a), (b) or (c) above, and provided further however that the Liquidity Provider's only right to declare due and payable amounts payable under the Initial Liquidity Facility and not otherwise due and payable thereunder shall be as set forth in this paragraph (d). The Liquidity Provider shall provide the Bond Insurer with notice of the occurrence of any Event of Default with respect to which the Liquidity Provider elect to exercise remedies under the Initial Liquidity Facility.

(e) The remedies provided to the Liquidity Provider under the Initial Liquidity Facility are exclusive only to the extent such remedies are obtained by the Liquidity Provider. If the Liquidity Provider is not able to obtain all such remedies, then the Liquidity Provider has the right to pursue any other available remedies, as provided in the preceding paragraph.

The Liquidity Provider

The following information has been provided by the Liquidity Provider for use in this Official Statement. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Corporation or the Underwriters. This information has not been independently verified by the Corporation or the Underwriters. No representation is made by the Corporation or the Underwriters as to the

accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Bank of New York. The Bank of New York (the "Bank") is the principal subsidiary of The Bank of New York Company, Inc. (NYSE: BK), a financial holding company (the "Company"). The Company provides a complete range of banking and other financial services to corporations and individuals worldwide through its basic businesses, namely, Securities Servicing and Global Payment Services, Private Client Services and Asset Management, Corporate Banking, Global Market Services, and Retail Banking.

The Bank of New York was founded in 1784 by Alexander Hamilton and is the nation's oldest bank. The Bank is a state chartered New York banking corporation and a member of the Federal Reserve System. Its business is subject to examination and regulation by federal and state banking authorities.

The Bank has long-term senior debt ratings of "AA-"/"Aa2" and short-term ratings of "A1+/P1" from Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively.

The Bank of New York's principal office is located at One Wall Street, New York, New York 10286. A copy of the most recent annual report and 10-K of the Company may be obtained from the Bank's Public Relations Department, One Wall Street, 31st Floor, (212) 635-1569.

ADDITIONAL BONDS

Additional Bonds may be issued under the Resolution on a parity with, or subordinated to, the 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the Senior 1998 Bonds, the 1996 Bonds and the 1995 Bonds, or superior to or equal to or subordinated to the Subordinate Series 1998 Bonds if (a) each Rating Agency requested by the Corporation to rate any Series of Bonds then Outstanding that has issued a current rating thereon confirms that it will not downgrade or withdraw such rating on account of the issuance of the Additional Bonds and (b) so long as any Bonds are insured by the Bond Insurer, the Bond Insurer consents to the issuance of the Additional Bonds.

EXPECTED APPLICATION OF THE 2005 BOND PROCEEDS

The Corporation expects to apply the proceeds of the 2005 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans (approximately $238,565,207), which generally include: (a) Federal Act Loans, which are loans qualifying under the Act and guaranteed by a permitted guarantor and reinsured by the Secretary, (b) HEAL Loans, which are loans permitted by the State Act and insured by the Secretary of Health and Human Services, and (c) Statutory Loans, which are other loans permitted under the State Act and the Resolution; and (ii) paying the costs of issuance of the Corporation incidental to the issuance of the 2005 Bonds and related expenses (approximately $1,419,793), including the Underwriters' discount. A portion of such amount will be used to purchase the 2005 Surety Bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2005 Bonds and to pay the insurance premium for the Financial Guaranty Insurance Policy. A portion of such amount will also be used to pay fees owing to the Liquidity Provider for the Initial Liquidity Facility (to be paid from proceeds of the Senior Series 2005QQ Bonds).

CHARACTERISTICS OF EDUCATION LOANS

As of March 31, 2005, Education Loans in an aggregate principal amount of approximately $1,348,286,162 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of March 31, 2005.

LOAN TYPE

	Education Loans Held Under Resolution as of March 31, 2005	
	Outstanding Principal	
Consolidation	$668,212,605	49.57%
VSAC Advantage	$61,397,282	4.55%
VSAC Extra	$1,927,684	0.14%
VSAC Extra Institutional	$16,805,305	1.25%
VSAC Extra Law	$49,935,046	3.70%
VSAC Extra Medical	$3,446,389	0.26%
HEAL	$17,317,489	1.28%
PLUS	$136,623,540	10.14%
SLS	$1,235,487	0.09%
Stafford Subsidized	$230,743,355	17.11%
Stafford Unsubsidized	$160,641,980	11.91%
Total	$1,348,286,162	100%

BORROWER PAYMENT STATUS

	Education Loans Held Under Resolution as of March 31, 2005	
Deferred	$203,145,172	15.06%
Grace	$34,203,015	2.54%
Repay	$770,151,096	57.12%
School	$340,786,879	25.28%
Total	$1,348,286,162	100%

The characteristics of Education Loans held under the Resolution as of March 31, 2005 will change over time. No assurance can be given that such changes will not be significant or that they will not be adverse.

Certain Education Loans will be eligible for the Corporation's Vermont Value Program. See "THE CORPORATION – Origination and Acquisition of Loans" herein.

CERTAIN INVESTMENT CONSIDERATIONS

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

The Bond Insurer

In the event there are insufficient funds available under the Resolution to make payments of interest on any 2005 Bond on any Interest Payment Date and the payment of principal on any 2005 Bond on the stated maturity date thereof, the Trustee shall have a claim under the Financial Guaranty Insurance Policy on behalf of the Bondowners for the timely payment of such amounts. There can be no assurance that the Bond Insurer will have sufficient revenues to enable it to make timely payments under the Financial Guaranty Insurance Policy. Moreover, the Financial Guaranty Insurance Policy does not insure the payment of the principal of or interest on the 2005 Bonds coming due by reason of acceleration, optional redemption or mandatory redemption or the payment of Carry-over amounts. See "INSURANCE ON THE 2005 BONDS," APPENDIX E – "AMBAC ASSURANCE CORPORATION" and APPENDIX H – "SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY" for further information concerning the Bond Insurer and the Financial Guaranty Insurance Policy.

The Liquidity Provider

If there are insufficient remarketing proceeds to pay the purchase price of properly tendered Senior Series 2005QQ Bonds subject to optional or mandatory tender, and subject to the provisions of the Resolution and the Liquidity Facility, the purchase price of properly tendered Senior Series 2005QQ Bonds will be paid from funds provided under the Liquidity Facility issued by the Liquidity Provider. There can be no assurance that the Liquidity Provider will have sufficient revenues to enable it to honor its commitments under the Liquidity Facility. There is no requirement that the Liquidity Facility be replaced in the event of any deterioration of the financial condition of the Liquidity Provider. In addition, under certain circumstances the Liquidity Facility may be terminated or suspended without the Owner having a right to tender. In such event, the Senior Series 2005QQ Bonds will no longer be subject to purchase on demand of the Owners thereof (unless, in the case of suspension, the Liquidity Provider reinstates its purchase obligation in accordance with the Liquidity Facility). See the caption "THE LIQUIDITY FACILITY AND THE LIQUIDITY PROVIDER" herein.

Factors Affecting Sufficiency and Timing of Receipt of Revenues

The Corporation expects that the Revenues to be received by it pursuant to the Resolution 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 Trustee fees, servicing costs and other administrative costs and expenses related thereto and to the Education Loans until the final maturity or earlier redemption of such Bonds. This expectation is based upon an analysis of cash flow assumptions, which the Corporation believes are reasonable, regarding the timing of the financing of such Education Loans to be held pursuant to the Resolution, the future composition of and yield on the Education Loan portfolio, rates of default and delinquency on Education Loans, the rate of return on moneys to be invested in various Accounts under the Resolution, and the occurrence of future events and conditions. For a brief description of selected characteristics of the Education Loans held under the Resolution as of March 31, 2005, see "CHARACTERISTICS OF EDUCATION LOANS" above. There can be no assurance, however, that the Education Loans will be acquired or originated as anticipated, that interest and principal payments from the Education Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Accounts will be realized, or that special allowance payments and other payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Corporation has no control may adversely affect the Corporation's actual receipt of Revenues and Principal Receipts pursuant to the Resolution. This, in turn, may affect the Corporation's ability to make payments of principal of and interest on the 2005 Bonds when due.

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 the current analysis of the Education Loans held under the Resolution and the Eligible Education Loans expected to be financed with proceeds of the 2005 Bonds; (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 that 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 will realize payment of such Education Loans earlier than projected.

Delay in the receipt of principal of and interest on Education Loans may adversely affect payment of the principal of and interest on the Bonds when due. Principal of and interest on Education Loans may be delayed due to numerous factors, including, without limitation: (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 based upon the current analysis of the Corporation's student loan portfolio expected to be held pursuant to the Resolution; and (e) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the student loan portfolio expected to be held pursuant to the Resolution.

The Corporation believes that in a fluctuating interest rate environment a factor affecting the prepayment rate on a large pool of loans similar to the Education Loans is the difference between the interest rates on the loans (giving consideration to the cost of any refinancing) and prevailing interest rates generally. In general, if interest rates fall below the interest rates on the Education Loans, the rate of prepayment would be expected to increase. Conversely, if interest rates rise above the interest rates on the Education Loans, the rate of prepayment would be expected to decrease. Other factors affecting prepayment of Education Loans include changes in the borrower's jobs, transfers, unemployment, loan forbearances and deferments, and refinancing opportunities which may provide more favorable repayment terms such as those offered under various consolidation loan programs, including the Federal direct consolidation loan programs.

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

Changes in the Higher Education Act or Other Relevant Law;
Federal Direct Student Loan Program

Future Changes in Relevant Law. Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times and Congress is currently engaged in the reauthorization process. Certain of these amendments have significantly affected the federal student loan programs under the Higher Education Act. In addition, the United States Department of Education (the "Department") continues to engage in the rulemaking process to revise the regulations promulgated by the Department under the Higher Education Act. The Department's authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act Amendments of 1998 extended the authorization for the Federal Family Education Loan Program (the "FFEL Program") to loans made on or before September 30, 2004. Congress recently passed, and the President has signed into law, the Higher Education Extension Act of 2004, which temporarily extends the programs under the Higher Education Act, including the FEEL Program, through federal fiscal year 2005.

During the reauthorization process, proposed amendments to the Higher Education Act are more commonplace and more than 50 such bills have been introduced in Congress relating to the current reauthorization process. These bills propose myriad changes to the Higher Education Act, including changing loan limits, decreasing origination fees and changing interest rate provisions. These changes could affect the loans expected to be held under the Resolution following the issuance of the 2005 Bonds. It is not possible to predict whether or when any of such proposals may be adopted, in what form they may be adopted, or the final content of any such proposals and their effect upon the Corporation's education loan program.

While Congress has consistently extended the effective date of the Higher Education Act and the FFEL Program, it may elect not to reauthorize the Department's ability to provide interest subsidies and federal insurance for loans. This failure to reauthorize could adversely impact the Corporation's education loan finance program. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation's education loan finance program.

Changes to Federal Family Education Loan Program. The Higher Education Act and the Federal Family Education Loan Program (the "FFEL Program") have been subject to numerous amendments and changes over the years. These changes have included, among other things, changes in the calculation of interest rates and special allowance payments on federal student loans, changes in the requirements to offer alternate payment plans to borrowers, additional loan forgiveness provisions, and additional restrictions on guarantors' use of funds. As a result of the changes to the FFEL Program, the net revenues resulting to holders of student loans have in some cases been reduced and may be further reduced in the future. In addition, expansion of the FDSL Program described below may result in reduction over time in the volume of loans made under the FFEL Program. As these reductions occur, cost increases and revenue reductions for guarantee agencies may occur. For a further description of the FFEL Program, see APPENDIX F -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Federal Direct Student Loan Program. The Student Loan Reform Act of 1993 established the William D. Ford Federal Direct Student Loan Program (the "FDSL Program"). Under the FDSL Program, approved institutions of higher education, or alternative loan originators approved by the Department, make loans to students or parents without application to or funding from outside lenders or guarantors. The Department provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including extended, graduated and income-contingent repayment plans, forbearance of payments during periods of national service and consolidation under the FDSL Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the FDSL Program. The FDSL Program also provides certain programs under which principal may be forgiven or interest rates may be reduced. The FDSL Program involved reduction over time in the volume of loans made under the FFEL Program, and may continue to do so unless the FDSL Program is limited or eliminated legislatively.

Federal Budgetary Legislation. The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. No representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department, or the effect, if any, of any future legislation or regulations upon the Corporation's education loan finance program or other factors that could potentially affect timely payment of the 2005 Bonds.

Interest Rate Risk

The interest rates on the 2005 Bonds initially outstanding as Auction Rate Notes (sometimes referred to herein as "Auction Rate Notes" or "ARNs") will be based on auctions of those 2005 Bonds and will fluctuate from one interest period to another in response to changes in benchmark interest rates or general market conditions. The Corporation can make no representation as to what such rates may be in the future. The Education Loans, however, generally bear interest at an effective rate (taking into account any Special Allowance Payments, the "Loan Rates") equal to the average bond equivalent rates of weekly auctions of certain United States Treasury Bills or rates of interest on 3-month commercial paper plus margins specified for such Education Loans. See APPENDIX F -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto. As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on the 2005 Bonds, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds, including the 2005 Bonds, and amounts owing under certain other obligations. Further, if there is a decline in the Loan Rates, the amount of funds representing interest deposited in the Trust Estate may be reduced and, even if there is a similar reduction in the variable interest rates applicable to any of the 2005 Bonds,

there may not necessarily be a similar reduction in the other amounts required to be funded out of such funds (such as certain Program Expenses).

Features of the Auction Market

The ability of any holder of ARNs to sell such ARNs in any Auction is directly contingent upon the Auction Agent's receipt of Sufficient Clearing Bids. If Sufficient Clearing Bids are not received, Submitted Orders will be accepted or rejected as summarized in Appendix B under "--Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARNs," and an Existing Owner of ARNs who submits a Sell Order may be required to continue to hold such ARNs.

As noted above, if there are more ARNs offered for sale than there are buyers for those ARNs in any Auction, the Auction will fail and an investor may not be able to sell some or all of the investor's ARNs at that time. The relative buying and selling interest of market participants in the ARNs and in the auction rate securities market as a whole may vary over time, may be adversely affected by, among other things, news relating to the Corporation, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted accounting principles relating to the treatment of ARNs, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Shifts of demand in response to any of the factors listed above cannot be predicted and may be short-lived or exist for longer periods.

Auctions will be suspended and the ARNs Rate will equal the Non-Payment Rate for the Interest Period commencing on or after any Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than the Applicable Number of Business Days after, such Payment Default is cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

The Auction Agency Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice, or 30 days notice if it has not been compensated for its services for more than 30 days after such fee is due, to the Corporation, the Trustee and the Market Agent and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its compensation has not been paid. The Broker-Dealer Agreement provides that either party thereto may terminate such agreement upon 5 days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such termination, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker Dealer, it will not be possible to hold Auctions, with the result that the Interest Rate on the ARNs will be at the Maximum Rate.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage over other bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of orders submitted by other Broker-Dealers (if any) in that Auction. As a result of bidding by a Broker-Dealer in an Auction, the Auction Rate may be lower than the rate that would have prevailed had the Broker-Dealer not bid. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise Owners of ARNs that the Auction Rate that will apply in an "all-hold" Auction is often a lower rate than would apply if Owners submit Bids, and such advice, if given, may facilitate the submission of Bids by Existing Owners that would avoid the occurrence of an "all-hold" Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, all Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

The Broker-Dealer has advised the Corporation that it intends initially to make a market for the ARNs between Auctions; however, the Broker-Dealer is not obligated to make such market, and no assurance can be given that a secondary market for the ARNs will develop.

The Underwriters and the Broker-Dealer have advised the Corporation that the Underwriters and various other broker-dealers and other firms have received letters from the staff of the Securities and Exchange Commission (the "SEC") last spring. The letters requested that each of these firms voluntarily conduct an investigations regarding its respective practice and procedures in that market. Pursuant to these requests, the Underwriters conducted their own voluntary review and reported their findings to the SEC. At the SEC staff's request, the Underwriters are engaging in discussion with SEC staff concerning its inquiry. Neither the Underwriters nor the Corporation can predict the ultimate outcome of the inquiry or how outcome will affect the market for the auction rate securities or the auctions.

Financial Status of the Guarantors

A deterioration in the financial status of a Guarantor could result in the inability of such Guarantor to make guaranty claim payments to the Corporation. Among the possible causes of deterioration in a Guarantor's financial status are: (a) the amount and percentage of defaulting Federal Act Loans guaranteed by such Guarantor; (b) an increase in the costs incurred by such Guarantor in connection with Federal Act Loans it has guaranteed; and (c) a reduction in revenues received in connection with Federal Act Loans it has guaranteed. The Higher Education Act grants the Department broad powers over Guarantors and their reserves. These provisions create a risk that the resources available to the Guarantors to meet their guaranty obligations may be reduced and no assurance can be given that exercise of such powers by the Department will not affect the overall financial condition of the Guarantors. Under Section 432(o) of the Higher Education Act, if the Department has determined that a Guarantor is unable to meet its 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 Guarantor. However, the Department's obligation to pay guaranty claims directly in this fashion is contingent upon the Department making the determination referred to above. There can be no assurance that the Department would ever make such a determination with respect to any specific Guarantor 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 F -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Federal Act Loans by any lender, any Guarantor, any Servicer or the Corporation may adversely affect payment of principal of and interest on the Bonds, including the 2005 Bonds, when due. The Higher Education Act, and the applicable regulations thereunder, require the lenders making Federal Act Loans, guarantors guaranteeing Federal Act Loans and parties servicing Education Loans to follow certain due diligence procedures in an effort to ensure that Federal Act Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a student loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Federal Act Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to completely describe those procedures. Failure to follow such procedures may result in the refusal by the Department to make reinsurance payments to a guarantor on such loans or may result in the guarantor's refusal to honor its guarantee on such loans to the Corporation. Such action by the 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 payment of principal of and interest on the 2005 Bonds.

If the Department or the Guarantor determines that the Corporation owes a liability to the Department or the Guarantor on any Federal Act Loan for which the Corporation is legal titleholder, the Department or the Guarantor might seek to collect that liability by offsetting against payments due to the Corporation on Federal Act Loans that are part of the Trust Estate. Such offsetting or shortfall of payments could adversely affect the amount of Revenues and the Corporation's ability to pay principal of and interest on the Bonds, including the 2005 Bonds.

On May 24, 2005, the Office of Inspector General ("OIG") of the United States Department of Education issued its Final Audit Report into certain amounts billed to the Department of Education by the New Mexico

Educational Assistance Foundation ("NMEAF") in respect of certain education loans held by NMEAF. In the Report, the OIG questioned NMEAF's ability to extend a certain type of loan return billing (the so-called "9.5% floor loan" return treatment) on its pre-October 1, 1993 bonds refunded by the issuance of tax-exempt refunding bonds issued on or before September 30, 2004. NMEAF has disagreed strongly with the Report, stating publicly that the Report incorrectly analyzes applicable law and regulations, and that a series of Department of Education policy statements have clearly supported NMEAF's floor loan billing practices since October 1, 1993. NMEAF also has pointed out that the OIG can only recommend certain actions to the Secretary of the Department of Education, and has no separate enforcement capability. The Secretary has not altered her guidance on 9.5% floor loan billing practices.

The 9.5% floor loan return treatment is advantageous to the Corporation, and to the Trust Estate, in certain low-interest rate environments such as have been experienced for a number of years. The Trust Estate includes Federal Act Loans which the Corporation considers eligible for 9.5% floor loan return treatment, including loans refunded by the issuance of tax-exempt refunding bonds issued on or before September 30, 2004. The Corporation believes that its treatment of such Federal Act Loans as 9.5% floor loans complies with the Higher Education Act (including the Taxpayer-Teacher Protection Act of 2004) and Department of Education guidance since November 1993, and is consistent with industry practice.

The Corporation, however, can make no assurances as to what future actions the Department of Education may pursue, including specifically in relation to the Corporation, relating to the NMEAF Report, to any other report from the OIG, or in response to any recommendation based thereon. If the Department of Education were to adopt a recommendation from the OIG which retroactively changed its prior guidance relating to the treatment of 9.5% floor loans, and the Department of Education successfully pursued collections from the Corporation relating to such change in guidance, the amounts held in the Trust Estate and the Corporation's ability to pay the principal of and interest on the Bonds from such amounts may be adversely affected.

Uncertainty as to Available Remedies

The remedies available to Owners of the 2005 Bonds upon an Event of Default under the Resolution or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies specified by the Resolution and other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2005 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 and by limitations on the availability of equitable remedies. In addition, the Higher Education Act provides that a security interest in student loans made pursuant to the FFEL Program may be perfected either through the taking of possession of the promissory notes evidencing such loans (or copies thereof) or by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law. If, through fraud, inadvertence or otherwise, a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Education Loans (or copies thereto), any security interest of the Trustee in the related Education Loans could be defeated.

Consent of Bond Insurer and/or Rating Agency Consent for Certain Actions

The Resolution provides that the Corporation and the Trustee may undertake certain various actions based upon receipt by the Trustee of the written consent of the Bond Insurer and/or confirmation from each of the Rating Agencies that the outstanding respective ratings assigned by such Rating Agencies to the Bonds are not thereby impaired. Such actions include, among others, the issuance of Additional Bonds, restrictions on the optional redemption of the Subordinate Bonds, the inclusion in the Accounts held under the Resolution of a larger percentage of Eligible Education Loans which are not Federal Act Loans or which are not guaranteed at least as to the maximum percentage of the principal amount thereof permitted by the Act at the time of origination, the extension of certain dates for the acquisition or origination of Eligible Education Loans, amendments to the Resolution, removal of the Trustee and appointment of a successor, the acquisition of certain investments and the addition of loan servicers or liquidity providers. To the extent such actions are taken after issuance of the 2005 Bonds, investors in the 2005 Bonds will be subject to such actions and their impact on credit quality. Currently, the Rating Agencies

rating the 2005 Bonds are Moody's Investors Service ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). Information on the ratings assigned to the 2005 Bonds can be obtained from Moody's at 99 Church Street, New York, New York 10007-2796 and from S&P at 55 Water, New York, New York 10041.

General Economic Conditions

Certain general economic conditions such as a downturn in the economy resulting in increasing unemployment either regionally or nationally may result in an increase in defaults by borrowers in repaying Education Loans, thus causing increased default claims to be paid by guarantors. It is impossible to predict the status of the economy or unemployment levels or at which point a downturn in the economy would impair a guarantor's ability to pay default claims. General economic conditions may also be affected by other events including the prospect of increased hostilities abroad. Certain such events may have other effects, the impact of which are difficult to project.

Servicemembers Civil Relief Act

The Servicemembers Civil Relief Act (the "Relief Act") provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loan. The Relief Act limits the ability of a lender of student loans to take legal action against a borrower during the borrower's period of active duty and, in some cases, during an additional three month period thereafter. In addition, the Relief Act provides generally that a borrower who is covered by the Relief Act may not be charged interest on a student loan that is not a Federal Act Loan or a HEAL Loan in excess of 6% per annum during the period of the borrower's active duty. As a result, there may be delays in payment and increased losses on the Education Loans.

The Department has issued guidelines that extend the in-school status, in-school deferment status, grace period status or forbearance status of certain borrowers ordered to active duty. Further, if a borrower is in default on a Federal Act Loan, the applicable Guarantor must, upon being notified that the borrower has been called to active duty and during certain time periods as from time to time designated by the Department, cease all collection activities for the expected period of the borrower's military service.

The number and aggregate principal balance of Education Loans that have been or may be affected by the application of the Relief Act and the Department's recent guidelines is not known at this time.

Higher Education Relief Opportunities for Students Act of 2003

The Higher Education Relief Opportunities for Students Act of 2003 ("HEROES Act of 2003"), authorizes the Secretary of Education, during the period ending September 30, 2005, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: are serving on active military duty during a war or other military operation or national emergency, reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency, or suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, to ensure that such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance, to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable. The Secretary was given this same authority under the Higher Education Relief Opportunities for Students Act of 2001, but the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty.

The number and aggregate principal balance of Education Loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, payments received by the Corporation on Education Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers of the Education Loans become eligible for the relief provided under the HEROES Act of 2003, there could be an adverse effect on the total collections on the Education Loans and the ability of the Corporation to pay interest on the 2005 Bonds.

Carry-over Amount

The Auction Rates on the 2005 Taxable Bonds while outstanding as Taxable ARNs will be limited to the Maximum Rate. See Appendix B – "AUCTION PROCEDURES RELATING TO TAXABLE ARNS – Definitions" hereto. For an Interest Payment Date on which the Maximum Rate applies to the 2005 Taxable Bonds, the difference between the amount of interest at the Auction Rate and the amount of interest at the Maximum Rate will be paid on succeeding Interest Payment Dates to the extent of available funds pursuant to the Resolution and may never be paid. See "TAXABLE AUCTION RATE NOTES – Interest – Carry-over Amounts" herein.

Conversion of Taxable Bonds to Tax-Exempt Bonds

The Taxable ARNs are subject to mandatory tender upon conversion to bear interest at a Tax-Exempt Auction Rate. See Appendix D – "MECHANISM FOR CONVERSION OF TAXABLE ARNS TO TAX-EXEMPT ARNS" hereto. The Corporation may or may not elect to convert all or any part of these Taxable ARNs. See the discussion of the conversion under "TAXABLE AUCTION RATE NOTES -- General" herein.

THE CORPORATION

General

The Corporation, a public nonprofit corporation, was created as an instrumentality of the State 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 (designated as the Vermont Higher Education Investment Plan) and work study, informational and career counseling services to students seeking further education, and related services to parents of such students.

The Vermont General Assembly revised the State Act during its 2004 session, effective July 1, 2004. The Corporation supported the revisions, which enhance its ability to manage its programs effectively, including its education loan program.

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 Corporation's loan programs, including the Bonds, are not effective until approved in writing by the Governor of the State.

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. The present Directors' names and principal occupations or affiliations are as follows:

DIRECTORS	PRINCIPAL OCCUPATIONS OR AFFILIATIONS
Chris Robbins Chair	Executive Vice President, EHV - 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 South Burlington, Vermont
Senator Ann E. Cummings	Vermont State Senator Montpelier, Vermont
Jeb Spaulding *ex officio*	Treasurer, State of Vermont Montpelier, Vermont
David Ginevan	Retired Executive Vice President for Facilities Planning Middlebury College Middlebury, Vermont
Pamela A. Chisolm	Director of Financial Aid Community College of Vermont Waterbury, Vermont
Dorothy R. Mitchell	Higher Education and Community Volunteer Worcester, Vermont
David Larsen	Middle School Educator Wilmington, Vermont
Joan Loring Wing	Attorney Rutland, Vermont

The Corporation's telephone number is 802-655-9602, and its address is P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404. The Corporation's web site address is www.vsac.org; provided, however, web site information is not being incorporated herein by reference.

The following persons are the officers of the Corporation and its Board of Directors:

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
Scott A. Giles	Vice President of Policy, Research, and Planning
Thomas A. Little	Vice President – General Counsel 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 following is a brief description of the senior management of the Corporation.

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, the Education Finance Council (EFC) - Board member 2000-2003, the National Council of Higher Education Loan Programs (NCHELP) - Chairman 2003 – 2004, and the National Student Loan Clearing House – Board member 2005-current. 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.

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. 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. 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 & Conard, P.C., Burlington, Vermont. Mr. Little was a member of the Vermont House of Representatives from 1992 to 2002.

Origination and Acquisition of Loans

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

The Corporation acquires and originates Federal Act Loans, HEAL Loans and Statutory Loans.

Certain Education Loans are eligible for the Corporation's Vermont Value Program. Under the Vermont Value Program, a program that was established by the Corporation on July 1, 1994, students or parents with qualified loans held by the Corporation are eligible for certain reductions in interest rate or interest rate rebates on any such loan. The Vermont Value Program is subject to the availability of funds and modification by the Corporation in its discretion. Currently the Program provides for (a) a rebate of interest equivalent to one percent of the principal balance of the loan annually for qualified Federal Act Loans, or, for students attending a VSAC approved medical or law school, a rebate of interest equivalent to one and ½ percent of the principal balance of the loan annually for qualified Higher Education Act Eligible Loans and one and ½ percent while in school and one percent while in repayment on State Act Eligible Loans, (b) for Federal Act consolidation loans the applications for which are received after June 30, 2005, a one percent interest rate reduction after 36 consecutive on-time payments are made, or, for students who attended a Corporation approved medical or law school, a rebate of interest equivalent to three-quarters of one percent of the principal balance of the loan annually and (c) a one-quarter percent reduction in loan interest for qualified borrowers who elect to make loan payments with an automatic, electronic

deduction from a bank account. The Vermont Value Program may be modified or terminated by the Corporation in its discretion.

Servicing of Education Loans

The Corporation provides the personnel necessary to perform all origination and servicing of Eligible Education Loans (including all Federal Act Loans, HEAL Loans and Statutory Loans). The Corporation uses third-party collection agencies to assist it in the collection of certain Eligible Education Loans. In November 1996, the Corporation entered into a license agreement with Idaho Financial Associates, Inc., of Boise, Idaho ("IFA"), for the licensing and use of certain education loan servicing software systems. The Corporation converted its loan servicing operations to the IFA system on July 1, 1997. The Corporation has entered into a separate servicing software maintenance agreement with IFA for the IFA software systems. The Corporation currently originates Eligible Education Loans with software developed by the Corporation.

The State Guarantor

General. Upon original enactment of the State Act, the Corporation was authorized to establish a student loan insurance program that would guarantee loans for qualified borrowers and would meet the federal and state statutory requirements for state loan insurance programs. In 1965, the Corporation established its guarantee program under the Guaranteed Student Loan Program (now referred to as the "Federal Family Education Loan Program" or "FFEL Program") to help students borrow money for their education beyond the high school level.

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

In accordance with the provisions of Section 2864 of Title 16 of the Vermont Statutes Annotated and with the terms of its agreements with lenders (including with itself in its capacity as an originator of Eligible Education Loans) for the guarantee of loans, the Corporation has established a fund (the "Guarantee Reserve Fund") for the purpose of providing for the payment of any defaulted notes under the FFEL Program. The Guarantee Reserve Fund also serves as the Corporation's Federal Loan Reserve Fund under the Act. The Corporation is obligated to make payments with respect to such guaranteed loans solely from the revenues or other funds of the Guarantee Reserve Fund, and neither the State nor any political subdivision thereof is obligated to make such payments. Neither the faith and credit nor the taxing power of the State or of any of its political subdivisions is pledged to any such payments required to be made. The amount on deposit in the Guarantee Reserve Fund at any time (including federal funds) is required by the State Act to be an amount equal to the amount required by the Act but not less than 8% of the total loans outstanding as of such date not covered by federal reinsurance. As of March 31, 2005, the amount on deposit in the Guarantee Reserve Fund exceeded the amount required by the State Act, and as of such date the Corporation's Federal Loan Reserve Fund complied with the requirements of the Act.

The State Guarantor currently receives funding from several sources, including reimbursement from the Secretary in the form of Default Aversion Assistance pursuant to Section 428(i)(2) of the Act, federal advances and other federal payments, including the Administrative Maintenance Fee and the Issuance Fee authorized pursuant to Section 458(b) of the Act. The Act, as amended by the Omnibus Budget Reconciliation Act of 1987 (the "1987 Amendment"), requires that any guaranty agency, including the State Guarantor, return certain advances and not accumulate cash reserves in excess of an amount determined by the Secretary.

Guaranty Volume. As of March 31, 2005, federally-reinsured education loans in the outstanding aggregate principal amount of approximately $1,481,506,233 were guaranteed by the Corporation.

Reserve Ratio. As of March 31, 2005, the Corporation's reserve ratio was .65%. The Corporation calculates its reserve ratio by dividing (a) cash and investments held in or credited to the Guarantee Reserve Fund by (b) the total original principal amount all loans guaranteed by the Corporation that have a balance outstanding.

Default Trigger Claims Rate. During the most recent five federal fiscal years, the Corporation's default trigger claims rates did not exceed 5% and as a result maximum reinsurance was paid on all of the Corporation's claims. The Corporation's default trigger claims rate as of September 30, 2004 was .91%. See Appendix F -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Loan by School Type. The following table sets forth, by school type, the percentage of loans (based upon actual loan balances) guaranteed by the Corporation as of March 31, 2005.

School Type	CPB	Percentage of Guaranteed Loans Outstanding (as of March 31, 2005)
Four-Year	$941,679,843	70%
Two-Year	$ 80,327,341	6%
Proprietary	$ 84,287,955	6%
Other[1]	$241,991,023	18%
Total	$1,348,286,162	100%

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

Outstanding Debt of the Corporation

As of March 31, 2005, the Corporation had outstanding the following bonds and notes. Except for the 1995 Bonds, the 1996 Bonds, the 1998 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, and the 2004 Bonds (which were issued and are secured under the Resolution), all such debt obligations were issued and are secured under resolutions that are separate and distinct from the Resolution.

Designation	**Amount Outstanding**	**Credit Enhancement**
1985 Series A	$ 40,900,000	Letter of Credit from State Street Bank
1995 Series A,B,C,D	$ 96,000,000	Insured by Ambac Assurance
1996 Series F,G,H,I	$ 100,000,000	Insured by Ambac Assurance
1998 Series K,L,M,N	$ 155,000,000	Insured by Ambac Assurance
1998 Series O	$ 10,000,000	No Credit Support
2000 Series Q,R,S,T,U	$ 184,500,000	Insured by Ambac Assurance
2001 Series V,W,X,Y,Z,AA	$ 164,750,000	Insured by Ambac Assurance
2002 Series BB, CC, DD	$ 112,500,000	Insured by Ambac Assurance
2003 Series EE,FF,GG,HH,II,JJ,KK,LL	$ 360,900,000	Insured by Ambac Assurance
Series 2003 General Obligation Bonds	$ 22,155,000	No Credit Support
Series 2004 MM,NN,OO,PP	$ 275,000,000	Insured by Ambac Assurance
Series 2004 Series A-XIX Note	$ 30,400,000	No Credit Support
Total	$ 1,552,105,000	

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Senior Series 2005QQ Bonds is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and

compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Senior Series 2005QQ Bonds. Failure to comply with such requirements could cause interest on the Senior Series 2005QQ Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Senior Series 2005QQ Bonds. The Corporation has covenanted to comply with such requirements. Bond Counsel is further of the opinion that interest on the Senior Series 2005QQ Bonds is a specific preference item for purposes of the federal alternative minimum tax.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2005 Taxable Bonds is fully includable in the gross income of the recipients thereof for federal income tax purposes.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2005 Bonds and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes.

Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the 2005 Bonds.

Tax Matters Related to the Senior Series 2005QQ Bonds

The accrual or receipt of interest on the Senior Series 2005QQ Bonds may otherwise affect the federal income tax liability of the owners of the Senior Series 2005QQ Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Senior Series 2005QQ Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Senior Series 2005QQ Bonds.

Changes in Federal Tax Law. From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Senior Series 2005QQ Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Senior Series 2005QQ Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Senior Series 2005QQ Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation.

Tax Matters Related to the 2005 Taxable Bonds

The following summary of certain United States federal income tax consequences with respect to the 2005 Taxable Bonds is based on current law and is for general information only. This summary is generally limited to owners who have acquired the 2005 Taxable Bonds in the original offering as "capital assets" (generally, property held for investment). The tax treatment of an owner of 2005 Taxable Bonds may vary depending upon such owner's particular situation. Certain owners of 2005 Taxable Bonds (including insurance companies, tax-exempt organizations, financial institutions, brokers, dealers, foreign corporations or other entities and persons who are not citizens or residents of the United States) may be subject to special rules not discussed below. Prospective owners should consult their tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of the 2005 Taxable Bonds.

Characterization of the 2005 Taxable Bonds as Indebtedness. The Corporation intends for applicable tax purposes, that the 2005 Taxable Bonds will be indebtedness of the Corporation secured by the Education Loans.

The Owners, by accepting the 2005 Taxable Bonds, have agreed to treat the 2005 Taxable Bonds as indebtedness of the Corporation for federal income tax purposes. The Corporation intends to treat this transaction as a financing reflecting the 2005 Taxable Bonds as its indebtedness for tax and financial accounting purposes. Bond Counsel is of the opinion that the 2005 Taxable Bonds should be treated as indebtedness of the Corporation and that interest on the 2005 Taxable Bonds is not excludable from gross income under Section 103 of the Code, each for federal income tax purposes. Attached hereto as Appendix K is the proposed form of the tax opinion of Bond Counsel with respect to the 2005 Taxable Bonds.

In general, the characterization of a transaction as a sale of property rather than a secured loan, for federal income tax purposes, is a question of fact, the resolution of which is based upon the economic substance of the transaction, rather than its form or the manner in which it is characterized. While the Internal Revenue Service (the "Service") and the courts have set forth several factors to be taken into account in determining whether the substance of a transaction is a sale of property or a secured indebtedness, the primary factor in making this determination is whether the transferee has assumed the risk of loss or other economic burdens relating to the property and has obtained the benefits of ownership thereof. Notwithstanding the foregoing, in some instances, courts have held that a taxpayer is bound by the particular form it has chosen for a transaction, even if the substance of the transaction does not accord with its form.

The Corporation believes that it has retained the preponderance of the benefits and burdens associated with the Education Loans. Therefore, the Corporation believes that it should be treated as the owner of the Education Loans for federal income tax purposes, and the 2005 Taxable Bonds should be treated as its indebtedness for federal income tax purposes. If, however, the Service were to successfully assert that this transaction should not be treated as a loan secured by the Education Loans, the Service could further assert that the Resolution created a separate entity for federal income tax purposes which would be the owner of the Education Loans and would be deemed engaged in a business. Such entity, the Service could assert, should be characterized as an association or publicly traded partnership taxable as a corporation. In such event, the separate entity would be subject to corporate tax on income from the Education Loans, reduced by interest on the 2005 Taxable Bonds. Any such tax could materially reduce cash available to make payment on the 2005 Taxable Bonds.

Stated Interest. In general, all interest payments on 2005 Taxable Bonds that are payable at the Auction Rate will be includable in the owner's gross income as ordinary interest income in accordance with such owner's regular method of accounting for tax purposes. For cash basis owners, such payments will be includable in income when received (or when made available for receipt, if earlier). For accrual basis owners, such payments will be includable in income when all events necessary to establish the right to receive such payments have occurred. In the event that the Auction Rate exceeds the Maximum Rate, the Carry-over Amount may also be includable in gross income in the year in which the Carry-over Amount begins to accrue. In such event, an owner should consult its own tax advisor to determine the proper treatment of such Carry-over Amount. The interest on the Carry-over Amount will be includable in an owner's gross income as ordinary interest income in the same manner as its interest at the Auction Rate.

Backup Withholding. Under Section 3406 of the Code, an owner of the 2005 Taxable Bonds may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the 2005 Taxable Bonds. This withholding applies if the owner of the 2005 Taxable Bond: (a) fails to furnish to the appropriate party such owner's social security number or other taxpayer identification number ("TIN"); (b) furnishes the Trustee an incorrect TIN; (c) fails to properly report interest or dividends; or (d) under certain circumstances, fails to provide such owner's securities broker with a certified statement, signed under penalty of perjury that the TIN provided is correct and that such owner is not subject to backup withholding. The withholding rate expressed as a percentage of the reportable payments, which include interest payments, is 28% for tax years through 2010 and 31% for tax years 2011 and thereafter.

Backup withholding will not apply, however, with respect to payments made to certain owners of the 2005 Taxable Bonds. Owners of the 2005 Taxable Bonds should consult their tax advisors regarding their qualification for such exemption from withholding and the procedure for obtaining such an exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to

withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United State business. Assuming the interest received by the beneficial owner of the 2005 Taxable Bonds is not treated as effectively connected income within the meaning of Section 864 of the Code, such interest will be subject to 30% withholding, or any owner rate specified in an income tax treaty, unless such income is treated as portfolio interest. Assuming the 2005 Taxable Bonds are indebtedness of the Corporation; interest will be treated as portfolio interest if (a) the owner provides a statement to the Trustee certifying, under penalty of perjury, that such owner is not a United States person and providing the name and address of the owner; (b) such interest is treated as not effectively connected with the owner's United States trade or business; (c) interest payments are not made to a person within a foreign country which the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion; (d) interest payable with respect to the 2005 Taxable Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; and (e) the owner claiming the portfolio interest exemption is not deemed to be a foreign bank that acquired the 2005 Taxable Bonds pursuant to an extension of credit entered into in the ordinary course of its banking business.

Assuming payments on the 2005 Taxable Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no backup withholding is required with respect to owners who have furnished Form W-8BEN (or a substitute form), provided neither the Corporation nor the Trustee has actual knowledge that such person is a United States person.

Final Withholding Regulations. In 1997, the Treasury Department issued final regulations (the "Final Withholding Regulations") that make certain modifications to the withholding rules described in the preceding two sections as they generally relate to non-U.S. owners. The Final Withholding Regulations unify certain requirements of payees and withholding agents and modify certain reliance standards. The Final Withholding Regulations generally are effective for payments made after December 31, 2000, subject to certain transition rules. Prospective non-U.S. owners should consult their tax advisors to determine the effect the Final Withholding Regulations may have on their particular circumstance.

Unrelated Business Taxable Income. Entities otherwise exempt from federal income tax under Section 501 of the Code will be subject to tax on their income derived from an unrelated trade or business. Under Section 512(d) of the Code, in general, interest may be excluded from the calculation of unrelated business taxable income. Based upon the foregoing and assuming that an owner does not incur acquisition indebtedness within the meaning of Section 514(c) of the Code in connection with its purchase of the 2005 Taxable Bonds, the interest on such 2005 Taxable Bonds may be excluded from the calculation of unrelated business taxable income by tax-exempt owners.

ERISA. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any 2005 Taxable Bonds.

Changes in Federal Tax Law. From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2005 Taxable Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the 2005 Taxable Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the 2005 Taxable Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

The foregoing discussion of certain federal income tax consequences is for general information only and is not tax advice. Accordingly, each prospective owner of 2005 Taxable Bonds should consult such prospective owner's own tax advisor with respect to the tax consequences to such prospective owners, including the tax consequences under the state, local, foreign and other tax laws, of the acquisition, ownership and disposition of 2005 Taxable Bonds.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes substantially similar prohibited transaction restrictions on certain employee benefit plans, including tax-qualified retirement plans described in Section 401(a) of the Code ("Qualified Retirement Plans") and on individual retirement accounts and annuities described in Sections 408 (a) and (b) of the Code ("IRAs," collectively, with Qualified Retirement Plans, "Tax-Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) ("Non-ERISA Plans"), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. Accordingly, the assets of such Non-ERISA Plans may be invested in the 2005 Bonds without regard to the ERISA or Code considerations described below, provided that such investment is not otherwise subject to the provisions of other applicable federal and state law ("Similar Laws"). Any governmental plan or church plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that an ERISA Plan's investment of its assets be made in accordance with the documents governing such ERISA Plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans ("Plan" or collectively "Plans") and entities whose underlying assets include "plan assets" by reason of Plans investing in such entities with persons ("Parties in Interest" or "Disqualified Persons" as such terms are defined in ERISA and the Code, respectively) who have certain specified relationships to the Plans, unless a statutory, class or administrative exemption is available. Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory or administrative exemption is available. Section 502(l) of ERISA requires the Secretary of the U.S. Department of Labor (the "DOL") to assess a civil penalty against a fiduciary who violates any fiduciary responsibility under ERISA or commits any other violation of part 4 of Title I of ERISA or any other person who knowingly participates in such breach or violation. If the investment constitutes a prohibited transaction under Section 408(e) of the Code, the IRA will lose its tax-exempt status.

The investment in a security by a Plan may, in certain circumstances, be deemed to include an investment in the assets of the entity issuing such security, such as the Corporation. Certain transactions involving the purchase, holding or transfer of 2005 Bonds may be deemed to constitute prohibited transactions if assets of the Corporation are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

Plan Assets Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3-101 (the "Plan Assets Regulation") concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the Corporation) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an "equity interest" (such as a 2005 Bond) in such entity. Depending upon a number of factors set forth in the Plan Assets Regulation, "plan assets" may be deemed to include either a Plan's interest in the assets of an entity (such as the Corporation) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest (such as a 2005 Bond). For purposes of this section, the terms "plan assets" ("Plan Assets") and the "assets of a Plan" have the meaning specified in the Plan Asset Regulation and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan's investment therein (a "Plan Asset Entity").

Under the Plan Assets Regulation, the assets of the Corporation would be treated as Plan Assets if a Plan acquires an equity interest in the Corporation and none of the exceptions contained in the Plan Assets Regulation are applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features.

If the 2005 Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases 2005 Bonds could be treated as having acquired a direct interest in the Corporation. In that event, the purchase, holding, transfer or resale of the 2005 Bonds could result in a transaction that is prohibited under ERISA or the Code.

The Plan Assets Regulation provides an exemption from "plan asset" treatment for securities issued by an entity if such securities are debt securities under applicable state law with no "substantial equity features." While not free from doubt, on the basis of the 2005 Bonds as described herein, it appears that the 2005 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

In the event that the 2005 Bonds cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Assets Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Assets Regulation. Because the availability of this exception depends upon the identity of the holders of the 2005 Bonds at any time, there can be no assurance that the 2005 Bonds will qualify for this exception and that the Corporation's assets will not constitute a Plan Asset subject to ERISA's fiduciary obligations and responsibilities. Therefore, neither a Plan nor a Plan Asset Entity should acquire or hold 2005 Bonds in reliance upon the availability of any exception under the Plan Assets Regulation.

Prohibited Transactions

The acquisition or holding of 2005 Bonds by or on behalf of a Plan could give rise to a prohibited transaction if the Corporation or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a 2005 Bond is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the Corporation or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires 2005 Bonds. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the 2005 Bonds were acquired pursuant to and in accordance with one or more statutory exemptions, individual administrative exemptions or "class exemptions" issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption ("PTCE") 75-1 (an exemption for certain transactions involving employee benefit plans and broker dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company's general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in-house asset manager).

The Underwriter, the Trustee, the Servicer, the Auction Agent or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding of 2005 Bonds, the purchase of 2005 Bonds using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision of Title I of ERISA or Section 4975 of the Code. Accordingly, 2005 Bonds may not be purchased using the assets of any Plan if any of the Underwriters, the Trustee, the Servicer, the Auction Agent or their affiliates has investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available to cover such purchase.

Purchaser's/Transferee's Representations and Warranties

Each purchaser and each transferee of a 2005 Bond shall be deemed to represent and warrant that (1)(a) it is not a Plan and is not acquiring the 2005 Bond directly or indirectly for, or on behalf of, a Plan or with Plan Assets, Plan Asset Entity or any entity whose underlying assets are deemed to be plan assets of such Plan or (b) the acquisition and holding of the 2005 Bonds by or on behalf of, or with Plan Assets of, any Plan, Plan Asset Entity or any entity whose underlying assets are deemed to be Plan Assets of such Plan is permissible under applicable law, will not result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Law, and will not subject the Corporation to any obligation not affirmatively undertaken in writing thereby.

Consultation with Counsel

Any Plan fiduciary or other investor of Plan Assets considering whether to acquire or hold 2005 Bonds on behalf of or with Plan Assets of any Plan or Plan Asset Entity, and any insurance company that proposes to acquire or hold 2005 Bonds, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption. A fiduciary with respect to a Non-ERISA Plan which is a Qualified Retirement Plan or a Tax Favored Plan that proposes to acquire or hold 2005 Bonds should consult with counsel with respect to the applicable federal, state and local laws.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the 2005 Bonds, or in any way contesting or affecting the validity of such Bonds, any proceedings of the Corporation taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the 2005 Bonds or the due existence or powers of the Corporation.

APPROVAL OF LEGALITY

The legality of the authorization, issuance and sale of the 2005 Bonds is subject to the approving legal opinion of Kutak Rock LLP, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its in-house General Counsel, for the Liquidity Provider by its counsel, Fulbright & Jaworski L.L.P., and for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. The enforceability of the Financial Guaranty Insurance Policy will be passed upon for Ambac Assurance Corporation by a Vice President and Assistant General Counsel of Ambac Assurance Corporation. The unqualified approving opinion of Bond Counsel to the Corporation is to be delivered with the 2005 Bonds substantially in the form attached to this Official Statement as Appendix G.

AGREEMENT BY THE STATE

Under the State Act, the State of Vermont pledges and agrees with the holders of the bonds, notes and obligations of the Corporation that the State will not limit or restrict the rights thereby vested in the Corporation to perform its obligations and to fulfill the terms of any agreement made with the holders of its bonds, notes and obligations, including the 2005 Bonds. Neither will the State in any way impair the rights and remedies of the holders until the bonds, notes and other obligations of the Corporation, together with interest on them and interest on any unpaid installments of interest, are fully met, paid and discharged. The State Act permits the Corporation to include such pledge and agreement of the State in the Corporation's contracts with the holders of its bonds, notes and obligations and the Corporation has included such pledge and agreement in the Resolution for the benefit of the Bondowners.

LEGAL INVESTMENT

The State Act provides that, notwithstanding any other law, the State and all public officers, governmental units and agencies of the State, all banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, all credit unions, and all executors, administrators, guardians, trustees and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control, in obligations of the Corporation issued under the State Act (including the 2005 Bonds) and such obligations (including the 2005 Bonds) are authorized security for any and all public deposits.

UNDERWRITING

The 2005 Bonds are to be purchased by UBS Financial Services Inc., as representative of the underwriters (the "Underwriters") pursuant to a bond purchase contract with the Corporation. The Underwriters have agreed to purchase the 2005 Bonds at a price of par less a discount equal to $636,298.50. The obligation of the Underwriters to purchase the 2005 Bonds is subject to certain terms and conditions set forth in the bond purchase contract. The bond purchase contract provides that the Underwriters will not be obligated to purchase any of the 2005 Bonds unless all such Bonds are available for purchase. The initial public offering prices of the 2005 Bonds may be changed by the Underwriters from time to time without notice.

The Underwriters may offer and sell the 2005 Bonds to certain dealers (including dealers depositing such bonds into investment trusts) and others at prices lower than the initial public offering prices of the Bonds. After the initial public offering, the offering prices of the 2005 Bonds may be changed from time to time by the Underwriters.

RATINGS

Moody's Investors Service ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), are each expected to assign their ratings of "Aaa/VMIG1" and "AAA/A-1+" respectively to the Senior Series 2005QQ Bonds. The long-term ratings assigned to the Senior Series 2005QQ Bonds will be based on the ratings assigned by Moody's and S&P to the Bond Insurer, and the short-term ratings assigned to the Senior Series 2005QQ Bonds will be based on the ratings assigned by Moody's and S&P to the Liquidity Provider. Moody's and S&P are each expected to assign their municipal bond ratings of "Aaa" and "AAA" respectively to the 2005 Taxable Bonds based upon the delivery of the Financial Guaranty Insurance Policy. Such ratings reflect only the view of Moody's and S&P and an explanation of the significance of such ratings can only be obtained from Moody's or S&P, as applicable. There is no assurance that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's or S&P if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the 2005 Bonds.

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The Corporation will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") for the benefit of the holders of the 2005 Bonds to send certain financial information and operating data to certain information repositories annually and to provide notice to such repositories or the Municipal Securities Rulemaking Board of certain events, pursuant to the requirements of Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). The proposed form of the Disclosure Agreement is attached hereto as Appendix J.

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 2005 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 2005 Bonds and their market price.

FINANCIAL ADVISOR

Government Finance Associates, Inc. (the "Financial Advisor") serves as independent financial advisor to the Corporation on matters relating to debt management. The Financial Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. The Financial Advisor has provided advice as to the plan of financing and the structuring of the 2005 Bonds and has reviewed and commented on certain legal documentation, including this Official Statement. The advice on the plan of financing and the structuring of the 2005 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 this 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 this Official Statement.

FINANCIAL STATEMENTS

The financial statements of the Corporation as of and for the year ended June 30, 2004, were audited by Baker Newman & Noyes LLC, independent auditors, as stated in their report thereon dated September 17, 2004. Such financial statements and the report of said auditors are included as Appendix I hereto and represent the most current audited financial statements available for the Corporation.

Because the 2005 Bonds are limited obligations of the Corporation, payable solely from revenue and other sources pledged under the Resolution, the overall financial status of the Corporation may not indicate and may not necessarily affect whether such revenues and other amounts will be available under the Resolution to pay the principal of and interest on the 2005 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and /or interest on the 2005 Bonds from any moneys legally available to the Corporation for its general purposes.

FURTHER INFORMATION

Copies, in reasonable quantity, of the Resolution and other documents herein described may be obtained upon written request during the initial offering period of the 2005 Bonds from UBS Financial Services Inc., 1285 Avenue of the Americas, New York, New York 10019, Attention: Education Loan Group, and thereafter 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 Act, the Health Act, the State Act and the Resolution and any other documents or statutes contained herein do not purport to be complete and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any of the 2005 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 2005 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 2005 Bonds.

Use of this Official Statement in connection with the sale of the 2005 Bonds has been authorized by the Corporation.

VERMONT STUDENT ASSISTANCE CORPORATION

By: /s/ *DONALD R. VICKERS*
Donald R. Vickers, President

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

ARTICLE I

SHORT TITLE, DEFINITIONS, INTERPRETATIONS

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

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

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

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

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

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

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

"Additional Bonds" means any issue of Bonds issued subsequent to the date of issuance of the 2005 Bonds.

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

"Alternate Liquidity Facility" means an irrevocable letter of credit, a surety bond, line or lines of credit or other similar agreement or agreements used to provide liquidity support for the Bonds, satisfactory to the Corporation and containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee as described under "CONCERNING THE BANKING ENTITIES AND OTHERS—Replacement of Liquidity Facility" below.

"Alternate Rate" means, with respect to the Senior Series 2005QQ Bonds, on any Rate Determination Date, for any Mode, a rate per annum equal to the lesser of (a) the Maximum Rate, and (b) (1) 150% of the BMA Municipal Swap Index, as the same may be adjusted from time to time, or (2) if such index is no longer available, the comparable index of tax-exempt seven-day tender municipal bonds.

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

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

"Authorized Denominations" means (a) with respect to the Senior Series 2005QQ Bonds, $100,000 and any integral multiple thereof, or otherwise as provided in the 2005 Eleventh Series Resolution, and (b) with respect to the 2005 Series Taxable Bonds, has the meaning set forth in Appendix B hereto.

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

"Available Commitment" with respect to the Senior Series 2005QQ Bonds, shall have the meaning set forth in the Liquidity Facility.

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

"Bank Rate" with respect to the Senior Series 2005QQ Bonds, shall have the meaning set forth in the Liquidity Facility.

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

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

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

"Bond Insurance Policy" means a municipal bond insurance policy issued by a Bond Insurer, or any other insurance policy, surety bond, irrevocable letter of credit or any other similar agreement as provided in the

applicable Series Resolution insuring the payment of the principal of and interest on the related series of Bonds or separately the bonds of any series of Bonds when due as provided in such policy, surety bond or letter of credit agreement.

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

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

"Business Day" means, with respect to Senior Series 2005QQ Bonds, any day on which banks located (a) in the city in which the principal corporate trust office of the Trustee is located, (b) in the city in which the office of the Bond Insurer at which drawings under the Financial Guaranty Insurance Policy are to be honored (initially, New York, New York) is located, (c) in the city in which the office of the Liquidity Facility Issuer at which demands for payment under the Liquidity Facility are to be honored are located (initially, New York, New York), and (d) in the city in which the principal office of the Remarketing Agent is located, are generally open for business and on which the New York Stock Exchange is open.

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

> (1) the amount of Revenues and Principal Receipts expected to be received in each such annual period that are reasonably expected to be available to make debt service payments, and
>
> (2) the aggregate debt service for each such annual period on all Bonds reasonably expected to be Outstanding, together with Program Expenses for such annual period,

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

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

"Certificate and Agreement" means the Certificate and Agreement by and between the Corporation and the Bond Insurer to be entered into as of the date of initial delivery of the 2005 Bonds to the Purchaser.

"Code" means the Internal Revenue Code of 1986, as amended.

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

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to the Corporation and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Banking Entity or the Bond Insurer, legal fees and charges, fees and disbursements of consultants and professionals,

costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, accrued interest with respect to the initial investment of proceeds of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

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

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

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

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

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

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

"Electronic Means" means, with respect to the Senior Series 2005QQ Bonds, telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

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

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

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

"Event of Default" means any of the events described under "DEFAULTS AND REMEDIES—Events of Default" below.

"Expiration Date" means, with respect to the Senior Series 2005QQ Bonds, the stated expiration date of the Liquidity Facility as it may be extended from time to time as provided in the Liquidity Facility and with the consent of the Bond Insurer.

"Extraordinary Reserve Account" means the Account by that name described under "PLEDGE OF RESOLUTION; ACCOUNTS—Extraordinary Reserve Account" below.

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

"Financial Guaranty Insurance Policy" means the financial guaranty insurance policy issued by Ambac Assurance on the date of issuance and delivery of the 2005 Bonds, insuring the payment when due of the principal of and interest on such 2005 Bonds as provided therein.

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

"Funding Instrument" means any surety bond, insurance policy, letter of credit or other similar obligation (in all cases either issued by the Bond Insurer or approved by the Bond Insurer) and described in a Series Resolution and deposited to the Debt Service Reserve Account as provided in the Resolution.

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

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

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

"Initial Liquidity Facility" for the Senior Series 2005QQ Bonds means the Standby Bond Purchase Agreement dated as of June 1, 2005 among the Corporation, the Trustee and the Initial Liquidity Facility Issuer.

"Initial Liquidity Facility Issuer" means The Bank of New York, and its successors and permitted assigns.

"Insurance Agreement" means any agreement between the Corporation and the Bond Insurer covering certain matters pertaining to the provision of insurance on any series of Bonds.

"Interest Accrual Period" means the period of time a Senior Series 2005QQ Bond accrues interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date for which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the Senior Series 2005QQ Bonds) and shall end on the day preceding the succeeding Interest Payment Date.

"Interest Payment Date" means, (a) with respect to the Senior Series 2005QQ Bonds, each date on which interest is to be paid on a Senior Series 2005QQ Bond and is (i) with respect to Liquidity Facility Issuer Bonds, as set forth in the Liquidity Facility, and (ii) with respect to Senior Series 2005QQ Bonds other than Liquidity Facility Issuer Bonds, (A) each June 15 and December 15, commencing December 15, 2005, (B) the Stated Maturity, and (C) each Mode Change Date for the Senior Series 2005QQ Bonds; (b) with respect to the 2005 Taxable Bonds, the dates set forth in the definition thereof in Appendix B hereto; and (c) with respect to Bonds other than the 2005 Bonds, the date or dates established as the interest payment dates with respect to such Bonds in the applicable Series Resolution.

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

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

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

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

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

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

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

(f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P or "Aaa" or "P-1" by Moody's;

(g) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice;

(A) which are rated, based on an irrevocable escrow account or fund (the "Escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

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

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

(i) any auction rate securities or similar instruments rated "AAA" and/or "Aaa," as the case may be, by at least two of S&P, Fitch or Moody's; and

(j) any other instrument approved by the Bond Insurer.

"Liquidity Facility" means an irrevocable letter of credit, a surety bond, line or lines of credit or other similar agreement or agreements used to provide liquidity support for the Bonds, as the same may be amended or supplemented from time to time, in accordance with its terms, and shall include, with respect to the Senior Series 2005QQ Bonds, the Initial Liquidity Facility and any Alternate Liquidity Facility issued with respect thereto.

"Liquidity Facility Issuer" means the bank or banks, financial institution or financial institutions or other Person or Persons issuing a Liquidity Facility, and includes the Initial Liquidity Facility Issuer with respect to the Senior Series 2005QQ Bonds.

"Liquidity Facility Issuer Bonds" means any Senior Series 2005QQ Bonds held by or for the benefit of the Liquidity Facility Issuer (or its assignee) following purchase of such Senior Series 2005QQ Bonds with funds drawn on or advanced under the Liquidity Facility other than Senior Series 2005QQ Bonds which the Liquidity Facility Issuer (or its assignee) has elected to continue to hold following receipt of a Purchase Notice.

"Loan Account" means the Loan Account established pursuant to the Resolution.

"Mandatory Tender Date" means, with respect to the Senior Series 2005QQ Bonds, each of the following dates (except that each of such dates shall be a Mandatory Tender Date only if a Liquidity Facility is in effect pursuant to which the Liquidity Facility Issuer is obligated to pay or advance funds to pay the Purchase Price of the Senior Series 2005QQ Bonds tendered on such date):

(a) each Mode Change Date,

(b) any Substitution Date,

(c) the seventh Business Day prior to any Expiration Date (but there shall be no separate mandatory tender in respect of an Expiration Date if notice has been given of a mandatory tender that will occur prior to the Expiration Date and the Senior Series 2005QQ Bonds will not subsequently be remarketed under the Liquidity Facility that is expiring),

(d) the Business Day specified by the Trustee as the twenty-fifth day after the Liquidity Facility Issuer has given a notice of termination to the Trustee, the Corporation and the Bond Insurer requesting a mandatory tender of the Senior Series 2005QQ Bonds pursuant to the Liquidity Facility, provided such notice has not been rescinded by the Liquidity Facility Issuer prior to the applicable Tender Notice Deadline, and

(e) each date established by the Corporation for mandatory tender pursuant to the Resolution.

Each Mandatory Tender Date must be a Business Day. If a Mandatory Tender Date described above would not be a Business Day, then the Mandatory Tender Date shall be the immediately preceding Business Day.

"Mandatory Tender Notice" means a notice delivered by Electronic Means or in writing to the Registered Owners of all Senior Series 2005QQ Bonds subject to mandatory tender that states (a) that all such Senior Series 2005QQ Bonds are to be purchased, (b) the Mandatory Tender Date on which such Senior Series 2005QQ Bonds are to be purchased, and (c) applicable instructions with respect to such purchase and the tender of such Senior Series 2005QQ Bonds for payment of the Purchase Price.

"Material Adverse Change in the Loan Program" means, with respect to all Series of Bonds, any change enacted by the United States Congress or implemented by the Secretary or the Department or, if applicable, the legislature of the State, or any change resulting from the actions of the Corporation after the initial delivery date of the 2005 Bonds with respect to (a) the guarantee obligation or guarantee percentage of any Guarantor, or (b) federal insurance provisions with respect to Education Loans, or (c) any other characteristics that would reduce the yield to maturity of such Education Loan, such characteristics to include, to the extent applicable, but not limited to (i) Special Allowance Payments formulae, (ii) the loan interest rate or yield formulae, (iii) federal interest subsidies, or (iv) rebate provisions to either the student borrower or to any other party other than the Corporation or the

Trustee; provided that so long as any Bonds are insured by a Financial Guaranty Insurance Policy, (A) such change is determined by the Bond Insurer in its sole discretion to be material and adverse (any such change in one of the characteristics set forth in (c) above resulting in a change of five (5) basis points or less to the yield to maturity of an Education Loan or any such change that does not adversely affect the Cash Flow Statement attached to the Certificate and Agreement as such Cash Flow Statement may be changed from time to time by a certificate of an Authorized Officer, as reasonably determined by the Bond Insurer, shall not be deemed material) and (B) the Bond Insurer so notifies the Corporation and the Trustee in writing.

"Maturity" when used with respect to the Senior Series 2005QQ Bonds, means the date on which the principal thereof becomes due and payable as therein provided or as provided in the 2005 Eleventh Series Resolution, whether at its Stated Maturity, maturity by earlier redemption, by declaration of acceleration or otherwise.

"Maximum Rate" means, (a) with respect to Senior Series 2005QQ Bonds, so long as a Liquidity Facility is in effect, the lesser of either (i) (A) with respect to Senior Series 2005QQ Bonds which are not Liquidity Facility Issuer Bonds, 12% per annum, (B) with respect to Liquidity Facility Issuer Bonds, the interest rate per annum set forth in the Liquidity Facility with respect thereto, or (ii) the maximum lawful nonusurious interest rate allowed under the law of the State; and (b) with respect to the 2005 Taxable Bonds, has the meaning set forth in Appendix B hereto.

"Mode" means, with respect to the Senior Series 2005QQ Bonds, initially the Weekly Mode, and thereafter shall have the meaning set forth in the 2005 Eleventh Series Resolution.

"Mode Change Date" means, with respect to Senior Series 2005QQ Bonds in a particular Mode, the day on which another Mode for the Senior Series 2005QQ Bonds begins.

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

"Operating Account" means the Operating Account established pursuant to the Resolution.

"Optional Tender Notice" means a notice delivered by Electronic Means or in writing to the Trustee that states (a) the principal amount of Senior Series 2005QQ Bonds to be purchased pursuant to the 2005 Eleventh Series Resolution, (b) the Purchase Date on which such Senior Series 2005QQ Bond is to be purchased, and (c) applicable payment instructions with respect to the Senior Series 2005QQ Bond being tendered for purchase.

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

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

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

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

(b) Investment Securities, as described under "DEFEASANCE; MISCELLANEOUS PROVISIONS—Defeasance" below, in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications

as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable redemption price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

(c) any combination of (a) and (b) above, and, except in the case of a Bond to be paid at maturity, of which notice of redemption shall have been given or provided for as described under "REDEMPTION OF BONDS—Notice of Redemption" below;

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

(4) any Bond deemed to have been paid as described under "DEFEASANCE; MISCELLANEOUS PROVISIONS—Defeasance" as described below.

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

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

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

"Person" means a corporation, association, partnership, limited liability company, joint venture, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

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

"Program Expenses" means all of the Corporation's expenses in carrying out and administering its education loan finance program under the Resolution and shall include, without limiting the generality of the foregoing, servicing costs, costs of publicizing to borrowers, costs of counseling borrowers, fees related to the remarketing or auctioning of the Bonds, fees and expenses related to any Bond Insurance Policy or Liquidity Facility, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Banking Entities, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, all to the extent properly allocable to the education loan finance program. Program Expenses may also include amounts for establishing and maintaining a six month reserve to pay operating costs and amounts appropriate to reimburse the Corporation for Program Expenses paid from other sources.

"Purchase Date" means, with respect to the Senior Series 2005QQ Bonds, (a) any Business Day selected by the Registered Owner of said Senior Series 2005QQ Bond pursuant to the 2005 Eleventh Series Resolution, and (b) any Mandatory Tender Date.

"Purchase Fund" means the fund by that name created in the 2005 Eleventh Series Resolution.

"Purchase Notice" means, with respect to the Senior Series 2005QQ Bonds, a notice delivered to the Registered Owner of Liquidity Facility Issuer Bonds by the Remarketing Agent stating that the Remarketing Agent has located a purchaser for some or all of such Liquidity Facility Issuer Bonds and that such purchaser desires to purchase such Liquidity Facility Issuer Bonds.

"Purchase Price" means, with respect to the Senior Series 2005QQ Bonds, an amount equal to (a) the unpaid principal amount of any Senior Series 2005QQ Bonds purchased on any Purchase Date, plus (b) in the case of any purchase of Senior Series 2005QQ Bonds on a date that is not an Interest Payment Date, accrued interest, if any, in each case, without premium.

"Purchaser" means, with respect to the 2005 Bonds, UBS Financial Services Inc., as representative of the underwriters.

"Rate Determination Date" means, with respect to the Senior Series 2005QQ Bonds, June 28, 2005, and thereafter, no later than the Business Day prior to the Mode Change Date, and thereafter, the Business Day next preceding each Wednesday (or such other day determined as set forth in the 2005 Eleventh Series Resolution).

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

"Rebate Account" means the Rebate Account established pursuant to the Resolution.

"Record Date" means (a) with respect to the Senior Series 2005QQ Bonds, the Business Day before an Interest Payment Date; (b) with respect to the 2005 Taxable Bonds, has the meaning set forth in Appendix B hereto; and (c) with respect to Bonds other than the 2005 Bonds, the day set forth with respect to such Bonds in the applicable Series Resolution.

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

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

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

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

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

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

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

(g) if there are Liquidity Facility Issuer Bonds Outstanding for more than 30 days; or

(h) the occurrence of any event that allows the Liquidity Facility Issuer to terminate the Liquidity Facility without a final mandatory tender.

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

"Remarketing Agent" means (a) with respect to the Senior Series 2005QQ Bonds, UBS Financial Services Inc., or (b) any other entity assuming the duties and obligations of the Remarketing Agent as may be appointed by the Corporation.

"Remarketing Agreement" means the Remarketing Agreement, dated as of June 1, 2005 between the Corporation and UBS Financial Services Inc., relating to the Senior Series 2005QQ Bonds, and any amendments or supplements thereto, as consented to by the Bond Insurer and Liquidity Facility Issuer, which consent shall not be unreasonably withheld.

"Remarketing Proceeds Account" means the account of the Purchase Fund by that name created in the 2005 Eleventh Series Resolution.

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

"Revenue Account" means the Revenue Account established pursuant to the Resolution.

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

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

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

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

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

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

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

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

"Special Record Date" has the meaning set forth in the 2005 Eleventh Series Resolution with respect to the Senior Series 2005QQ Bonds.

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

"State" means the State of Vermont.

"State Act" means Vermont Statutes Annotated, Chapter 87 of Title 16, as the same may be amended from time to time.

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

"Stated Maturity" means, with respect to each series of the 2005 Bonds, December 15, 2039.

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

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

"Substitution Date" means, with respect to the Senior Series 2005QQ Bonds, the date upon which an Alternate Liquidity Facility is substituted for the Liquidity Facility then in effect.

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

"Supplemental Resolution" means any resolution supplemental to or amendatory of the Resolution, adopted by the Corporation and effective as described under "SUPPLEMENTAL RESOLUTIONS" below.

"Surety Bond" means the surety bond or bonds issued by Ambac Assurance guaranteeing certain payments into the Debt Service Reserve Account, as provided in a Series Resolution, which shall constitute a Funding Instrument for purposes of the Resolution.

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

"Tender Notice Deadline" means, with respect to the Senior Series 2005QQ Bonds,

(a) with respect to a Mandatory Tender Notice,

(1) no less than fifteen days prior to the Mandatory Tender Date that occurs on a Substitution Date or an Expiration Date (but no notice need be given in respect of an Expiration Date if notice has been given of a mandatory tender that will occur prior to the Expiration Date and the Senior Series 2005QQ Bonds will not subsequently be remarketed under the Liquidity Facility that is expiring);

(2) no less and not more than five days prior to a Mandatory Tender Date that is described in clause (d) of the definition thereof; and

(3) for all other Mandatory Tender Dates, not less than fifteen days prior to the Mandatory Tender Date; and

(b) with respect to an Optional Tender Notice, 3:00 p.m., New York City time on any Business Day that is at least seven (7) days prior to the specified Purchase Date.

"Trustee" means the Trustee as may be designated as such as described under "CONCERNING THE BANKING ENTITIES AND OTHERS" below from time to time by the Corporation.

"2001 Bonds" means each of the Senior Series 2001V Bonds, the Senior Series 2001W Bonds, the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds, the Senior Series 2001Z Bonds and the Senior Series 2001AA Bonds, as authorized pursuant to and defined in the 2001 Seventh Series Resolution.

"2001 Seventh Series Resolution" means the 2001 Seventh Series Resolution authorizing the 2001 Bonds.

"2002 Bonds" means each of the Senior Series 2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds, as authorized pursuant to and defined in the 2002 Eighth Series Resolution.

"2002 Eighth Series Resolution" means the 2002 Eighth Series Resolution authorizing the 2002 Bonds.

"2003 Bonds" means each of the Senior Series 2003EE Bonds, Senior Series 2003FF Bonds, Senior Series 2003GG Bonds, Senior Series 2003HH Bonds, Senior Series 2003II Bonds, Senior Series 2003JJ Bonds, Senior Series 2003KK Bonds and Senior Series 2003LL Bonds, as authorized pursuant to and defined in the 2003 Ninth Series Resolution.

"2003 Ninth Series Resolution" means the 2003 Ninth Series Resolution authorizing the 2003 Bonds.

"2004 Bonds" means each of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds, the Senior Series 2004OO Bonds and the Senior Series 2004PP Bonds, as authorized pursuant to and defined in the 2004 Tenth Series Resolution.

"2004 Tenth Series Resolution" means the 2004 Tenth Series Resolution authorizing the 2004 Bonds.

"2005 Bonds" means each of the Senior Series 2005QQ Bonds, the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds, as authorized pursuant to and defined in the 2005 Eleventh Series Resolution.

"2005 Eleventh Series Resolution" means the 2005 Eleventh Series Resolution authorizing the 2005 Bonds.

"2005 Surety Bond" means, with respect to the 2005 Bonds, the amendment to the Surety Bond in an amount equal to the Debt Service Reserve Requirement with respect to the 2005 Bonds (which Surety Bond, issued on June 27, 2001, covers other portions of the Debt Service Reserve Requirement).

"2005 Taxable Bonds" means, collectively, the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds.

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

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

(b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

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

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

"Variable Mode" means, with respect to the Senior Series 2005QQ Bonds, a daily Mode, a Weekly Mode, or a monthly Mode.

"Variable Rate" means, with respect to the Senior Series 2005QQ Bonds, a daily Rate, a Weekly Rate or a monthly Rate.

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

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

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

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

"Weekly Mode" means the period of time when the Senior Series 2005QQ Bonds bear interest at the Weekly Rate.

"Weekly Rate" means the per annum interest rate on the Senior Series 2005QQ Bonds in the Weekly Mode determined as described under the caption "THE SENIOR SERIES 2005QQ BONDS – General" in the body of this Official Statement.

"Weekly Rate Bonds" means the Senior Series 2005QQ Bonds while they bear interest at the Weekly Rate.

"Weekly Rate Period" means the period when a Senior Series 2005QQ Bond in the Weekly Mode shall bear interest at a Weekly Rate, which shall be the period commencing on the applicable Designated Day of each week to, but not including, the applicable Designated Day of the following week, except the first Weekly Rate Period which shall be from the date of initial issuance of such Senior Series 2005QQ Bond to, but not including, the applicable Designated Day of the following week and the last Weekly Rate Period which shall be from, but not including, the applicable Designated Day of the week prior to the proposed Mode Change Date to the day next succeeding the proposed Mode Change Date. The Designated Day for the Senior Series 2005QQ Bonds during the Weekly Rate Period shall be Wednesday of each week or such other day as may be established by the Remarketing Agent with the consent of the Corporation and the Liquidity Facility Issuer pursuant to the 2005 Eleventh Series Resolution.

TERMS OF BONDS

Resolution to Constitute Contract. In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the Resolution shall be a part of the contract of the

Corporation with the Owners of Bonds, as their interest may appear, and shall be deemed to be and shall constitute a contract among the Corporation, the Trustee and the Owners from time to time of the bonds, as their interests may appear.

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

GENERAL TERMS AND PROVISIONS OF BONDS

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

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

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

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

such record date shall be not more than ten days preceding an Interest Payment Date on such Bond or, in the case of any proposed redemption of the bonds, ten days preceding the date of such redemption.

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

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

PLEDGE OF RESOLUTION; ACCOUNTS

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

Accounts. The following special trust accounts have been established and created under the Resolution:

(1) Loan Account;
(2) Revenue Account;
(3) Debt Service Reserve Account;
(4) Rebate Account;
(5) Operating Account; and
(6) Extraordinary Reserve Account.

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

Loan Account.

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

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

(C) At least one day prior to the day on which either or both of principal or interest is payable on Bonds the Corporation shall deliver to the Trustee and the Bond Insurer a Certificate of an Authorized Officer setting forth the amount necessary due to a deficiency therefor in the Revenue Account, in the opinion of such Authorized Officer, to pay the principal of or interest on the Bonds (in accordance with the priorities set forth with respect to the Revenue Account) from the amount on deposit in the Loan Account, after giving effect to the actual and expected application of amounts therein to the financing of Eligible Education Loans as of the date of such Certificate. Upon receipt of such Certificate, the Trustee shall transfer the amount so stated for the Bonds to the Revenue Account.

(D) Subject to the Resolution and the Series Resolution, at any time the Corporation may direct the Trustee in writing to apply amounts in the Loan Account to the Revenue Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and as described under "REDEMPTION OF BONDS" below.

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

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

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

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

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

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

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

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

SIXTH: Into the Debt Service Reserve Account, to the extent necessary, the amount required to restore the Debt Service Reserve Account to the Debt Service Reserve Requirement; provided, however, that principal and interest on any Funding Instrument shall first be paid (and paid pro rata if there is more than one Funding Instrument) and after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Account

to the required level, after taking into account the amount available under the Funding Instruments shall be deposited into the Debt Service Reserve Account.

SEVENTH: The amount, if applicable, of any Carry-over Amount.

Notwithstanding the first paragraph under this caption "Revenue Account," no payments shall be required to be made into the Revenue Account so long as the amount on deposit therein together with amounts on deposit in the Accounts held under the Resolution by the Trustee shall be sufficient to pay all Outstanding Bonds in accordance with their terms and to pay all amounts due any Bond Insurer or Liquidity Facility Issuer and any other unpaid Program Expenses and provision is made to defease such Bonds as described under "DEFEASANCE; MISCELLANEOUS PROVISIONS" below, and any Revenues thereafter received by the Corporation may be applied to any purpose of the Corporation in conformity with the State Act free and clear of the lien of the pledge of the Resolution.

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

Notwithstanding any other provision described under this caption "Revenue Account" or under the caption "Debt Service Reserve Account" below, the Corporation may enter into an agreement (including interest rate exchange agreements as described in the State Act) with a financial institution pursuant to which the Corporation shall agree to pay such financial institution all or a portion of the Revenues and Principal Receipts in exchange for such financial institution agreeing to timely pay amounts to be used to pay all or a portion of the debt service on the Bonds or the Program Expenses when due, provided that prior to entering into such agreement (i) the Corporation shall deliver to the Trustee the written consent thereto of the Bond Insurer, (ii) if there are Bonds Outstanding not secured by, or entitled to the benefit of Bond Insurance Policy, the Corporation shall give adequate notice to the Rating Agencies of its intention to enter into such agreement and shall receive written evidence from the Rating Agencies that entering into such agreement and compliance therewith will not have an adverse effect on any existing rating on such Bonds and (iii) the Corporation shall deliver to the Trustee a copy of such written evidence of the Rating Agencies and a Bond Counsel's Opinion to the effect that the entering into the agreement and compliance therewith shall not affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Debt Service Reserve Account. In the case of any Series of Bonds for which there is a Debt Service Reserve Requirement, there shall be deposited and held in the Debt Service Reserve Account an amount equal to the Debt Service Reserve Requirement for such Series. Amounts on deposit in the Debt Service Reserve Account shall be used to pay debt service on the Bonds when due to the extent amounts available therefor in the Revenue Account as described under "Revenue Account" above are insufficient. Amounts on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement shall be transferred to the Revenue Account as soon as practicable after the determination of such excess. The Debt Service Reserve Requirement for the 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds and the 2001 Bonds will be, and any Additional Bonds issued thereafter may be, represented by a Funding Instrument.

Extraordinary Reserve Account. There shall be deposited in the Extraordinary Reserve Account such amounts representing cash and/or Eligible Education Loans as shall be specified in an order of the Corporation. Such Eligible Education Loans and cash shall be accounted for in the Extraordinary Reserve Account. Amounts on deposit in the Extraordinary Reserve Account not being used to acquire Eligible Education Loans shall be invested only in Investment Securities. Amounts on deposit in the Extraordinary Reserve Account shall be valued as part of the Accrued Assets for all purposes under the Resolution; provided, however, that (i) to the extent the Corporation is authorized to withdraw amounts or assets from the Revenue Account as described in the Resolution and from the Extraordinary Reserve Account, the Corporation shall first withdraw amounts pursuant to the Extraordinary Reserve Account and (ii) if the Corporation intends to withdraw amounts from the Revenue Account, the requirements relating to such withdrawal from the Revenue Account set forth in the Resolution must be met without regard to

amounts on deposit in the Extraordinary Reserve Account. Principal receipts on Education Loans in the Extraordinary Reserve Account shall be used to make or acquire additional Eligible Education Loans, or otherwise shall remain on deposit in the Extraordinary Reserve Account, except to the extent released as provided under the Resolution. Interest received on the Education Loans in the Extraordinary Reserve Account shall be deposited in the Revenue Account. If on any date on which the payment of principal of or interest on the Bonds is due, there are insufficient moneys to pay the same after giving effect to all other assets held under the Resolution, then the Trustee shall transfer from the Extraordinary Reserve Account an amount first from cash or Investment Securities and then from the sale of Eligible Education Loans up to the amount of any such deficiency; provided, however, that (i) the Corporation shall have a right of first refusal to purchase such Eligible Education Loans at a price equal to the par amount thereof plus accrued interest or (ii) if the Corporation shall not so purchase such Eligible Education Loans such Eligible Education Loans shall be sold subject to the Corporation maintaining the servicing of such Eligible Education Loans; provided, however, if the Trustee is not able to sell such Eligible Education Loans to a third party at a price equal to the par amount thereof plus accrued interest, the provisions of clause (ii) of this paragraph shall no longer apply to a sale of such Eligible Education Loans. Upon written order of the Corporation the Trustee shall transfer from the Extraordinary Reserve Account any or all assets as directed by the Corporation in such order, but (a) if such transfer shall be made before July 1, 2005, or such other date as shall be agreed upon by the Corporation and the Bond Insurer, only with the consent of the Bond Insurer, or (b) if such transfer is on or after such date, only if the Corporation certifies that (i) after such transfer, and exclusive of amounts held in the Extraordinary Reserve Account, the Senior Parity Percentage is equal to or greater than 103% and the Parity Percentage is equal to or greater than 101% (or, with the consent of the Bond Insurer, lesser percentages, but in any event the Parity Percentage must equal or exceed 101%), (ii) there is no Event of Default, and (iii) no Recycling Suspension Event shall have occurred and be continuing.

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

Operating Account. There shall be deposited in the Operating Account all amounts to be deposited therein pursuant to the Resolution and any other amount available therefor and determined by the Corporation to be deposited therein. Amounts on deposit in the Operating Account shall be used to pay reasonable and necessary Program Expenses.

REDEMPTION OF BONDS

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

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

PARTICULAR COVENANTS

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

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

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

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

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

Notwithstanding any other provision of the Resolution to the contrary, including in particular the provisions of the Resolution described under the caption "DEFEASANCE; MISCELLANEOUS PROVISIONS" below, the covenants described under this caption "Tax Covenants" shall survive defeasance or payment in full of the Bonds.

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

No amount in the Loan Account shall be expended or applied for the purpose of financing an Eligible Education Loan, and no Eligible Education Loan shall be financed, unless (except to the extent that a variance from such requirements is required by an agency or instrumentality of the United States of America insuring or guaranteeing the payment of an Eligible Education Loan) the Corporation, upon independent verification and certification by the Trustee, has determined that: (1) the payment of the Education Loan is either (i) insured as to principal and interest by a Guarantor and reinsured by the Secretary under the Higher Education Act, or (ii) insured as to principal and interest by the Secretary under the Higher Education Act (provided, however, such Education

Loan's application for insurance commitment was received by the Secretary before March 1, 1973), or (iii) fully insured as to principal and interest by the United States Secretary of Health and Human Services (or any delegatee or successor) acting under the Public Health Service Act, as part of the Health Education Assistance Loan Program; or (2) such Eligible Education Loan is a Statutory Loan permitted under the State Act as provided for in any Series Resolution. Eligible Education Loans as such term is used in the Resolution may be expanded, consistent with the State Act, to include any other education loan, the inclusion of which has received an Affirmation from the Bond Insurer and/or the Rating Agencies, as applicable.

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

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

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

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

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

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

SUPPLEMENTAL RESOLUTIONS

Supplemental Resolutions Effective Upon Filing With the Trustee. Subject to the qualification described under "General Provisions" below, for any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Corporation may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

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

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

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

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

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

(6) notwithstanding the qualification described under "General Provisions" below, to make such changes in the Resolution as are reasonably necessary in the opinion of the Corporation to effectuate the replacement of or a supplement to a Bond Insurance Policy in accordance with the express terms (i) described under "GENERAL PROVISIONS RELATING TO THE BOND INSURER—Replacement or Supplementation of the Bond Insurance Policy" below and (ii) the Series Resolution or Supplemental Resolution thereto relating to bonds of any Series of Bonds;

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

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

Supplemental Resolutions Effective Upon Consent of Trustee. Subject to the provisions described under the caption "GENERAL PROVISIONS RELATING TO THE BOND INSURER—Replacement or Supplementation of the Bond Insurance Policy" below, (A) for any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and the Corporation of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

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

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

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

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified under "Supplemental Resolutions Effective Upon Filing With the Trustee" above, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes described in clause (A) above.

Supplemental Resolutions Effective Upon Consent of Bondowners. Subject to the qualification described under "General Provisions" below, at any time or from time to time, a Supplemental Resolution (other than as provided in this caption "SUPPLEMENTAL RESOLUTIONS") may be adopted subject to consent by the Bondowners in accordance with and subject to the provisions described under "AMENDMENTS" below. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer and upon compliance with the provisions described under "AMENDMENTS" below.

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

AMENDMENTS

Powers of Amendment. Any modification of or amendment to the Resolution and of the rights and obligations of the Corporation and of the Bondowners under the Resolution or of the Bond Insurer, in any particular, may be made by a Supplemental Resolution, but only in the event such Supplemental Resolution shall be adopted as described under "SUPPLEMENTAL RESOLUTIONS—Supplemental Resolutions Effective Upon Consent of Bondowners" above, with the written consent, given as provided in the Resolution, of the Bond Insurer and of the Owners of at least a majority of the principal amount of the Bonds Outstanding at the time such consent is given and any other required Affirmation. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the Owners of which is required to effect any such modification or amendment, or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the Bondowners, and the written consent of the Bond Insurer and any other required Affirmation.

DEFAULTS AND REMEDIES

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

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

(2) the Corporation shall fail or refuse to comply with the provisions of the Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained therein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee, the Bond Insurer or, subject to the provisions described under "Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses" below, the owners of not less than five percent (5%) in principal amount of the Outstanding Bonds;

(3) an Act of Bankruptcy shall have occurred and be continuing or shall be deemed to have occurred and be continuing and the Trustee shall have received written notice of such from the Corporation, the Bond Insurer or, subject to the provisions described under "Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses" below, a Bondholder; provided, however, that the filing of a petition in bankruptcy or similar proceeding against the Corporation, if dismissed within ninety (90) days of the filing thereof, will not be deemed to be an Act of Bankruptcy for the purposes of this paragraph; and

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

Remedies. Subject in all events to the provisions described under the caption "GENERAL PROVISIONS RELATING TO THE BOND INSURER—Default of The Bond Insurer" below, upon the happening and continuance of any Event of Default, the Trustee, with the written consent of the Bond Insurer, may proceed and, upon the written request of the Owners of not less than fifty percent (50%) in principal amount of the Outstanding Bonds with the consent of the Bond Insurer, or upon the written request of the Bond Insurer alone, shall proceed, in its own name, subject to the provisions described under "Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses" below and certain requirements of the Banking Entities, to protect and enforce the rights of the Bondowners or the Bond Insurer by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

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

(2) by bringing suit upon the Bonds;

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

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

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

(6) in the event that all the Bonds are declared due and payable, and the Bond Insurance Policy is in effect, if the Bond Insurer shall so direct, the Trustee shall make a claim under the Bond Insurance Policy to pay the principal of and interest on the Bonds which are covered by such Bond Insurance Policy. If no Bond Insurance Policy is in effect, the Trustee shall proceed by selling Education Loans and Investment Securities.

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

Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondowners and the Bond Insurer under the Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Principal Receipts and

Revenues and of the assets of the Corporation relating to the education loan finance program, pending such proceedings, with such powers as the court making such appointment shall confer.

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

Bond Insurer's Direction of Proceedings. Anything in the Resolution to the contrary notwithstanding, but subject to the provisions described under "GENERAL PROVISIONS RELATING TO THE BOND INSURER—Default of The Bond Insurer" below, the Bond Insurer shall have the right, by any instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Resolution, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to the Bondowners not parties to such direction.

Limitation on Rights of Bondowners. No Owners of any Bonds shall have the right to institute any suit, action, mandamus or other proceeding in equity or at law under the Resolution, or for the protection or enforcement of any right under the Resolution unless, subject to the provisions described under "Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses" below, such Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken.

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

Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses. Anything in the Resolution to the contrary notwithstanding other than the provisions described under "GENERAL PROVISIONS RELATING TO THE BOND INSURER—Default of The Bond Insurer" below, upon the occurrence and continuance of any Event of Default, the Bond Insurer shall be exclusively entitled to control and direct the enforcement of all rights and remedies granted to the Bondowners or the Trustee under the Resolution, including, without limitation: (i) the right to accelerate the principal of the Bonds, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

Notwithstanding anything described under this caption "DEFAULTS AND REMEDIES," to the contrary, subject to the provisions described under "GENERAL PROVISIONS RELATING TO THE BOND INSURER—Default of The Bond Insurer" below, upon the occurrence of an Event of Default, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or the Bondowners of a majority of the principal amount of the Bonds with the consent of the Bond Insurer, by written notice to the Corporation and the Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of the payment shall, without further action, become and be immediately due and payable, anything in the Resolution or in the Bonds to the contrary notwithstanding.

CONCERNING THE BANKING ENTITIES AND OTHERS

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

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

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

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

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

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

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

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

Replacement of Liquidity Facility. If, at any time, the Corporation shall receive notice (i) that the short-term ratings on the Bonds as to which a Liquidity Facility is in effect have been either withdrawn or reduced below VMIG 1 or A-1 by Moody's or S&P, respectively, as a consequence of the withdrawal or reduction in the ratings of the issuer of the Liquidity Facility, or (ii) that the Liquidity Facility relating to a Series of Bonds will not be

extended, then the Corporation may replace the Liquidity Facility with an Alternate Liquidity Facility so that the Bonds as to which such Liquidity Facility is in effect will be assigned higher ratings by the Rating Agencies then rating the Bonds if the replacement is due to a downgrade (otherwise the rating may be the same).

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

(1) receipt of an opinion or opinions of counsel satisfactory to the Trustee to the effect that (i) the Alternate Liquidity Facility meets the requirements and complies with the conditions described under this caption "Replacement of Liquidity Facility," (ii) such Alternate Liquidity Facility is a legal, valid and enforceable obligation of the issuer or provider thereof, (iii) no registration of such Bonds or such Alternative Liquidity Facility is required under the Securities Act of 1933, as amended and (iv) the use of the Alternate Liquidity Facility will not adversely affect the exclusion of the interest on any Bond from the gross income of the Owner thereof, as defined in the Code, for federal income tax purposes;

(2) Moody's and S&P shall have confirmed in writing on or before the substitution date that the substitution of such Alternate Liquidity Facility for the Liquidity Facility will result in short-term ratings on the Bonds by Moody's and S&P that are higher than the previous ratings (in the case of a downgrade) or are the same (in all other cases);

(3) such Alternate Liquidity Facility must be issued by a banking institution or other entity satisfactory to the Corporation and must have a term extending at least one (1) year from its effective date;

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

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

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

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

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

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

DEFEASANCE; MISCELLANEOUS PROVISIONS

Defeasance. If the Corporation shall pay or cause to be paid to the Owners of the Bonds, the principal and interest to become due thereon, at the times and in the manner stipulated therein and in the Resolution, and there shall be no moneys owed the Bond Insurer under the Resolution, then the pledge of any Revenues and other moneys, securities, funds and property pledged and all other rights granted under the Resolution shall be discharged and

satisfied except as otherwise provided in the Resolution. In such event, the Trustee shall, upon the request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Banking Entities shall pay over or deliver to the Corporation all moneys or securities held by them pursuant to the Resolution which are not required for the payment or redemption of the Bonds or for the payment of amounts owing under the Insurance Agreement to the Bond Insurer. The Trustee is authorized to transfer all moneys or securities held by it, at the direction of the Corporation, with the consent of the Bond Insurer, to secure any obligations owing under the Insurance Agreement. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the Outstanding Bonds, the redemption price and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the Corporation to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

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

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

No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of the Corporation contained in the Resolution shall be deemed to be the covenants, stipulations,

promises, agreements and obligations of the Corporation and not of any officer or employee of the Corporation in such person's individual capacity, and no recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any officer or employee of the Corporation or any natural person executing the Bonds.

GENERAL PROVISIONS RELATING TO THE BOND INSURER

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

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

Replacement or Supplementation of the Bond Insurance Policy. If, at any time, the Corporation receives notice that the rating of the claims-paying ability of the Bond Insurer has fallen below Aa3/AA- by Moody's or S&P, respectively, the Corporation, in its discretion, may replace (in the case of Bonds issued under a Series Resolution or Supplemental Resolution thereto expressly permitting replacement of the applicable Bond Insurance Policy) or (in all cases) supplement the Bond Insurance Policy insofar as it secures Bonds that bear interest at rates other than a Fixed Rate with a Replacement or Supplemental Bond Insurance Policy, as the case may be, issued by a Bond Insurer whose claims-paying ability is then rated Aa3/AA- or higher, by Moody's and S&P, respectively. In giving effect to the provisions of the previous sentence, if a Bond Insurer whose Bond Insurance Policy is being replaced is also a Bond Insurer with respect to other Bonds and the Bond Insurer is to remain the Bond Insurer with respect to any other Bonds, the Corporation agrees to take such action as may be deemed reasonable and necessary in the reasonable judgment of such Bond Insurer to not prejudice the rights or adversely affect the security of such Bond Insurer with respect to the Bonds for which it is to remain the Bond Insurer including, but not limited to, providing for such supplemental agreements or inter-creditor agreements as may be deemed necessary or desirable.

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

(1) receipt of an opinion or opinions of counsel stating that (i) such Replacement Bond Insurance Policy meets the requirements and complies with the conditions described under this caption "Replacement or Supplementation of the Bond Insurance Policy," (ii) the Replacement Bond Insurance Policy constitutes a legal, valid, and binding obligation of the obligor thereon and is enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws for the relief of debtors and by general principles of equity which permit the exercise of judicial discretion) and (iii) the use of the Replacement Bond Insurance Policy will not adversely affect any exclusion of the interest on any Bond from the gross income, as defined in the Code, of the Owner thereof for federal income tax purposes;

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

(3) the payment in full of all amounts owing to the Bond Insurer under the Bond Insurance Policy, if any, unless the Bond Insurer is in default on its obligations under the Bond Insurance Policy or such payment is waived by the Bond Insurer; provided, however that such

amounts shall not be paid by or with funds received from the provider of the Replacement Bond Insurance Policy unless the Bond Insurer expressly agrees to be paid by or with such funds;

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

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

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

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

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

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

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

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

(iv) any conversion of any Series of the 2005 Bonds to a different interest mode (other than the conversion of the 2005 Taxable Bonds to a Tax-Exempt Auction Rate) or any change in the length of an Auction Period (A) from a period of 90 days or less to a period of greater than 90 days, (B) from a period of greater than 90 days to a period of 90 days or less, or (C) which results in the length of that period being 90 or more days different than the preceding period;

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

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

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

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

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

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

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

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

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APPENDIX B

AUCTION PROCEDURES RELATING TO TAXABLE AUCTION RATE NOTES

The Auction Procedures for the Taxable ARNs are as set forth below; provided, however, if the 2005 Taxable Bonds are converted to bear interest at a Tax-Exempt Auction Rate, this Appendix B shall not apply to the 2005 Taxable Bonds. All of the terms used in this Appendix B are defined herein or in other parts of this Official Statement. *"ARNs" or "Taxable ARNs" means the 2005 Taxable Bonds prior to the Tax-Exempt Conversion Date*.

Definitions

"*All-Hold Rate"* on any date of determination, shall mean the Applicable LIBOR-Based Rate less 0.35%, provided that in no event shall the applicable All-Hold Rate be greater than the Maximum Rate.

"Applicable ARNs Rate" shall mean the interest rate on the ARNs for any period after the Initial Interest Period.

"*Applicable LIBOR-Based Rate*" shall mean (a) for an Auction Period of 35 days or less, One-Month LIBOR, (b) for an Auction Period of more than 35 days but less than 115 days, Three-Month LIBOR, (c) for an Auction Period of more than 114 days but less than 195 days, Six-Month LIBOR, and (d) for an Auction Period of more than 194 days, One-Year LIBOR.

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

"*Auction*" shall mean each periodic implementation of the Auction Procedures on an Auction Date, as described herein.

"*Auction Agency Agreement*" shall mean the Auction Agency Agreement dated as of June 1, 2005, between the Trustee and the Auction Agent, relating to the Taxable ARNs, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

"*Auction Agent*" means any person appointed as such with respect to the Taxable ARNs pursuant to the Resolution.

"*Auction Date*" shall mean July 20, 2005, with respect to the Senior Series 2005RR Bonds, and July 22, 2005, with respect to the Senior Series 2005SS Bonds, and thereafter the Business Day immediately preceding the first day of each respective Interest Period, other than:

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

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

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

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Resolution.

"*Auction Period*" shall mean the Interest Period applicable to the ARNs, which initially shall consist generally of 28 days, as the same may be changed pursuant to the Resolution.

"Authorized Denominations" shall mean $25,000 and any multiples thereof.

"*Broker-Dealer*" shall mean Goldman, Sachs & Co. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (c) has entered into a Broker-Dealer Agreement that remains effective.

"*Broker-Dealer Agreement*" shall mean the Broker-Dealer Agreement dated as of June 1, 2005 between the Auction Agent and the Broker-Dealer, relating to the Taxable ARNs, and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

"*Business Day*" shall mean any day other than a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the payment office or principal office of the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close.

"*Carry-over Amount*" shall mean the excess, if any, of (a) the amount of interest on a Taxable ARN that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on such Taxable ARN actually accrued with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to "principal" or "interest" in the Resolution with respect to the 2005 Taxable Bonds shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

"*Existing Owner*" shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction a Person who is a beneficial owner of ARNs.

"Favorable Opinion" shall mean, with respect to conversion of the Taxable ARNs to a Tax-Exempt Auction Rate, a Bond Counsel's Opinion addressed to the Corporation and the Trustee to the effect that the action proposed to be taken is permitted both under the State Act and the Resolution and that upon such conversion, the interest on the ARNs shall be excluded from gross income for federal income tax purposes.

"Initial Interest Period" shall mean the period from the date of issuance of the Taxable ARNs and ending on and including July 20, 2005 and July 22, 2005 for the Senior Series 2005RR Bonds and the Senior Series 2005SS Bonds, respectively.

"*Interest Amount*" shall mean the amount of interest distributable in respect of each $25,000 in principal amount (taken, without rounding, to .0001 of one cent) of ARNs for any Interest Period or part thereof, as calculated in accordance with the Resolution.

"*Interest Payment Date*" shall mean (1) the Business Day following the last day of each Interest Period, except as changed as provided herein, provided, however, that (a) if the duration of the Interest Period is one day, then the Interest Payment Date shall be the first Business Day of the month immediately succeeding such Interest Period, (b) if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 15 and December 15 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and (2) the maturity date of the Taxable ARNs, or if such maturity date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date).

"*Interest Period*" shall mean (a) unless otherwise changed as described herein, with respect to the Taxable ARNs, the Initial Interest Period, and each successive period of generally 28 days thereafter, respectively, commencing (i) with respect to the Senior Series 2005RR Bonds, on a Thursday (or the Business Day following the

last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (ii) with respect to the Senior Series 2005SS Bonds, on a Monday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Friday) and ending on (and including) a Friday (unless such Friday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if the Auction Periods are changed as provided herein, each period, other than a daily Auction Period, commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date and in the case of a daily Auction Period, each Business Day.

"*LIBOR Determination Date*" shall mean the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Interest Period.

"Market Agent" shall mean Goldman, Sachs & Co. or any other person appointed as such with respect to the Taxable ARNs pursuant to the Resolution, and its or their successors or assigns.

"*Market Agent Agreement*" shall mean the Market Agent Agreement dated as of June 1, 2005, between the Trustee and the Market Agent, relating to the Taxable ARNs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

"*Maximum Auction Rate*" shall mean, for any Auction, a per annum interest rate on the ARNs which, when taken together with the interest rate on the ARNs for the one-year period ending on the final day of the proposed Auction Period, would result in the average interest rate on the ARNs for such period either (a) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.20% for such one-year period (if all of the ratings assigned by the Rating Agencies to the ARNs are "Aa3" or "AA-" or better), (b) not being in excess (on a per annum basis) of the Ninety-One Day United States Treasury Bill Rate plus 1.50% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARNs is less than "Aa3" or "AA-" but both are at least any category of "A"), or (c), not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.75% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARNs is less than the lowest category of "A"); provided, however, that if the ARNs have not been outstanding for at least such one-year period then for any portion of such period during which such ARNs were not outstanding, the interest rate on the ARNs for purposes of this definition, shall be deemed to be equal to such rates as the Market Agent shall determine were the rates of interest on equivalently rated auction securities with comparable lengths of auction periods during such period; provided, however that this definition may be modified at the direction of the Corporation upon receipt by the Trustee of (a) written consent of the Market Agent and (b) written consent from each Rating Agency rating the ARNs that such change will not in and of itself result in reduction of the rating on any ARNs.

For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given notice pursuant to the Auction Agency Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of clauses (a), (b) or (c) above may be increased by delivery to the Auction Agent and the Trustee of a certificate signed by an Authorized Officer of the Corporation directing such increase, together with a Rating Confirmation and the approval of the Bond Insurer.

"*Maximum Interest Rate*" shall mean the lesser of (a) 18% per annum or such higher rate as may be permitted with a Rating Confirmation and the approval of the Bond Insurer or (b) the maximum rate of interest permitted by the laws of the State.

"*Maximum Rate*," on any date of determination, shall mean the interest rate per annum equal to the lesser of: (a) the Maximum Auction Rate; and (b) the Maximum Interest Rate, in each case rounded to the nearest one-thousandth (.001) of 1%.

"*Ninety-One Day United States Treasury Bill Rate*" shall mean the bond-equivalent yield on the 91-day United States Treasury Bills sold at the last auction thereof that immediately precedes the Auction Date, as determined by the Market Agent on the Auction Date.

"*Non-Payment Rate,*" on any date of determination shall mean the interest rate per annum equal to the lesser of (a) the sum of One-Month LIBOR plus 1.50% and (b) the Maximum Interest Rate, rounded to the nearest one-thousandth (.001) of 1%.

"*One-Month LIBOR,*" "*Three-Month LIBOR*," "*Six-Month LIBOR*" or "*One-Year LIBOR*" means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, of the Applicable LIBOR Based Rate for United States dollar deposits which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m. London time, on the LIBOR Determination Date; provided, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, the Auction Agent or the Trustee, as applicable, shall determine the arithmetic mean of the offered quotations for four major banks in the London interbank market, for deposits in U.S. dollars for the respective period specified above for the banks in the London interbank market as of approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less that $1,000,000 that is representative of a single transaction in such market and at such time, unless fewer than two such quotations are provided, in which case, the Applicable LIBOR Based Rate shall be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Auction Agent or the Trustee, as applicable, are quoting on the relevant LIBOR Determination Date for loans in U.S. dollars to leading European banks in a principal amount of not less than $1,000,000 that is representative of a single transaction in such market at such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one hundredth of one percent.

"*Owner*" shall mean the beneficial owner of any ARNs.

"*Payment Default*" shall mean failure to make payment of interest on, premium, if any, and principal of the ARNs when due, by the Corporation, followed by a default by the Bond Insurer under the Financial Guaranty Insurance Policy therefor.

"*Potential Owner*" shall mean any person (including any Existing Owner that is (a) a Broker-Dealer when dealing with an Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARNs (or, in the case of an Existing Owner thereof, an additional principal amount of ARNs).

"*Record Date*" shall mean (a) if, and for so long as Interest Payment Dates are specified to occur at the end of each Auction Period, the Applicable Number of Business Days immediately preceding each Interest Payment Date and (b) if and for so long as interest is payable with respect thereto semiannually, or if and for so long as interest is payable with respect to daily Auction Periods, one Business Day prior to each Interest Payment Date.

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

"*Registrar*" shall mean the Trustee or any separate registrar appointed under the Resolution with respect to the 2005 Taxable Bonds.

"*SEC*" shall mean the Securities and Exchange Commission.

"*Securities Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.

"*Submission Deadline*" shall mean 1:00 p.m. on any Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date when in a daily Auction Period, or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

"Tax-Exempt Auction Rate" shall mean the "Auction Rate" determined as set forth in Exhibit C of the 2005 Eleventh Series Resolution.

"Tax-Exempt Conversion Date" shall mean a date on which a series of the 2005 Taxable Bonds begins to bear interest at a Tax-Exempt Auction Rate as described in Appendix D of this Official Statement.

"Undelivered Bonds" shall mean the 2005 Taxable Bonds described under the caption "Undelivered Bonds" in Appendix D of this Official Statement.

Introduction

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (a) each Interest Period commencing after the ownership of the ARNs is no longer maintained in book-entry form by a Securities Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner:

(a) *Submission by Existing Owners and Potential Owners*.

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

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

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

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

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARNs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARNs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding ARNs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARNs specified in such Sell Order; or (2) such principal amount or a lesser principal amount of

Outstanding ARNs as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

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

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

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

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

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

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

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

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

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

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

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

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARNs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARNs held by such Existing Owner over the aggregate principal amount of ARNs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (3) in any such event, the aggregate

principal amount of Outstanding ARNs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

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

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

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

(viii) An Existing Owner that offers to purchase additional ARNs is, for purposes of such offer, treated as a Potential Owner.

(ix) Any Bid specifying a rate higher than the Maximum Interest Rate will: (A) be treated as a Sell Order if submitted by an Existing Owner; and (B) not be accepted if submitted by a Potential Owner.

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

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

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

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

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(a) each such Submitted Bid from Existing Owners specifying such lowest rate and (b) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARNs subject to such Submitted Bids; and (2)(a) each such Submitted Bid from Potential Owners specifying such lowest rate and (b) all other Submitted Bids from Potential Owners specifying lower rates were accepted, the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARNs which, when added to the aggregate principal amount of

Outstanding ARNs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARNs.

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

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

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

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

If the Auction Rate determined as set forth above exceeds the Maximum Rate, the Applicable ARNs Rate for such Interest Period shall be equal to the Maximum Rate, and the excess of the amount of interest on the ARNs that would have accrued at the rate equal to the Auction Rate over the amount of interest on such ARNs actually accrued at the Maximum Rate will accrue as the Carry-over Amount. The Carry-over Amount will bear interest at a rate equal to One-Month LIBOR from the Interest Payment Date for the Interest Period for which the Carry-over Amount was calculated until paid or until extinguished in accordance with the Resolution.

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

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

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

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

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

(D) each Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARNs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARNs subject to all such Submitted Bids shall be greater than the principal amount of ARNs (the "remaining principal amount") equal to the excess of the Available ARNs over the aggregate principal amount of ARNs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARNs subject to such Submitted Bid, but only in an amount equal to the aggregate principal

amount of ARNs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARNs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARNs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

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

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

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

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

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

(iii) If all Outstanding ARNs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected; and

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

(v) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of ARNs, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate ARNs for purchase among Potential Owners so that only ARNs in Authorized Denominations are purchased by

any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any ARNs.

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

(f) Any calculation by the Auction Agent, the Corporation or the Trustee, as applicable, of the Applicable ARNs Rate, the Applicable LIBOR-Based Rate, the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all other parties.

(g) The Broker-Dealer Agreement shall provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of Auction Rate Notes that the Auction Rate that will apply in an "all-hold" Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by existing holders that would avoid the occurrence of an "all-hold" Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

APPENDIX C

SETTLEMENT PROCEDURES RELATING TO TAXABLE AUCTION RATE NOTES

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

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

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

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

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

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

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

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

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

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

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

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

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its

Participant) through the Securities Depository the amount necessary to purchase the principal amount of ARNs to be purchased pursuant to such Bid against receipt of such principal amount of ARNs;

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

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

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

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

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

(d) On each Auction Date:

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

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

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

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

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

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

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

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

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APPENDIX D

MECHANISM FOR CONVERSION OF TAXABLE AUCTION RATE NOTES TO TAX-EXEMPT AUCTION RATE NOTES

Set forth below is a description of the procedures that relate to the conversion of the 2005 Taxable Bonds to bear interest at a Tax-Exempt Auction Rate. All of the terms used in this Appendix are defined herein, in Appendix B or in the Official Statement. For purposes of this Appendix, Taxable ARNs are also sometimes referred to herein as "ARNs". In the event of a conversion of the 2005 Taxable Bonds to bear interest at a Tax-Exempt Auction Rate, purchasers of the Bonds will be provided with separate offering materials containing descriptions of the terms applicable to the Bonds being converted.

Conversion at Option of Corporation

Subject to the Resolution, the Taxable ARNs may be converted to bear interest at a Tax-Exempt Auction Rate upon the delivery by the Corporation to the Trustee of a Favorable Opinion. Upon such conversion to a Tax-Exempt Auction Rate, the provisions of Appendix B shall no longer apply to the 2005 Taxable Bonds so converted. Any such conversion shall be made as follows:

(a) The Corporation shall confirm the appointment of Goldman, Sachs & Co. as Broker-Dealer and Market Agent, or shall otherwise select and appoint a qualified Broker-Dealer and Market Agent.

(b) The Corporation shall give written notice of any such conversion specifying the proposed Tax-Exempt Conversion Date to the Trustee, the Auction Agent, the Broker-Dealer, the Market Agent, the Bond Insurer, Fitch (if the ARNs are then rated by Fitch), Moody's (if the ARNs are then rated by Moody's) and S&P (if the ARNs are then rated by S&P) not fewer than 20 days prior to the proposed Tax-Exempt Conversion Date. The Tax-Exempt Conversion Date shall be the Business Day next succeeding the last day of an Interest Period.

(c) Not later than the 15th day preceding the Tax-Exempt Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Owners of all such ARNs being converted. Such notice shall inform the Owners of:

(i) the proposed Tax-Exempt Conversion Date;

(ii) the conditions to the conversion as described under this caption "Conversion at the Option of the Corporation"; and

(iii) the matters required to be stated as provided under the caption "Mandatory Tender Upon Conversion; Certain Notices" below with respect to mandatory tender and purchases of ARNs being converted.

(d) (i) Not later than one Business Day immediately preceding the Tax-Exempt Conversion Date, the Market Agent shall determine the Initial Interest Rates (as defined in Exhibit C of the 2005 Eleventh Series Resolution) for the 2005 Taxable Bonds subject to the conversion; and the Market Agent shall, not later than 2:00 p.m. (New York City time), notify the Trustee and the Corporation of such rate by telephone (promptly confirmed in writing), telegram, telecopy, telex or other similar means of communication. The Initial Interest Rate for the 2005 Taxable Bonds subject to the conversion shall be the minimum rate of interest necessary to remarket such Bonds at a price of par for the Initial Interest Period (as defined in Exhibit C of the 2005 Eleventh Series Resolution) and shall not exceed the then applicable Maximum Interest Rate for such Bonds being converted set forth in Exhibit C of the 2005 Eleventh Series Resolution. Promptly after the date of determination, the Trustee shall give notice of such rates to the Corporation and the Auction Agent.

(ii) As of the Tax-Exempt Conversion Date applicable to the ARNs, sufficient funds shall, not later than 12:00 Noon (New York City time), be available to purchase all ARNs which are then required to be purchased as described above. If (1) this condition is not met for any reason, or (2) if the Favorable Opinion is not received by the Corporation, the conversion shall not be effective, the ARNs so being converted shall continue to be outstanding as Taxable ARNs under Appendix B, and the Trustee shall, not later than 2:00 p.m. (New York City time), provide notice of the failed conversion to the Auction Agent, the Paying Agent and the Owners of such ARNs. The ARNs that were the subject of mandatory tender shall, notwithstanding (d)(i) above, bear interest for the Interest Period commencing on the failed Tax-Exempt Conversion Date at the Maximum Rate for Taxable ARNs, determined by the Auction Agent as provided in the Resolution, unless and until a new Auction Date is established prior to the end of said Interest Period as permitted in (f) below.

(e) The determination of the interest rates for the ARNs subject to mandatory tender as described above in connection with a conversion as described above shall be conclusive and binding upon the Corporation, the Trustee, the Paying Agent and the respective Owners of such ARNs. The Corporation, the Trustee, the Auction Agent and the Market Agent shall not be liable to any Owners for failure to give any notice required above or for failure of any Owners to receive any such notice.

(f) In the event that the conversion does not occur on a scheduled Tax-Exempt Conversion Date the Market Agent may schedule a new Auction Date for the 2005 Taxable Bonds as provided in the Resolution.

Mandatory Tender Upon Conversion; Certain Notices

(a) ***Mandatory Tender Upon Conversion***. If a series of the 2005 Taxable Bonds are to be converted as described above, all 2005 Taxable Bonds of such series shall be subject to mandatory tender for purchase on the Tax-Exempt Conversion Date at a price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date. The Market Agent shall obtain new CUSIP numbers for the 2005 Taxable Bonds being converted. Upon delivery of all the tendered 2005 Taxable Bonds being converted to the Trustee on the Tax-Exempt Conversion Date, the Corporation shall cause a new Bond designated "Education Loan Revenue Bond, [Senior Series 2005RR] [Senior Series 2005SS] (Auction Rate Notes)", as applicable, to be executed, authenticated and delivered in lieu of the converted 2005 Taxable Bonds and shall insert the new CUSIP numbers therein, and the Market Agent shall determine the Initial Interest Rate (as defined in Exhibit C of the 2005 Eleventh Series Resolution) on such converted 2005 Taxable Bonds as provided herein.

(b) ***Notice to Owners***. Any notice of conversion given to Owners shall specify that all Outstanding 2005 Taxable Bonds being converted are subject to mandatory tender pursuant to the provisions of the Resolution and will be purchased on the Tax-Exempt Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date, unless the conversion fails as described above.

(c) ***Remarketing***. Upon receipt of notice of a proposed Tax-Exempt Conversion Date from the Corporation, the Market Agent shall use its best efforts to find purchasers for and arrange for the sale of all such 2005 Taxable Bonds required to be tendered for purchase. The terms of any sale arranged by the Market Agent shall provide for the payment of the purchase price of the 2005 Taxable Bonds to the Trustee, or its designated agent, in immediately available funds at or before 10:00 a.m. (New York City time) on the purchase date.

(d) ***Certain Notices by Trustee and Market Agent***. Subject to the provisions of (c) above, the following notices shall be given in connection with a conversion as provided herein:

(i) ***Notices by Market Agent and Trustee of Remarketed Bonds***. At or before 12:00 noon (New York City time) on the Business Day immediately preceding the Tax-Exempt Conversion Date, the Remarketing Agent shall give notice by telephone, telegram, telecopy, telex or other similar communication to the Trustee, of the names, addresses and taxpayer identification numbers of the purchasers, and the principal amounts and denominations, of 2005 Taxable Bonds to be sold on the Tax-Exempt Conversion Date, the purchase price at which the Bonds are to be sold and

their date of sale and the principal amount of 2005 Taxable Bonds, if any, which have not been remarketed.

Upon receipt of any notice pursuant to the preceding paragraph, the Trustee shall on or prior to 2:30 p.m. (New York City time) on the date of receipt of such notice, give notice thereof by telephone, telegram, telecopy, telex or other similar communication to the Paying Agent and the Registrar.

(ii) ***Trustee's Notice of lnsufficiency of Payments Required for Conversion***. If, by 12:00 noon (New York City time) on the Tax-Exempt Conversion Date the Trustee shall not have received sufficient moneys from the Market Agent which, together with any other available funds, would be sufficient to purchase all 2005 Taxable Bonds which are required to be purchased, the conversion shall not be effective and the Trustee and Auction Agent shall provide such notices and take such actions as are required pursuant to the Resolution.

(e) ***Payments of Remarketing Proceeds***. The Market Agent shall cause to be paid to the Trustee by 12:00 noon (New York City time) on the Tax-Exempt Conversion Date all amounts then held by the Market Agent representing proceeds of the remarketing of such 2005 Taxable Bonds, such payment to be made as described in (c) above. All such remarketing proceeds received by the Trustee shall be deposited in the Remarketing Fund.

(f) ***Payments of Purchase Price by Trustee.*** On the Tax-Exempt Conversion Date, the Trustee shall pay the purchase price of the 2005 Taxable Bonds required to be tendered for purchase to the selling Owners thereof on or before 3:00 p.m. (New York City time). Such payments shall be made in immediately available funds, but solely from moneys in the Remarketing Fund representing proceeds of the remarketing of the Bonds, pursuant to sub paragraph (c) above, to any Person other than the Corporation, and neither the Corporation, the Trustee, the Paying Agent nor the Market Agent shall have any obligation to use funds from any other source.

(g) ***Registration and Delivery of Tendered or Purchased Bonds***. Upon receipt of notice from the Trustee pursuant to (d)(i) above, the Registrar shall register and authenticate and as promptly thereafter as practicable the Registrar shall deliver 2005 Taxable Bonds remarketed by the Market Agent to the Market Agent or the purchasers thereof in accordance with the instructions of the Market Agent.

(h) ***Delivery of Bonds; Effect of Failure to Surrender Bonds.*** All 2005 Taxable Bonds to be purchased on the Tax-Exempt Conversion Date shall be required to be delivered to the designated office of the Trustee, or its designated agent for such purposes, at or before 12:00 noon (New York City time) on such date. If the Owner of any 2005 Taxable Bonds that is subject to purchase fails to deliver such 2005 Taxable Bonds to the Trustee, or its designated agent for such purposes, for purchase on the purchase date, and if the Trustee, or its designated agent for such purposes, is in receipt of the purchase price therefor, such 2005 Taxable Bonds shall nevertheless be deemed tendered and purchased on the Tax-Exempt Conversion Date and shall be Undelivered Bonds and registration of the ownership of such 2005 Taxable Bonds shall be transferred to the purchaser thereof as provided in (g) above. The Trustee shall, as to any Undelivered Bonds, (i) promptly notify the Market Agent, the Auction Agent, the Paying Agent and the Registrar of such nondelivery and (ii) the Registrar shall place a stop transfer against an appropriate amount of 2005 Taxable Bonds registered in the name of the Owner(s) on the Bond Register. The Registrar shall place such stop transfer(s) commencing with the lowest serial number 2005 Taxable Bonds registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of 2005 Taxable Bonds) until the appropriate tendered 2005 Taxable Bonds are delivered to the Trustee or its designated agent. Upon such delivery, the Registrar shall make any necessary adjustments to the Bond Register. Pending delivery of such tendered 2005 Taxable Bonds, the Trustee, or its designated agent, shall hold the purchase price therefor uninvested in a segregated subaccount for the benefit of such Owners.

Inadequate Funds for Tenders; Failed Conversion

If the funds available for purchases of 2005 Taxable Bonds are inadequate for the purchase of all 2005 Taxable Bonds tendered on the Tax-Exempt Conversion Date or if a proposed conversion otherwise fails as provided in this Appendix D, the Trustee shall: (a) return all tendered 2005 Taxable Bonds to the Owners thereof; (b) return all moneys received for the purchase of such 2005 Taxable Bonds to the persons providing such moneys;

and (c) notify the Corporation, the Auction Agent, the Market Agent, the Broker-Dealer, the Bond Insurer and the Paying Agent of the return of such 2005 Taxable Bonds and moneys and the failure to make payment for tendered 2005 Taxable Bonds. After any such failed conversion the 2005 Taxable Bonds subject to the failed conversion shall remain outstanding as Taxable ARNs, Auctions shall be conducted beginning on the first Auction Date occurring more than two Business Days after the failed Tax-Exempt Conversion Date and interest payable thereon shall be determined and paid according to the Resolution.

No Tender Purchases on Redemption Date

2005 Taxable Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

Undelivered Bonds

Any 2005 Taxable Bonds which are required to be tendered on a Tax-Exempt Conversion Date and that are not delivered on the Tax-Exempt Conversion Date and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the purchase price, including any accrued interest due to (but not after) such purchase date with respect to such 2005 Taxable Bonds, shall be deemed to have been purchased and shall be Undelivered Bonds. In the event of a failure by a Bondowner to tender its 2005 Taxable Bonds on or prior to the required date, said Owner of such Undelivered Bonds shall not be entitled to any payment other than the purchase price due on the purchase date and Undelivered Bonds in the hands of such nondelivering Bondowner shall no longer accrue interest or be entitled to the benefits of the Resolution, except for the payment of the purchase price due on the purchase date; provided, however, that the indebtedness represented by such Undelivered Bonds shall not be extinguished, and the Paying Agent and Registrar shall transfer, authenticate and deliver such 2005 Taxable Bonds as provided below. The Paying Agent shall give telephonic notice to the Trustee and the Registrar, promptly confirmed by mail, of all Undelivered Bonds.

With respect to any Undelivered Bond, the Paying Agent, acting hereunder and pursuant to the power of attorney granted by such Bondowner in the 2005 Taxable Bonds, shall do or cause the Registrar to do the following:

(a) assign, endorse and register the transfer of such Undelivered Bonds to the purchaser or purchasers thereof;

(b) authenticate and deliver a new 2005 Taxable Bond or Bonds. as appropriate, to the purchaser or purchasers thereof;

(c) execute an acknowledgment that the Owner of Undelivered Bonds holds such Undelivered Bond for the benefit of the new purchaser or purchasers thereof, who shall be identified in such acknowledgment:

(d) promptly notify by first-class mail the Owner of such Undelivered Bond that:

(i) the Paying Agent has acted pursuant to such power of attorney to transfer the Undelivered Bond and to perform the other acts set forth under this caption “Undelivered Bonds”;

(ii) the Undelivered Bond is no longer Outstanding; and

(iii) funds equal to the applicable purchase price for such Undelivered Bond are being held on behalf of such Owner, without interest, in the segregated subaccount established for such purpose by and with the Trustee or Paying Agent.

(e) enter on the Bond Register that the Undelivered Bond is no longer Outstanding; and

(f) subject to the other provisions of the Resolution. hold the purchase price for such Undelivered Bond in the subaccount established for such purpose, without interest, and pay such purchase price and any unpaid interest due on the purchase date to such Owner upon presentation of the certificate representing the Undelivered

Bond. 2005 Taxable Bonds presented on or before 12:00 noon (New York City time) on any Business Day are to be paid on or before the close of business on that day.

Prior Owners of 2005 Taxable Bonds purchased or deemed purchased pursuant to the Resolution shall not be entitled to interest thereon which accrues on and after the related purchase date, provided moneys are on hand in the subaccount established therefor to pay the purchase price and any unpaid interest due on the purchase date.

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APPENDIX E

AMBAC ASSURANCE CORPORATION

The following information concerning Ambac Assurance has been provided by representatives of Ambac Assurance and has not been confirmed or verified by the Corporation or the Underwriters or their respective counsel. No representation is made herein as to the accuracy of such information or as to the absence of material changes in such information subsequent to the date of such information or the date hereof.

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,585,000,000 (audited) and statutory capital of $5,251,000,000 (audited) as of March 31, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Issuer of the 2005 Bonds.

Ambac Assurance makes no representation regarding the 2005 Bonds or the advisability of investing in the 2005 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "INSURANCE ON THE 2005 BONDS".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;

2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;

4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005; and

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005.

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

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

The Higher Education Act provides for several different educational loan programs (collectively, "Federal Act Loans" and, the program with respect thereto, the "Federal Family Education Loan Program" or the "FFEL Program"). Under these programs, state agencies or private nonprofit corporations administering student loan insurance programs ("Guarantee Agencies" or "Guarantors") are reimbursed for portions of losses sustained in connection with Federal Act Loans, and holders of certain loans made under such programs are paid subsidies for owning such loans. Certain provisions of the Federal Family Education Loan Program are summarized below.

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the Federal Act Loans. Generally, this Official Statement describes only the provisions of the Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. The Higher Education Act is currently subject to reauthorization. During that process, which is ongoing, proposed amendments to the Higher Education Act are more commonplace and a number of proposals have been introduced in Congress. As a part of such process, Congress has recently passed, and the President has signed into law, the Higher Education Extension Act of 2004, which temporarily extends the programs under the Higher Education Act, including the FFEL Program, through federal fiscal year 2005. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation's education loan finance program. See "CERTAIN INVESTMENT CONSIDERATIONS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program – *Future Changes in Relevant Law*" in the body of this Official Statement. The following summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

FEDERAL FAMILY EDUCATION LOANS

General

Several types of loans are currently authorized as Federal Family Education Loans pursuant to the Federal Family Education Loan Program. These include: (i) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment ("Subsidized Stafford Loans"); (ii) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments ("Unsubsidized Stafford Loans" and, collectively with Subsidized Stafford Loans, "Stafford Loans"); (iii) loans to parents of dependent students ("PLUS Loans"); and (iv) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans ("Consolidation Loans").

Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (iii) has agreed to notify promptly the holder of the loan of any address change, and (iv) meets the applicable "need" requirements. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. With certain exceptions, an institution with a cohort (composite) default rate that is higher than certain specified thresholds in the Higher Education Act is not an eligible institution.

Subsidized Stafford Loans

The Higher Education Act provides for federal (i) insurance or reinsurance of eligible Subsidized Stafford Loans, (ii) interest subsidy payments for borrowers remitted to eligible lenders with respect to certain eligible Subsidized Stafford Loans, and (iii) special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education (the "Secretary") to such holders of eligible Subsidized Stafford Loans.

Subsidized Stafford Loans are eligible for reinsurance under the Higher Education Act if the eligible student to whom the loan is made has been accepted or is enrolled in good standing at an eligible institution of higher education or vocational school and is carrying at least one-half the normal full-time workload at that institution. In connection with eligible Subsidized 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. The Secretary has discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subject to these limits, Subsidized Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan Program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

Unsubsidized Stafford Loans

Unsubsidized Stafford Loans are available for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income or assets in excess of permitted amounts. In other respects, the general requirements for Unsubsidized Stafford Loans are essentially the same as those for Subsidized Stafford Loans. The interest rate, the annual loan limits, the loan fee requirements and the special allowance payment provisions of the Unsubsidized Stafford Loans are the same as the Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the Secretary does not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins.

PLUS Loan Program

The Higher Education Act authorizes PLUS Loans to be made to parents of eligible dependent students. Only parents who do not have an adverse credit history are eligible for PLUS Loans. The basic provisions applicable to PLUS Loans are similar to those of Stafford Loans with respect to the involvement of Guarantee Agencies and the Secretary in providing federal reinsurance on the loans. However, PLUS Loans differ significantly from Subsidized Stafford Loans, particularly because federal interest subsidy payments are not available under the PLUS Program and special allowance payments are more restricted.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Subsidized Stafford Loans. Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than PLUS Loans made to "parent borrowers") selected by the borrower, as well as loans made pursuant to the Perkins (formally "National Direct Student Loan") Loan Program, the Health Professional Student Loan Programs and the William D. Ford Federal Direct Loan Program (the "FDSL Program"). The borrowers may be either in repayment status or in a grace period preceding repayment. Delinquent or defaulted borrowers are eligible to obtain Consolidation Loans if they agree to re-enter repayment through loan consolidation.

Borrowers may add additional loans to a Consolidation Loan during the 180-day period following origination of the Consolidation Loan. Further, a married couple who agrees to be jointly and severally liable is to be treated as one borrower for purposes of loan consolidation eligibility. A Consolidation Loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

In the event that a borrower is unable to obtain a Consolidation Loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding loans (that are selected for consolidation), or from any other eligible lender, the Higher Education Act authorizes the Secretary to offer the borrower a Direct Consolidation Loan with income contingent terms under the FDSL Program. Such direct Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provision under the authorizing section of the Higher Education Act.

Interest Rates

Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 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 percent, with a maximum rate of 8.25 percent. The Higher Education 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 percent per annum and for PLUS Loans made on or after July 1, 2006, the interest rate will be equal to 7.9% per annum. Subsidized Stafford Loans and Unsubsidized Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.3 percent, with a maximum rate of 8.25 percent. The rate is adjusted annually on July 1. PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.1 percent, with a maximum rate of 9 percent. 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 upward to the nearest one-eighth of one percent, with a maximum rate of 8.25 percent.

Loan Limits

The Higher Education Act requires that Subsidized and Unsubsidized Stafford Loans made to cover multiple enrollment periods, such as a semester, trimester or quarter be disbursed by eligible lenders in at least two separate disbursements. A Stafford Loan borrower may receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of a Stafford Loan for an academic year cannot exceed $2,625 for the first year of undergraduate study, $3,500 for the second year of undergraduate study and $5,500 for the remainder of undergraduate study. The aggregate limit for undergraduate study is $23,000 (excluding PLUS Loans). Independent undergraduate students may receive an additional Unsubsidized Stafford Loan of up to $4,000 per academic year, with an aggregate maximum of $46,000. The maximum amount of the loans for an academic year for graduate students is $8,500, and independent students may borrow an additional Unsubsidized Stafford Loan up to $10,000 per academic year. The Secretary has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study. For example, certain medical students may now borrow up to $46,000 per academic year, with a maximum aggregate limit of $189,125.

The total amount of all PLUS Loans that parents may borrow on behalf of each dependent student for any academic year may not exceed the student's cost of attendance minus other estimated financial assistance for that student.

Repayment

General. Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins not more than six months after the borrower ceases to pursue at least a half-time course of study (the six month period is the "Grace Period"). Grace Periods may be waived by borrowers. Repayment of interest on an Unsubsidized Stafford Loan begins immediately upon disbursement of the loan, however the lender may capitalize the interest until repayment of principal is scheduled to begin. Except for certain borrowers as described below, each loan generally must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of $600, including principal and interest, unless the borrower and the lender agree to lesser payments; in

instances in which a borrower and spouse both have such loans outstanding, the total combined payments for such a couple may not be less than $600 per year. Regulations of the Secretary require lenders to offer standard, graduated or income-sensitive repayment schedules to borrowers. Use of income sensitive repayment plans may extend the ten-year maximum term for up to three years.

PLUS Loans enter repayment on the date the last disbursement is made on the loan. Interest accrues and is due and payable from the date of the first disbursement of the loan. The first payment is due within 60 days after the loan is fully disbursed. Repayment plans are the same as in the Subsidized and Unsubsidized Stafford Loan Program.

Consolidation Loans enter repayment on the date the loan is disbursed. The first payment is due within 60 days after that date. Consolidation Loans must be repaid during a period agreed to by the borrower and lender, subject to maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans (but no longer than 30 years).

FFEL Program borrowers who accumulate outstanding Federal Acts totaling more than $30,000 may receive an extended repayment plan, with a fixed or graduated payment amount paid over a longer period of time, not to exceed 25 years. A borrower may accelerate principal payments at any time without penalty. Once a repayment plan is established, the borrower may annually change the selection of the plan.

Deferment and Forbearance Periods. No principal repayments need to be made during certain periods prescribed by the Higher Education Act ("Deferment Periods") but interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or rehabilitation training program, (b) not exceeding three years while the borrower is seeking and unable to find full-time employment, and (c) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance ("Forbearance") during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which Forbearance is mandatory. Mandatory Forbearance periods exist when the borrower is impacted by a national emergency, military mobilization, or when the geographical area in which the borrower resides or works is declared a disaster area by certain officials. Other mandatory periods include periods during which the borrower is (a) participating in a medical or dental residency and is not eligible for deferment; (b) serving in a qualified medical or dental internship program or certain national service programs; or (c) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, Forbearance may be granted at the lender's option. Forbearance also extends the maximum repayment periods.

Master Promissory Note

Since July of 2000, all lenders are required to use a master promissory note (the "MPN") for new Stafford Loans. The MPN permits a borrower to obtain future loans without the necessity of executing a new promissory note. Borrowers are not, however, required to obtain all of their future loans from their original lender, but if a borrower obtains a loan from a lender which does not presently hold 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 Corporation.

Interest Subsidy Payments

The Secretary is to pay interest on Subsidized Stafford Loans while the student is a qualified student, during a Grace Period or during certain Deferment Periods. In addition, those portions of Consolidation Loans that repay Subsidized Stafford Loans or similar subsidized loans made under the FDSL Program are eligible for Interest Subsidy Payments. The Secretary is required to make interest subsidy payments to the holder of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the holder of an eligible Subsidized Stafford

Loan, or the eligible portions of Consolidation Loans, shall be deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders. The rates for Special Allowance Payments are based on formulae that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loan (tax-exempt or taxable).

Loans made or purchased with funds obtained by the holder from the issuance of tax-exempt obligations issued prior to October 1, 1993 have an effective minimum rate of return of 9.5%. The Special Allowance Payments payable with respect to eligible loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are equal to those paid to other lenders.

Subject to the foregoing, the formulae for special allowance payment rates for Stafford and Unsubsidized Stafford Loans are summarized in the following chart. The term "T-Bill" as used in this table and the following table, means the average 91-day Treasury bill rate calculated as a "bond equivalent rate" in the manner applied by the Secretary as referred to in Section 438 of the Higher Education Act. The term "3 Month Commercial Paper Rate" means the 90-day commercial paper index calculated quarterly and based on an average of the daily 90-day commercial paper rates reported in the Federal Reserve's Statistical Release H-15.

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.1%[(1)]
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8%[(2)]
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34%[(3)]

(1) Substitute 2.5% in this formula while such loans are in the in-school or grace period.
(2) Substitute 2.2% in this formula while such loans are in the in-school or grace period.
(3) Substitute 1.74% in this formula while such loans are in the in-school or grace period.

The formula for Special Allowance Payment rates for PLUS and Consolidation Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.64%

Special Allowance Payments are generally payable, with respect to variable rate Federal Act Loans to which a maximum borrower interest rate applies, only when the maximum borrower interest rate is in effect. The Secretary offsets Interest Subsidy Payments and Special Allowance Payments by the amount of Origination Fees and Lender Loan Fees described in the following section.

The Higher Education 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 to receive those payments during the life of the loan. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of federal regulations or Guarantee Agency requirements.

Loan Fees

Insurance Premium. A Guarantee Agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, Guarantee Agencies have waived this fee since 1999.

Origination Fee. The lender is required to pay to the Secretary an origination fee equal to 3% of the principal amount of each Subsidized and Unsubsidized Stafford and PLUS Loan. The lender may charge these fees to the borrower by deducting them proportionately from each disbursement of the loan proceeds.

Lender Loan Fee. The lender of any Federal Act is required to pay to the Secretary an additional origination fee equal to 0.5% of the principal amount of the loan.

The Secretary collects from the lender or subsequent holder the maximum origination fee authorized (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in Interest Subsidy or Special Allowance Payments or directly from the lender or holder.

Rebate Fee on Consolidation Loans. The holder of any Consolidation Loan is required to pay to the Secretary a monthly fee equal to .0875% (1.05% per annum) of the principal amount plus accrued interest on the loan.

Education Loans Generally Not Subject to Discharge in Bankruptcy

Under the U.S. Bankruptcy Code, educational loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides as follows:

A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt:

(8) for an educational benefit overpayment or loan made, insured, or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or a nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

INSURANCE AND GUARANTEES

Default

A Federal Act Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days in the case of a loan repayable in monthly installments or for 330 days in the case of a loan repayable in less frequent installments. If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the guarantor is to pay the holder a percentage of such amount of the loss subject to reduction as described in the following paragraphs within 90 days of notification of such default.

Federal Insurance

The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and ensures that such reimbursements are not subject to reduction. In addition, the Higher Education Act provides that if a guarantor is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guarantor capable of meeting such obligations or until a successor guarantor assumes such obligations. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent

provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

Guarantees

General. If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the guarantor for a statutorily-set percentage (98%) of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary enters into a guarantee agreement and a reinsurance agreement (the "Guarantee Agreements") with each guarantor which provides for federal reimbursement for amounts paid to eligible lenders by the guarantor with respect to defaulted loans.

Guarantee Agreements. Pursuant to the Guarantee Agreements, the Secretary is to reimburse a guarantor for the amounts expended in connection with a claim resulting from the death, bankruptcy or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure, borrowers whose borrowing eligibility was falsely certified by the eligible institution, or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a guarantor's claims rate experience for federal reimbursement purposes. Generally, education loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower's dependents. Further, the Secretary is to reimburse a guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below.

The Secretary may terminate Guarantee Agreements if the Secretary determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. Upon termination of such agreements, the Secretary is authorized to provide the guarantor with additional advance funds with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to meet the immediate cash needs of the guarantor, ensure the uninterrupted payment of claims, or ensure that the guarantor will make loans as the lender-of-last-resort.

If the Secretary has terminated or is seeking to terminate Guarantee Agreements, or has assumed a guarantor's functions, notwithstanding any other provision of law: (i) no state court may issue an order affecting the Secretary's actions with respect to that guarantor; (ii) any contract entered into by the guarantor with respect to the administration of the guarantor's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of the Higher Education Act; and (iii) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the guarantor. Finally, notwithstanding any other provision of law, the Secretary's liability for any outstanding liabilities of a guarantor (other than outstanding student loan guarantees under the Higher Education Act), the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guarantor, minus any necessary liquidation or other administrative costs.

Reimbursement. The amount of a reimbursement payment on defaulted loans made by the Secretary to a guarantor is subject to reduction based upon the annual claims rate of the guarantor calculated to equal the amount of federal reimbursement as a percentage of the original principal amount of originated or guaranteed loans in repayment on the last day of the prior fiscal year. The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year. The formula for reimbursement amounts is summarized below:

CLAIMS RATE	GUARANTOR REINSURANCE RATE FOR LOANS MADE PRIOR TO OCTOBER 1, 1993	GUARANTOR REINSURANCE RATE FOR LOANS MADE BETWEEN OCTOBER 1, 1993 AND SEPTEMBER 30, 1998[(1)]	GUARANTOR REINSURANCE RATE FOR LOANS MADE ON OR AFTER OCTOBER 1, 1998[(1)]
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

[(1)] Other than student loans made pursuant to the lender-of-last resort program or student loans transferred by an insolvent guarantor as to which the amount of reinsurance is equal to 100%.

The original principal amount of loans guaranteed by a guarantor which are in repayment for purposes of computing reimbursement payments to a guarantor means the original principal amount of all loans guaranteed by a guarantor less: (i) guarantee payments on such loans, (ii) the original principal amount of such loans that have been fully repaid, and (iii) the original amount of such loans for which the first principal installment payment has not become due.

In addition, the Secretary may withhold reimbursement payments if a guarantor makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary or applicable federal law. A supplemental guarantee agreement is subject to annual renegotiation and to termination for cause by the Secretary.

Under the Guarantee Agreements, if a payment on a Federal Family Education Loan guaranteed by a guarantor is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the payment. Guarantor retentions remaining after payment of the Secretary's equitable share on such collections on consolidations of defaulted loans were reduced to 18.5% from 27% effective July 1, 1997 and for other loans were reduced from 27% to 24% (23% effective October 1, 2003).

Lender Agreements. Pursuant to most typical agreements for guarantee between a guarantor and the originator of the loan, any eligible holder of a loan insured by such a guarantor is entitled to reimbursement from such guarantor of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower at the rate of 100% of such loss (or, subject to certain limitations, 98% for loans in default made on or after October 1, 1993). Guarantors generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 270 days in the case of a loan payable in monthly installments or for 330 days in the case of a loan payable in less frequent installments. When a loan becomes at least 60 days past due, the holder is required to request default aversion assistance from the applicable guarantor in order to attempt to cure the delinquency. When a loan becomes 240 days past due, the holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guarantor all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guarantor from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

Any holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guarantor has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guarantor may take reasonable action including withholding payments or requiring reimbursement of funds. The guarantor may also terminate the agreement for cause upon notice and hearing.

Guarantor Reserves

Each guarantor is required to establish a Federal Student Loan Reserve Fund (the "Federal Fund") which, together with any earnings thereon, are deemed to be property of the United States. Each guarantor is required to deposit into the Federal Fund any reserve funds plus reinsurance payments received from the Secretary, default collections, insurance premiums, 70% of payments received as administrative cost allowance and other receipts as specified in regulations. A guarantor is authorized to transfer up to 180 days' cash expenses for normal operating expenses (other than claim payments) from the Federal Fund to the Operating Fund (described below) at any time during the first three years after establishment of the fund. The Federal Fund may be used to pay lender claims and to pay default aversion fees into the Operating Fund. A guarantor is also required to establish an operating fund (the "Operating Fund") which, except for funds transferred from the Federal Fund to meet operating expenses during the first three years after fund establishment, is the property of the guarantor. A guarantor may deposit into the Operating Fund loan processing and issuance fees equal to 0.65% of the total principal amount of loans insured during the fiscal year, 30% of payments received after October 7, 1998 for the administrative cost allowance for loans insured prior to that date and the 24% retention of collections on defaulted loans and other receipts as specified in regulations. An Operating Fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, compliance monitoring, and other student financial aid related activities.

The Higher Education Act required the Secretary to recall $1 billion in federal reserve funds from guarantors on September 1, 2002. Each guarantor was required to transfer its equitable share of the $1 billion to a restricted account in equal annual installments for each of the five federal fiscal years 1998 through 2002 (or in certain cases over four federal fiscal years beginning in 1999). The guarantor's required reserve ratio has been reduced from 1.1% to .25%.

The Higher Education Act provides for an additional recall of reserves from each Federal Fund, but also provides for certain minimum reserve levels which are protected from recall. The Secretary is authorized to enter into voluntary, flexible agreements with guarantors under which various statutory and regulatory provisions can be waived. In addition, under the Higher Education Act, the Secretary is prohibited from requiring the return of all of a guarantor's reserve funds unless the Secretary determines that the return of these funds is in the best interest of the operation of the FFEL program, or to ensure the proper maintenance of such guarantor's funds or assets or the orderly termination of the guarantor's operations and the liquidation of its assets. The Higher Education Act also authorizes the Secretary to direct a guarantor to: (i) return to the Secretary all or a portion of its reserve fund that the Secretary determines is not needed to pay for the guarantor's program expenses and contingent liabilities; and (ii) cease any activities involving the expenditure, use or transfer of the guarantor's reserve funds or assets which the Secretary determines is a misapplication, misuse or improper expenditure. Under current law, the Secretary is also authorized to direct a guarantor to return to the Secretary all or a portion of its reserve fund which the Secretary determines is not needed to pay for the guarantor's program expenses and contingent liabilities.

THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

General

The Public Health Service Act provided 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 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.

Congress has not extended the September 30, 1998 authorization date. No assurance can be given 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 certain Insurance Contracts for Secondary Markets. Under these annual Insurance Contracts, 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 Contracts are annual agreements. The Corporation also receives reimbursement with respect to HEAL consolidation loans under a Consolidation Lender Insurance Contract with the Secretary of HHS which insures Consolidation Loans issued during the period ending September 30, 2005. The Corporation anticipates a renewal of this contract with respect to HEAL consolidation loans.

Insurance contracts entered into after August 29, 1991 eliminated reimbursement for lenders upon the filing by a borrower for bankruptcy under Chapter 7 of the Bankruptcy Code unless such borrower also files a complaint to determine dischargeability of the HEAL Loan. This amendment to insurance contracts is based upon 42 U.S.C. 294(g) which provides that HEAL Loans may not be discharged in any bankruptcy proceeding until five years after the date on which repayment of this loan begins. Such amendment does not affect reimbursement provisions in connection with Chapter 11 and 13 bankruptcies by borrowers.

The Corporation's receipt of federal reimbursement payments under the HEAL Loan program is subject to compliance by the Corporation with the Insurance Contract and requirements of the Public Health Service Act. The Corporation is required, among other matters, to assure that all of the requirements for the initial insurability of the HEAL Loans have been met and to exercise due diligence in servicing and collecting such loans and to maintain required records.

Failure to comply with the terms and conditions of the Insurance Contract and the provisions of the Public Health Service Act and regulations thereunder entitles the Secretary of HHS to terminate its agreement with the Corporation. In the event of termination, the Secretary of HHS remains obligated to make reimbursement payments for claims made by the Corporation prior to termination. The Secretary of HHS also may take less severe actions than termination, such as requesting the return of certain payments made to the Corporation, all in accordance with procedures for the limitation, suspension or termination of lender eligibility under the Higher Education Act program of direct federal insurance to holders of student loans ("FISLP").

Eligibility for Federal Insurance

A HEAL Loan is federally insurable provided:

(i) The loan was 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 did 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 did 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 did not exceed $25,000 in aggregate principal amount.

HEAL Loans could also have been 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

The Corporation has established loan programs that are separate and apart from the Higher Education Act or the Public Health Service Act (the "Statutory Loan Program"). Loans made pursuant to the Corporation's Statutory Loan Program are herein referred to as "Statutory Loans."

THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM HAVE BEEN ESTABLISHED TO SERVE THE GOALS OF THE CORPORATION IN INCREASING THE AVAILABILITY OF CREDIT FOR EDUCATION, CONSISTENT WITH PROVIDING FOR PAYMENT OF DEBT SERVICE ON THE CORPORATION'S OBLIGATIONS. THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM ARE, HOWEVER, SUBJECT TO CHANGE AT ANY TIME WITHOUT NOTICE TO OR CONSENT OF THE OWNERS OF THE 2005 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 2005 BONDS WITHOUT THE CONSENT OF THE BOND INSURER.

Under the Statutory Loan Program, the Corporation finances Statutory Loans to eligible persons (each an "Eligible Borrower") from the proceeds of bonds or other obligations, from repayments or prepayments of the Education Loans and from other moneys available therefor under the Statutory Loan Program. The Corporation services or contracts for the servicing of the Statutory Loans.

Presently, the Statutory Loan Program consists of three types of loan programs: the VSAC EXTRA Loan Program, the VSAC EXTRA Medical Loan Program and the VSAC EXTRA Law Loan Program. These Statutory Loans are not insured, subsidized or guaranteed. These loans are intended to supplement other available sources of credit for student borrowers. The security for a VSAC EXTRA Loan, a VSAC EXTRA Medical Loan and a VSAC EXTRA Law Loan will be exclusively derived from the creditworthiness of the borrower and any co-signer. The Statutory Loan borrowers may be required to pay a borrowing or origination fee which may be held by the Corporation outside the Resolution and may not be available to pay debt service on the 2005 Bonds.

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APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

$239,985,000
VERMONT STUDENT ASSISTANCE CORPORATION
EDUCATION LOAN REVENUE BONDS
SERIES 2005

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 $239,985,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2005QQ (the "2005QQ Bonds"), Senior Series 2005RR (the "2005RR Bonds") and Senior Series 2005SS (the "2005SS Bonds") (collectively, the "2005 Bonds").

The 2005 Bonds have been authorized and issued pursuant to Sections 2821 through 2873 of Title 16 of the Vermont Statutes Annotated, as amended (the "Act"), and the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted by the Corporation's Board of Directors on June 16, 1995 and the 2005 Eleventh Series Resolution of the Corporation adopted by the Corporation's Board of Directors on May 27, 2005 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2005 Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Education Loans and to pay certain costs and other expenses of the Corporation associated with the issuance of the 2005 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 2005 Bonds are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2005 Bonds, a certified copy of the Bylaws of the Corporation, certificates of public officials, and such other documents and instruments as we have deemed necessary for the purpose of rendering this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings, including the representations therein, and other certifications of officials furnished to us, without undertaking to verify the same by independent investigation. We have also examined the Act and such other statutes, regulations and law as we have deemed necessary under the circumstances.

Based upon the foregoing, and on laws, regulations, rulings and judicial decisions existing as of the date hereof, we are of the opinion that:

1. The Corporation is duly organized and existing as a nonprofit public corporation under the Act, with full power and authority to issue the 2005 Bonds and adopt the Resolution.

2. The Resolution has been duly adopted and constitutes the legal, valid and binding obligation of the Corporation enforceable in accordance with its terms. The Resolution creates a valid pledge, to secure payment of the principal of and interest on the 2005 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 2005 Bonds) held by the Trustee in any account established pursuant to the Resolution, except the Rebate Account, subject to provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

3. The 2005 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding limited obligations of the Corporation, payable solely from the amounts pledged therefor as described in (2) above, and entitled to the protections, benefits and security of the Resolution.

4. The 2005 Bonds are not a lien or charge upon the funds or property of the Corporation except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of Vermont or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2005 Bonds.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 2005QQ Bonds is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the 2005QQ Bonds. Failure to comply with such requirements could cause interest on the 2005QQ Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2005QQ Bonds. The Corporation has covenanted to comply with such requirements. We are further of the opinion that interest on the 2005QQ Bonds constitutes a specific preference item for purposes of the alternative minimum tax. We express no opinion regarding other federal tax consequences arising with respect to the 2005QQ Bonds.

The accrual or receipt of interest on the 2005 Bonds may otherwise affect the federal income tax liability of the owners of the 2005 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws of the State of Vermont, the 2005 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 2005 Bonds and the Resolution and the rights of the registered owners of the 2005 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 H

SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

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

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

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

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

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

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

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

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APPENDIX I

FINANCIAL STATEMENTS

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

FINANCIAL STATEMENTS

Years Ended June 30, 2004 and 2003

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

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 years ended June 30, 2004 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2004 and 2003, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004, 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 – 11 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 2004 and 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 17, 2004

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VERMONT STUDENT ASSISTANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2004 and 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 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.

The majority of VSAC's education loan programs are financed through issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education through the Federal Family Education Loan Program (FFELP). VSAC also originates certain student loans 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.

Management's Discussion and Analysis follows for Fiscal 2004 and Fiscal 2003.

FISCAL 2004

Fiscal 2004 Highlights and Overall Financial Position

- During the year ended June 30, 2004, VSAC provided over $21.6 million in grants and scholarships to Vermont students.
- VSAC originated $451.7 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.28 billion in education loans receivable at June 30, 2004.
- VSAC returned over $13.3 million in interest and principal rebates to students in its loan programs during fiscal 2004.
- 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 $22.0 million to $101.7 million at June 30, 2004. As a result of a change in interpretation of DE regulations surrounding special allowance, VSAC made a reassignment of student loans that qualify for special allowance categories eligible for the 9.5% floor interest rate. This resulted in approximately $8.3 million of additional special allowance billings in 2004 from the DE. This amount was collected in July of 2004. In September 2004, the DE issued a report indicating the adjustment appeared to be in compliance with current guidance and regulations.
- VSAC's unrestricted net assets increased $22.7 million as a result of available equity from bonds either maturing or refunded. VSAC's net revenue base continued to grow as loan originations, including traditional Stafford and PLUS loans, consolidation loans and alternative loans, increased.

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 cash payments for the Corporation.

The notes to 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

	2004	2003
	(In Thousands)	
Revenues:		
Interest earned from student loan financing	$ 84,394	$ 70,530
Other loan and guarantee program revenues	4,948	4,973
Investment interest	2,058	2,568
Vermont state appropriations	16,684	16,582
Federal grants	3,823	2,550
Scholarship revenue	3,710	3,651
Other revenue	697	1,189
Total operating revenues	116,314	102,043
Expenses:		
Student aid	21,609	20,603
Interest rebated to borrowers	13,309	14,664
Interest on debt	17,937	20,043
Other loan financing costs	12,702	12,174
Corporate operating expenses and depreciation	28,776	26,345
Total expenses	94,333	93,829
Excess of revenues over expenses	21,981	8,214
Total net assets, at the beginning of the year	79,689	71,475
Total net assets, at the end of the year	$101,670	$ 79,689

Revenues

VSAC's fiscal 2004 operations resulted in an increase in net assets of $22.0 million. All revenues for 2004 are considered operating revenues. VSAC earned $116.3 million in revenues versus $94.3 million in total expenses in 2004. 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 2004, interest revenues and subsidies increased from $70.5 to $84.4 million. Interest for certain student loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy totaled $8.6 million in 2004. VSAC also receives special allowance payments when variable interest rates fall below certain levels. Low interest rates, and the reinterpretation of Department of Education regulations in 2004, accounted for an increase in these special allowance payments from $16.1 to $29.4 million. The reinterpretation accounted for approximately $8.3 million of the increase.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, default aversion fees, collection revenues, and other program fees and revenues. These fees and revenues totaled $5.0 million in 2004 and 2003.

Lower interest rates 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 $2.6 million to $2.1 million in 2004, as interest rates declined. These investments are related to the timing of student loan bond issues.

VSAC's appropriation increased slightly from $16.6 million in 2003 to $16.7 million in 2004. 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 from $2.6 million to $3.8 million in 2004. A one-time award of approximately $1.0 million accounted for the majority of the increase.

Scholarship revenues remained at $3.7 million for 2004.

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 $21.6 million in student aid during 2004; $16.7 million was provided from State appropriations. An additional $3.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 22.9% of VSAC's operating expenses. The total aid in 2004 increased 4.9% over 2003.

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 $13.3 million in rebates of interest to borrowers in fiscal 2004, down slightly from 2003, due to the overall decline in interest rates on these loans. These rebates represent 14.1% of VSAC's 2004 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 $451.7 million of loans VSAC made available to students and parents in 2004.

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 decrease in interest rates from fiscal 2003 to 2004, VSAC interest costs fell from $20.0 to $17.9 million, even as overall indebtedness increased from $1.33 to $1.55 billion. Interest costs represented 19.0% of VSAC operating expenses in 2004.

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 arbitrage earnings liability to the U.S. Treasury, as well as a variety of other costs incurred in issuing and managing over $1.55 billion in outstanding bonds and notes. These costs totaled $12.7 million in 2004, representing approximately 13.5% 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 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. In 2004, VSAC actually recovered excess arbitrage.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $28.8 million in 2004, an increase of approximately 9.2% from 2003. Salaries and benefits were $20.5 million in 2004, approximately 71% of costs of operations. Overall costs of operations represent 30.5% of total operating expenses.

Total expenses for 2004 were $94.3 million. Revenues totaled $116.3 million. The excess of revenues over expenses was $22.0 million. The change in total net assets for 2004 was an increase of $22.0 million. The ending balance of net assets was $101.7 million at June 30, 2004, as compared to $79.7 million at June 30, 2003.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF NET ASSETS

	2004	2003
	(In Thousands)	
Assets:		
Cash and investments	$ 341,371	$ 272,538
Student loans receivable (plus interest)	1,310,175	1,147,143
Other assets	16,843	12,265
Total assets	$1,668,389	$1,431,946
Liabilities:		
Bonds & notes payable (plus interest)	$1,551,701	$1,333,404
U.S. Treasury arbitrage payable	8,604	13,007
Other liabilities	6,414	5,846
Total liabilities	1,566,719	1,352,257
Net assets:		
Restricted	48,405	48,681
Unrestricted	50,816	28,144
Net investment in capital assets, net of related debt	2,449	2,864
Total net assets	101,670	79,689
Total liabilities and net assets	$1,668,389	$1,431,946

Net Assets

Cash balances increased from June 30, 2003 to 2004 from $261.7 to $341.3 million as a result of fiscal 2004 bond proceeds not fully utilized for loan originations at June 30, 2004. Combined cash and investments were $341.3 million at year end. Refer to the Statement of Cash Flows for further details of changes in cash and investments in 2004.

Student loans and interest receivable totaled $1.31 billion at June 30, 2004, up from $1.15 billion in 2003. VSAC used education loan revenue bonds issued in 2004 and 2003 to originate student loans in 2004.

U.S. Treasury arbitrage payable was described in the expense discussion. This liability decreased as of June 30, 2004, to $8.6 million, from $13.0 million at June 30, 2003.

Net assets restricted by bond indenture decreased $0.5 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 totaled $50.8 million at June 30, 2004, an increase of $22.7 million from June 30, 2003. Unrestricted net assets invested in student loans totaled $36.3 million at June 30, 2004.

Capital assets increased during fiscal 2004 as new acquisitions of $5.0 million exceeded depreciation expense of $1.5 million. The primary reason for the increase is a result of VSAC purchasing land and beginning construction of a new corporate headquarters in 2004. The purchase of land and construction of the new corporate headquarters is being funded by General Obligation bonds issued in fiscal 2004.

Changes in Long-Term Debt

Bonds, notes and interest payable increased by $218.3 million to $1.55 billion in 2004. The increase resulted from new borrowings exceeding maturities and refundings of existing debt during fiscal year 2004. During the fiscal year, VSAC issued $380.9 million in new bonds and notes. These bonds and notes provided $218 million of new capital, and retired and refunded $160.6 million of existing debt.

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

FISCAL 2003

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 held $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.

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 7.7%, 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 $1.10 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 $12.2 million in fiscal 2003, representing approximately 13.0% 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, 2004 and 2003

ASSETS

	2004	2003
	(In Thousands)	
Current assets:		
Cash and cash equivalents (notes 3, 8 and 9)	$ 341,276	$ 261,668
Investments (notes 3, 8 and 9)	95	10,870
Receivables:		
Student loans, net (notes 4, 8 and 9)	104,380	95,335
Student loan interest and special allowance (note 10)	33,941	23,489
Investment interest	218	278
Federal administrative and program fees	446	410
Other	1,073	800
Other assets	1,389	1,485
Total current assets	482,818	394,335
Noncurrent assets:		
Receivables:		
Student loans, net (notes 4, 8 and 9)	1,171,854	1,028,319
Capital assets, net (note 7)	6,324	2,864
Deferred bond issuance costs, net	7,393	6,428
Total noncurrent assets	1,185,571	1,037,611
Total assets	$1,668,389	$1,431,946

LIABILITIES AND NET ASSETS

	2004	2003
	(In Thousands)	
Current liabilities:		
Bonds and notes payable (notes 8 and 9)	$ 30,400	$ 40,935
Accounts payable and other liabilities	3,117	3,103
Deferred revenue	3,297	2,743
Accrued interest on bonds payable	1,307	1,211
Arbitrage earnings rebatable (note 9)	2,560	1,260
Total current liabilities	40,681	49,252
Noncurrent liabilities:		
Bonds and notes payable (notes 8 and 9)	1,519,994	1,291,258
Arbitrage earnings rebatable (note 9)	6,044	11,747
Total noncurrent liabilities	1,526,038	1,303,005
Total liabilities	1,566,719	1,352,257
Commitments and contingencies (notes 7, 12, 13 and 14)		
Net assets:		
Invested in capital assets, net of related debt	2,449	2,864
Restricted:		
Bond resolution	47,773	48,288
Grants and scholarships	632	393
Unrestricted	50,816	28,144
Total net assets	101,670	79,689
Total liabilities and net assets	$1,668,389	$1,431,946

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, 2004 and 2003

	2004	2003
	(In Thousands)	
Operating revenues:		
U.S. Department of Education (note 10):		
Interest benefits	$ 8,590	$ 9,019
Special allowance	29,420	16,099
Interest on student loans	46,384	45,412
State appropriations	16,684	16,582
Interest on investments	2,058	2,568
Guarantee agency administrative revenues	4,948	4,973
Federal grants	3,823	2,550
Scholarship income	3,710	3,651
Other income	697	1,189
Total operating revenues	116,314	102,043
Operating expenses:		
Financing expenses – interest	17,937	20,043
Salaries and benefits (note 11)	20,457	18,483
State grants and scholarships	21,609	20,603
Interest rebated to borrowers	13,309	14,664
Other general and administrative	6,399	6,095
Other guarantee agency expenses	391	435
Reduction in excess arbitrage (note 9)	(3,145)	(1,181)
Credit enhancement and remarketing fees	5,040	4,385
Consolidation and lender paid fees	8,387	6,861
Other loan financing expense	79	151
Provision for losses on student loans (note 4)	1,260	1,062
Depreciation and amortization (note 7)	1,529	1,332
Amortization of bond issuance costs	1,081	896
Total operating expenses	94,333	93,829
Excess of operating revenues over operating expenses	21,981	8,214
Net assets, beginning of year	79,689	71,475
Net assets, end of year	$101,670	$ 79,689

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, 2004 and 2003

	2004	2003
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	$ 39,729	$ 35,676
Principal payments received on student loans	297,849	269,818
Cash paid to suppliers for goods and services	(57,949)	(55,095)
Student loans originated	(451,689)	(406,839)
Cash paid to employees for services	(20,329)	(18,838)
Interest received on student loans	47,049	47,714
State appropriations received	16,684	16,582
Net cash used in operating activities	(128,656)	(110,982)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds/notes payable	358,850	449,285
Payments on bonds/notes payable	(160,585)	(214,300)
Interest paid to bond holders	(18,123)	(20,080)
Premiums paid at redemption for bond refunding	(1,562)	–
Net cash provided by noncapital financing activities	178,580	214,905
Cash flows from capital and related financing activities:		
Proceeds from the sale of capital debt	22,006	–
Interest paid to bond holders	(226)	–
Acquisition and construction of capital assets	(4,989)	(1,406)
Net cash provided (used) in capital and related financing activities	16,791	(1,406)
Cash flows from investing activities:		
Interest received on investments	2,118	2,493
Redemption of investments, net	10,775	13,117
Net cash provided by investing activities	12,893	15,610
Net increase in cash and cash equivalents	79,608	118,127
Cash and cash equivalents, beginning of year	261,668	143,541
Cash and cash equivalents, end of year	$ 341,276	$ 261,668

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

STATEMENTS OF CASH FLOWS
(CONTINUED)

Years Ended June 30, 2004 and 2003

	2004	2003
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities:		
Excess of operating revenues over operating expenses	$ 21,981	$ 8,214
Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities:		
Depreciation and amortization	1,529	1,332
Provision for losses on student loans	1,260	1,062
Amortization of bond issuance costs	1,081	896
Amortization of bond premium	(508)	(144)
Investment interest received	(2,118)	(2,493)
Interest paid to bond holders	18,349	20,080
Changes in operating assets and liabilities:		
Decrease (increase) in investment interest receivable	60	(75)
Increase in student loans receivable	(153,840)	(137,608)
(Increase) decrease in student loans interest receivable	(10,452)	1,406
Increase in federal administrative and program fees receivable	(36)	(74)
Increase in other receivables	(273)	(240)
Decrease (increase) in other assets	96	(259)
Increase in deferred bond issuance costs	(2,046)	(2,118)
Increase in accounts payable and other liabilities	14	353
Increase in deferred revenue	554	71
Increase in accrued interest on bonds payable	96	107
Decrease in arbitrage earnings rebatable	(4,403)	(1,492)
Total adjustments	(150,637)	(119,196)
Net cash used in operating activities	$(128,656)	$(110,982)

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, 2004 and 2003

	Federal Loan Reserve Fund	VHEIP	2004 Total	2003 Total
		(In Thousands)		
ASSETS HELD FOR OTHERS				
Cash and cash equivalents	$ 8,869	$ 303	$ 9,172	$ 7,900
Investments	–	29,166	29,166	18,428
Student loans receivable and accrued student loan interest	–	3,028	3,028	2,504
Investment interest receivable	6	13	19	81
Other assets	1,082	7	1,089	1,090
Total assets	$ 9,957	$ 32,517	$ 42,474	$ 30,003
LIABILITIES				
Accounts payable and other liabilities	$ 377	$ 21	$ 398	$ 208
Note payable	–	3,009	3,009	2,563
Federal advances	538	–	538	538
Amounts held on behalf of investors	–	29,487	29,487	18,568
Return of reserves due to U.S. Department of Education	552	–	552	552
Federal loan reserve funds held for U.S. Department of Education	8,490	–	8,490	7,574
Total liabilities	$ 9,957	$ 32,517	$ 42,474	$ 30,003

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 majority of education loans are financed through the issuance of limited obligation bonds and 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 assistance 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 less net deferred loan origination fees. Loan origination fees received are deferred and amortized over the estimated life of the loan using a method that approximates the level yield method.

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, 2004 and 2003, 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 probable losses on the 98% guaranteed loans and for loans that have no guarantee. 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. Primary considerations in establishing the allowance are the amounts of unguaranteed loans in the portfolio, delinquencies, current economic conditions and historical loss experience.

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 consist of a certificate of deposit at June 30, 2004. At June 30, 2003, they consisted primarily of guaranteed investment contracts. 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 approximated their fair values as VSAC could 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 that are placed in service is calculated using the straight-line method over the estimated useful lives of the assets. Capital asset acquisitions that equal or exceed $2.5 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.

Bond Premium, Discount and Deferred Loss on Refunding

Bond premiums and discounts are amortized using the interest method over the life of the bonds. Any unamortized deferred loss related to refunded bonds is deferred and amortized over the life of the original or refunded bonds, whichever is shorter.

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, an origination fee, 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 2003 financial statements have been reclassified to conform to the current year presentation.

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, 2004 and 2003:

	2004		2003	
	Balance	Amount Insured or Collateralized	Balance	Amount Insured or Collateralized
Cash and repurchase agreements	$ 4,212	$ 4,614	$ 3,447	$ 3,294
Money market accounts	337,064	See Below	258,221	See Below
	$341,276		$261,668	

At June 30, 2004 and 2003, 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, 2004, were $5,066 and the bank balances at June 30, 2003, were $4,033. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $4,614 and $3,294 of the bank balances at June 30, 2004 and 2003, respectively, were covered by Federal depository insurance or collateralized by repurchase agreements for which the securities are held by the bank's trustee in VSAC's name. The remainder of bank balances of $452 and $739 at June 30, 2004 and 2003, respectively, were uninsured and uncollateralized.

At June 30, 2004 and 2003, 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, 2004 and 2003:

	2004	2003
Guaranteed investment contracts (not subject to categorization)	$ –	$ 10,775
Certificates of deposit – Category 1	95	95
	$ 95	$ 10,870

The bank and book balances of investments at June 30, 2004 and 2003, 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 have annual interest rates ranging from 2.43% to 12.0%; the majority are insured by DE and the U.S. Department of Health and Human Services. There are certain student loans that are not guaranteed. 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, 2004 and 2003, are summarized as follows:

	2004	2003
Status:		
Interim status	$ 306,215	$ 258,982
Deferral status	214,247	195,002
Repayment status	759,031	670,749
Less: Allowance for loan losses	(1,806)	(1,079)
Deferred origination fees, net	(1,453)	–
Total student loans receivable	1,276,234	1,123,654
Less: noncurrent student loans receivable	1,171,854	1,028,319
Current student loans receivable	$ 104,380	$ 95,335

(Dollars in Thousands)

4. Student Loans Receivable (Continued)

	2004	2003
Guarantee type:		
U.S. Department of Education	$1,179,464	$1,058,858
U.S. Department of Health and Human Services	18,713	20,277
Other – nonguaranteed	81,316	45,598
Less: Allowance for loan losses	(1,806)	(1,079)
Deferred origination fees, net	(1,453)	–
Total student loans receivable	1,276,234	1,123,654
Less: noncurrent student loans receivable	1,171,854	1,028,319
Current student loans receivable	$ 104,380	$ 95,335

The student loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended June 30, 2004 and 2003, were as follows:

	2004	2003
Balance July 1	$ 1,079	$ 604
Net loans charged off	(533)	(587)
Provision for losses on student loans	1,260	1,062
Balance June 30	$1,806	$1,079

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

Under the Higher Education Act Amendments of 1998, all 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, 2004 and 2003, were as follows:

	2004	2003
Additions:		
Reimbursement from DE on default loan purchases	$13,444	$11,411
Default loan collections	72	40
Loan administrative fees	1,982	1,821
Investment income	54	88
Total additions	15,552	13,360
Deductions:		
Purchases of defaulted loans from lenders	13,794	11,655
Default aversion fee paid	585	507
Other disbursements	257	1,126
Total deductions	14,636	13,288
Federal loan reserve funds held, at beginning of year	7,574	7,502
Federal loan reserve funds held, at end of year	$ 8,490	$ 7,574

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 providers. The Higher Education Act Amendments of 1998 require VSAC to maintain reserves equal to .25% of student loans guaranteed. During 2004 and 2003, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $1,179,464 and $1,058,858 at June 30, 2004 and 2003, 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 the 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, 2004 and 2003, were as follows:

	2004	2003
Additions:		
Investment income	$ 860	$ 327
Net realized and unrealized gains	1,845	686
Student loan interest income	101	92
Net participant subscriptions/redemptions	8,144	6,674
Total additions	10,950	7,779
Deductions:		
Operational expenses	31	26
Total deductions	31	26
Assets held on behalf of investors, at beginning of year	18,568	10,815
Assets held on behalf of investors, at end of year	$29,487	$18,568

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2004 and 2003, were as follows:

	Estimated Lives	Balance July 1, 2002	Acquisitions	Disposals	Balance June 30, 2003	Acquisitions	Balance June 30, 2004
Land	–	$ –	$ –	$ –	$ –	$ 3,150	$ 3,150
Furniture and equipment	3 – 5 Years	4,644	998	(2,982)	2,660	1,701	4,361
Leasehold improvements	5 Years	929	–	(208)	721	–	721
Software	3 – 5 Years	4,420	64	(2,730)	1,754	43	1,797
Construction in progress		286	344	–	630	95	725
		10,279	1,406	(5,920)	5,765	4,989	10,754
Less accumulated depreciation		7,489	1,332	(5,920)	2,901	1,529	4,430
Capital assets, net		$ 2,790	$ 74	$ –	$ 2,864	$ 3,460	$ 6,324

Depreciation charged to operations for the years ended June 30, 2004 and 2003, was $1,529 and $1,332, respectively.

VSAC has a commitment to construct new corporate headquarters. At June 30, 2004, VSAC had incurred $617 in construction costs under this contract which leaves an outstanding commitment of $14,044.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2004 and 2003, which were issued to finance the origination of student loans:

Bonds Payable:	2004	2003
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 1.0% to 1.2% during fiscal year 2004 (1.2% at June 30, 2004).	$ 40,900	$ 40,900
1992 Series A-3, dated June 15, 1992. 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%. The Series A-3 bonds were refunded in advance of their maturity in 2004 by the 2004 Series MM bonds.	–	17,165

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2004	2003
1992 Series B, 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%. The Series B bonds were refunded in advance of their maturity in 2004 by the 2004 Series MM bonds.	$ –	$ 24,085
1993 Series D, 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%. The Series D bonds were refunded in advance of their maturity in 2004 by the 2004 Series MM bonds.	–	40,000
1993 Series H and I dated September 27, 1993. 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 0.88% to 0.90% during fiscal year 2004. The Series H and I bonds were refunded in advance of their maturity in 2004 by the 2003 Series LL bonds.	–	50,000
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 0.84% to 1.4% during fiscal year 2004 (1.3% to 1.4% at June 30, 2004).	96,000	96,000
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 0.86% to 1.35% during fiscal year 2004 (1.3% to 1.35% at June 30, 2004).	100,000	100,000
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 0.85% to 1.38% during fiscal year 2004 (1.3% to 1.38% at June 30, 2004).	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 0.81% to 1.4% during fiscal year 2004 (1.4% at June 30, 2004).	11,950	11,950

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2004	2003
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 0.82% to 1.35% during fiscal year 2004 (1.28% to 1.35% at June 30, 2004).	$ 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 0.53% to 1.4% during fiscal year 2004 (1.25% to 1.4% at June 30, 2004).	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 0.97% to 1.5% during fiscal year 2004 (1.4% to 1.5% at June 30, 2004).	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 0.82% to 1.33% during fiscal year 2004 (1.15% to 1.33% at June 30, 2004).	112,500	112,500
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 which ranged from 0.88% to 1.37% during fiscal year 2004 (1.37% at June 30, 2004).	45,000	45,000
2003 Series FF, GG, HH and LL 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 which ranged from 0.8% to 1.41% during fiscal year 2004 (1.32% to 1.41% at June 30, 2004).	165,900	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 which ranged from 0.88% to 1.35% during fiscal year 2004 (1.27% to 1.35% at June 30, 2004).	150,000	150,000

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2004	2003
2004 Series MM dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually; initial rates were 1.32%.	$ 74,700	$ –
2004 Series NN and PP dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually; initial rates were 1.32%.	134,500	–
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually; initial rates were 1.38%.	65,800	–
2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates fixed ranging from 2.0% to 5.0% payable semi-annually.	22,155	–
Notes Payable:		
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
2003 Series A-XVII, dated December 15, 2003, is due December 2004, and interest at 1.5% is due at maturity.	30,400	–
Total bonds and notes payable	1,552,105	1,331,685
Bond premium, net	–	508
Bond discount, net	(149)	–
Deferred loss on refunding, net	(1,562)	–
Total bonds and notes payable	1,550,394	1,332,193
Less current portion of bonds and notes payable	30,400	40,935
Noncurrent portion bonds and notes payable	$1,519,994	$1,291,258

8. Bonds and Notes Payable (Continued)

All bonds, except the 2003 General Obligation 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, except the 2003 General Obligation 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 1995 Series A-D, 1996 Series F-I, 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-LL, 2003 Series II-KK, 2004 Series MM, 2004 Series NN-PP and 2004 Series OO bonds are secured for credit-worthiness by AMBAC Assurance Corporation. The 2003 and 2003 Series notes payable and the 1998 Series O bonds payable have no credit support.

All bonds, except the 2003 General Obligation bonds, are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2004, all bonds authorized under the underlying bond resolutions have been issued.

Proceeds from issuance of the bonds payable, except the 2003 General Obligation bonds, 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 2003 General Obligation bonds are general obligation bonds payable from available revenues of VSAC. The bonds were issued for the purpose of financing the acquisition of land, construction, renovation, and equipment outfitting of a new corporate headquarters for VSAC.

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

The debt service requirements, which are based on the interest rates at June 30, 2004, through 2010 and in five-year increments thereafter to maturity for VSAC, are as follows:

Year ending June 30,	Principal	Interest	Total
2005	$ 30,400	$ 23,548	$ 53,948
2006	57,675	22,830	80,505
2007	735	22,430	23,165
2008	41,655	22,178	63,833
2009	1,670	21,924	23,594
2010	795	21,888	22,683
2011 – 2015	117,660	105,923	223,583
2016 – 2020	52,840	96,595	149,435
2021 – 2025	3,630	95,484	99,114
2026 – 2030	100,635	88,143	188,778
2031 – 2035	342,160	78,580	420,740
2036 – 2040	802,250	27,097	829,347
Total	$1,552,105	$626,620	$2,178,725

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, 2004 and 2003:

	2004	2003
Balance at beginning of year	$1,332,193	$1,097,352
Issuance	380,856	449,285
Redemptions and refundings	(160,585)	(214,300)
Deferred loss on refunding	(1,562)	–
Amortization of premiums	(508)	(144)
Balance at end of year	$1,550,394	$1,332,193

8. Bonds and Notes Payable (Continued)

In June 2004, VSAC issued $275,000 in education loan revenue bonds, 2004 Series MM-PP. The primary purpose was to finance the origination of qualifying student loans. The bonds were also issued to refund certain 1993 and 1992 Series bonds, totaling $74,700 prior to June 30, 2004. The loss of $1,562 on the refunding, resulting from the difference between the reacquisition price and the net carrying amount of the old debt, was deferred. The deferred loss on refunding, reported in the Statements of Net Assets as a reduction from bonds payable, is being amortized over the life of the original bonds. The refunding reduced VSAC's debt service payments over the next 8.5 years by $23,889 which results in an economic gain of $17,536. The economic gain is calculated using the interest rates outstanding as of June 30, 2004. The interest rates on the refunding debt are variable and subject to change in the future. As interest rates rise, the amount of the economic gain will be reduced. VSAC completed the refunding to reduce its total debt service payments and to consolidate its credit enhancement providers.

Included in the above refunding was a $2,000 advance refunding. $2,000 of the proceeds from the 2004 Series bonds issuance was deposited into an irrevocable trust with the trustee to provide for all future debt service payments on certain bonds outstanding. As a result, $2,000 of bonds were considered to be defeased and the bonds payable and the amounts held in the trust have been removed from VSAC's Statement of Net Assets at June 30, 2004.

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 refund certain 1993 and 1992 Series bonds, totaling $160,900. $120,900 of the 2003 Series EE-KK proceeds were used to 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 in 2003. The deferred loss on refunding was immaterial to VSAC, as well as any economic gain. VSAC completed the 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, 2004 and 2003, of $8,604 and $13,007, respectively. VSAC has estimated the current portion to be $2,560 and $1,260 at June 30, 2004 and 2003, 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.

In 2004, as a result of a change in interpretation of DE regulations surrounding special allowance, VSAC made a reassignment of student loans that qualify for special allowance categories eligible for the 9.5% floor interest rate. This resulted in approximately $8,300 of additional special allowance billings in 2004 from the DE. This amount was collected in July of 2004. In September 2004, the DE issued a report indicating the adjustment appeared to be in compliance with current guidance and regulations.

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, 2004 and 2003, amounted to $14,224 and $12,666, respectively; VSAC's total payroll was $14,652 and $13,191, respectively. Total contributions by VSAC amounted to $1,422 and $1,267 in 2004 and 2003, 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, one that expires in fiscal year 2005 and the other in fiscal year 2006. Both leases provide for renewal options. Rental expense for the years ended June 30, 2004 and 2003, amounted to $686 and $676, respectively. Future minimum rental commitments under these noncancelable operating leases as of June 30, 2004, are as follows:

Year ending June 30,	
2005	$ 629
2006	181
	$ 810

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, 2004 and 2003, is as follows:

	2004	2003
Balance, beginning of year	$ 258	$ 136
Claims paid	(2,815)	(2,637)
Adjustment to reserve	2,794	2,759
Balance, end of year	$ 237	$ 258

14. Loan Commitments

At June 30, 2004 and 2003, VSAC had commitments to extend credit for student loans of approximately $15,932 and $31,000, respectively. 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.

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APPENDIX J

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 (the "Trustee") in connection with the offering by the Corporation of its $239,985,000 Education Loan Revenue Bonds, Senior Series 2005QQ, 2005RR and 2005SS (collectively, the "Bonds"). In consideration of the purchase of Bonds by the owners and Beneficial Owners thereof initially and thereafter from time to time, the Corporation undertakes and agrees as follows:

1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (defined below).

2. Definitions. In addition to the definitions set forth in the 1995 Education Loan Revenue Bond Resolution adopted on June 16, 1995, as amended and supplemented (the "Resolution") which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms used in this Disclosure Agreement have the following meanings:

"Annual Financial Information" shall mean any Annual Financial Information with respect to the Corporation as described in Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any individual beneficial owner of the Bonds. Beneficial ownership is to be determined consistent with the definition thereof contained in Rule 13d-3 of the Securities Exchange Act of 1934, as amended, or, in the event such provisions do not adequately address the situation at hand (in the opinion of nationally recognized federal securities law counsel), beneficial ownership is to be determined based upon ownership for federal income tax purposes.

"Dissemination Agent" shall mean any Dissemination Agent designated by the Corporation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
Attention: Municipal Department
100 Business Park Drive
Skillman, NJ 08558
E-Mail Address: MUNIS@Bloomberg.com
Phone: (609) 279-3225
Fax: (609) 279-5962

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

FT Interactive Data
100 William Street, 15th Floor
New York, NY 10038
Attention: NRMSIR
mail to: NRMSIR@interactivedata.com
Phone: (212) 771-6999
Fax: (212) 771-7390

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

"Official Statement" shall mean the Official Statement of the Corporation, dated June ___, 2005, relating to the Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as such rule may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" or "SID" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

"Underwriter" or "Participating Underwriter" shall mean collectively, and individually, UBS Financial Services Inc. and Goldman, Sachs & Co.

3. Provision of Annual Financial Information. The Corporation shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of each fiscal year of the Corporation (currently the twelve months ended June 30), commencing with the report for the 2005 fiscal year, provide to each Repository the Annual Financial Information for the Corporation for the preceding fiscal year. The Annual Financial Information may be submitted as a single document or as separate documents comprising a package; provided that, if the financial statements of the Corporation are audited, the audited financial statements of the Corporation must be submitted but may be submitted separately from the balance of the Annual Financial Information and later than the date required above for the filing of the Annual Financial Information if they are not available by that date. If the fiscal year of the Corporation changes, the Corporation shall give written notice of such change in the same manner as for a Listed Event under Section 5(a) hereof. If the financial statements of the Corporation specified in Section 4(i) hereof are audited but are not available by the time the Annual Financial Information must be provided, unaudited financial statements of the Corporation will be provided by the Corporation as part of the Annual Financial Information and such audited financial statements of the Corporation, when and if available, will be provided by the Corporation to each Repository.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so included by reference.

4. Content of Annual Financial Information. The Annual Financial Information of the Corporation shall consist of the following:

(i) Annual financial statements for the Corporation prepared in accordance with generally accepted accounting principles.

(ii) An update and a discussion of the financial information and operating data presented under the heading "Characteristics of Education Loans" and the heading "The Corporation" in the Official Statement, including the following:

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

(b) The following Resolution information:

(i) Debt Service Reserve Account balance,

(ii) Outstanding principal amount of the Bonds and other bonds issued under the Resolution,

(iii) Breakdown of Education Loans by loan type and borrower payment status and

(iv) Issuance of any Additional Bonds.

(c) Outstanding debt of the Corporation.

(d) The deposit level of the Guarantee Reserve Fund established by the Corporation as State Guarantor.

(iii) An update of the information concerning the availability of information with respect to the parent company of Ambac Assurance Corporation, Ambac Financial Group Inc., of the type included under the heading "Ambac Assurance Corporation -- Available Information" in Appendix E of the Official Statement.

(iv) Changes to the Higher Education Act having a special financial impact on the program of the Corporation financed by the Bonds which is not generally experienced in the student loan sector.

5. Reporting of Significant Events

(a) The Corporation shall give, or cause to be given, on behalf of the Corporation and in a timely manner, notice of the occurrence of any of the following events with respect to the Bonds, if material, to each National Repository or the MSRB and to the SID, if any:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. Modifications to rights of owners of the Bonds;

8. Bond calls;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the Bonds;

11. Rating changes.

(b) Each notice given pursuant to this Section 5 shall be captioned "Material Event Notice" and shall prominently state the date, title and CUSIP numbers of the Bonds.

6. Termination of Reporting Obligation. The obligations under this Disclosure Agreement shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give or cause to be given notice of such event in the same manner as for a Listed Event under Section 5(a) hereof.

7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation may unilaterally amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, but only upon the delivery by the Corporation to the Trustee of the proposed amendment or waiver and an opinion of nationally recognized bond counsel to the effect that such amendment or waiver, and giving effect thereto, will not adversely affect the compliance of this Disclosure Agreement and the Corporation with the Rule, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3, 4, 5 or 10 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Corporation or any other Obligated Person (as defined in the Rule) or the type of business conducted;

(b) this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the rule at the time of the offering of the Bonds, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) the amendment or waiver does not materially impair the interests of the owners or Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the Corporation or any other Obligated Person (as defined in the Rule) (e.g., either the trustee for the Bonds or nationally recognized bond counsel), or by approving vote of holders of the Bonds pursuant to the terms of the Resolution at the time of the amendment.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Financial Information, and shall include a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being provided by or in respect of the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a) hereof, and (ii) the Annual Financial Information relating to the Corporation for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Corporation to meet its obligations. To the extent reasonably feasible, the comparison also shall be quantitative.

9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Financial Information or notice of

occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation hereunder to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Agreement, any owner or Beneficial Owner of Bonds may seek, and may only seek, specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Agreement, it being agreed by the parties that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy hereunder in the event of any failure of the Corporation to comply with this Disclosure Agreement shall be an action to compel specific performance. If the Corporation fails to provide the Annual Financial Information to each Repository by the date required by and in accordance with Section 3 of this Disclosure Agreement, the Corporation shall promptly provide notice of such failure to (a) either the MSRB or each National Repository and (b) the State Repository. Any filing made under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretative advice in its letter to the MAC dated September 7, 2004.

11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Dissemination Agent, if any, the Underwriter, and owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

12. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Vermont, provided that, to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

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

14. Severability. In case any part of this Disclosure Agreement is held to be illegal or invalid, such illegality or invalidity shall not affect the remainder or any other section of this Disclosure Agreement. This Disclosure Agreement shall be construed and enforced as if such illegal or invalid portion were not contained therein, nor shall such illegality or invalidity of any application of this Agreement affect any legal and valid application.

15. Further Assurances. The Corporation agrees that it shall take such further action, and agrees to such further undertakings, as may be necessary in the opinion of nationally recognized bond counsel, which opinion and counsel shall be reasonably satisfactory to the Corporation and the Underwriter, in order for the Underwriter to comply with the Rule.

[Signatures on following page.]

IN WITNESS WHEREOF, the Parties have caused this CONTINUING DISCLOSURE AGREEMENT to be executed on their behalf as of this _____ day of June, 2005, by the persons whose signatures appear below.

Vermont Student Assistance Corporation

By:_____
Name:_____
Title:_____

Accepted on behalf of the owners and
Beneficial Owners of the Bonds by
Chittenden Trust Company, as Trustee

By:_____
Name:_____
Title:_____

APPENDIX K

PROPOSED FORM OF BOND COUNSEL OPINION REGARDING CERTAIN FEDERAL INCOME TAX ISSUES RELATING TO THE 2005 TAXABLE BONDS

[Closing Date]

Vermont Student Assistance Corporation
UBS Financial Services Inc.
Goldman, Sachs & Co.
Chittenden Trust Company, as Trustee

Re: Vermont Student Assistance Corporation Education Loan Revenue Bonds, Senior Series 2005RR and Senior Series 2005SS
Certain Federal Income Tax Issues

Ladies and Gentlemen:

We have acted as bond counsel to the Vermont Student Assistance Corporation (the "Corporation"), a non-profit 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 $119,600,000 aggregate principal amount of its Educational Loan Revenue Bonds, Senior Series 2005RR (the "2005RR Bonds") and Senior Series 2005SS (the "2005SS Bonds" and, together with the 2005RR Bonds, the "2005 Taxable Bonds"). In this regard, the Corporation has asked us to render our opinion concerning certain federal income tax issues associated with the issuance of the 2005 Taxable Bonds. Terms not independently defined herein have the same meaning as ascribed to them in the Resolution, as defined below.

This opinion will be rendered to support the promotion and marketing of the 2005 Taxable Bonds. Each purchaser of the 2005 Taxable Bonds should seek advice based on their particular circumstances from an independent advisor.

In addition to certain facts, assumptions and representations set forth below, our opinions are based on applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder (the "Regulations") and interpretations thereof by the Internal Revenue Service (the "Service") and the courts having jurisdiction over such matters, each as of the date hereof. There can be no assurance, however, that the Code, the Regulations and the interpretations thereof by the Service or the courts will not change in a manner which would preclude us from rendering similar opinions in the future. Moreover, any such changes in the Code, the Regulations or the interpretations thereof may have a retroactive effect.

The opinions further depend on the facts and circumstances surrounding the issuance of the 2005 Taxable Bonds. In the event such facts and circumstances differ from your representations concerning the foregoing, the facts set forth herein or the descriptions set forth in the Official Statement, as defined below, our conclusions could differ from those set forth herein.

I. FACTUAL MATTERS

The 2005 Taxable Bonds have been authorized and issued pursuant to Sections 2821 through 2873 of Title 16 of the Vermont Statutes Annotated, as amended, and the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted by the Corporation's Board of Directors on June 16, 1995 and the 2005 Eleventh Series Resolution of the Corporation adopted by the Corporation's Board of Directors on May 27, 2005 (collectively,

together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2005 Taxable Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Education Loans and to pay certain costs and other expenses of the Corporation associated with the issuance of the 2005 Taxable Bonds.

In connection with rendering the opinions, we have examined and relied upon such documents as we have deemed necessary and appropriate including but not limited to the following:

(a) the Resolution;

(b) that certain summary of anticipated cash flows to be derived by the Corporation from the Revenues, Principal Receipts, Education Loans, Investment Securities and all amounts held in any Account established under the Resolution, including investments thereof (collectively, the "Assets"), attached as an exhibit to the Corporation's Officer's Certificate (the "Cash Flow Summary");

(c) the Official Statement dated June 10, 2005, used in connection with the offer and sale of the 2005 Taxable Bonds (together with all attachments, supplements and amendments thereto, the "Official Statement"); and

(d) the 2005 Taxable Bonds.

II. FACTUAL ASSUMPTIONS

In rendering these opinions we have assumed: (a) the validity of signatures; (b) the accuracy of copies; (c) that the 2005 Taxable Bonds will be issued in accordance with the terms of the Resolution; (d) that the Corporation is a non-profit public corporation and public instrumentality statutorily created and exempt from federal income taxes as an entity described in Section 115 of the Code; and (e) that there is no interest rate floor on the 2005 Taxable Bonds. We further have assumed compliance with all of the foregoing documents. These opinions are further based upon certain assumptions set forth herein, including an assumption to the effect that the Resolution will be enforced in accordance with its terms. Please note that except to the extent we deemed relevant, we have not independently verified any of the information described herein.

III. FACTUAL REPRESENTATIONS, STATEMENTS OR FINDINGS

Further, in rendering the opinions expressed herein, we have relied upon the following representations, among others, made by the Corporation:

(a) that the Corporation believes that the assumptions used in the preparation of the Cash Flow Summary are reasonable and that such Cash Flow Summary is an accurate estimate of the actual performance of the Assets;

(b) that the fees and reimbursements of expenses to be charged in connection with the Assets will be reasonable, ordinary and customary fees and reimbursements of expenses;

(c) that the fees charged by Chittenden Trust Company, Burlington, Vermont (the "Trustee") are reasonable, ordinary and customary;

(d) that the Corporation will acquire and own its interest in the Education Loans as described in the Official Statement and will undertake the transactions contemplated under the Resolution for a bona-fide business purpose consistent with its statutory purpose, as principal, rather than as agent of any other person;

(e) that the Corporation will prepare its federal, state and other income tax returns, if any, in a manner consistent with a pledge or conditional assignment, rather than a sale of the Education Loans

under the Resolution and with the characterization of the 2005 Taxable Bonds as debt for federal income tax purposes;

(f) that as set forth in the Official Statement, the holders of the 2005 Taxable Bonds have agreed by purchasing the 2005 Taxable Bonds to treat the 2005 Taxable Bonds as indebtedness of the Corporation for federal income tax purposes;

(g) that the 2005 Taxable Bonds will be issued strictly in accordance with the terms of the Resolution;

(h) that the Corporation will exercise its rights under the Resolution in a manner which will maximize its economic return on the Assets while giving effect to any benefits made available to the borrowers of the student loans and its statutory purpose;

(i) that the Corporation intends to treat the 2005 Taxable Bonds as its indebtedness for financial accounting purposes;

(j) that the Corporation will initially sell, and the Broker Dealer will remarket, the 2005 Taxable Bonds at par;

(k) that the interest rates on the 2005 Taxable Bonds will be reset periodically by the Auction Agent based on orders received from the Broker Dealer in accordance with the terms of the Official Statement and the procedures set forth in Appendix B, attached to the Official Statement (the "Auction Procedures"), and variations in such interest rates can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds at the time of such reset for the Corporation;

(l) that the Auction Procedures, which are required to be followed, are intended to achieve for the Corporation the lowest interest rates reasonably achievable for the 2005 Taxable Bonds in an auction rate mode; and

(m) that the Corporation has received a rating from Moody's of "Aaa" and from S&P of "AAA" on the 2005 Taxable Bonds.

We further note that the interest rate cap on the 2005 Taxable Bonds, as described in the Official Statement, while in an auction rate mode, is fixed over the life of the 2005 Taxable Bonds.

IV. LAW AND ANALYSIS

A. Pledge or Conditional Assignment of Property

In the event a pledge or conditional assignment of property to secure a debt is treated as a pledge or conditional assignment rather than a sale for federal income tax purposes, the borrower, rather than the lender, will be treated as the owner of such property. In addition, by implication, the debt may be treated as a debt obligation of the borrower, rather than an interest in the property securing the pledge. On the other hand, if a pledge is treated as a sale for federal income tax purposes, ownership of the property will pass to the nominal lender.

The determination of ownership of property for federal income tax purposes is not dependent upon the holding of legal title. Rather, in cases not involving tax motivated transactions, a taxpayer will be treated as the owner of property for federal income tax purposes only if he possesses substantial benefits and burdens of ownership.

The analysis of the benefits and burdens of ownership must be made with regard to the facts and circumstances of each particular case. No single fact or criteria is determinative with regard to ownership.

The nature of the encumbered property dictates those factors which will be deemed most crucial in establishing its ownership for federal income tax purposes. For example, the burden of the risk of loss plays a relatively less important role in the analysis of ownership of property, such as real estate, which is anticipated to appreciate, than in the case of other property, such as speculative debt securities. Similarly, the risk of loss will bear relatively little weight in determining the ownership of obligations of the United States government or similar obligations, since the risk of default on such obligations is low.

In the Estate of Franklin v. Commissioner, 64 T.C. 752 (1975), aff'd 544 F.2d 1045 (9th Cir. 1976), the court considered the ownership of certain real property subject to nonrecourse debt. In that circumstance, the court indicated that a taxpayer would be treated as the owner of property subject to nonrecourse debt if he could demonstrate an anticipated increase in value of such property so that within a reasonable period of time equity would exist which no owner would prudently abandon. See also Packard Cleveland Motor Co. v. Commissioner, 14 BTA 118 (1928), Elmer v. Commissioner, 65 F.2d 568 (2nd Cir. 1958), Mathers v. Commissioner, 57 T.C. 666 (1972) acq. 1973-1 C.B.1 and Bolger v. Commissioner, 59 T.C. 751 (1973). Conversely, taxpayers were deemed not to be the owners of property subject to nonrecourse debt for federal income tax purposes in circumstances in which they lacked the ability to realize upon any gain or profit expected to be derived from such property. See Hilton v. Commissioner, 74 T.C. 305, aff'd 671 F.2d 316 (9th Cir. 1980), Narver v. Commissioner, 75 T.C. 53 (1980) aff'd 670 F.2d 855 (9th Cir. 1982) and Rice's Toyota World, Inc. v. Commissioner, 81 T.C. 184 (1983).

In General Counsel Memorandum 37848, the Service considered the ownership for federal income tax purposes of certain installment obligations. Therein, the Service stated as follows:

> In summary, we think that a sale of installment obligations can occur without a transfer of the risk of loss because (a) the cases indicate that the issue of when a sale occurs must be answered from all of the facts and that no factor, such as the risk of loss, is to be considered conclusive; (b) there is no difference between a nonrecourse sale and a sale of installment obligations with a guaranty, provided the buyer of the installment obligations has the power of alienation and will receive the benefits of any appreciation in the value of the obligations; and (c) the cases involving a transfer of installment obligations indicate that a transfer of risk of loss is not necessary for a sale to occur.

Therein, the Service concluded that if the taxpayer possessed the right to invest or otherwise use payments on the installment obligations and the power to sell such obligations and realize any profits caused by changes in the market interest rates, he should be treated as the owner of such obligations even without the burden of the risk of loss. See also General Counsel Memorandum 39584 and General Counsel Memorandum 34602.

In the current circumstance, we note that based on the foregoing representations and the Cash Flow Summary the Corporation expects to derive substantial positive cash flow from the Assets during the term of the 2005 Taxable Bonds. Upon the satisfaction of all of the Corporation's obligations under the Resolution, any remaining portion of the Assets will be remitted to it. Further, under certain circumstances, the Corporation may, at its option, cause the redemption or repurchase of the 2005 Taxable Bonds prior to their stated maturity date.

While private letter rulings, general counsel memoranda, technical advice memoranda, chief counsel advice letters and field service advice memoranda generally have no precedential value, they are indicative of the position of the Service on the subject at issue. *Hanover Bank v. Comm'r*, 369 U.S. 672, 686 (1962). Private letter rulings and technical advice memoranda issued after October 31, 1976, general counsel memoranda issued after March 12, 1981, and "notices, announcements and other administrative pronouncements published by the Service in the Internal Revenue Bulletin" are, among other sources, authority for purposes of determining whether there is substantial authority for the tax treatment of an item within the meaning of Treas. Reg. § 1.6662-4. In order for a taxpayer's position to be supported by substantial authority the "weight of the authorities supporting the treatment [must be] substantial in relation to the weight of authorities supporting contrary treatment." Treas. Reg. § 1.6662-4(d)(3)(i). The substantial authority inquiry requires an analysis of all the facts and circumstances. Id.

B. Debt or Equity

The characterization of an instrument as debt or equity for federal income tax purposes is dependent upon the analysis of all the facts and circumstances in question. No single fact or criteria is determinative of this issue. Further, the Service proposed and withdrew regulations promulgated under Section 385 of the Code which would have provided guidelines concerning the characterization of instruments as debt for federal income tax purposes. Among the facts which various courts have analyzed in considering the characterization of an instrument are the following:

(a) the existence of a fixed and reasonably proximate maturity date on or before which the obligation must be repaid in all events;

(b) the existence of a fixed or determinable rate of interest, the payment of which is not dependent upon the profits of the borrower;

(c) the existence of adequate remedies in the event of a default in the payment of principal or interest by the borrower;

(d) the subordination of the payment of the obligation in question to the claims of other creditors;

(e) the participation in the management or control of the business of the borrower by the lender;

(f) the state law characterization of the instrument and its treatment by the parties;

(g) the existence of security for the debt which is reasonably expected to provide a source of its repayment in whole or in part;

(h) the existence of a sinking fund or other similar arrangement to assure repayment of the debt on or prior to its maturity;

(i) the issuance of debt securities in identical or similar proportions to the issuance of equity securities, particularly when coupled with subordination of such debt to those debts of outside creditors;

(j) the existence of guarantees or other similar arrangements provided by shareholders or other related persons;

(k) the history of payment on the obligation and the practices of the lender in enforcing remedies on default;

(l) the adequacy of the equity capitalization of the borrower relative to the anticipated claims and needs of the business;

(m) the intended use by the borrower of the borrowed funds;

(n) the existence of a bona-fide business purpose in incurring the debt; and

(o) an analysis of whether an unrelated third party creditor would have made the advance under similar terms and conditions.

See John Kelley Co. v. Commissioner, 326 U.S. 521 (1946); Fin Hay Realty Company v. United States, 398 F. 2d, 694 (3rd Cir. 1968); Wood Preserving Corporation v. United States, 347 F.2d 117 (4th Cir. 1965); H.P. Hood & Sons v. Commissioner, 141 F.2d 467 (1st Cir. 1944); Rowan v. United States, 219 F.2d 51 (5th Cir. 1955); Swoby Corporation v. Commissioner, 9 T.C. 887 (1949); United States v. South Georgia Railway, 107 F.2d 3 (5th Cir.

1939); P.M. Finance Corporation v. Commissioner, 302 F.2d 786 (3rd Cir. 1962); United States v. Snyder Brothers Company, 367 F.2d 980 (5th Cir. 1966); Milwaukee & Suburban Transport Corporation v. Commissioner, 283 F.2d 279 (7th Cir. 1960) cert. denied 366 U.S. 965; National Carbide Corporation v. Commissioner, 336 U.S. 422 (1949); Tomlinson v. 1661 Corporation, 377 F.2d 291 (5th Cir. 1967); Commissioner v. Meridian & Thirteenth Realty Company, 132 F.2d 182 (7th Cir. 1942); Estate of Ernest G. Howes, 30 T.C. 909 (1958); Kraft Foods Company v. Commissioner, 232 F.2d 118 (2nd Cir. 1956); Murphy Logging Company v. United States, 378 F.2d 222 (9th Cir. 1967); Piedmont Corporation v. Commissioner, 388 F.2d 886 (4th Cir. 1968); Gilbert v. Commissioner, 248 F.2d 399 (2nd Cir. 1957); Nassau Lens Corp. v. Commissioner, 308 F.2d 39 (2nd Cir. 1962); and C.M. Gooch Lumber Sales Company, 49 T.C. 649 (1968).

In the current circumstance, we note that based on the foregoing representations and the terms of the 2005 Taxable Bonds as set forth in the Resolution, the 2005 Taxable Bonds have indicia of debt, including, but not limited to: (i) that the holders of the 2005 Taxable Bonds: (A) possess specific remedies in the event the Corporation defaults in payment of principal of or interest on the 2005 Taxable Bonds and (B) do not participate in the management or control of the business of the Corporation; (ii) the 2005 Taxable Bonds: (X) will be treated as debt by the parties for federal income tax purposes, (Y) have a fixed and reasonable proximate maturity date on or before which the obligation must be repaid and (Z) have a determinable rate of interest, the payment of which is not dependent upon the profits of the borrower; (iii) the security for the 2005 Taxable Bonds is reasonably expected to provide a source of repayment on the 2005 Taxable Bonds; and (iv) the Corporation has a bona-fide business purpose for issuing the 2005 Taxable Bonds.

C. Qualified Stated Interest and Original Issue Discount

Regulation Section 1.1275-5 provides that "qualified stated interest" is interest that is unconditionally payable at least annually (during the entire term of the instrument) at, in addition to other qualified rates, a "qualified floating rate" or a combination of a single fixed rate and one or more qualified floating rates. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds (for the particular issuer or issuers in general) in the currency in which the debt instrument is denominated and the rate is not subject to overall or periodic caps or floors unless those caps or floors either are fixed over the life of the instrument or are not reasonably expected as of the issue date to change significantly the yield of the debt instrument.

Regulations promulgated under Section 1273 of the Code provide that a debt instrument will be issued with original issue discount ("OID") if the "stated redemption price at maturity" of the debt instrument (generally equal to its principal amount as of the date of issuance plus all interest other than "qualified stated interest" payable prior to or at maturity) exceeds the original issue price. If OID exists, all or a portion of the taxable income to be recognized with respect to the debt instrument will be includible in income of the holder of the instrument as OID on a constant yield to maturity basis. Any amount treated as OID would not, however, be includible again in income when the interest is actually received.

In the current circumstance we note that based on the foregoing representations and assumptions, the 2005 Taxable Bonds will be initially sold and remarked at par, the Auction Procedures are expected to produce variations in the interest rates on the 2005 Taxable Bonds that can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds for the Corporation, the cap on the interest rate is fixed over the life of the 2005 Taxable Bonds and there is no interest rate floor with respect to the 2005 Taxable Bonds.

Although there is no precedent regarding the characterization for federal income tax purposes of instruments with the same terms as the 2005 Taxable Bonds, and therefore the result cannot be free from doubt, we are of the opinion that: (i) the 2005 Taxable Bonds will be characterized as indebtedness of the Corporation; (ii) the 2005 Taxable Bonds will not be treated as having been issued with OID; and (iii) the interest on the 2005 Taxable Bonds is not excludable from gross income under Section 103 of the Code, each for federal income tax purposes. The opinions expressed herein are based solely on the documents, representations and assumptions set forth above and subject to the limitations and qualifications described herein.

Please note that we have rendered only the foregoing opinions and have not passed upon any other federal or other income tax issue associated with the Corporation or the 2005 Taxable Bonds. Please further note that these

opinions are intended for your benefit only. These opinions may not be relied upon by you for any other purpose, or by any other person for any purpose, without our prior written consent. Our engagement with respect to this matter terminates upon the date hereof, and we undertake no obligation with respect to this matter after this date and, thus, disclaim any obligation to update these opinions for events occurring or coming to our attention after the date hereof.

Very truly yours,

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VERMONT STUDENT ASSISTANCE CORPORATION

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