

*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 2007WW Bonds and the Senior Series 2007XX Bonds is excluded from gross income for federal income tax purposes. However, interest on the Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds is a specific preference item for purposes of the federal alternative minimum tax. Interest on the Senior Series 2007YY Bonds is not excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended. In addition, Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2007 Bonds and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes. For a more complete description, see "TAX MATTERS" herein.*

**NEW ISSUE - Book-Entry Only**

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

**\$230,000,000**

**VERMONT STUDENT ASSISTANCE CORPORATION**  
**(a non-profit public corporation established by the laws of the State of Vermont)**  
**Education Loan Revenue Bonds**



**\$69,450,000 Senior Series 2007WW**  
**(Auction Rate Securities)**

**\$69,450,000 Senior Series 2007XX**  
**(Auction Rate Securities)**

**\$91,100,000 Senior Series 2007YY**  
**(Taxable Auction Rate Securities)**

**Dated:** Date of Delivery

**Price:** 100%

**Due:** December 15, 2041

The Vermont Student Assistance Corporation (the "Corporation") will issue its Education Loan Revenue Bonds, Senior Series 2007WW in the aggregate principal amount of \$69,450,000 (the "Senior Series 2007WW Bonds"), its Education Loan Revenue Bonds, Senior Series 2007XX in the aggregate principal amount of \$69,450,000 (the "Senior Series 2007XX Bonds" and, together with the Senior Series 2007WW Bonds, the "2007 Tax-Exempt Bonds") and its Education Loan Revenue Bonds, Senior Series 2007YY in the aggregate principal amount of \$91,100,000 (the "Senior Series 2007YY Bonds" and, together with the 2007 Tax-Exempt Bonds, the "2007 Bonds") pursuant to the Corporation's 1995 Education Loan Revenue Bond Resolution as adopted on June 16, 1995 (the "General Resolution") and the 2007 Thirteenth Series Resolution as adopted on June 8, 2007 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution").

The 2007 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 2007 Bonds. Purchasers of the 2007 Bonds will not receive certificates representing their beneficial ownership interests in the 2007 Bonds. Purchases and sales by the beneficial owners of the 2007 Bonds shall be made in book-entry form in the principal amount of \$25,000 or any integral multiple thereof. Payments of principal, redemption price and interest with respect to the 2007 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 2007 Bonds. Disbursement of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC Participants as more fully described herein. See "THE 2007 BONDS -- Book-Entry-Only System."

The 2007 Tax-Exempt Bonds are being issued as Auction Rate Securities ("ARS"). Interest on the 2007 Tax-Exempt Bonds while outstanding as ARS and prior to a change in Interest Payment Dates as described herein, is payable semiannually on each June 15 and December 15 until maturity or earlier redemption, commencing December 15, 2007. The Senior Series 2007YY Bonds are being issued as Taxable ARS. Interest on the Senior Series 2007YY Bonds, prior to a change in the Interest Payment Dates as described herein, is payable on the date set forth in a Corporation Order delivered in connection with the issuance of such Bonds and thereafter pursuant to the applicable Auction Procedures described herein until maturity or earlier redemption. The interest rate applicable to the 2007 Bonds will be established from time to time pursuant to the applicable Auction Procedures described herein. The Senior Series 2007YY Bonds may be converted, at the option of the Corporation, to bear interest at a tax-exempt rate of interest under the circumstances described herein and are subject to mandatory tender upon such conversion.

The Resolution provides that under certain circumstances the interest rate on any Series of the 2007 Tax-Exempt Bonds may be changed from an Auction Period Rate to another interest rate mode. Any such change in the interest rate mode will result in the mandatory tender and purchase of the applicable 2007 Tax-Exempt Bonds prior to the new interest rate mode taking effect. This Official Statement does not describe terms of the 2007 Tax-Exempt Bonds in any mode other than an ARS Rate Period.

The 2007 Bonds are subject to optional and mandatory redemption and mandatory tender under certain circumstances prior to their scheduled maturity as described herein.

Payment of the principal of and interest on the 2007 Bonds when due will be insured by Financial Guaranty Insurance Policies to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the respective deliveries of the 2007 Tax-Exempt Bonds and the Senior Series 2007YY Bonds.



The 2007 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 2007 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 2007 Bonds.

THE CORPORATION HAS NO TAXING POWER. THE 2007 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2007 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 2007 BONDS. THE 2007 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 2007 Bonds are offered when, as and if issued and received by the Underwriter, 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 and for the Underwriter by its counsel, Krieg DeVault LLP, Indianapolis, Indiana. Government Finance Associates, Inc. serves as Financial Advisor to the Corporation. The 2007 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC as described in "INTRODUCTION - Delivery" herein.



Dated: June 11, 2007

Citigroup Global Markets Inc. will serve as the initial Broker-Dealer with respect to the 2007 Bonds.

The Underwriter has provided the following statement for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does 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 or the Underwriter 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 2007 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 and the Bond Insurer 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 or the Bond Insurer 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 2007 BONDS" OR IN APPENDIX D 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 2007 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE SENIOR SERIES 2007WW BONDS OR THE SENIOR SERIES 2007XX BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT IS NOT INTENDED TO BE USED, AND CANNOT BE USED, BY A PURCHASER OF SENIOR SERIES 2007YY BONDS FOR THE PURPOSE OF AVOIDING FEDERAL TAX PENALTIES. EACH PURCHASER OF THE SENIOR SERIES 2007YY BONDS IS URGED TO CONTACT AN INDEPENDENT TAX ADVISOR CONCERNING AN INVESTMENT IN THE SENIOR SERIES 2007YY BONDS.

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
SUMMARY STATEMENT .....	i
INTRODUCTION .....	1
THE 2007 BONDS .....	2
TAX-EXEMPT AUCTION RATE SECURITIES .....	6
TAXABLE AUCTION RATE SECURITIES .....	10
CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES .....	13
SECURITY FOR THE BONDS .....	16
INSURANCE ON THE 2007 BONDS .....	19
ADDITIONAL BONDS .....	20
EXPECTED APPLICATION OF THE 2007 BOND PROCEEDS .....	20
CHARACTERISTICS OF EDUCATION LOANS .....	20
CERTAIN INVESTMENT CONSIDERATIONS .....	21
THE CORPORATION .....	28
TAX MATTERS .....	32
ERISA CONSIDERATIONS .....	35
ABSENCE OF LITIGATION .....	37
APPROVAL OF LEGALITY .....	38
AGREEMENT BY THE STATE .....	38
LEGAL INVESTMENT .....	38
UNDERWRITING .....	38
RATINGS .....	38
UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE .....	39
FINANCIAL ADVISOR .....	39
FINANCIAL STATEMENTS .....	39
FURTHER INFORMATION .....	39
MISCELLANEOUS .....	40
APPENDIX A	SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION
APPENDIX B-1	AUCTION PROCEDURES FOR THE 2007 TAX-EXEMPT BONDS
APPENDIX B-2	ADDITIONAL PROVISION RELATING TO THE 2007 TAX-EXEMPT BONDS
APPENDIX C-1	AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS
APPENDIX C-2	ADDITIONAL PROVISIONS RELATING TO THE SENIOR SERIES 2007YY BONDS
APPENDIX D	AMBAC ASSURANCE CORPORATION
APPENDIX E	SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS
APPENDIX F	PROPOSED FORMS OF BOND COUNSEL OPINIONS
APPENDIX G	SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY
APPENDIX H	FINANCIAL STATEMENTS
APPENDIX I	FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

## SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement. The offering of the 2007 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 \$69,450,000 aggregate principal amount of Senior Series 2007WW Bonds (the “Senior Series 2007WW Bonds”), \$69,450,000 aggregate principal amount of Senior Series 2007XX Bonds (the “Senior Series 2007XX Bonds”), and \$91,100,000 aggregate principal amount of Senior Series 2007YY Bonds (the “Senior Series 2007YY Bonds”) and collectively with the Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds, the “2007 Bonds”). The 2007 Bonds mature on December 15, 2041 and bear interest at rates determined pursuant to the Auction Procedures described herein.

### **Broker-Dealer**

Citigroup Global Markets Inc. will serve as the initial Broker-Dealer with respect to the 2007 Bonds.

### **Priority**

There are issued and outstanding under the Resolution the Corporation’s Education Loan Revenue Bonds in the aggregate principal amount of \$1,816,935,000 (the “Existing Bonds”), of which \$1,806,935,000 constitute Senior Bonds (the “Existing Senior Bonds”) and \$10,000,000 constitute Subordinate Bonds (the “Existing Subordinate Bonds”). The 2007 Bonds, the Existing Senior 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 Existing Subordinate Bonds and any bonds issued on a parity therewith and outstanding under the Resolution in the future (collectively, the “Subordinate Bonds”). Failure of the Corporation to pay principal or interest on the 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 2007 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 Issuance**

The 2007 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 2007 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 2007 Bonds.

**2007 Bonds**

While outstanding as Auction Rate Securities (“ARS”), the 2007 Bonds will be issued in denominations of \$25,000 or any integral multiple thereof and will mature on December 15, 2041. The 2007 Bonds will bear interest at the rates established from time to time as set forth herein.

The Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds (the “2007 Tax-Exempt Bonds”) will be issued as Tax-Exempt ARS. The Senior Series 2007YY Bonds will be issued as Taxable ARS.

**Interest Payments**

Interest on the 2007 Tax-Exempt Bonds while outstanding as Tax-Exempt ARS and prior to a change in the Interest Payment Dates as described herein, is payable semiannually on each June 15 and December 15 until maturity or earlier redemption, commencing December 15, 2007. The Auction Periods and Interest Payment Dates for the 2007 Tax-Exempt Bonds are subject to change, as described herein. See Appendix B-1—“AUCTION PROCEDURES FOR THE 2007 TAX-EXEMPT BONDS” and Appendix B-2 – “ADDITIONAL PROVISIONS RELATING TO THE 2007 TAX-EXEMPT BONDS.”

Interest on the Senior Series 2007YY Bonds, prior to a change in the Interest Payment Dates as described herein, will be payable on the date set forth in a Corporation Order executed and delivered in connection with the issuance of such Bonds and thereafter as described herein until maturity or earlier redemption. See Appendix C-1 -- “AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS” and Appendix C-2 -- “ADDITIONAL PROVISIONS RELATING TO THE SENIOR SERIES 2007YY Bonds.” The Auction Periods and Interest Payment Dates for the Senior Series 2007YY Bonds are subject to change, as described herein. See Appendix C-1 -- “AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS” and Appendix C-2 -- “ADDITIONAL PROVISIONS RELATING TO THE SENIOR SERIES 2007YY BONDS.”

**Delivery**

The Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds are expected to be issued and delivered on or about June 19,

2007. The Series 2007YY Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered prior to December 31, 2007 on the date set forth in a Corporation Order.

**Mandatory Tender and Conversion**

The 2007 Tax-Exempt Bonds outstanding as ARS are subject to mandatory tender and conversion on the Conversion Date therefor. The Senior Series 2007YY Bonds may be converted to bear interest at a tax-exempt auction rate under the circumstances described herein and are subject to mandatory tender for purchase as described herein.

**Redemption**

The 2007 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2007 Bonds are also subject to extraordinary mandatory redemption prior to maturity under certain specified circumstances 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 2007 Bonds when due will be insured by (i) a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation (the “Bond Insurer”) concurrently with the delivery of the Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds and (ii) an additional Financial Guaranty Insurance Policy to be issued by the Bond Insurer concurrently with the delivery of the Senior Series 2007YY Bonds.

**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 E -- “SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS.”

**Initial Collateralization**

Upon the issuance of the 2007 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 104.4% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 103.9% 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 over the last several years that have resulted in material modifications to such programs. It is possible that relevant federal laws, including the Higher Education Act, will be further changed in the future in a manner which might adversely affect the characteristics, availability or volume of Eligible Loans which can be acquired by the Corporation. See “CERTAIN INVESTMENT CONSIDERATIONS – Changes in the Higher Education Act or Other Relevant Law – *Future Changes in Relevant Law*” and Appendix E -- “SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS.”

**Certain Investment Considerations**

Investment in the 2007 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading “CERTAIN INVESTMENT CONSIDERATIONS.”

**THE 2007 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.**



**OFFICIAL STATEMENT**  
**of the**  
**VERMONT STUDENT ASSISTANCE CORPORATION**

**relating to its**

**\$230,000,000**

**Education Loan Revenue Bonds**

**\$69,450,000 Senior Series 2007WW**  
**(Auction Rate Securities)**

**\$69,450,000 Senior Series 2007XX**  
**(Auction Rate Securities)**

**\$91,100,000 Senior Series 2007YY**  
**(Taxable Auction Rate Securities)**

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 \$230,000,000 Education Loan Revenue Bonds, consisting of the following series of Bonds: Senior Series 2007WW in the principal amount of \$69,450,000 initially issued as Auction Rate Securities as described herein, Senior Series 2007XX in the principal amount of \$69,450,000 initially issued as Auction Rate Securities as described herein, and Senior Series 2007YY in the principal amount of \$91,100,000 initially issued as Auction Rate Securities (collectively, the "2007 Bonds"). The 2007 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 2007 Thirteenth Series Resolution adopted on June 8, 2007 (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 \$1,816,935,000 (the "Existing Bonds"), of which \$1,806,935,000 constitute Senior Bonds (the "Existing Senior Bonds") and \$10,000,000 constitute Subordinate Bonds (the "Existing Subordinate Bonds"). The term "Bonds" as used herein shall refer to the 2007 Bonds, the Existing 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 Appendices A, B or C.

**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 2007 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 2007 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 2007 Bonds.

**Delivery.** The Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds are expected to be issued and delivered on or about June 19, 2007. The Senior Series 2007YY Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered prior to December 31, 2007 on the date set forth in a Corporation Order. The delivery of each series of the 2007 Bonds is subject to certain conditions which are required to be satisfied on each of the respective dates of issuance and delivery of the 2007 Bonds.

The 2007 Bonds will be initially issued as Auction Rate Securities (“ARS”) and bear interest at the rates established from time to time as set forth herein. The Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds (collectively, the “2007 Tax-Exempt Bonds”) will be issued initially as Tax-Exempt ARS and the Senior Series 2007YY Bonds will be issued as Taxable ARS. Interest on each series of 2007 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 2007 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 2007 Bonds when due will be insured by two Financial Guaranty Insurance Policies (as hereafter defined) to be issued by Ambac Assurance Corporation (the “Bond Insurer”) simultaneously with the respective deliveries of such Bonds.

The descriptions of the Act, the Public Health Services Act, the State Act, the Resolution and the 2007 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 2007 Bonds from Citigroup Global Markets Inc., 388 Greenwich Street, 19<sup>th</sup> Floor, New York, New York, 10013 Attention: Student Loan Group, and thereafter from the Vermont Student Assistance Corporation, P.O. Box 2000, 10 East Allen Street, Winooski, Vermont 05404-2601, Attention: President, or to the Corporation’s financial advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21<sup>st</sup> Floor, New York, New York 10022.

## **THE 2007 BONDS**

### **General**

The 2007 Bonds will bear interest from their respective dates of issue and will mature as indicated on the cover page hereof. The 2007 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 2007 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2007 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 2007 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 2007 Bonds is payable to beneficial owners of the 2007 Bonds according to the procedures described under “THE 2007 BONDS -- Book-Entry Only System.” Should the Corporation discontinue the book-entry-only system for any Series of 2007 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 2007 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 Underwriter assumes any responsibility for the accuracy thereof.

DTC, New York, New York, will act as securities depository for the 2007 Bonds. The 2007 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate is to be issued for each series of the 2007 Bonds, as set forth in 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges in 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, 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](http://www.dtcc.com) or [www.dtc.org](http://www.dtc.org).

Purchases of the 2007 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 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 2007 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 2007 Bonds, except in the event that use of the book-entry system for the 2007 Bonds is discontinued.

To facilitate subsequent transfers, all 2007 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 2007 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 the 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct 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 2007 Bonds such as redemptions, tenders, defaults, and proposed amendments to the 2007 Bond documents.

For example, Beneficial Owners may wish to ascertain that the nominee holding the 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2007 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC, nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2007 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer or trustee, as appropriate, 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 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2007 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 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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation believes to be reliable, but neither the Corporation nor the Underwriter takes any responsibility for the accuracy thereof.

#### **Reference to Owners**

So long as DTC or its nominee is the Owner, references herein to the Owners or registered owners of the 2007 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 2007 Bonds.

#### **Redemption Provisions**

***Optional Redemption.*** Bonds of any series of 2007 Bonds that are outstanding as Auction Rate Securities 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 2007 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 2007 Bonds, such moneys may be used to redeem 2007 Bonds only if such moneys constitute Available Moneys.

***Extraordinary Mandatory Redemption.*** Each Series of 2007 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 2007 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 2007 Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 2007 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 2007 Bonds or any other Bonds may be used to finance Eligible Education Loans until the date set forth in the Certificate and Agreement 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 the date set forth in the Certificate and Agreement; 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 2007 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 as described in this paragraph (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 2007 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 2007 Bonds.

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

If Bonds are subject to mandatory redemption as provided above, and following such redemption if the balance on deposit in the Debt Service Reserve Account would exceed the Debt Service Reserve 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 2007 Bonds to be Redeemed.*** The 2007 Bonds or portions of the 2007 Bonds to be redeemed shall be selected by the Corporation. If less than an entire series of the 2007 Bonds is to be redeemed, the 2007 Bonds of such series to be redeemed shall be selected by lot by the Trustee or in such other manner as the Trustee in its discretion may deem appropriate.

***Notice of Redemption.*** The Trustee shall mail a notice of redemption, postage prepaid, not less than ten days before the redemption date while the Bonds are Outstanding as Auction Rate Securities 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.

## TAX-EXEMPT AUCTION RATE SECURITIES

### General

The Senior Series 2007WW Bonds and the Senior Series 2007XX Bonds will be issued initially as Auction Rate Securities (“Tax-Exempt ARS”), shall be dated the date of initial delivery thereof and shall mature on the date as set forth on the cover of this Official Statement. Initially, the Senior Series 2007YY Bonds will be issued as Taxable ARS (as defined below) but are subject to conversion to bear interest at a Tax-Exempt Auction Rate as described herein. Certain capitalized terms used herein with respect to 2007 Tax-Exempt Bonds are defined in Appendices A, B-1 and B-2 to this Official Statement. “2007 Tax-Exempt Bonds” means the Senior Series 2007WW Bonds, the Senior Series 2007XX Bonds and the Senior Series 2007YY Bonds converted to bear interest at a Tax-Exempt Auction Rate as described herein. Tax-Exempt ARS are issuable only as book-entry securities. To the extent that DTC determines to discontinue providing its services with respect to the 2007 Tax-Exempt Bonds and no satisfactory substitute depository is found, the Auction Procedures shall be suspended and the rate of interest on the 2007 Tax-Exempt Bonds for any Auction Period commencing after the delivery of certificates representing the 2007 Tax-Exempt Bonds shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Auction Period, as calculated by the Trustee.

### Interest

***Interest Payments.*** Interest on the Tax-Exempt ARS shall accrue for each Auction Period and shall be payable in arrears on each succeeding Interest Payment Date. An “Interest Payment Date” for the 2007 Tax-Exempt Bonds, while the 2007 Tax-Exempt Bonds are outstanding as Tax-Exempt ARS, means June 15 and December 15, and at maturity or earlier redemption, commencing December 15, 2007, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding June 14 or December 14, or the day preceding the maturity date, as the case may be), except as changed as described in Appendix B of this Official Statement.

***Computation of Interest.*** The amount of interest distributable to Owners of Bonds in respect of each \$25,000 in principal amount thereof for any Auction Period or part thereof shall be calculated by applying the Auction Period Rate for such Auction Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Auction Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on the Bonds shall be computed by

the Trustee on the basis of the number of days actually elapsed over the actual number of days in the year; provided, however, if the Bonds are in an Auction Period which is greater than 180 days, interest shall be computed on the basis of a 360 day year of twelve 30-day months. The Trustee shall make such calculation not later than the close of business on each Auction Date.

Interest payments on the Tax-Exempt ARS are to be made by the Trustee to the persons who are registered owners of the Tax-Exempt ARS, as of the Record Date preceding each Interest Payment Date. The Tax-Exempt ARS are to be initially registered in the name of Cede & Co., as nominee of DTC, which is acting as the depository for the Tax-Exempt ARS. See "THE 2007 BONDS -- Book-Entry-Only System" for a description of how DTC, as owner, is expected to disburse such payments to the Beneficial Owners.

***Auction Period Rate.*** The rate of interest on the Tax-Exempt ARS for each Auction Period subsequent to the Initial Period, to but not including the Conversion Date, shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix B (the "Auction Period Rate"). Notwithstanding anything herein to the contrary, the Auction Period Rate cannot exceed the maximum rate permitted by the laws of the State.

For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption during the next succeeding Auction Period, the Order will be invalid with respect to such portion and the Auction Agent will conduct the Auction Procedures as if such portion of such Order had not been submitted. For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee or Corporation has been called for redemption during the next succeeding Auction Period will be included in the calculation of Available Bonds for such Auction.

#### **Auction Participants**

***Existing Owners and Potential Owners.*** Participants in each Auction will include: (a) "Existing Owners," which shall mean a Person who is the beneficial owner of Bonds, provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner; and (b) "Potential Owners," which shall mean any Person (including any Existing Owner) who may be interested in acquiring a beneficial interest in Tax-Exempt ARS in addition to the Tax-Exempt ARS currently owned by such Person, if any, provided, however, for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

By purchasing Tax-Exempt ARS, whether in an Auction or otherwise, each prospective purchaser of Tax-Exempt ARS 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 Tax-Exempt ARS is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Tax-Exempt ARS 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 Tax-Exempt ARS so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer; and (c) to have its beneficial ownership of Tax-Exempt ARS maintained at all times in book-entry form by the securities depository for the account of its Participant of DTC, which in turn will maintain records of such beneficial ownership.

***Auction Agent.*** The Bank of New York has been appointed as the initial Auction Agent for the Tax-Exempt ARS. The Trustee is directed in the Resolution to enter into the initial Auction Agreement with The Bank of New York. Any substitute Auction Agent shall be: (a) a bank or trust company organized under the laws of the United States or any state or territory thereof and having a combined capital stock, surplus and undivided profits of at least \$50,000,000; or (b) a member of NASD having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and is a member of, or participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 90 days' written notice to the Corporation and the Trustee. 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 holders of 66-2/3% of the aggregate principal amount of the Tax-Exempt ARS by an instrument signed by the Trustee and filed with the Auction Agent and the

Corporation upon at least 90 days' notice. 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. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving 30 days' notice to the Corporation and the Trustee even if a successor Auction Agent has not been appointed.

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

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

**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 Citigroup Global Markets Inc. as the initial Broker-Dealer, any other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a member of, or direct participant in, the Securities Depository, (b) has been selected by the Corporation and (c) has entered into a Broker-Dealer Agreement with the Auction Agent and the Corporation that remains effective. Any Broker-Dealer may be removed at any time by the Corporation, but only if there is at least one Broker-Dealer appointed and acting as such.

## **Auctions**

Prior to a Conversion Date, Auctions to establish the Auction Period Rate are to be held on each Auction Date by application of the Auction Procedures described in Appendix B.

## **Changes in Auction Procedures and Related Matters**

Following at least 20 days' notice and the occurrence of a successful Auction as described in Appendix B, the provisions of the Resolution and the definitions contained therein and described in Appendix B, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended as described in Appendix B.

The Corporation may change the length of the Auction Period or specify an earlier or later Auction Date. The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Tax-Exempt ARS, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Tax-Exempt ARS of such series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period. See Appendix B-1 – "AUCTION PROCEDURES RELATING TO THE 2007 TAX-EXEMPT BONDS" and Appendix B-2 – "ADDITIONAL PROVISIONS RELATING TO THE 2007 TAX-EXEMPT BONDS."

## **Fixed Rate Conversion of Tax-Exempt ARS**

All, but not less than all, of a series of the Tax-Exempt ARS may be converted to bear interest at a Fixed Rate to their final maturity by the Corporation. If the Tax-Exempt ARS are to be converted to bear interest at a Fixed Rate, a Conversion Date for the Tax-Exempt ARS shall be specified.

Not later than the 15th day preceding the Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Auction Agent and the Owners of all such Tax-Exempt ARS, and the 2007 Tax-Exempt Bonds will be subject to mandatory tender as described below under "— Mandatory Tender upon Conversion; Certain Notices."



No such conversion shall occur without the consent of the Bond Insurer and unless the Corporation has received a Rating Confirmation with respect to the rating on any of the Corporation's Bonds outstanding under the Resolution. In the event that the Corporation determines that the conversion to a Fixed Rate will not occur on a scheduled Conversion Date, a new Auction Date for the Tax-Exempt ARS as to which the conversion was to take place may be scheduled as provided in the Resolution.

#### **Variable Rate Conversion of Tax-Exempt ARS**

All, but not less than all, of a series of the Tax-Exempt ARS may be converted to bear interest at a Variable Rate by the Corporation. If the Tax-Exempt ARS are to be converted to bear interest at a Variable Rate, a Conversion Date for the Tax-Exempt ARS shall be specified.

Not later than the 15th day preceding the Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Auction Agent and the Owners of all such Tax-Exempt ARS, and the 2007 Tax-Exempt Bonds will be subject to mandatory tender as described below under “— Mandatory Tender Upon Conversion; Certain Notices.”

No such conversion shall occur without the consent of the Bond Insurer and unless the Corporation has received a Rating Confirmation with respect to the rating on any of the Corporation's Bonds outstanding under the Resolution. In the event that the Corporation determines that the conversion to a Variable Rate will not occur on a scheduled Conversion Date, a new Auction Date for the Tax-Exempt ARS as to which the conversion was to take place may be scheduled as provided in the Resolution.

#### **Mandatory Tender Upon Conversion; Certain Notices**

***Mandatory Tender Upon Conversion.*** The 2007 Tax-Exempt Bonds to be converted to bear interest at a Fixed Rate or a Variable Rate shall be subject to mandatory tender for purchase on the Conversion Date at a price equal to the principal amount thereof plus accrued interest, if any, to the Conversion Date.

***Notice to Registered Holders.*** Any notice of conversion given to Holders as described above under “— Fixed Rate Conversion of Tax-Exempt ARS” or “— Variable Rate Conversion of Tax-Exempt ARS” shall, in addition to the requirements described therein, specify that all Outstanding 2007 Tax-Exempt Bonds of such series subject to such conversion are subject to mandatory tender pursuant to the provisions thereof and of the Resolution and will be purchased on the Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Conversion Date.

***Payment of Purchase Price by Trustee.*** On any Conversion Date, the Trustee shall pay the purchase price of the Bonds required to be tendered for purchase, surrendered as described below properly endorsed for transfer in blank with all signatures guaranteed, to the selling Holders thereof on or before 3:00 P.M. Such payments shall be made in immediately available funds to any person other than the Corporation, but solely from moneys representing proceeds of the remarketing of the 2007 Tax-Exempt Bonds, and neither the Corporation, the Trustee, the Paying Agent nor the Remarketing Agent shall have any obligation to use funds from any other source.

***Delivery of 2007 Tax-Exempt Bonds; Effect of Failure to Surrender Bonds.*** The 2007 Tax-Exempt Bonds to be purchased on any 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 on such date. If the Holder of any 2007 Tax-Exempt Bond that is subject to purchase as described herein fails to deliver such 2007 Tax-Exempt Bond 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 2007 Tax-Exempt Bond shall nevertheless be deemed tendered and purchased on the Conversion Date and shall be an Undelivered Bond as described below under “— Undelivered Bonds” and registration of the ownership of such 2007 Tax-Exempt Bond shall be transferred to the purchaser thereof as described below under “— Undelivered Bonds.”

### **Inadequate Funds for Tenders; Failed Conversion**

If the funds available for the purchase of a series of 2007 Tax-Exempt Bonds are inadequate for the purchase of all 2007 Tax-Exempt Bonds of such series required to be tendered on any Conversion Date or if a proposed conversion to a Fixed Rate or Variable Rate otherwise fails, the Trustee shall return all tendered 2007 Tax-Exempt Bonds to the Owners thereof. After any such failed conversion, the 2007 Tax-Exempt Bonds subject to the failed conversion shall remain outstanding as Tax-Exempt ARS. Auctions shall be conducted beginning on the first Auction Date occurring more than two Business Days after the failed Conversion Date, and interest payable thereon shall be determined and paid according to the Resolution.

### **No Tender Purchases After Call for Redemption**

2007 Tax-Exempt Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on a subsequent Conversion Date.

### **Undelivered Bonds**

Any Bonds which are required to be tendered on a Conversion Date and that are not delivered on such date, and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the purchase price, including any accrued interest due to (but not after) such purchase date with respect to such Bonds, shall be deemed to have been purchased, and shall be Undelivered Bonds. In the event of a failure by a Bondholder to tender its Bonds on or prior to the required date, such Owner of such Undelivered Bonds shall not be entitled to any payment other than the purchase price due on the purchase date and such Undelivered Bonds in the hands of such non-delivering Owner 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.

## **TAXABLE AUCTION RATE SECURITIES**

### **General**

The Senior Series 2007YY Bonds will be issued initially as Auction Rate Securities (“Taxable ARS”), shall be dated the date of initial delivery thereof and shall mature on the date as set forth on the cover of this Official Statement. Certain capitalized terms used herein with respect to the Senior Series 2007YY Bonds are defined in Appendices A, C-1 and C-2 to this Official Statement. Taxable ARS are issuable only as book-entry securities. To the extent that DTC determines to discontinue providing its services with respect to the Senior Series 2007YY Bonds and no satisfactory substitute depository is found, the Auction Procedures shall be suspended and the rate of interest on the Senior Series 2007YY Bonds for any Auction Period commencing after the delivery of certificates representing the Senior Series 2007YY Bonds shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Auction Period, as calculated by the Trustee. If the Senior Series 2007YY Bonds are converted to a Tax-Exempt Auction Rate as described in Appendix C-2, the terms described in this section relating to Taxable ARS shall not apply to the Senior Series 2007YY Bonds.

### **Interest**

***Interest Payments.*** Interest on the Taxable ARS shall accrue for each Auction Period and shall be payable in arrears, on each succeeding Interest Payment Date. Initially, the term “Interest Payment Date” means the date set forth in a Corporation Order executed and delivered in connection with the issuance of the Senior Series 2007YY Bonds and thereafter (unless changed by the Auction Procedures provided in Appendix C) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Senior Series 2007YY Bonds would be payable if such Senior Series 2007YY Bonds bore interest at a fixed rate of interest and on the Business Day

immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Senior Series 2007YY Bonds becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise). 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 Appendix C-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS” and Appendix C-2 “ADDITIONAL PROVISIONS RELATING TO THE SENIOR SERIES 2007YY BONDS”.

**Computation of Interest.** The amount of interest distributable to Owners of Senior Series 2007YY Bonds in respect of each \$25,000 in principal amount thereof for any Auction Period or part thereof shall be calculated by applying the Auction Period Rate for such Auction Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Auction Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on the Senior Series 2007YY Bonds shall be computed by the Trustee on the basis of the number of days actually elapsed over the actual number of days in the year; provided, however, if the Senior Series 2007YY Bonds are in an Auction Period which is greater than 180 days, interest shall be computed on the basis of a 360 day year of twelve 30-day months. The Trustee shall make such calculation not later than the close of business on each Auction Date.

Interest payments on the Taxable ARS are to be made by the Trustee to DTC as the registered owner of the Taxable ARS, as of the Record Date preceding each Interest Payment Date. Initially, the Taxable ARS are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Taxable ARS. See “THE 2007 BONDS - Book-Entry-Only System” above for a description of how DTC, as registered owner, is expected to disburse such payments to the Beneficial Owners.

**Auction Period Rate and Carry-over Amount.** The rate of interest and the Carry-over Amount, if any, on the Taxable ARS shall be determined based on implementation of the Auction Procedures described in Appendix C-1 and Appendix C-2 hereto. The rate per annum at which interest is payable on the Taxable ARS for any Auction Period is sometimes herein referred to as the “Auction Period Rate.” Notwithstanding anything herein to the contrary, the Auction Period Rate cannot exceed the Maximum Rate unless the Auction Period Rate is the Non-Payment Rate, in which case the Non-Payment Rate may exceed the Maximum Rate but cannot exceed the Maximum Interest Rate. For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order will be invalid with respect to such portion and the Auction Agent will conduct the Auction Procedures as if such portion of such Order had not been submitted. For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee or Corporation has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction will be included in the calculation of Available Bonds for such Auction.

## **Auction Participants**

**Existing Owners and Potential Owners.** Participants in each Auction will include (a) “Existing Owners,” which shall mean a Person who is the beneficial owner of Bonds, provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner; and (b) “Potential Owners,” which shall mean any Person (including any Existing Owner) who may be interested in acquiring a beneficial interest in Taxable ARS in addition to the Taxable ARS currently owned by such person, if any, provided, however, for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

By purchasing Taxable ARS, whether in an Auction or otherwise, each prospective purchaser of Taxable ARS 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 C hereto, (b) so long as the beneficial ownership of the Taxable ARS is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Taxable ARS only pursuant to a Bid or a Sell Order (each as defined in Appendix C) 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 ARS 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 ARS 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.

**Auction Agent.** The Bank of New York has been appointed as the initial Auction Agent for the Taxable ARS. The Trustee is directed by the Corporation in the Resolution to enter into the initial Auction Agreement with The Bank of New York. Any substitute Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof and having a combined capital stock, surplus and undivided profits of at least \$50,000,000 or (b) a member of NASD having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and is a member of, or participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 90 days notice to the Corporation and the Trustee. 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 Senior Series 2007YY Bonds by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Broker-Dealer upon at least 90 days' notice. 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. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving 30 days notice to the Corporation and the Trustee even if a successor Auction Agent has not been appointed.

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

**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 Citigroup Global Markets Inc. as the sole initial Broker-Dealer or any other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a member of, or direct participant in the Securities Depository, (b) has been selected by the Corporation and (c) has entered into a Broker-Dealer Agreement with the Auction Agent and the Corporation that remains effective. Any Broker-Dealer may be removed at any time by the Corporation, but only if there is at least one Broker-Dealer appointed and acting as such.

## **Auctions**

Auctions to establish the Auction Period Rate are to be held on each Auction Date by application of the Auction Procedures described in Appendix C-1 and Appendix C-2.

## **Changes in Auction Procedures and Related Matters**

Following at least 20 days' notice and the occurrence of a successful Auction, the provisions of the Resolution and the definitions contained therein described in Appendix C, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended as described in Appendix C.

During any ARS Rate Period and in accordance with the procedures described in Appendix C, the Corporation may change the length of the Auction Period or specify an earlier or later Auction Date. The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Senior Series 2007YY Bonds, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Senior Series 2007YY Bonds if the

change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period. See Appendix C-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS” and Appendix C-2 – “ADDITIONAL PROVISIONS RELATING TO THE SENIOR SERIES 2007YY BONDS.”

## **CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES**

### **Role of Broker-Dealer**

Citigroup Global Markets Inc. (the “Broker-Dealer”) has been appointed by issuers of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers for its services. Broker-Dealer receives broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Broker-Dealer in such auctions.

Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the ARS. The Broker-Dealer will receive Broker-Dealer Fees from the Corporation with respect to the ARS sold or successfully placed through it in Auctions for the ARS. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the ARS.

### **Bidding by Broker-Dealer**

The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the ARS for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the ARS and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the ARS and (ii) the Auction for the ARS will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Corporation to serve as a Broker-Dealer in the Auctions for the ARS, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction for the ARS may differ from those of Existing Owners and Potential Owners who participate in Auctions for the ARS. *See “Role of Broker-Dealer”* above. The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed by the Corporation to serve as Broker-Dealer in the Auctions for the ARS, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the ARS. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an “Auction Failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARS. The Broker-Dealer may place one or more Bids in an Auction for the ARS for its own account to acquire the ARS for its inventory, to prevent an Auction Failure or to prevent Auctions for the ARS from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARS. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the ARS for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. *See “Price Talk”* below.

The Broker-Dealer also may routinely encourage bidding by others in auctions generally for which it serves as broker-dealer. The Broker-Dealer also may encourage Bidding by others in Auctions for the ARS, including to prevent an Auction Failure or to prevent an Auction for the ARS from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARS. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the ARS being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer ARS than they would have received if the Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the ARS clears successfully does not mean that an investment in the ARS involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the ARS to prevent an Auction Failure or an Auction for the ARS from clearing at a rate the Broker-Dealer believes does not reflect the market for the ARS. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the ARS, if all outstanding ARS are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealer holds any ARS for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction for the ARS with respect to such ARS, which would prevent that Auction for the ARS from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the ARS, as set forth above.

### **Price Talk**

Before the start of an Auction for the ARS, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the ARS based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the ARS will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. The Broker-Dealer occasionally may update and change the Price Talk based on changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

### **"All-or-Nothing" Bids**

The Broker-Dealer will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid auction procedures that require the pro rata allocation of ARS where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

### **No Assurances Regarding Auction Outcomes**

The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the ARS will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any ARS purchased or retained in the Auction for the ARS may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy ARS from or sell ARS to a customer after the Auction.

## **Deadlines**

Each particular Auction for the ARS has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline for all customers— called the “Broker-Dealer Deadline” — by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that the Auction Agent may allow for the correction of clerical errors for a specified period of time after the Submission Deadlines.

## **Existing Owner’s Ability to Resell Auction Rate Securities May Be Limited**

An Existing Owner may sell, transfer or dispose of the ARS (i) in an Auction for the ARS, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the ARS, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the ARS that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those ARS in the Auction for the ARS. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the ARS all, and may not be able to sell any, of the ARS subject to such Submitted Sell Orders. As discussed above (*see “Bidding by Broker-Dealer”*), the Broker-Dealer may submit a Bid in an Auction for the ARS to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the ARS for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Corporation’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the ARS, there can be no assurance that a secondary market for the ARS will develop or, if it does develop, that it will provide Existing Owners the ability to resell the ARS on the terms or at the times desired by an Existing Owner. Broker-Dealer, in its own discretion, may decide to buy or sell the ARS in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the ARS. However, the Broker-Dealer is not obligated to make a market in the ARS and may discontinue trading in the ARS without notice for any reason at any time. Existing Owners who resell between Auctions for the ARS may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased ARS through a dealer which is not the Broker-Dealer for the securities, such Existing Owner’s ability to sell its security may be affected by the continued ability of its dealer to transact trades for the ARS through the Broker-Dealer.

The ability to resell the ARS will depend on various factors affecting the market for the ARS, including news relating to the Corporation, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the ARS (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the ARS (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in “*Securities and Exchange Commission Settlements*” below) or press reports, financial reporting cycles and market conditions generally. Demand for the ARS may change without warning, and declines in demand may be short-lived or continue for longer periods.

## **Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions**

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice to the Corporation and the Trustee (or 30 days’ notice if its fee has not been

paid) and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 30 days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the ARS, with the result that the interest rate on the ARS will be determined as described in Appendix B or Appendix C.

### **Securities and Exchange Commission Settlements**

On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms (the “Settling Broker-Dealers”) that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay a civil penalty. In addition, each Settling Broker-Dealer, without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by such Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the ARS.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including The Bank of New York (the “Settling Auction Agents”), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures.

### **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 \$1,806,935,000 aggregate principal amount of its Bonds which will rank on a parity with the 2007 Bonds, and which, together with the 2007 Bonds, will be secured on a basis superior to the Existing Subordinate 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 2007 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 2007 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 104.4% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 103.9% 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 (i) 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, the 2005 Bonds and the 2006 Bonds at 2% of the par amount of the Bonds of such Series Outstanding, and (ii) the 2007 Bonds at 0.75% of the par amount of the 2007 Bonds Outstanding, provided, however, that while any of the 2007 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 2007 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, the 2004 Bonds, the 2005 Bonds and the 2006 Bonds. The Bond Insurer has made a commitment to issue a surety bond (the "2007 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 2007 Bonds, and the 2007 Surety Bond shall constitute a Funding Instrument. The 2007 Bonds will only be delivered upon the initial issuance of such 2007 Surety Bond. The entire premium on the 2007 Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2007 Bonds. The 2007 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 2007 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 2007 Bonds, but in no event exceeding the Surety Bond Coverage. The Surety Bond coverage for the 2007 Bonds is equal to 0.75% of the principal of the 2007 Bonds then outstanding. The Surety Bond coverage for the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, the 2004 Bonds, the 2005 Bonds and the 2006 Bonds is equal to 2% of the principal of such 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 2007 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 2007 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2007 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2007 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 2007 BONDS.**

## INSURANCE ON THE 2007 BONDS

*The following information concerning the Ambac Assurance Corporation Financial Guaranty Insurance Policy (as defined below) 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 D to this Official Statement.*

The Bond Insurer has made a commitment to issue (i) a financial guaranty insurance policy (the “Series 2007WW and Series 2007XX Financial Guaranty Insurance Policy”) relating to the 2007 Tax-Exempt Bonds, effective as of the date of issuance of the 2007 Tax-Exempt Bonds and (ii) a financial guaranty insurance policy (the “Series 2007YY Financial Guaranty Insurance Policy”) and together with the Series 2007WW and Series 2007XX Financial Guaranty Insurance Policy, the “Financial Guaranty Insurance Policy”) relating to the Senior Series 2007YY Bonds, effective as of the date of issuance of the Senior Series 2007YY Bonds. A specimen copy of the Financial Guaranty Insurance Policy is attached hereto as Appendix G. Under the terms of the Financial Guaranty Insurance Policy, the Bond Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the 2007 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (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/or 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 2007 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 2007 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2007 Bonds, the Bond Insurer will remain obligated to pay the principal of and interest on outstanding 2007 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 2007 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, except to the extent that the Bond Insurer elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, the Bond Insurer's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on a 2007 Bond that has become Due for Payment and that is made to a 2007 Bondholder by or on behalf of the Obligor 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, non-appealable 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 set forth in the Financial Guaranty Insurance 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 the Trustee, Paying Agent or Bond Registrar, if any.
4. Loss relating to payments made in connection with the sale of the 2007 Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell the 2007 Bonds.

5. Loss relating to payments of the purchase price of the 2007 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of the 2007 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 2007 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2007 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 2007 Bond appurtenant coupon, if any, or right to payment of the principal of or interest on such 2007 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

### **ADDITIONAL BONDS**

Additional Bonds may be issued under the Resolution on a parity with, or subordinated to, the 2007 Bonds, and the Existing Senior Bonds, or superior to or equal to or subordinated to the Existing Subordinate 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 2007 BOND PROCEEDS**

The Corporation expects to apply the proceeds of the 2007 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans (approximately \$228,850,000), 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 2007 Bonds and related expenses (approximately \$1,150,000), including the Underwriter's discount. A portion of such amount will be used to purchase the 2007 Surety Bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2007 Bonds and to pay the insurance premiums for the Financial Guaranty Insurance Policy.

### **CHARACTERISTICS OF EDUCATION LOANS**

As of March 31, 2007, Education Loans in an aggregate principal amount of approximately \$1,799,904,831 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of March 31, 2007.

**LOAN TYPE**

	Education Loans Held Under Resolution as of March 31, 2007	
	Outstanding Principal	
Consolidation	\$1,078,163,431	60.00%
HEAL	\$12,334,352	0.60%
PLUS	\$127,204,722	7.00%
SLS	\$291,395	0.02%
Stafford Subsidized	\$192,719,593	11.00%
Stafford Unsubsidized	\$130,117,937	7.00%
VSAC Extra Advantage	\$159,566,987	9.00%
VSAC Extra Classic	\$1,559,165	0.08%
VSAC Extra Institutional	\$30,960,264	2.00%
VSAC Extra Law	\$61,833,062	3.00%
VSAC Extra Medical	\$5,153,923	0.30%
Total	\$1,799,904,831	100.00%

**BORROWER PAYMENT STATUS**

	Education Loans Held Under Resolution as of March 31, 2007	
Deferred	\$356,576,602	20.00%
Grace	\$38,235,975	2.00%
Repay	\$1,054,976,651	59.00%
School	\$350,115,603	19.00%
Total	\$1,799,904,831	100.00%

The characteristics of Education Loans held under the Resolution as of March 31, 2007 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 2007 Bond on any Interest Payment Date and the payment of principal on any 2007 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 2007 Bonds coming due by reason of acceleration, optional redemption or extraordinary mandatory redemption. See “INSURANCE ON THE 2007 BONDS,” Appendix D – “AMBAC ASSURANCE CORPORATION” and Appendix G – “SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY” for further information concerning the Bond Insurer and the Financial Guaranty Insurance Policy.

### **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, 2007, 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 2007 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 2007 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**

***Recent and 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 of Education”) continues to engage in the rulemaking process to revise the regulations promulgated by the Department of Education under the Higher Education Act. The Department of Education’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act terminates on a date specified in the Higher Education Act, which Act is periodically reauthorized and extended. In 2005, the President signed into law the Higher Education Reconciliation Act of 2005 (the “2005 Higher Education Act Amendments”), which amended several provisions of the Higher Education Act governing the Federal Family Education Loan Program (the “FFEL Program”). The 2005 Higher Education Act Amendments extended various provisions of the Higher Education Act through September 30, 2012 and included provisions, among other things, that (i) reduced student loan insurance from 98% to 97% for loans for which the first disbursement is made after July 1, 2006, (ii) reduced the reimbursement available for student loans services by servicers designated for exceptional performance from 100% to 99%, (iii) required payment by lenders to the Department of Education of any interest paid by borrowers on student loans first disbursed on or after April 1, 2006, which is in excess of the special allowance payment rate set forth under Appendix E -- “SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS - Special Allowance Payments” and (iv) eliminated (or in certain limited instances phased out by the year 2010) 9.5% floor loan recycling for lenders (which in subsequent legislation was entirely eliminated with certain limited exceptions). See Appendix E -- “SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS.”

During the continued reauthorization process of other provisions of the Higher Education Act, proposed amendments are likely including amendments to the Higher Education Act Amendments. Any changes could affect the student loans expected to be held under the Resolution following the issuance of the 2007 Bonds. It is not possible to predict whether or when any proposals may be introduced, 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.

In addition, on June 15, 2006, the President signed into law an emergency spending bill which, in part, repealed the single holder rule for consolidation loans for which applications are received on and after June 15, 2006. The single holder rule previously provided that a lender which wished to make a consolidation loan under the FFEL Program could do so, in certain circumstances, only if the lender held an outstanding loan of the borrower selected by the borrower for consolidation or if the borrower certified to the lender that he or she was unable to obtain a consolidation loan with income sensitive repayment terms from the holders of the outstanding loans of that borrower (which were selected for consolidation). This change in law is expected to make it easier for an eligible student loan lender to consolidate student loans held by other lenders, and thus increase competition for consolidation loan volume, including that portion of the Corporation’s FFELP portfolio that each year is eligible for

consolidation. The Corporation is unable to predict the impact of this change on the 2007 Bonds or on its education loan program.

Recently, key members of Congress introduced legislation and the President proposed a new budget. These proposals contain provisions with significant implications for participants in the FFEL Program. Among other things, these proposals include various reductions in federal government payments to lenders and guaranty agencies and increases in fees paid by lenders. The proposals include reducing special allowance payments to lenders; reducing default insurance rates (including reducing default insurance rates for lenders using a loan servicer with an Exceptional Performer designation and the possible elimination of the Exceptional Performer program); increasing lender origination fees on consolidation loans; reduction of guaranty agency collection retention; changing the manner in which guaranty agency account fees are charged; requiring disclosures relating to placement on "preferred lender lists" and various arrangements between lenders and schools; banning lenders from offering certain gifts to school employees; encouraging borrowers to maximize their borrowing through government loan programs prior to private loan programs with higher interest rates; increasing annual and aggregate loan limits for certain Stafford loans; reducing interest rates for subsidized Stafford loans; encouraging schools to participate in the FDL Program through increased federal scholarship funds; and increasing the consolidation rebate fees for certain lenders.

If enacted into law, these changes would have the effect of reducing the return to the Corporation on newly originated FFELP Loans. As of the date of this Official Statement, none of these proposals have been enacted into law. The Corporation is unable to predict the impact of these changes on the 2007 Bonds or on its education loan program.

Any change to the Higher Education Act requires the agreement of the House, the Senate and the President. The Corporation cannot predict which of the above proposals, if any, ultimately will be enacted, or whether any additional changes will be proposed. The Corporation also cannot predict whether further changes will be made to the Higher Education Act in future legislation or the effect of such legislation on the Corporation's education loan program.

**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. The Corporation cannot predict the final content of any such legislation or the effect of such legislation on its education loan finance program. No additional representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department of Education, 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 2007 Bonds.

### **Investigations into Preferred Lenders List**

Since January 2007, a number of state attorneys general and the U.S. Senate Committee on Health, Education, Labor and Pensions have announced or are reportedly conducting broad investigations of various participants in the student loan industry with respect to potential conflicts of interest in connection with the placement of student lenders on preferred lender lists at colleges and universities, and through alumni organizations. "Preferred lender lists" are lists of lenders recommended by college and university financial aid departments or other organizations to students seeking financial aid. The general focus of the investigations has primarily been on any financial arrangements that schools or financial aid administrators may have with student loan lenders that may help the lenders get placed on the lists, and state and federal legislative proposals addressing this area have recently been introduced. The Corporation has not been contacted by any state attorneys general from other states or by the Chairman of the U.S. Senate Committee on Health, Education, Labor and Pensions in connection with the investigations. The Vermont Attorney General has sent letters of inquiry to colleges and universities in Vermont asking about their practices with respect to preferred lender lists, but has not directed any formal inquiry to the Corporation.



## **Interest Rate Risk**

The interest rates on the 2007 Bonds initially outstanding as Auction Rate Securities (sometimes referred to herein as “Auction Rate Securities” or “ARS”) will be based on auctions of those 2007 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 E -- “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 2007 Bonds, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds, including the 2007 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 2007 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).

## **Carry-over Amount**

The Auction Period Rate on the Senior Series 2007YY Bonds while outstanding as Taxable ARS will be limited to the Maximum Rate. See APPENDIX C-1 - “AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS” hereto. For an Interest Payment Date on which the Maximum Rate applies to the Senior Series 2007YY 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.

## **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 of Education 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 of Education will not affect the overall financial condition of the Guarantors. Under Section 432(o) of the Higher Education Act, if the Department of Education has determined that a Guarantor is unable to meet its guaranty obligations, the loan holder may submit claims directly to the Department of Education and the Department of Education 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 of Education’s obligation to pay guaranty claims directly in this fashion is contingent upon the Department of Education making the determination referred to above. There can be no assurance that the Department of Education 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 E -- “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 2007 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 of Education 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 of Education 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 2007 Bonds.

If the Department of Education or the Guarantor determines that the Corporation owes a liability to the Department of Education or the Guarantor on any Federal Act Loan for which the Corporation is legal titleholder, the Department of Education 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 2007 Bonds.

### **Uncertainty as to Available Remedies**

The remedies available to Owners of the 2007 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 2007 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 Confirmation 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 applicable Rating Agencies that the outstanding respective ratings assigned by such applicable 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, the addition of loan servicers or liquidity providers and changes to borrower benefit programs. To the extent such actions are taken after issuance of the 2007 Bonds, investors in the 2007 Bonds will be subject to such actions and their impact on credit quality. Currently, the Rating Agencies rating the 2007 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 2007 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. Certain of the Bonds issued and outstanding under the Resolution are also rated by Fitch Ratings ("Fitch") and various actions taken with respect to such Bonds may also require a ratings confirmation from Fitch.

## **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") updates and replaces the Soldiers' and Sailors' 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 of Education 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 of Education, 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 of Education'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, as amended ("HEROES Act of 2003"), authorizes the Secretary of Education, during the period ending September 30, 2007, 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 2007 Bonds.

## 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.

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:

<u>DIRECTORS</u>	<u>PRINCIPAL OCCUPATIONS OR AFFILIATIONS</u>
Chris A. Robbins Chair	Member, State of Vermont Board of Education Danville, Vermont
Representative Martha P. Heath Vice-Chair	Vermont House of Representatives Westford, Vermont
David Larsen Secretary	Middle School Educator (Retired) Wilmington, Vermont
T. Spencer Wright	Vice President of Finance and Marketing, Canus Vermont LLC Waterbury, Vermont
Senator Ann E. Cummings	Vermont State Senator Montpelier, Vermont
Jeb Spaulding <i>ex officio</i>	Treasurer, State of Vermont Montpelier, Vermont
G. Dennis O’Brien	President Emeritus, University of Rochester Middlebury, Vermont
Pamela A. Chisholm	Director of Financial Aid Community College of Vermont Waterbury, Vermont
Dorothy R. Mitchell	Higher Education and Community Volunteer Worcester, Vermont
Virginia Cole-Levesque	Director of Student Services, Vergennes Union High School Vergennes, Vermont
Joan Loring Wing	Attorney at Law Rutland, Vermont

The Corporation's telephone number is 802-654-3770, and its address is 10 East Allen Street, P.O. Box 2000, 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:

<u>NAME</u>	<u>POSITION</u>
Chris A. Robbins	Chair
Martha P. Heath	Vice Chair
David Larsen	Secretary
Donald R. Vickers	President – CEO
Steven Karcher	Vice President of Finance and Assistant Secretary
Patrick J. Kaiser	Vice President of Student Services and Information Technology and Assistant Secretary
Scott A. Giles	Vice President of Policy, Research and Planning and Assistant Secretary
Thomas A. Little	Vice President, General Counsel and Assistant Secretary

Mr. Chris A. 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. David Larsen, Secretary of the Board of Directors, has served as a Board member since 2003.

## **Management**

The following is a brief description of the senior management of the Corporation.

Mr. Donald R. Vickers, President - CEO of the Corporation, has served the Corporation since 1971. Mr. Vickers was appointed President and CEO 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 2006 - present. 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 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 and Assistant Secretary of the Corporation 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 Information Technology 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 of the Corporation, 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. He is past Chair of the Lawyer's Caucus of the National Council of Higher Education Loan Programs.

## **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. For more than fifteen 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 originates and acquires 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 borrower benefits in the form of (i) certain reductions in interest rate or interest rate rebates on any such loan, or (ii) paying origination, guarantee, default or other fees on behalf of a borrower. The Vermont Value Program is subject to the availability of funds and modification by the Corporation in its discretion. The Vermont Value Program may be modified, discontinued, or terminated by the Corporation in its discretion at any time, provided that the consent of the Bond Insurer is obtained for any change in or addition of any borrower benefits if such change or addition has the effect of reducing the return on the Education Loans to which it relates (unless such borrower benefits are necessary to preserve the exclusion of interest from gross income of the Bonds for federal income tax purposes).

## **Servicing of Education Loans**

The Corporation currently 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 State Act requires the Corporation to establish and maintain the Guarantee Reserve Fund at a level using historical loan delinquency and default rates and other relevant information. As of March 31, 2007, the Guarantee Reserve Fund was funded based on the requirements of 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, 2007, federally-reinsured education loans in the outstanding aggregate principal amount of approximately \$1,767,870,914 were guaranteed by the Corporation.

**Reserve Ratio.** As of March 31, 2007, the Corporation's reserve ratio was 0.610%. 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, 2006 was .96%. See Appendix E -- "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, 2007.

School Type	Outstanding Principal	Percentage of Guaranteed Loans Outstanding (as of March 31, 2007)
Four-Year	\$1,321,032,813	73%
Two-Year	\$ 111,454,767	6%
Proprietary	\$ 121,748,647	7%
Other <sup>1</sup>	\$ 245,668,604	14%
Total	\$1,799,904,831	100%

<sup>1</sup>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, 2007, the Corporation had outstanding the following bonds and notes. Except for the 1985 Bonds and the 2003 General Obligation Bonds (which were issued and are secured under resolutions that are separate and distinct from the Resolution), all such debt obligations were issued and are secured under 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 R,S,T,U	\$	172,550,000	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 FF,GG,HH,II,JJ,KK,LL	\$	315,900,000	Insured by Ambac Assurance
Series 2003 General Obligation Bonds	\$	20,695,000	No Credit Support
Series 2004 MM,NN,OO,PP	\$	275,000,000	Insured by Ambac Assurance
Series 2005 QQ,RR,SS	\$	239,985,000	Insured by Ambac Assurance
Series 2006 TT,UU,VV	\$	175,250,000	Insured by Ambac Assurance
Total	\$	<u>1,878,530,000</u>	

## 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 2007WW Bonds and the Senior Series 2007XX Bonds (collectively, the “2007 Tax-Exempt Bonds”) is excludable 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 2007 Tax-Exempt Bonds. Failure to comply with such requirements could cause interest on the 2007 Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2007 Tax-Exempt Bonds. The Corporation has covenanted to comply with such requirements. Bond Counsel is further of the opinion that interest on the 2007 Tax-Exempt 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 Senior Series 2007YY Bonds is not excludable from gross income under Section 103 of the Code.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2007 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 2007 Bonds.

### Tax Matters Related to the 2007 Tax-Exempt Bonds

The accrual or receipt of interest on the 2007 Tax-Exempt Bonds may otherwise affect the federal income tax liability of the owners of the 2007 Tax-Exempt 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 2007 Tax-Exempt 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 2007 Tax-Exempt Bonds.

**Backup Withholding.** As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the 2007 Tax-Exempt Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the



2007 Tax-Exempt Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

***Changes in Federal and State Tax Law.*** From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the 2007 Tax-Exempt 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. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2007 Tax-Exempt Bonds. An example of such litigation is the case of *Davis v. Kentucky Department of Revenue*, 97 S.W. 3d 557 (2006), which the U.S. Supreme Court has agreed to hear pursuant to a writ of certiorari granted on May 21, 2007, challenging Kentucky's taxation of bonds issued by other states and their political subdivisions differently than it taxes bonds issued by Kentucky and its political subdivisions. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2007 Tax-Exempt Bonds or the market value thereof would be impacted thereby. Purchasers of the 2007 Tax-Exempt Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2007 Tax-Exempt Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

#### **Tax Matters Related to the Senior Series 2007YY Bonds**

The following summary of certain United States federal income tax consequences with respect to the Senior Series 2007YY Bonds is based on current law and is for general information only. This summary is generally limited to owners who have acquired the Senior Series 2007YY Bonds in the original offering as "capital assets" (generally, property held for investment). The tax treatment of an owner of Senior Series 2007YY Bonds may vary depending upon such owner's particular situation. Certain owners of Senior Series 2007YY 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 Senior Series 2007YY Bonds.

Owners of the Senior Series 2007YY Bonds should be aware that: (a) the discussion in this Official Statement with respect to U.S. federal income tax consequences of owning the Senior Series 2007YY Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (b) such discussion was written in connection with the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and (c) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

***Characterization of the Senior Series 2007YY Bonds as Indebtedness.*** The Corporation intends for applicable tax purposes, that the Senior Series 2007YY Bonds will be indebtedness of the Corporation secured by the Education Loans. The owners, by accepting the Senior Series 2007YY Bonds, have agreed to treat the Senior Series 2007YY Bonds as indebtedness of the Corporation for federal income tax purposes. The Corporation intends to treat this transaction as a financing reflecting the Senior Series 2007YY Bonds as its indebtedness for tax and financial accounting purposes. Bond Counsel is of the opinion that the Senior Series 2007YY Bonds will be treated as indebtedness of the Corporation, that the Corporation will be the owner of the Education Loans and that interest on the Senior Series 2007YY Bonds is not excludable from gross income under Section 103 of the Code, each for federal income tax purposes. Attached hereto as Appendix F-2 is a proposed form of the opinion of Bond Counsel with respect to the Senior Series 2007YY 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. 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 Senior Series 2007YY 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 Senior Series 2007YY Bonds. Any such tax could materially reduce cash available to make payment on the Senior Series 2007YY Bonds.

**Stated Interest.** In general, all interest payments on Senior Series 2007YY Bonds that are payable at the Auction Period Rate will be includible 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 includible in income when received (or when made available for receipt, if earlier). For accrual basis owners, such payments will be includible 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 includible in gross income in the year 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 includible in an owner's gross income as ordinary interest income in the same manner as its interest at the Auction Period Rate.

**Backup Withholding.** Under Section 3406 of the Code, an owner of the Senior Series 2007YY Bonds may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Senior Series 2007YY Bonds. This withholding applies if the owner of the Senior Series 2007YY Bonds; (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 the appropriate party 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 Senior Series 2007YY Bonds. OWNERS OF THE SENIOR SERIES 2007YY 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 States business. Assuming the interest received by the beneficial owner of the Senior Series 2007YY Bonds (the "Owner") 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 lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Assuming the Senior Series 2007YY 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 Internal Revenue Service has included on a list of countries having provisions inadequate to prevent United States tax evasion, (d) interest payable with respect to the Senior Series 2007YY 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 Senior Series 2007YY Bonds pursuant to an extension of credit entered into in the ordinary course of its banking business.

Assuming payments on the Senior Series 2007YY Bonds are treated as portfolio interest within the meaning of Section 871 and 881 of the Code, then no backup withholding is required with respect to owners who have furnished Form W-8 BEN (or a substitute form), provided neither the Corporation nor the Trustee has actual knowledge that such person is a United States person.

**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 the Senior Series 2007YY 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 2007YY 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 2007YY 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 2007YY 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 FURNISHED IN CONNECTION WITH THE PROMOTION AND MARKETING OF THE SENIOR SERIES 2007YY BONDS. THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, EACH PROSPECTIVE OWNER OF SENIOR SERIES 2007YY 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 SENIOR SERIES 2007YY 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 2007 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, class 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 2007 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 2007 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 2007 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 2007 Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases 2007 Bonds could be treated as having acquired a direct interest in the Corporation. In that event, the purchase, holding, transfer or resale of the 2007 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 2007 Bonds as described herein, it appears that the 2007 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

In the event that the 2007 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 Section 3(42) of ERISA and the Plan Assets Regulation. Because the availability of this exception depends upon the identity of the holders of the 2007 Bonds at any time, there can be no assurance that the 2007 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 2007 Bonds in reliance upon the availability of any exception under the Plan Assets Regulation.

## **Prohibited Transactions**

The acquisition or holding of 2007 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 2007 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 2007 Bonds. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the 2007 Bonds were acquired pursuant to and in accordance with one or more statutory exemptions, individual 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 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 2007 Bonds, the purchase of 2007 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, 2007 Bonds may not be purchased using the assets of any Plan if any of the Underwriters, the Trustee, 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 2007 Bond shall be deemed to represent and warrant that (a) it is not a Plan and is not acquiring the 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 Bonds or the due existence or powers of the Corporation.

#### **APPROVAL OF LEGALITY**

The legality of the authorization, issuance and sale of the 2007 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, and for the Underwriter by its 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 opinions of Bond Counsel to the Corporation are to be delivered with the 2007 Bonds on the respective delivery dates therefor substantially in the forms attached to this Official Statement as Appendix F.

#### **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 2007 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 2007 Bonds) and such obligations (including the 2007 Bonds) are authorized security for any and all public deposits.

#### **UNDERWRITING**

The 2007 Bonds are to be purchased by Citigroup Global Markets Inc. (the "Underwriter") pursuant to a bond purchase contract with the Corporation. The Underwriter has agreed to purchase the 2007 Bonds at a price of par less a discount equal to \$609,500. The obligation of the Underwriter to purchase the 2007 Bonds is subject to certain terms and conditions set forth in the bond purchase contract. The initial public offering prices of the 2007 Bonds may be changed by the Underwriter from time to time without notice.

The Underwriter may offer and sell the 2007 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 2007 Bonds may be changed from time to time by the Underwriter.

#### **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" and "AAA" respectively to the 2007 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 2007 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 2007 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 I.

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 2007 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 2007 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 2007 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 2007 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, 2006, were audited by Baker Newman & Noyes LLC, independent auditors, as stated in their report thereon dated September 15, 2006. Such financial statements and the report of said auditors are included as Appendix H hereto and represent the most current audited financial statements available for the Corporation.

*Because the 2007 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 2007 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and /or interest on the 2007 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 2007 Bonds from Citigroup Global Markets Inc., 388 Greenwich Street, 19<sup>th</sup> Floor, New York, NY 10013, Attention: Student Loan Group, and thereafter from Vermont Student Assistance Corporation, 10 East Allen Street, P.O. Box 2000, Winooski, Vermont 05404, Attention:

President or the Financial Advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21<sup>st</sup> 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 2007 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 2007 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 2007 Bonds.

Use of this Official Statement in connection with the sale of the 2007 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 Appendices B and C.

“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 2007 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.

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

“Authorized Denominations” means while the 2007 Bonds bear interest at an Auction Period Rate, \$25,000 and integral multiples thereof.

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

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

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

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

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

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

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

“Business Day” means, in addition to the definitions set forth in Appendix B and C, any day other than a Saturday, Sunday or legal holiday for commercial banks in New York City or Burlington, Vermont or on which the Bond Insurer or the Corporation is closed.

“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 2007 Tax-Exempt Bonds to Citigroup Global Markets Inc.

“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.

“Corporation Order” means the written order of the Corporation to the Trustee required to be delivered in connection with the issuance and delivery by the Corporation of the Senior Series 2007YY Bonds, which order shall be signed in the name of the Corporation by an Authorized Officer.

“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.

“Date of Issuance” means June 19, 2007 with respect to the 2007 Tax-Exempt Bonds and the date not later than December 31, 2007 set forth in the Corporation Order with respect to the Senior Series 2007YY Bonds.

“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.

“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.

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

“Financial Guaranty Insurance Policy” means the Series 2007WW and Series 2007XX Financial Guaranty Insurance Policy and the Series 2007YY Financial Guaranty Insurance Policy.

“Fitch” means Fitch Ratings, a Delaware corporation, 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. “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.

“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.

“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;
  - (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.

“Loan Account” means the Loan Account established pursuant to the Resolution.

“Material Adverse Change in the Loan Program” means, with respect to all Series of Bonds, any change enacted by the United States Congress or implemented by the Secretary or the Department or, if applicable, the legislature of the State, or any change resulting from the actions of the Corporation after each respective Date of Issuance of the 2007 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 the Bond Insurer, (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 delivered to the Bond Insurer by the Corporation in connection with the issuance of the 2007 Bonds 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.

“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.

“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.

“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.

“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.

“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 issued under any Series Resolution bear interest at the Maximum Rate or the Maximum SAVRS Rate, as appropriate, for two consecutive ARC Auction Periods, SAVRS Auction Periods or Auction Periods (as such terms are defined in each respective Series Resolution); (ii) any of the Bonds issued under the 2005 Eleventh Series Resolution are outstanding as Liquidity Facility Issuer Bonds

(as such term is defined in the 2005 Eleventh Series Resolution) for more than 30 days; or (iii) any of the 2007 Bonds issued under the 2007 Thirteenth Series Resolution bear interest at the Maximum Rate for two consecutive Auction Periods; or

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

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

“Series 2007WW and Series 2007XX Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by Ambac Assurance on the Date of Issuance of the 2007 Tax-Exempt Bonds, insuring the payment when due of the principal of and interest on such 2007 Tax-Exempt Bonds as provided therein.

“Series 2007YY Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by Ambac Assurance on the Date of Issuance of the Senior Series 2007YY Bonds, insuring the payment when due of the principal of and interest on such Senior Series 2007YY Bonds as provided therein.

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

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



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

“State” means the State of Vermont.

“State Act” means Vermont Statutes Annotated, 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 2007 Bonds, December 15, 2041.

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

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

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

“Supplemental Resolution” means any resolution supplemental to or amendatory of the Resolution, adopted by the Corporation and effective 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.

“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 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.

“2006 Bonds” means each of the Senior Series 2006TT Bonds, the Senior Series 2006UU Bonds and the Senior Series 2006VV Bonds, as authorized pursuant to and defined in the 2006 Twelfth Series Resolution.

“2006 Twelfth Series Resolution” means the 2006 Twelfth Series Resolution authorizing the 2007 Bonds.

“2007 Bonds” means each of the Senior Series 2007WW Bonds, the Senior Series 2007XX Bonds and the Senior Series 2007YY Bonds, as authorized pursuant to and defined in the 2007 Thirteenth Series Resolution.

“2007 Thirteenth Series Resolution” means the 2007 Thirteenth Series Resolution authorizing the 2007 Bonds.

“2007 Surety Bond” means, with respect to the 2007 Bonds, the amendment to the Surety Bond in an amount equal to the Debt Service Reserve Requirement with respect to the 2007 Bonds (which Surety Bond, issued on June 27, 2001, covers other portions of the Debt Service Reserve Requirement).

“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.

“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 (i) to waive or

rebate certain interest or principal payments and (ii) pay origination, guarantee, default or other fees on behalf of a borrower.

“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.

## **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 2007 Bonds, the 2006 Bonds, 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.

### **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 2007 Bonds to a different interest mode 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 change in the borrower benefit and loan forgiveness programs described in the Certificate and Agreement and the addition of any borrower benefit or loan forgiveness program after the date of the Certificate and Agreement, if such change or addition has the effect of reducing the return on the Education Loans to which it relates; provided that prior written consent of the Bond Insurer shall not be necessary if such borrower benefit or 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.

## APPENDIX B-1

### AUCTION PROCEDURES FOR THE 2007 TAX-EXEMPT BONDS

Both the Definitions in Article I and the Auction Procedures in Article II are subject to modification or amendment pursuant to Schedule I to this Appendix B-1. In the event of any conflict between Article I or Article II and Schedule I, Schedule I shall prevail. Any reference herein to “Series” such as “a Series of Bonds” or “Bonds of a Series” shall not apply if there is only one Series of Bonds.

#### ARTICLE I

##### Definitions

In addition to the words and terms otherwise defined in the Authorizing Document, the following words and terms as used in this Appendix A-1 (hereinafter “this Appendix”) and elsewhere in the Authorizing Document have the following meanings with respect to Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

“**Agent Member**” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“**All-Hold Rate**” has the meaning set forth in Schedule I.

“**ARS Conversion Date**” means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

“**ARS Rate Period**” means, for each Series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“**Auction**” means each periodic implementation of the Auction Procedures.

“**Auction Agent**” means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

“**Auction Agreement**” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“**Auction Date**” means with respect to any Series of Bonds:

(a) Daily Auction Period. If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest

Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Series of Bonds is set forth in Schedule I.

“**Auction Desk**” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“**Auction Period**” means with respect to each Series of Bonds:

- (a) *Flexible Auction Period.* A Flexible Auction Period;
- (b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) *Seven day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Periods Generally End this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35

days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“**Auction Period Rate**” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“**Auction Procedures**” means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix.

“**Auction Rate**” means for each Series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All-Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

“**Authorized Denominations**” means \$25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

“**Authorizing Document**” has the meaning set forth in Schedule I.

“**Available Bonds**” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“**Bid**” has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

“**Bidder**” means each Existing Owner and Potential Owner who places an Order.

“**Bonds**” has the meaning set forth in Schedule I.

“**Broker-Dealer**” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Corporation. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“**Broker-Dealer Agreement**” means an agreement among the Auction Agent, the Corporation and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

“**Broker-Dealer Deadline**” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“**Business Day**” in addition to any other definition of “Business Day” included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“**Clerical Error**” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“**Conversion Date**” means the date on which any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“**Corporation**” has the meaning set forth in Schedule I.

“**Electronic Means**” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

**“Error Correction Deadline”** means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

**“Existing Owner”** means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

**“Flexible Auction Period”** means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

**“Hold Order”** means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

**“Index”** has the meaning set forth in Schedule I.

**“Initial Period”** has the meaning set forth in Schedule I.

**“Interest Payment Date”** with respect to Bonds of a Series bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

**“Maximum Rate”** has the meaning set forth in Schedule I.

**“Order”** means a Hold Order, Bid or Sell Order.

**“Potential Owner”** means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“**Record Date**” means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“**Schedule I**” means Schedule I to this Appendix.

“**Securities Depository**” means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation.

“**Sell Order**” has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

“**Submission Deadline**” means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Corporation pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Corporation. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“**Submitted Bid**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Submitted Hold Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Submitted Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Submitted Sell Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Sufficient Clearing Bids**” means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“**Units**” has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

“**Winning Bid Rate**” means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

## ARTICLE II

### Auction Procedures

*Section 2.01. Orders by Existing Owners and Potential Owners.* (a) Prior to the Broker-Dealer Deadline for each Series of Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,



(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular Series to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

*Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.*

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to Bonds of such Series accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds of such Series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Issuer, the Corporation, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely

conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

*Section 2.03. Treatment of Orders by the Auction Agent.* Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) 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 of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) All-Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Series equal to the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such Series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee, Issuer or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee, Issuer or Corporation has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular Series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

*Section 2.04. Determination of Auction Period Rate.* (a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All-Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, the Auction Agent shall assemble all 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 as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

*Section 2.05. Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of Bonds, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

*Section 2.06 Notice of Auction Period Rate.* (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Series of Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such 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 and the number of Units of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction



Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (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 Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Corporation, Issuer and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

*Section 2.07. Index.*

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the Auction Period ending on such Auction Date.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Issuer, the Corporation, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

*Section 2.08. Miscellaneous Provisions Regarding Auctions.*

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each Series of Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in this Appendix, including without limitation the definitions of All-Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All-Hold Rate and (ii) there is delivered to the Corporation and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Issuer that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee.

During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or

its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

*Section 2.09. Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Corporation, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period 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 such Bonds. The Corporation shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Series.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Corporation, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Corporation's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Corporation and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

**SCHEDULE I**

**to**

**AUCTION PROCEDURES FOR THE 2007 TAX-EXEMPT BONDS**

In the event of any conflict between this Schedule I and Appendix B-1, this Schedule I shall prevail.

## Definitions

“**All-Hold Rate**” means, as of any Auction Date, (i) if interest on the Bonds is not includable in gross income for federal income tax purposes, the interest rate per annum equal to 85% of the Index, rounded to the nearest one thousandth (.001) of 1%, and (ii) if interest on the Bonds is includable in gross income for federal income tax purposes, the Index less 0.35%; provided that in no event shall the All-Hold Rate be greater than the Maximum Rate or less than zero.

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

“**Applicable Percentage,**” on the date of determination, shall mean the percentage determined (as such percentage may be adjusted pursuant to Appendix B-1) based on the lower of the prevailing credit ratings on the Bonds in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

Credit Ratings				
Moody's Investors Service		Standard & Poor's Ratings Services		Applicable Percentage
“Aaa”		“AAA”		175%
“Aa3” to “Aa1”		“AA-” to “AA+”		175
“A3” to “A1”		“A-” to “A+”		175
“Baa3” to “Baa1”		“BBB-” to “BBB+”		200
Below “Baa”		Below “BBB-”		265

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

“**Auction Agent**” shall initially be The Bank of New York and thereafter any person appointed as such as described under “Auction Agent” in Appendix B-2.

“**Auction Date**” shall include as part of the definition the first Auction Date which shall be (i) July 17, 2007, with respect to the Senior Series 2007WW Bonds and (ii) July 24, 2007, with respect to the Senior Series 2007XX Bonds. In addition:

(a) clause (c) of the definition of Auction Date in Appendix B-1 is modified to read as follows: (c) Other Auction Periods. If the Bonds are in any other Auction Period, the Business Day next preceding each Auction Period for such Bonds (whether or not an Auction shall be conducted on such date);

(b) the proviso following clause (c) of the definition of Auction Date in Appendix B-1 is modified to read as follows: “provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the final maturity date for the Bonds;” and

(c) the definition of Auction Date shall be inapplicable for (i) each Auction Period commencing after the occurrence and during the continuance of a Payment Default, or (ii) any Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

“**Auction Period**” shall include in the Six-month Auction Period either June 15 or December 15. In addition:

(a) clause (b) of the definition of Auction Period in Appendix B-1 is modified to read as follows: Daily Auction Period. With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the date of the conversion.; and

(b) the proviso following clause (g) of the definition of Auction Period in Appendix B-1 is modified to remove therefrom any references to an Interest Payment Date.

“**Authorized Denomination**” means \$25,000.

“**Authorizing Document**” means the 2007 Thirteenth Series Resolution.

“**Bonds**” means the 2007 Series Tax-Exempt Bonds.

“**Broker-Dealer**” shall initially be Citigroup Global Markets Inc.

“**Corporation**” means Vermont Student Assistance Corporation.

“**Favorable Opinion**” means a Bond Counsel’s opinion addressed to the Corporation and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Resolution and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

“**Flexible Auction Period**” shall be modified as follows:

(a) the reference to Interest Payment Date in clause (a) of the definition of Flexible Auction Period in Appendix B-1 is deleted and the following is substituted in place thereof: “Business Day next succeeding the end of an Auction Period.”

(b) clause (b) of the definition of Flexible Auction Period in Appendix B-1 is modified to read: “any period which is longer than 182 days which begins on the Business Day next succeeding the end of an Auction Period and ends not later than the final scheduled maturity date of such Series of Bonds.”

“**Index**” means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less: (i) if interest on the Bonds is not includable in gross income for federal income tax purposes, the S&P Weekly High Grade Index and (ii) if interest on the Bonds is includable in gross income for federal income tax purposes, One Month LIBOR. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Corporation and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Corporation. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

“**Initial Period**” means the period from the Closing Date to but not including (i) July 18, 2007, with respect to the Senior Series 2007WW Bonds and (ii) July 25, 2007, with respect to the Senior Series 2007XX Bonds.

“**Interest Payment Date**” means, with respect to the Bonds while bearing interest at an Auction Period Rate, each June 15 and December 15, commencing December 15, 2007, except as changed as described under “*Changes in Interest Payment Dates*” in this Schedule I, and on the maturity date thereof, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through June 14 or December 14, or

the day preceding the maturity date, as the case may be). This definition shall prevail over the definition of Interest Payment Date in Appendix B-1.

“**LIBOR Determination Date**” means the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Auction Period.

“**Maximum Interest Rate**” means the lesser of (a) 14% per annum or such higher amount as may be established by the Corporation following receipt by the Trustee of (i) written confirmation from each of the Rating Agencies that such action will not affect the ratings on the Bonds and a Favorable Opinion and (ii) written consent of the Bond Insurer, or (b) the maximum rate of interest permitted under the laws of the State of Vermont.

“**Maximum Rate**” on any date of determination, means the interest rate per annum equal to the lesser of (a) the Applicable Percentage of the Index on such date, and (b) the Maximum Interest Rate.

“**Non-Payment Rate**” on any date of determination means the interest rate per annum equal to the lesser of (a) 265% of the Index, and (b) fourteen percent.

“**One Month LIBOR**” means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, of One-Month LIBOR 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 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 than \$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, One-Month LIBOR 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.

“**Payment Default**” means (a) a default in the due and punctual payment of any installment of interest on the Bonds, or (b) a default in the due and punctual payment of any interest on and principal of the Bonds at their Maturity.

“**Person**” shall mean and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

“**S&P Weekly High Grade Index**” means the S&P Weekly High Grade Index (formerly the J.J. Kenny Index) maintained by Standard & Poor’s Securities Evaluations Inc. as published on the day which is one U.S. Government Securities Business Day immediately preceding the Auction Date. If the S&P Weekly High Grade Index is no longer available, then the Broker-Dealer shall announce a rate based upon the same criteria used by Standard & Poor’s Securities Evaluations Inc. to determine the S&P Weekly High Grade Index and the rate announced by the Broker-Dealer for such date of determination shall be used in lieu of the S&P Weekly High Grade Index for such date of determination.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

#### **Auction Procedures**

***Determination of Auction Period Rate.*** The percentage of the Index in Section 2.04(c) is 100%.

***Modifications to Appendix B-1.***

(a) Section 2.03(e) of Appendix B-1 is hereby modified to read as follows: “For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption during the next succeeding Auction Period, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.”

(b) Section 2.03(f) of Appendix B-1 is hereby modified to read as follows: “For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee or Corporation has been called for redemption during the next succeeding Auction Period shall be included in the calculation of Available Bonds for such Auction.”

(c) The second parenthetical in Section 2.06(b)(ii) is hereby modified to read as follows: “(including accrued interest if the purchase date is not an Interest Payment Date).”

(d) The reference to Interest Payment Date in Section 2.09(a)(i) is deleted and the following shall be substituted in place thereof: “Business Day.”

(e) The last sentence of Section 2.09(b) is hereby modified to read as follows: “In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, and the day of the week on which a Flexible Auction Period ends shall be adjusted accordingly.”

***Payment Default; Notice of Payment Default.*** If a Payment Default occurs, Auctions will be suspended and the Auction Period Rate for the Auction Period commencing on or after such Payment Default and for each Auction Period thereafter to and including the Auction Period, if any, during which, or commencing not less than two Business Days after, such Payment Default is cured, will equal the Non-Payment Rate on the first day of each such Auction Period.

Notwithstanding anything herein to the contrary, the Auction Period Rate cannot exceed the Maximum Rate, unless the Auction Period Rate is the Non-Payment Rate, in which case the Non-Payment Rate may exceed the Maximum Rate but cannot exceed the Maximum Interest Rate.

By 12:00 p.m. on the Business Day immediately succeeding each Interest Payment Date, the Trustee will determine if a Payment Default has occurred. If a Payment Default has occurred, the Trustee shall, not later than 12:15 p.m. on such Business Day, notify the Auction Agent and Broker-Dealer of such Payment Default. If a Payment Default has been cured, the Trustee shall immediately so notify the Auction Agent and the Broker-Dealer on the day such Payment Default is cured.

***Certain Orders Not Permitted.*** The Corporation may not submit an Order in any Auction. The Auction Agent shall have no duty or liability in monitoring or enforcing compliance with this section. The Corporation shall not purchase or otherwise acquire Bonds unless the Corporation redeems or otherwise cancels such Bonds on the day of any purchase.

***Changes in Interest Payment Dates.*** In connection with any change in the length of an Auction Period pursuant to Section 2.09(a) of Appendix B-1, or otherwise, but for the same purposes stated therein, the Corporation, upon receipt of a Favorable Opinion and with the written consent of a Corporation Representative, may change Interest Payment Dates to or from semiannual payments on June 15 and December 15 of each year or to or from Interest Payment Dates corresponding to the end of each Auction Period. The Corporation shall initiate the change in the Interest Payment Dates by giving written notice to the Trustee, the Auction Agent and the Securities Depository at least 10 days prior to the Auction Date for such Auction Period.

***Changes in Auction Period.*** In addition to the requirements set forth in Section 2.09(a) of Appendix B-1, no change in Auction Period from an Auction Period of one year or less to an Auction Period of more than one year shall occur unless there shall have been delivered to the Trustee a Favorable Opinion; and no change in Auction

Period from an Auction Period of more than one year to an Auction Period of one year or less shall occur unless there shall have been delivered to the Trustee a Favorable Opinion. Changes in Auction Periods are also subject to prior written consent of the Bond Insurer.

***Certain Provisions Inapplicable.*** Any references in Appendix B-1 to an Issuer shall not be applicable to the Bonds. If any action is allowed or required to be taken by an Issuer in Appendix B-1, the Corporation shall be substituted for the Issuer.



## APPENDIX B-2

### ADDITIONAL PROVISIONS RELATING TO THE 2007 TAX-EXEMPT BONDS

#### Definitions

“**Auction Agent Fee**” means the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agreement and the Broker-Dealer Agreement.

“**Auction Agent Fee Rate**” on any Auction Date, shall mean the rate per annum at which the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agreement and the Broker-Dealer Agreement with respect to such Auction Date accrues, as provided in the Auction Agreement.

“**Auction Agreement**” means the Auction Agency Agreement dated as of June 1, 2007, between the Trustee and the Auction Agent and any similar agreement or agreements with a successor Auction Agent, in each case as from time to time amended or supplemented.

“**Broker-Dealer Agreement**” shall mean the Broker-Dealer Agreement dated as of June 1, 2007, between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

“**Broker-Dealer Fee**” shall mean the fee to be paid to the Broker-Dealer for its services rendered under the Broker-Dealer Agreement.

“**Broker-Dealer Fee Rate**” on any Auction Date, shall mean the rate per annum at which the service charge to be paid to the Broker-Dealer for the services rendered by it with respect to such Auction Date accrues, as provided in the Broker-Dealer Agreement.

“**Rating**” shall mean one of the rating categories of a Rating Agency, provided such Rating Agency is currently rating the Bonds.

“**Rating Confirmation**” means a letter from each Rating Agency then providing a Rating, confirming that the action proposed to be taken will not, in and of itself, have the effect of reducing the Rating on the Bonds, or of causing the Rating Agency to suspend or withdraw the Rating then applicable to the Bonds.

#### Additional Provisions

**Auction Period Rates.** After the Initial Period, the Auction Period Rate to be applicable to the Bonds during each Auction Period shall be determined by the Auction Agent and notice thereof shall be given as provided in Appendix B-1 hereto. Interest shall accrue from one Interest Payment Date to, but not including, the next Interest Payment Date. The Auction Period for the Bonds shall initially be 35 days.

**Payments.** So long as the Bonds are registered in the name of the Securities Depository or the nominee thereof, payment of interest (other than at maturity) and premium, if any, on, and of principal at redemption of, the Bonds shall be made to the Securities Depository by wire transfer provided proper wire instructions are received. Each holder of Bonds, by such Owner's purchase of Bonds, appoints the Trustee as its agent in connection with the payment by such Owner of its share, if any, of the amounts payable to the Auction Agent and the Broker-Dealers as described under “*Payment of Service Charges*” below.

***Payment of Service Charges.*** Upon order of the Corporation, the Trustee shall pay to the Auction Agent in immediately available funds out of amounts in the Operating Account, an amount equal to the Auction Agent Fee and the Broker-Dealer Fee as calculated in the Auction Agreement and the Broker-Dealer Agreement.

***Computation of Interest.*** The amount of interest distributable to Owners of Bonds in respect of each \$25,000 in principal amount thereof for any Auction Period or part thereof shall be calculated by applying the Auction Period Rate for such Auction Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Auction Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on the Bonds shall be computed by the Trustee on the basis of the number of days actually elapsed over the actual number of days in the year; provided, however, if the Bonds are in an Auction Period which is greater than 180 days, interest shall be computed on the basis of a 360 day year of twelve 30-day months. The Trustee shall make such calculation not later than the close of business on each Auction Date.

***Notification of Rates, Amounts and Payment Dates.***

(a) The Trustee shall determine the aggregate amount of interest distributable on the next succeeding Interest Payment Date to the Owners of the Bonds. So long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, the Trustee shall advise the Securities Depository of each Record Date for the Bonds.

(b) Promptly after the date of issuance of the Bonds and in any event prior to each Auction Period thereafter, the Trustee shall:

(i) so long as no Payment Default has occurred and is continuing and the ownership of the Bonds is maintained in book-entry form by the Securities Depository, confirm the Auction Agent's determination of (A) the date of such next Interest Payment Date and (B) the amount payable to the Auction Agent on the Auction Date as described under "Payment of Service Charges" above and notify the Auction Agent of any discrepancy therein; and

(ii) advise the Securities Depository, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, of the Auction Period Rate and the interest amount in respect of the next succeeding Auction Period distributable in respect of each \$25,000 in principal amount (taken without rounding, to .001 of one cent) of Bonds for such Auction Period.

In the event that any day that is scheduled to be an Interest Payment Date or an Auction Date shall be changed after the Trustee shall have given the notice referred to in clause (i) of the preceding sentence, not later than 9:15 a.m., on the Business Day next preceding the earlier of the new Interest Payment Date or Auction Date or the old Interest Payment Date or Auction Date, the Trustee shall, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Bonds is maintained in book-entry form by the Securities Depository.

***Auction Agent.***

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the Corporation, to perform the functions specified herein. The Auction Agent shall signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Corporation, the Trustee and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Corporation and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

(c) The Auction Agent shall be (i) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$50,000,000, or (ii) a member of NASD having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Resolution and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Authorizing Document by giving at least ninety (90) days notice to the Corporation and the Trustee. 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 (A) the Corporation or (B) the Owners of 66 2/3% of the aggregate principal amount of the Bonds, by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Broker-Dealer upon at least 90 days' notice. 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. Upon any such resignation or removal, the Trustee at the direction of the Corporation, shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee; provided, however, that if a successor Auction Agent has not been appointed within 45 days of the giving of such notice of resignation or removal of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a substitute Auction Agent. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Corporation and the Trustee even if a successor Auction Agent has not been appointed.

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

(e) The Auction Agent shall be acting as agent for the Trustee and the Corporation in connection with Auctions. In the absence of willful misconduct 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 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 to make such judgment.

(f) Notwithstanding that the Auction Agent is the agent of the Trustee hereunder and under the Auction Agreement, the Trustee shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agreement or otherwise. The Trustee shall not be obligated for the payment of any amounts owing to the Auction Agent (other than as described under "*Payment of Service Charges*" above), including indemnities, and the Trustee shall have no responsibility for the contents or sufficiency of the terms of the Auction Agreement.

***Broker-Dealers.***

(a) The Auction Agent shall enter into a Broker-Dealer Agreement with Citigroup Global Markets Inc., as the initial Broker-Dealer. An Authorized Officer of the Corporation may, from time to time, appoint one or more additional persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the Auction Agent.

(b) Any Broker-Dealer may be removed at any time, at the request of an Authorized Officer of the Corporation, but only if there shall be at least one Broker-Dealer appointed and acting as such.

***Redemption of Bonds.*** The Bonds shall be subject to redemption prior to maturity as provided in the Authorizing Document.

In addition to the requirements of the Authorizing Document, if any Bonds are to be redeemed in part and such Bonds are held by a Securities Depository, the Trustee shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled "Publication Date for Securities

Depository Purposes” and such date shall be three Business Days after the Auction Date immediately preceding such redemption date (in the case of a daily Auction Period, such date shall be three Business Days immediately preceding the date of redemption) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such Auction Rate Bonds to be redeemed from each such position (the “Securities Depository Redemption Information”), and (y) the Auction Agent shall notify the Trustee immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such Auction Rate Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information.

***Credit Ratings.*** The Corporation shall take all reasonable action necessary to enable at least one nationally recognized statistical rating organization (as that term is used in the rules and regulations of the SEC under the Securities Exchange Act) to provide credit ratings for the Bonds.

***Notices.*** The Corporation shall use its best efforts to provide the Trustee and, so long as no Payment Default has occurred and is continuing and the ownership of the Bonds is maintained in book-entry form by the Securities Depository, the Auction Agent with notice of any change in the manner in which the maximum interest rate permitted by Vermont law is determined.

***Notice of Payment Default.***

(a) If the Corporation determines that a Payment Default has occurred the Corporation shall promptly notify Trustee thereof.

(b) So long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, upon the occurrence of a Payment Default the Trustee shall immediately send a notice thereof to the Auction Agent and Broker-Dealer by Electronic Means.

(c) So long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, the Trustee shall immediately send notice to the Auction Agent by Electronic Means if a Payment Default is cured.

***Notice of Amendments.*** All notices regarding amendments to the Authorizing Document shall be delivered to the Auction Agent and the Broker-Dealer at the time and in the same manner as such notices are delivered to the registered owners of the Bonds. No amendment shall become effective with respect to the Auction Agent or the Broker-Dealer without the consent of such party if it adversely affects the rights, duties, privileges, immunities and liabilities of such party.

**Conversion**

***Conversions to and from ARS Rate Periods.***

(a) ***Conversions to ARS Rate Periods.*** Subject to the prior written consent of the Bond Insurer, at the option of the Corporation, all or any series of the Bonds (in an amount which is an Authorized Denomination for the new Rate Period) may be converted from a Variable Rate Period to an ARS Rate Period. Any such conversion shall be made as follows:

(i) In any such conversion from a Variable Rate Period, the ARS Conversion Date shall be the Business Day next succeeding the last day of the applicable Interest Period.

(ii) The Corporation shall give written notice of any such conversion to the Remarketing Agent, the Trustee, the Bank, the Auction Agent, the Bond Insurer and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the registered owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the Bonds to be converted, the ARS Conversion

Date and the length of the initial Auction Period. Together with such notice, the Corporation shall file with the Trustee a Favorable Opinion. No such change to an ARS Rate Period shall become effective unless the Corporation shall also file, with the Trustee, a Favorable Opinion dated the ARS Conversion Date.

(iii) Not less than fifteen (15) days prior to the ARS Conversion Date, the Trustee shall mail a written notice of the conversion to the registered owners of the Bonds to be converted setting forth the same information contained in subparagraph (ii) above and stating that the Bonds shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof plus accrued interest on the ARS Conversion Date; provided, however, that the Trustee shall not mail such written notice if converting from a Long Rate Period until it has received a written confirmation from the Remarketing Agent that no Interest Period for the Bonds extends beyond the ARS Conversion Date.

(iv) The Auction Period Rate for the Auction Period commencing on the ARS Conversion Date shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the ARS Conversion Date. Such determination shall be conclusive and binding upon the Corporation, the Trustee, the Auction Agent, the Bank and the beneficial owners of the Bonds to which such rate shall be applicable.

(v) Not later than 5:00 p.m., New York City time, on the date of determination of the Auction Period Rate, the Broker-Dealer shall notify the Trustee, the Corporation and the Auction Agent of the Auction Period Rate by Electronic Means.

(vi) The Corporation may revoke its election to effect a conversion of the interest rate on any Bonds to an Auction Period Rate by giving written notice of such revocation to the Trustee, the Remarketing Agent, the Bank, the Auction Agent, the Bond Insurer and the Broker-Dealer at any time prior to the setting of the ARS Rate by the Broker-Dealer.

(vii) No Bonds may be converted to the Auction Period Rate when the Bonds are not held by a depository in book-entry form.

(b) *Conversions from ARS Rate Periods.* Subject to the prior written consent of the Bond Insurer, at the option of the Corporation, all or any series of the Bonds (in an amount which is an Authorized Denomination for the new Rate Period) may be converted from an ARS Rate Period to a Variable Rate Period. Any such conversion shall be made as follows:

(i) The Conversion Date from an ARS Rate Period shall be the Business Day next succeeding the last day of the Auction Period

(ii) The Corporation shall give written notice of any such conversion to the Bond Insurer, the Trustee, the Remarketing Agent, if any, the Bank, if any, the Auction Agent, the Broker-Dealer and each Rating Agency not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the registered owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the Bonds to be converted, the Conversion Date and the new Rate Period to which the conversion shall be made. Together with such notice, the Corporation shall file with the Trustee a Favorable Opinion. No change to a Variable Rate shall become effective unless the Corporation shall also file, with the Trustee, a Favorable Opinion dated the Conversion Date. No change to a Variable Rate shall become effective until the Corporation confirms the appointment of Citigroup Global Markets Inc. as Remarketing Agent, or shall otherwise select and appoint a qualified Remarketing Agent.

(iii) Not less than twenty (20) days prior to the Conversion Date, the Trustee shall mail a written notice of the conversion to the registered owners of all Bonds to be converted, specifying the Conversion Date and stating the matters required in paragraph (b) under "*Mandatory Tender Upon Conversion*" below.

(iv) At any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the Conversion Date, the Corporation may withdraw its notice of conversion and the Auction for such Bonds shall be held on such Auction Date as if no conversion notice had ever been given. If on a Conversion Date

there has been a timely withdrawal of the conversion notice as set forth in the preceding sentence or any condition precedent to such conversion is not satisfied, the Trustee shall give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the registered owner of the Bonds to have been converted, the Bond Insurer, the Auction Agent, the Broker-Dealer and the Bank that such conversion has not occurred, that the Bonds shall not be purchased on the failed Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate shall continue to be the Auction Period Rate; provided, however, that the interest rate borne by the Bonds which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(v) The Corporation hereby agrees to obtain and maintain a Letter of Credit whenever the Bonds bear interest at a Variable Rate.

(vi) On the Conversion Date applicable to the Bonds, the Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The principal portion of the purchase price of the Bonds so tendered shall be payable solely from the proceeds of the remarketing of such Bonds and such proceeds shall be deposited with the Trustee by 12:00 Noon. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all Bonds on a mandatory tender date, the Bonds shall not be subject to mandatory tender, shall be returned to their registered owners, shall automatically convert to a seven-day Auction Period and shall bear interest at the Maximum Rate.

(vii) After conversion of the Bonds to a Fixed Rate or a Variable Rate, the Bonds shall continue to mature on December 15, 2041.

(ix) The rate of interest for Variable Rate Bonds shall be determined in accordance with the Authorizing Document.

(x) Any conversion to a Variable Rate on a Conversion Date shall result in an Interest Period on the Variable Rate Bonds (as defined in the Authorizing Document) of one year or less.

**Fixed Rate Conversion.** Subject to the prior written approval of the Bond Insurer, at the option of the Corporation, all or any series of the Bonds bearing interest at a Variable Rate or an Auction Period Rate (in an amount which is an Authorized Denomination for the new Rate Period) may be converted to bear interest at the Fixed Rate as hereinafter provided. Any such conversion shall be made as follows:

(a) The Conversion Date to a Fixed Rate shall be: (i) in the case of a conversion from a Daily Rate Period, a Weekly Rate Period, a Monthly Rate Period or a Long Rate Period, the Business Day next succeeding the last day of the applicable Interest Period, and (ii) in the case of a conversion from an ARS Rate Period, the Business Day next succeeding the last day of the final Auction Period.

(b) Not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the registered owners of the conversion pursuant to subparagraph (c) below, the Corporation shall give written notice of the conversion to the Bond Insurer, the Trustee, the Remarketing Agent, if any, the Bank, if any, the Auction Agent, if any, and the Broker-Dealer, if any, setting forth the proposed Conversion Date. Together with such notice, the Corporation shall file with the Trustee a Favorable Opinion, including that the assignment of new maturity dates and amortization requirements pursuant to subparagraph (g) below shall not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No conversion to the Fixed Rate shall occur unless the Corporation shall also file with the Trustee a Favorable Opinion to the same effect dated the Conversion Date.

(c) In the event of a conversion from a Daily Rate Period, a Weekly Rate Period, a Monthly Rate Period or a Long Rate Period, the Trustee shall mail a notice of the proposed conversion to the registered owners of all Bonds to be converted not less than thirty (30) days prior to the proposed Conversion Date. Such notice shall

state that the Bonds to be converted shall be subject to mandatory tender at a price equal to 100% of the principal amount thereof plus accrued interest on the Conversion Date. In the event of a conversion from an ARS Rate Period, the Trustee shall mail a notice of the proposed conversion to the registered owners of all Bonds to be converted not less than twenty (20) days prior to the proposed Conversion Date. Such notice shall state that the Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The principal portion of the purchase price of the Bonds so tendered shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all Bonds on a mandatory tender date, the Bonds shall not be subject to mandatory tender, shall be returned to their owners, shall automatically convert to a seven-day Auction Period and shall bear interest at the Maximum Rate.

(d) Not later than 12:00 noon, New York City time, on the Business Day prior to the Conversion Date, the Remarketing Agent shall determine the Fixed Rate for the Bonds to be converted.

(e) Such determination shall be conclusive and binding upon the Bond Insurer, the Corporation, the Trustee, the Bank, if any, the Broker-Dealer, if any, the Auction Agent, if any, and the beneficial owners of the Bonds to which such rate shall be applicable. Not later than 5:00 p.m., New York City time, on the date of determination of the Fixed Rate, the Remarketing Agent shall notify the Trustee, the Bond Insurer and the Corporation of such rate by telephone.

(f) The Corporation may revoke its election to effect a conversion of the interest rate on the Bonds to the Fixed Rate by giving written notice of such revocation to the Bond Insurer, the Trustee, the Remarketing Agent, if any, the Bank, if any, the Auction Agent, if any, and the Broker-Dealer, if any, at any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date and if the Bonds bear interest at an Auction Period Rate an Auction for such Bonds shall be held on such date as if no notice of conversion had ever been given.

(g) Prior to the conversion of any of the Bonds to a Fixed Rate, the Remarketing Agent shall deliver to the Trustee and the Corporation a certificate which includes a schedule specifying the principal amount of Bonds to be converted to a Fixed Rate which shall mature on December 15 of the years specified in such schedule and the interest rate payable on the Bonds to be converted to a Fixed Rate of each such maturity date and a schedule specifying the principal amount of Bonds to be converted to a Fixed Rate maturing on December 15 of the years specified in such schedule or to be called for mandatory redemption pursuant to the amortization requirements on December 15 of the Bond Years specified in such schedule. In determining the maturity dates, amortization requirements and interest rates, the Remarketing Agent shall use the following guidelines:

(i) The Remarketing Agent shall determine the schedule of principal payments on the Bonds to be converted to a Fixed Rate to achieve annual level debt service with respect to the converted Bonds. In making such schedule, the Remarketing Agent shall, to the extent necessary, alternately round down and up to the nearest \$5,000 the amount allocable to the Bonds which are being converted;

(ii) The Remarketing Agent shall allocate the Bonds to be converted to a Fixed Rate between serial bonds and term bonds in such manner as shall produce the lowest aggregate interest payable with respect to such Bonds; and

(iii) The Remarketing Agent shall set the interest rate on each Bond to be converted to a Fixed Rate of a particular maturity date at the lowest interest rate that shall enable such Bond, upon conversion, to be remarketed at par (plus any accrued interest) taking into account the maturity date of such Bond and amortization requirements with respect to the Bonds of such maturity date.

The foregoing notwithstanding, the Corporation may agree to another method for providing for payment of principal of the Bonds after the Conversion Date if (A) the Remarketing Agent deems the utilization of such other method necessary in order to remarket the Bonds at a price of par and (B) there is delivered to the Trustee by the Corporation a Favorable Opinion to the effect that utilization of such other method shall not adversely affect the validity of any Bonds or any exclusion from federal income taxation to which the interest on the Bonds would otherwise be entitled.

(h) Mandatory redemption of the Bonds converted to the Fixed Rate shall be without premium. The Bonds converted to the Fixed Rate shall be redeemed by the Trustee without any notice from or direction by the Corporation.

(i) If on the proposed Conversion Date any condition precedent to such conversion is not satisfied and the Bonds bear interest at the Auction Period Rate, the Trustee shall give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the registered owners of the Bonds and the Broker-Dealer that such conversion has not occurred, that the Bonds shall not be purchased on the failed Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate shall continue to be the Auction Period Rate; provided, however, that the interest rate borne by the Bonds during the Auction Period commencing on such failed Conversion Date shall be the Maximum Rate, and the Auction Period shall be the seven-day Auction Period.

#### ***Mandatory Tender Upon Conversion***

(a) Bonds to be converted to bear interest at a Fixed Rate or a Variable Rate shall be subject to mandatory tender for purchase on the Conversion Date, at a price equal to the principal amount thereof, plus accrued interest, if any, to the Conversion Date.

(b) Any notice of conversion given to Owners shall specify that all Outstanding Bonds subject to such conversion are subject to mandatory tender pursuant to the provisions thereof and of the Authorizing Document and will be purchased on the Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Conversion Date.

(c) Upon receipt of notice of the Conversion Date from the Corporation, the Trustee shall notify the Remarketing Agent, the Corporation and the Paying Agent of the principal amount of Bonds required to be tendered for purchase on the Conversion Date. Upon receipt of such notice, the Remarketing Agent shall use its best efforts to find purchasers for and arrange for the sale of all such Bonds required to be tendered for purchase. The terms of any sale arranged by the Remarketing Agent shall provide for the payment of the purchase price of the Bonds to the Trustee, or its designated agent, in immediately available funds at or before 10:00 a.m. on the purchase date.

(d) Subject to the provisions of paragraph (c) above, the following notices shall be given in connection with a conversion to a Fixed Rate or a Variable Rate:

(i) Before 11:00 a.m. on the Business Day next preceding the Conversion Date, the Trustee shall give notice to the Paying Agent, the Corporation and the Remarketing Agent as to the aggregate purchase price of Bonds required to be tendered for purchase which is required to be deposited by the Remarketing Agent into the Revenue Account pursuant to paragraph (e) below in the event all such Bonds are successfully remarketed by the Remarketing Agent.

(ii) If, by 12:00 noon on the Conversion Date, the Trustee shall not have received sufficient moneys from the Remarketing Agent which, together with any other available funds, would be sufficient to purchase all Bonds being converted pursuant to paragraph (f) below, 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 this Appendix A-2.

(e) The Remarketing Agent shall cause to be paid to the Trustee by 12:00 noon on any Conversion Date, all amounts then held by the Remarketing Agent representing proceeds of the remarketing of such Bonds, such payment to be made in the manner specified in paragraph (c) above. All such remarketing proceeds received by the Trustee shall be deposited in the Revenue Account.

(f) On any Conversion Date, the Trustee shall pay the purchase price of the Bonds required to be tendered for purchase, surrendered as provided in paragraph (h) below properly endorsed for transfer in blank with all signatures guaranteed, to the selling Owners thereof on or before 3:00 p.m. Such payments shall be made in



immediately available funds, but solely from moneys in the Revenue Account representing proceeds of the remarketing of the Bonds, pursuant to paragraph (c) above, to any Person other than the Corporation, and neither the Corporation, the Trustee, the Paying Agent nor the Remarketing Agent shall have any obligation to use funds from any other source.

(g) On the Conversion Date, the Registrar shall register and authenticate and as promptly thereafter as practicable the Registrar shall deliver Bonds remarketed by the Remarketing Agent to the Remarketing Agent or the purchasers thereof in accordance with the instructions of the Remarketing Agent.

(h) All Bonds to be purchased on any 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 on such date. If the Owner of any Bond that is subject to purchase fails to deliver such 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 Bond shall nevertheless be deemed tendered and purchased on the Conversion Date and shall be Undelivered Bonds as described under “*Undelivered Bonds*” below and registration of the ownership of such Bond shall be transferred to the purchaser thereof as provided in paragraph (g) above. The Trustee shall, as to any Undelivered Bonds, (i) promptly notify the Remarketing Agent, the Auction Agent, the Paying Agent and the Registrar of such non-delivery and (ii) the Registrar shall place a stop transfer against an appropriate amount of 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 Bond registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Bonds) until the appropriate tendered 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 Bonds, the Trustee, or its designated agent, shall hold the purchase price therefor uninvested in a segregated subaccount for the benefit of such Owners.

***No Tender Purchases On Redemption Date.*** Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

***Undelivered Bonds.*** Any Bonds which are required to be tendered on a Conversion Date and that are not delivered on the 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 Bonds, shall be deemed to have been purchased and shall be Undelivered Bonds. In the event of a failure by a Bondholder to tender its 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 non-delivering Bond owner 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 Bonds shall not be extinguished, and the Paying Agent and Registrar shall transfer, authenticate and deliver such 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 Bondholder by such Owner’s purchase of Bonds, shall do or cause the Registrar to do the following:

- (a) assign, endorse, and register the transfer of such Bond to the purchaser or purchasers thereof;
- (b) authenticate and deliver a new Bond or Bonds, as appropriate, to the purchaser or purchasers thereof;
- (c) execute an acknowledgement 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 acknowledgement;
- (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 in this Section;

(ii) the Undelivered Bond is no longer Outstanding; and

(iii) funds equal to the applicable purchase price for such 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 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. Bonds presented on or before 12:00 noon on any Business Day are to be paid on or before the close of business on that day.

Prior Owners of Bonds purchased or deemed purchased pursuant to this 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.

***Redemption of Bonds.*** The Bonds shall be subject to redemption prior to maturity as provided in the Authorizing Document. If Bonds are converted to a Variable Rate, such Bonds so converted to a Variable Rate shall be subject to redemption, at the principal amount thereof plus accrued interest thereon, at the option of the Corporation, in whole or in part, on not less than 10 days' notice at any time. If Bonds are converted to a Fixed Rate, such Bonds so converted to a Fixed Rate shall be subject to redemption, at the option of the Corporation, in whole or in part, at any time following the tenth anniversary date of the date that such Bonds are converted to a Fixed Rate, at a redemption price equal to 102% of the principal amount to be redeemed from such tenth anniversary date to but not including the eleventh anniversary date, at a redemption price equal to 101% of the principal amount to be redeemed from an eleventh anniversary date to but not including the twelfth anniversary date, and at a redemption price equal to 100% on the twelfth anniversary date and thereafter. If Bonds are converted to a Variable Rate or to a Fixed Rate, such Bonds so converted shall be subject to extraordinary mandatory redemption as provided in the Authorizing Document.

## APPENDIX C-1

### AUCTION PROCEDURES FOR THE SENIOR SERIES 2007YY BONDS

Both the Definitions in Article I and the Auction Procedures in Article II are subject to modification or amendment pursuant to Schedule I to this Appendix C-1. In the event of any conflict between Article I or Article II and Schedule I, Schedule I shall prevail. Any reference herein to “Series” such as “a Series of Bonds” or “Bonds of a Series” shall not apply if there is only one Series of Bonds.

#### ARTICLE I

##### Definitions

In addition to the words and terms otherwise defined in the Authorizing Document, the following words and terms as used in this Appendix C-1 (hereinafter “this Appendix”) and elsewhere in the Authorizing Document have the following meanings with respect to Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

“**Agent Member**” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“**All-Hold Rate**” has the meaning set forth in Schedule I.

“**ARS Conversion Date**” means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

“**ARS Rate Period**” means, for each Series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“**Auction**” means each periodic implementation of the Auction Procedures.

“**Auction Agent**” means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

“**Auction Agreement**” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“**Auction Date**” means with respect to any Series of Bonds:

(a) Daily Auction Period. If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Series of Bonds is set forth in Schedule I.

**“Auction Desk”** means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

**“Auction Period”** means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Periods Generally End this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless

such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“**Auction Period Rate**” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“**Auction Procedures**” means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix.

“**Auction Rate**” means for each Series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All-Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

“**Authorized Denominations**” means \$25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

“**Authorizing Document**” has the meaning set forth in Schedule I.

“**Available Bonds**” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“**Bid**” has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

“**Bidder**” means each Existing Owner and Potential Owner who places an Order.

“**Bonds**” has the meaning set forth in Schedule I.

“**Broker-Dealer**” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Corporation. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“**Broker-Dealer Agreement**” means an agreement among the Auction Agent, the Corporation and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

“**Broker-Dealer Deadline**” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“**Business Day**” in addition to any other definition of “Business Day” included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“**Clerical Error**” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“**Conversion Date**” means the date on which any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“**Corporation**” has the meaning set forth in Schedule I.

“**Electronic Means**” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“**Error Correction Deadline**” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time,

unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“**Existing Owner**” means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“**Flexible Auction Period**” means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

“**Hold Order**” means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

“**Index**” has the meaning set forth in Schedule I.

“**Initial Period**” has the meaning set forth in Schedule I.

“**Interest Payment Date**” with respect to Bonds of a Series bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“**Maximum Rate**” has the meaning set forth in Schedule I.

“**Order**” means a Hold Order, Bid or Sell Order.

“**Potential Owner**” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“**Record Date**” means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“**Schedule I**” means Schedule I to this Appendix.

“**Securities Depository**” means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation.

“**Sell Order**” has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

“**Submission Deadline**” means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Corporation pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Corporation. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“**Submitted Bid**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Submitted Hold Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Submitted Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Submitted Sell Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“**Sufficient Clearing Bids**” means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“**Units**” has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

“**Winning Bid Rate**” means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

## ARTICLE II

### Auction Procedures

*Section 2.01. Orders by Existing Owners and Potential Owners.* (a) Prior to the Broker-Dealer Deadline for each Series of Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for



the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular Series to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

*Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.*

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to Bonds of such Series accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds of such Series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Issuer, the Corporation, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely

conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

*Section 2.03. Treatment of Orders by the Auction Agent.* Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) 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 of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) All-Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Series equal to the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such Series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee, Issuer or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee, Issuer or Corporation has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular Series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

*Section 2.04. Determination of Auction Period Rate.* (a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All-Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, the Auction Agent shall assemble all 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 as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

*Section 2.05. Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of Bonds, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

*Section 2.06. Notice of Auction Period Rate.* (b) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Series of Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such 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 and the number of Units of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (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 Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the



number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Corporation, Issuer and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

*Section 2.07 Index.*

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the Auction Period ending on such Auction Date.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Issuer, the Corporation, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

*Section 2.08. Miscellaneous Provisions Regarding Auctions.*

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each Series of Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in this Appendix, including without limitation the definitions of All-Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All-Hold Rate and (ii) there is delivered to the Corporation and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Issuer that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee.

During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a

sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

*Section 2.09. Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Corporation, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period 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 such Bonds. The Corporation shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Series.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Corporation, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Corporation's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Corporation and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

**SCHEDULE I**

**to**

**AUCTION PROCEDURES**

**In the event of any conflict between this Schedule I and Appendix C-1, this Schedule I shall prevail.**

## Definitions

“**All-Hold Rate**” means, as of any Auction Date, the Index less 0.35%, provided that in no event shall the applicable All-Hold Rate be greater than the applicable Maximum Rate.

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

“**Auction Agent**” shall initially be The Bank of New York and thereafter any person appointed as such as described under “*Auction Agent*” in Appendix C-2.

“**Auction Date**” shall include as part of the definition the first Auction Date which shall be the date set forth as such in the Corporation Order. In addition, the definition of Auction Date shall be inapplicable for (a) each Auction Period commencing after the occurrence and during the continuance of a Payment Default, or (b) any Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

“**Auction Period**” shall include in the *Six-month Auction Period* either June 15 or December 15.

“**Authorized Denomination**” means \$25,000.

“**Authorizing Document**” means the 2007 Thirteenth Series Resolution.

“**Bonds**” means the Senior Series 2007YY Bonds.

“**Broker-Dealer**” shall initially be Citigroup Global Markets Inc. and thereafter any person appointed as such as described under “*Broker-Dealers*” in Appendix C-2.

“**Carry-over Amount**” shall mean the excess, if any, of (a) the amount of interest on a Senior Series 2007YY Bond that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on such Senior Series 2007YY Bond 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 Authorizing Document and in the Senior Series 2007YY Bonds shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

“**Corporation**” means Vermont Student Assistance Corporation.

“**Index**” means on any Auction Date with respect to Senior Series 2007YY Bonds in any Auction Period of 35 days or less One-Month LIBOR. The Index with respect to Senior Series 2007YY Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Corporation and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Corporation. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

“**Initial Period**” means the period from the Closing Date to but not including the date set forth in the Corporation Order.

“**Interest Payment Date**” includes the first Interest Payment Date which shall be the date set forth as such in the Corporation Order.

**“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 Auction Period.

**“Maximum Auction Rate”** means, for any Auction, a per annum interest rate on the Senior Series 2007YY Bonds which, when taken together with the interest rate on the Senior Series 2007YY Bonds for the one-year period ending on the final day of the proposed Auction Period, would result in the average interest rate on the Senior Series 2007YY Bonds 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 Senior Series 2007YY Bonds 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 Senior Series 2007YY Bonds 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 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 Senior Series 2007YY Bonds is less than the lowest category of “A”); provided, however, that if the Senior Series 2007YY Bonds have not been Outstanding for at least such one-year period then for any portion of such period during which such Senior Series 2007YY Bonds were not Outstanding, the interest rates on the Senior Series 2007YY Bonds for purposes of this definition shall be deemed to be equal to such rates as the Broker-Dealers shall determine were the rates of interest on equivalently rated auction securities with comparable lengths of auction periods during such period; provided, however, this definition may be modified at the direction of the Corporation upon receipt by the Trustee of written consent from each Rating Agency then rating the Senior Series 2007YY Bonds that such change will not in and of itself result in a reduction of the rating on any Senior Series 2007YY Bonds. 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 Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of (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 of Vermont.

**“Maximum Rate”** means 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 Broker-Dealer 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”** means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, of One-Month LIBOR 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 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 than \$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, One-Month LIBOR 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.

“**Payment Default**” shall mean failure to make payment of interest on, premium, if any, and principal of the Senior Series 2007YY Bonds when due, by the Corporation, followed by a default by the Bond Insurer under the Financial Guaranty Insurance Policy therefor.

“**Person**” shall mean and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

## **Auction Procedures**

***Determination of Auction Period Rate.*** The percentage of the Index in Section 2.04(c) is 100%.

***Payment Default; Notice of Payment Default.*** If a Payment Default occurs, Auctions will be suspended and the Auction Period Rate for the Auction Period commencing on or after such Payment Default and for each Auction Period thereafter to and including the Auction Period, if any, during which, or commencing not less than two Business Days after, such Payment Default is cured, will equal the Non-Payment Rate.

Notwithstanding anything herein to the contrary, the Auction Period Rate cannot exceed the Maximum Rate, unless the Auction Period 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.

By 12:30 p.m. on the Business Day immediately succeeding each Interest Payment Date, the Trustee will determine if a Payment Default has occurred. If a Payment Default has occurred, the Trustee shall notify the Auction Agent and Broker-Dealer by 1:00 p.m. of such Payment Default. If a Payment Default has been cured, the Trustee shall so notify the Auction Agent and the Broker-Dealer by 5:00 p.m. on the day such Payment Default is cured.

***Calculation of Rates.*** The Auction Agent shall calculate the Maximum Auction Rate, the Maximum Rate, the Maximum Interest Rate, the All-Hold Rate and One-Month LIBOR on each Auction Date. The determination by the Auction Agent of the Maximum Auction Rate, the Maximum Rate, the Maximum Interest Rate, the All-Hold Rate and One-Month LIBOR will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the Senior Series 2007YY Bonds is no longer maintained in book-entry form by the Securities Depository, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the Senior Series 2007YY Bonds pursuant to Section 2.08(c) of Appendix C-1. If a Payment Default shall have occurred, the Trustee shall calculate the Non-Payment Rate on the first day of (a) each Auction Period commencing after the occurrence and during the continuance of such Payment Default and (b) any Auction Period commencing less than two Business Days after the cure of any Payment Default.

### ***Carry-over Amount.***

(a) If the Auction Rate for any Senior Series 2007YY Bond is greater than the Maximum Rate, then the interest rate applicable to such Senior Series 2007YY Bonds for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on such Senior Series 2007YY Bonds at the Auction Rate over the amount of interest actually accrued at the Maximum Rate will accrue 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 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 Authorizing Document, 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 Senior Series 2007YY Bond by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice to each Owner of a Senior Series 2007YY Bond 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 Owner of a Senior Series 2007YY Bond 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 Owner on such Interest Payment Date, or otherwise will be mailed on such Interest Payment Date by first class mail, postage pre-paid, to each such Owner at such 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 Senior Series 2007YY Bond has been redeemed or has been deemed no longer Outstanding hereunder (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 Senior Series 2007YY Bond), (i) the Carry-over Amount (and interest accrued thereon, calculated at a rate equal to One-Month LIBOR) will be paid by the Trustee on such Senior Series 2007YY Bond on the next occurring Interest Payment Date, and each succeeding Interest Payment Date until paid, for each Auction Period subsequent to the Auction Period in which such Carry-over Amount accrued, if and to the extent that (A) during such subsequent Auction Period, no additional Carry-over Amount is accruing on such Senior Series 2007YY Bond, 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 Senior Series 2007YY Bond at the Maximum Rate exceeds the amount of interest that is payable for such Auction Period on such Senior Series 2007YY Bond at the interest rate in effect for such Auction Period and (B) moneys are available pursuant to the terms hereof in an amount sufficient to pay all or such portion of the Carry-over Amount as described in clause (A) above and (ii) interest will accrue on the Carry-over Amount at a rate equal to One-Month LIBOR until such Carry-over Amount is paid in full or is cancelled.

(b) The Carry-over Amount for any Senior Series 2007YY Bond will be paid by the Trustee to the then registered owner of the Outstanding Senior Series 2007YY Bonds on the next occurring Interest Payment Date, and each succeeding Interest Payment Date to the then registered owner until paid, for a subsequent Auction Period if and to the extent that (i) during such subsequent Auction Period, no additional Carry-over Amount is accruing on the Senior Series 2007YY Bonds, (ii) and if paid, such Carry-over Amount is payable solely to the extent that during such Auction Period, the amount of interest that would be payable on such Senior Series 2007YY Bonds at the Maximum Rate exceeds the amount of interest that is payable for such Auction Period at the interest rate in effect for such Auction Period, and (iii) on such Interest Payment Date, first, there are sufficient moneys in the Revenue Account to pay all interest due on the Bonds on such Interest Payment Date and second, there are sufficient moneys in the Revenue Account to pay a portion or all of the Carry-over Amount described in clause (ii) above, after giving effect to the transfers described under the caption "PLEDGE OF RESOLUTION; ACCOUNTS – Revenue Account" in Appendix A, so long as, subsequent to such payment, as shown by a certificate of the Corporation, the sum of the Value of (A) the Education Loans credited to the Loan Account and (B) all cash and Investment Securities held in the Accounts (but excluding amounts irrevocably set aside to pay particular Bonds as described under the caption "DEFEASANCE; MISCELLANEOUS PROVISIONS" in Appendix A and amounts on deposit in the Operating Account, including accrued but unpaid Program Expenses) shall be at least equal to (C) 101% of the sum of the aggregate principal amount of and accrued interest to the date of calculation on all Obligations then Outstanding and of all other liabilities due and owing under the Resolution (or 102% if no Subordinate Bonds are then Outstanding). Any Carry-over Amount (and any interest accrued thereon) on any Senior Series 2007YY Bond which is due and payable on an Interest Payment Date, which Senior Series 2007YY Bond is to be redeemed or deemed no longer Outstanding under the Resolution on said Interest Payment Date, will be paid to the Owner thereof on said Interest Payment Date to the extent that moneys are available therefor in accordance with the provisions of the Resolution; provided, however, that any Carry-over Amount (and any interest accrued thereon) which is not yet due and payable on said Interest Payment Date will be cancelled with respect to each Senior Series 2007YY Bond that is to be redeemed or deemed no longer Outstanding hereunder on such Interest Payment Date and will 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 will 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 Auction Period or Periods, if and to the extent that the conditions in the third preceding sentence are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Senior Series 2007YY Bond, the Trustee will give written notice in the manner set forth in paragraph

(a) above to the Owner of such Senior Series 2007YY Bond receiving such partial payment of the Carry-over Amount remaining unpaid on such Senior Series 2007YY Bond.

(c) Whether the Carry-over Amount will be paid on any particular Interest Payment Date in each subsequent Auction Period will be determined as described in paragraph (b) above. The Trustee will make payment of the Carry-over Amount in the same manner as it pays interest on the Senior Series 2007YY Bonds and from the Revenue Account as provided in (b) above.

(d) Any unpaid Carry-over Amount on a Senior Series 2007YY Bond not due and payable on the redemption date with respect to such Senior Series 2007YY Bond will be extinguished upon the maturity or optional redemption of such Senior Series 2007YY Bond. The Carry-over Amount will otherwise continue to accrue on Outstanding Senior Series 2007YY Bonds.

***Certain Orders Not Permitted.*** The Corporation may not submit an Order in any Auction. The Auction Agent shall have no duty or liability in monitoring or enforcing compliance with this section. The Corporation shall not purchase or otherwise acquire Senior Series 2007YY Bonds unless the Corporation redeems or otherwise cancels such Senior Series 2007YY Bonds on the day of any purchase.

***Certain Provisions Inapplicable.*** Any references in Appendix C-1 to an Opinion of Bond Counsel, an Issuer, a Conversion Date and an ARS Conversion Date and any provisions relating to a conversion of the Senior Series 2007YY Bonds to bear interest at a rate which is determined other than by means of the Auction Procedures shall be of no force and effect and shall not be applicable to the Senior Series 2007YY Bonds. If any action is allowed or required to be taken by an Issuer in Appendix C-1, the Corporation shall be substituted for the Issuer.



## APPENDIX C-2

### ADDITIONAL PROVISIONS RELATING TO THE SENIOR SERIES 2007YY BONDS

#### Definitions

“**Auction Agent Fee**” means the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agreement and the Broker-Dealer Agreement.

“**Auction Agent Fee Rate**” on any Auction Date, shall mean the rate per annum at which the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agreement and the Broker-Dealer Agreement with respect to such Auction Date accrues, as provided in the Auction Agreement.

“**Auction Agreement**” means the Auction Agreement dated as of June 1, 2007, between the Trustee and the Auction Agent, relating to the Senior Series 2007YY Bonds, and any similar agreement or agreements with a successor Auction Agent, in each case as from time to time amended or supplemented.

“**Broker-Dealer Agreement**” shall mean the Broker-Dealer Agreement dated as of June 1, 2007, between the Auction Agent and the Broker-Dealer, relating to the Senior Series 2007YY Bonds, 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.

“**Broker-Dealer Fee**” shall mean the fee to be paid to the Broker-Dealer for its services rendered under the Broker-Dealer Agreement.

“**Broker-Dealer Fee Rate**” on any Auction Date, shall mean the rate per annum at which the service charge to be paid to the Broker-Dealer for the services rendered by it with respect to such Auction Date accrues, as provided in the Broker-Dealer Agreement.

“**Favorable Opinion**” means, with respect to conversion of the Senior Series 2007YY Bonds 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 Senior Series 2007YY Bonds shall be excluded from gross income for federal income tax purposes.

“**Record Date**” means the Business Day immediately preceding an Interest Payment Date.

“**Tax-Exempt Auction Rate**” shall mean the “Auction Period Rate” as set forth in Appendices B-1 and B-2.

“**Tax-Exempt Conversion Date**” means a date on which the Senior Series 2007YY Bonds begin to bear interest at a Tax-Exempt Auction Rate as provided under “*Conversion to Tax-Exempt Auction Rate*” below.

#### Additional Provisions

***Auction Period Rates.*** The Auction Period Rate from the date of delivery of the Senior Series 2007YY Bonds to, but not including, the first Interest Payment Date shall be the interest rate set forth as such in the Corporation Order. Thereafter the Auction Period Rate to be applicable to the Senior Series 2007YY Bonds during each Auction Period prior to a Tax-Exempt Conversion Date shall be determined by the Auction Agent and notice thereof shall be given as provided in Appendix C-1 hereto. Interest shall accrue from one Interest Payment Date to, but not including, the next Interest Payment Date. The Auction Period for the Senior Series 2007YY Bonds shall initially be 28 days.

**Payments.** So long as the Senior Series 2007YY Bonds are registered in the name of the Securities Depository or the nominee thereof, payment of interest (other than at maturity) and premium, if any, on, and of principal at redemption of, the Senior Series 2007YY Bonds shall be made to the Securities Depository by wire transfer provided proper wire instructions are received. Each holder of Senior Series 2007YY Bonds, by such Owner's purchase of Senior Series 2007YY Bonds, appoints the Trustee as its agent in connection with the payment by such Owner of its share, if any, of the amounts payable to the Auction Agent and the Broker-Dealers as described under "*Payment of Service Charges*" below.

**Payment of Service Charges.** The Corporation shall pay to the Auction Agent, on behalf of the Owners of the Senior Series 2007YY Bonds in same day funds out of amounts in the Operating Account, on the fifteenth day (or if such day is not a Business Day, the immediately following Business Day) of the months of March, June, September and December, commencing on the date set forth in the Corporation Order, an amount equal to the Auction Agent Fee as calculated in the Auction Agreement. The Corporation shall pay to the Auction Agent, in immediately available funds out of amounts available therefor in the Operating Account, an amount equal to the Broker-Dealer Fee as calculated in the Broker-Dealer Agreement at the times and in the manner set forth in the Broker-Dealer Agreement.

**Computation of Interest.** The amount of interest distributable to Owners of Senior Series 2007YY Bonds in respect of each \$25,000 in principal amount thereof for any Auction Period or part thereof shall be calculated by applying the Auction Period Rate for such Auction Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Auction Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on the Senior Series 2007YY Bonds shall be computed by the Trustee on the basis of the number of days actually elapsed over the actual number of days in the year; provided, however, if the Senior Series 2007YY Bonds are in an Auction Period which is greater than 180 days, interest shall be computed on the basis of a 360 day year of twelve 30-day months. The Trustee shall make such calculation not later than the close of business on each Auction Date.

***Notification of Rates, Amounts and Payment Dates.***

(a) The Trustee shall determine the aggregate amount of interest distributable on the next succeeding Interest Payment Date to the Owners of the Senior Series 2007YY Bonds. So long as the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Securities Depository, the Trustee shall advise the Securities Depository of each Record Date for the Senior Series 2007YY Bonds.

(b) Promptly after the date of issuance of the Senior Series 2007YY Bonds and in any event prior to each Interest Payment Date thereafter, the Trustee shall:

(i) so long as no Payment Default has occurred and is continuing and the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Securities Depository, confirm the Auction Agent's determination of (A) the date of such next Interest Payment Date and (B) the amount payable to the Auction Agent on each Interest Payment Date as described under "*Payment of Service Charges*" above and notify the Auction Agent of any discrepancy therein; and

(ii) advise the Securities Depository, so long as the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Securities Depository, of the Auction Period Rate and the interest amount in respect of the next succeeding Auction Period and the amount of Carry-over Amount and interest thereon, if any, distributable in respect of each \$25,000 in principal amount (taken without rounding, to .001 of one cent) of Senior Series 2007YY Bonds for such Auction Period.

In the event that any day that is scheduled to be an Interest Payment Date shall be changed after the Trustee shall have given the notice referred to in clause (i) of the preceding sentence, not later than 9:15 a.m., on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, the Trustee shall, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Depository.

***Auction Agent.***

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the Corporation, to perform the functions specified herein. The Auction Agent shall signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Corporation, the Trustee and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Corporation and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Senior Series 2007YY Bonds with the same rights as if such entity were not the Auction Agent.

(c) The Auction Agent shall be (i) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$50,000,000, or (ii) a member of NASD having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Resolution and is a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Authorizing Document by giving at least ninety (90) days written notice to the Corporation and the Trustee. 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 (A) the Corporation or (B) the Owners of 66-2/3% of the aggregate principal amount of the Senior Series 2007YY Bonds, by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Broker-Dealer upon at least 90 days' notice. 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. Upon any such resignation or removal, the Trustee at the direction of the Corporation, shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Senior Series 2007YY Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee; provided, however, that if a successor Auction Agent has not been appointed within 45 days of the giving of such notice of resignation or removal of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a substitute Auction Agent. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Corporation and the Trustee even if a successor Auction Agent has not been appointed.

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

(e) The Auction Agent shall be acting as agent for the Trustee and the Corporation in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction 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 to make such judgment.

(f) Notwithstanding that the Auction Agent is the agent of the Trustee hereunder and under the Auction Agreement, the Trustee shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agreement or otherwise.

***Broker-Dealers.***

(a) The Auction Agent shall enter into a Broker-Dealer Agreement with Citigroup Global Markets Inc., as the initial Broker-Dealer. The Corporation may from time to time appoint one or more additional persons to serve as Broker-Dealers under Broker-Dealer Agreements.

(b) Any Broker-Dealer may be removed at any time at the request of an Authorized Officer of the Corporation, but only if there shall be at least one Broker-Dealer appointed and acting as such.

**Redemption of Senior Series 2007YY Bonds.** The Senior Series 2007YY Bonds shall be subject to redemption prior to maturity as provided in the Authorizing Document.

In addition to the requirements of the Authorizing Document, if any Senior Series 2007YY Bonds are to be redeemed in part and such Senior Series 2007YY Bonds are held by a Securities Depository, the Trustee shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled "Publication Date for Securities Depository Purposes" and such date shall be three Business Days after the Auction Date immediately preceding such redemption date (in the case of a daily Auction Period, such date shall be three Business Days immediately preceding the date of redemption) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such Auction Rate Bonds to be redeemed from each such position (the "Securities Depository Redemption Information"), and (y) the Auction Agent shall notify the Trustee immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such Auction Rate Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information.

**Credit Ratings.** The Corporation shall take all reasonable action necessary to enable at least one nationally recognized statistical rating organization (as that term is used in the rules and regulations of the SEC under the Securities Exchange Act) to provide credit ratings for the Senior Series 2007YY Bonds.

**Notices.** The Corporation shall use its best efforts to provide the Trustee and, so long as no Payment Default has occurred and is continuing and the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Securities Depository, the Auction Agent with notice of any change in the manner in which the maximum interest rate permitted by Vermont law is determined.

**Notice of Payment Default.**

(a) If the Corporation determines that a Payment Default has occurred the Corporation shall promptly notify Trustee thereof.

(b) So long as the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Securities Depository, upon the occurrence of a Payment Default the Trustee shall immediately send a notice thereof to the Auction Agent and Broker-Dealer by Electronic Means.

(c) So long as the ownership of the Senior Series 2007YY Bonds is maintained in book-entry form by the Securities Depository, the Trustee shall immediately send notice to the Auction Agent by Electronic Means if a Payment Default is cured.

**Notice of Amendments.** All notices regarding amendments to the Authorizing Document shall be delivered to the Auction Agent and the Broker-Dealer at the time and in the same manner as such notices are delivered to the registered owners of the Senior Series 2007YY Bonds. No amendment shall become effective with respect to the Auction Agent or the Broker-Dealer without the consent of such party if it adversely affects the rights, duties, privileges, immunities and liabilities of such party.

**Conversion to Tax-Exempt Auction Rate**

**Conversion at Option of Corporation.** Subject to the prior written consent of the Bond Insurer, the Senior Series 2007YY Bonds 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 Appendices B-1 and B-2 shall apply, and Appendices C-1 and C-2 shall no longer apply to the Senior Series 2007YY Bonds so converted. Any such conversion shall be made as follows:

(a) The Corporation shall confirm the appointment of Citigroup Global Markets Inc. as Broker-Dealer, or shall otherwise select and appoint a qualified Broker-Dealer.

(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 Bond Insurer, Fitch (if the Senior Series 2007YY Bonds are then rated by Fitch), S&P (if the Senior Series 2007YY Bonds are then rated by S&P) and Moody's (if the Senior Series 2007YY Bonds are then rated by Moody's) 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 Auction 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 the Senior Series 2007YY Bonds. Such notice shall inform the Owners of:

(i) the proposed Tax-Exempt Conversion Date;

(ii) the conditions to the conversion set forth herein; and

(iii) the matters required to be stated as described under "Mandatory Tender Upon Conversion; Certain Notices" of this Appendix C-2 with respect to mandatory tender and purchases of Senior Series 2007YY Bonds being converted.

(d) (i) Not later than one Business Day immediately preceding the Tax-Exempt Conversion Date, the Broker-Dealer shall determine the interest rate that will apply for the initial Auction Period for the converted Senior Series 2007YY Bonds and the Broker-Dealer shall, not later than 2:00 p.m. (New York City time), notify the Trustee and the Corporation of such rate by Electronic Means. The interest rate for such initial Auction Period shall be the minimum rate of interest necessary to remarket the Senior Series 2007YY Bonds at a price of par for such Auction Period and shall not exceed the then applicable Maximum Interest Rate set forth in Appendix B-1. Promptly after the date of determination, the Trustee shall give notice of said rate to the Corporation and the Auction Agent.

(ii) As of the Tax-Exempt Conversion Date, sufficient funds shall, not later than 12:00 Noon (New York City time), be available to purchase all Senior Series 2007YY Bonds. 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 Senior Series 2007YY Bonds shall continue to bear interest as provided in Appendix C-1 and C-2, 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 Trustee and the Owners of such Senior Series 2007YY Bonds. The Senior Series 2007YY Bonds shall, notwithstanding (d)(i) above, bear interest for the Auction Period commencing on the failed Tax-Exempt Conversion Date at the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) The determination of the interest rates for the Senior Series 2007YY Bonds upon a conversion as described under this "Conversion at Option of Corporation" of this Appendix C-2 shall be conclusive and binding upon the Corporation, the Trustee and the respective Owners of such Senior Series 2007YY Bonds. The Corporation, the Trustee and the Auction 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.

***Mandatory Tender Upon Conversion; Certain Notices.***

(a) If the Senior Series 2007YY Bonds are to be converted as described under "Conversion at Option of Corporation" above, all Senior Series 2007YY Bonds 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 Broker-Dealer shall obtain new CUSIP numbers for the Senior Series 2007YY Bonds being converted. Upon delivery of all the tendered Senior Series 2007YY Bonds to the Trustee on the Tax-Exempt Conversion Date, the Corporation shall cause a new Bond designated "Education Loan Revenue Bond, Senior Series 2007YY (Auction Rate Securities)" to be executed, authenticated and delivered in lieu of the converted Senior Series 2007YY Bonds, and shall insert the new CUSIP numbers therein, and the Broker-Dealer shall determine the interest rate for the initial Auction Period on such converted Senior Series 2007YY Bonds as described in clause (d)(i) under "Conversion at Option of Corporation" above.

(b) Any notice of conversion given to Owners as described under "Conversion at Option of Corporation" above shall, in addition to the requirements set forth therein, specify that all Outstanding Senior Series 2007YY Bonds are subject to mandatory tender pursuant to the provisions of the Authorizing Document 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 in clause (d)(ii) under "Conversion at Option of Corporation" above.

(c) Upon receipt of notice of a proposed Tax-Exempt Conversion Date from the Corporation, the Broker-Dealer shall use its best efforts to find purchasers for and arrange for the sale of all such Senior Series 2007YY Bonds required to be tendered for purchase as described in (a) above. The terms of any sale arranged by the Broker-Dealer shall provide for the payment of the purchase price of the Senior Series 2007YY Bonds required to be tendered 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) Subject to the provisions described in (c) above, the following notices shall be given in connection with a conversion to a Tax-Exempt Auction Rate:

(i) At or before 12:00 noon (New York City time) on the Business Day immediately preceding the Tax-Exempt Conversion Date, the Broker-Dealer shall give notice by Electronic Means to the Trustee, of the principal amounts and denominations of Senior Series 2007YY Bonds to be sold on the Tax-Exempt Conversion Date, the purchase price at which such Senior Series 2007YY Bonds are to be sold and their date of sale and the principal amount of such Senior Series 2007YY 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, teletype, telex or other similar communication to the Paying Agent and the Registrar.

(ii) 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 Broker-Dealer which, together with any other available funds, would be sufficient to purchase all Senior Series 2007YY Bonds which are required to be purchased pursuant to clause (f) above, 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 clauses (d)(ii) and (f) under "Conversion at Option of Corporation" above and "Inadequate Funds for Tenders; Failed Conversion" below.

(e) The Broker-Dealer 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 Broker-Dealer representing proceeds of the remarketing of the Senior Series 2007YY Bonds being converted, such payment to be made in the manner specified in clause (c) above. All such remarketing proceeds received by the Trustee shall be deposited in the Remarketing Fund.

(f) On the Tax-Exempt Conversion Date, the Trustee shall pay the purchase price of the Senior Series 2007YY Bonds required to be tendered for purchase, surrendered as provided in clause (h) below properly endorsed for transfer in blank with all signatures guaranteed, 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 Senior Series 2007YY Bonds, pursuant to clause (c) above, to any Person other than the Corporation, and neither the Corporation, the Trustee nor the Paying Agent shall have any obligation to use funds from any other source.

(g) Upon receipt of notice from the Trustee pursuant to clause (d)(i) above, the Registrar shall register and authenticate and as promptly thereafter as practicable the Registrar shall deliver Senior Series 2007YY Bonds remarketed by the Broker-Dealer to the Broker-Dealer or the purchasers thereof in accordance with the instructions of the Broker-Dealer.

(h) All Senior Series 2007YY Bonds required 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 Senior Series 2007YY Bonds that is subject to purchase fails to deliver such Senior Series 2007YY 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 Senior Series 2007YY Bonds shall nevertheless be deemed tendered and purchased on the Tax-Exempt Conversion Date and shall be Undelivered Bonds pursuant to "Undelivered Bonds" below and registration of the ownership of such Senior Series 2007YY Bonds shall be transferred to the purchaser thereof as provided in (g) above and in "Undelivered Bonds" below. The Trustee shall, as to any Undelivered Bonds, (i) promptly notify the Broker-Dealer, 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 Senior Series 2007YY 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 Senior Series 2007YY Bonds registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Senior Series 2007YY Bonds) until the appropriate tendered 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 Senior Series 2007YY 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 Senior Series 2007YY Bonds required to be tendered are inadequate for the purchase of all Senior Series 2007YY Bonds tendered on the Tax-Exempt Conversion Date or if a proposed conversion otherwise fails as provided under "Conversion at Option of Corporation" above, the Trustee shall: (a) return all tendered Senior Series 2007YY Bonds to the Owners thereof; (b) return all moneys received for the purchase of such Senior Series 2007YY Bonds to the persons providing such moneys; and (c) notify the Corporation, the Auction Agent, the Broker-Dealer, the Bond Insurer and the Paying Agent of the return of such Senior Series 2007YY Bonds and moneys and the failure to make payment for tendered Senior Series 2007YY Bonds. After any such failed conversion the Senior Series 2007YY Bonds subject to the failed conversion shall continue to bear interest pursuant to Appendix C-1 and C-2 hereof and shall bear interest for the Auction Period commencing on the failed Tax-Exempt Conversion Date at the Maximum Rate and such Auction Period shall be a seven-day Auction Period.

***No Tender Purchases on Redemption Date.*** Senior Series 2007YY Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

***Undelivered Bonds.*** Any Senior Series 2007YY 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 Senior Series 2007YY 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 Senior Series 2007YY 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 Senior Series 2007YY 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 Senior Series 2007YY 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 Senior Series 2007YY Bond or Senior Series 2007YY Bonds, as appropriate, to the purchaser or purchasers thereof;
- (c) execute an acknowledgement 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 acknowledgement;
- (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 in this Section;
  - (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. Senior Series 2007YY 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 Senior Series 2007YY Bonds purchased or deemed purchased pursuant to the Authorizing Document 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.



## APPENDIX D

### AMBAC ASSURANCE CORPORATION

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$10,194,000,000** (unaudited) and statutory capital of approximately **\$6,557,000,000** (unaudited) as of **March 31, 2007**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. 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 the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the 2007 Bonds or the advisability of investing in the 2007 Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "INSURANCE ON THE 2007 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 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

#### Incorporation of Certain Documents by Reference

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007; and
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007.

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 E

### 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 Family Education Loans” or “FFELP Loans” and, the program with respect thereto, the “Federal Family Education Loan Program” or “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 FFELP 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 FFELP 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, proposed amendments to the Higher Education Act are common and numerous such bills and proposals have recently been introduced and/or passed by Congress. See the caption “CERTAIN RISK FACTORS--Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program—*Recent and Future Changes in Relevant Law; Changes to Federal Family Education Loan Program.*”

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. As a part of the federal budgetary appropriation process, Congress has passed, and the President has signed into law, the Deficit Reduction Act of 2005, which extends the Secretary’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act through September 30, 2012, and amends numerous provisions of the Higher Education Act (some of which are summarized below).

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 graduate students, professional students or 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; (iv) is not in default on any federal education loans; (v) meets the applicable “need” requirements; and (vi) has not committed a crime involving fraud or obtaining funds under the Higher Education Act which funds have not been fully repaid. 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 graduate students, professional students, or parents of eligible dependent students. Only graduate students, professional students and 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 the underlying loans being consolidated. 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 selected by the borrower, as well as loans made pursuant to the Perkins Loan Program, the Health Professional Student Loan Programs and the William D. Ford Federal Direct Loan Program (the "Direct Loan Program"). Consolidation Loans made pursuant to the Direct Loan Program must conform to the eligibility requirements for Consolidation Loans under the FFEL Program. The borrowers may be either in repayment status or in a grace period preceding repayment but the borrower may not still be in school. 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. A Consolidation Loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

The Higher Education Act authorizes the Secretary to offer the borrower a Direct Consolidation Loan with repayment provisions authorized under the Higher Education Act and terms consistent with a Consolidation Loan made pursuant to the FFEL Program. In addition, the Secretary may offer the borrower of a Consolidation Loan a Direct Consolidation Loan, for the purposes of providing an income contingent repayment if the borrower's delinquent loan has been submitted to the guarantor for default aversion.

## **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 of Education, make loans to students or parents without application to or funding from outside lenders or guarantors. The Department of Education provides the funds for such loans, and the program provides for a variety of flexible repayments 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. Direct Loan repayment plans, other than income contingent plans, must be consistent with requirements under the Higher Education Act for FFELP repayment plans.

The first loans under the FDSL Program were made available for the 1994-1995 academic year, and the Higher Education Act provided for phase in goals through the 1998-1999 academic year, for which direct loans were to have represented 60% of new student loan volume under the Higher Education Act (excluding Consolidation Loans). No provision was made for the size of the FDSL Program after the 1998-1999 academic year and the current size of the FDSL Program is well below the 60% goal described above.

## **Interest Rates**

Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 but before July 1, 2006 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.7%, with a maximum rate of 8.25%. Subsidized Stafford Loans and Unsubsidized Stafford Loans made on or after October 1, 1998 but before July 1, 2006 in all other payment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.3%, with a maximum rate of 8.25%. The rate is adjusted annually on July 1. PLUS Loans made on or after October 1, 1998 but before July 1, 2006 bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.1%, and also adjust annually on July 1. Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, will bear interest at a rate equal to 6.8% per annum and PLUS Loans made on or after July 1, 2006, will bear interest at a rate equal to 8.5% per annum. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a fixed rate equal to the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest one-eighth of 1%, with a maximum rate of 8.25%.

## **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, made prior to July 1, 2007, 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 per year for the remainder of undergraduate study. The maximum amount of a Stafford Loan, made on or after July 1, 2007, for an academic year cannot exceed \$3,500 for the first year of undergraduate study and \$4,500 for the second year 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 (up to \$5,000 for the third year and beyond), with an aggregate maximum of \$46,000. The maximum amount of the loans for an academic year for graduate students is \$8,500. Independent graduate students may borrow an additional Unsubsidized Stafford Loan up to \$12,000 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 (i) parents may borrow on behalf of each dependent student or (ii) graduate or professional students may borrow 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 date a borrower ceases to pursue at least a half-time course of study (the six month period is the "Grace Period"). 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. 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 five 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 FFELP Loans 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, except for Subsidized Stafford Loans, interest accrues and must be paid. Generally, Deferment Periods include periods (i) 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,; (ii) not in excess of three years while the borrower is seeking and unable to find full-time employment; (iii) not in excess of three years while the borrower is serving on active duty

during a war or other military operation or national emergency, is performing qualifying National Guard duty during a war or other military operation or national emergency, in active military duty, or is in reserve status and called to active duty; and (iv) 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 (i) participating in a medical or dental residency and is not eligible for deferment; (ii) serving in a qualified medical or dental internship program or certain national service programs; or (iii) 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 and, since July of 2003, for PLUS 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.

### **Interest Subsidy Payments**

The Secretary is to pay interest on Subsidized Stafford Loans while the borrower 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 Direct Loan 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%. Amounts derived from recoveries of principal on loans made prior to October 1, 1993 may only be used to originate or acquire additional loans by a unit of a state or local government, or non-profit entity not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate or trustee, which entity has a total unpaid balance of principal equal to or less than \$100,000,000 on loans for which special allowances were paid in the most recent quarterly payment prior to September 30, 2005. Such entities may originate or acquire additional loans with amounts derived from recoveries of principal until December 31, 2010. 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.

<u>Date of Loans</u>	<u>Annualized SAP Rate</u>
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% <sup>(1)</sup>
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8% <sup>(2)</sup>
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34% <sup>(3)</sup>

<sup>(1)</sup> Substitute 2.5% in this formula while such loans are in the in-school or grace period.

<sup>(2)</sup> Substitute 2.2% in this formula while such loans are in the in-school or grace period.

<sup>(3)</sup> 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:

<u>Date of Loans</u>	<u>Annualized SAP Rate</u>
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 FFELP 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.

The Higher Education Act provides that for FFELP Loans first disbursed on or after April 1, 2006, lenders must remit to the Secretary any interest paid by a borrower which is in excess of the special allowance payment rate set forth above for such loans.

## **Loan Fees**

**Insurance Premium.** For loans guaranteed before July 1, 2006, 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. For loans guaranteed on or after July 1, 2006, a federal default fee equal to 1% of principal must be paid into the Guaranty Agency’s Federal Student Loan Reserve Fund.

**Origination Fee.** Lenders are authorized to charge borrowers of Subsidized Stafford Loans and Unsubsidized Stafford Loans an origination fee in an amount not to exceed: 3.0% of the principal amount of the loan for loans disbursed prior to July 1, 2006; 2.0% of the principal amount of the loan for loans disbursed on or after July 1, 2006 and before July 1, 2007; 1.5% for loans disbursed on or after July 1, 2007 and before July 1, 2008; 1.0% for loans disbursed on or after July 1, 2008 and before July 1, 2009, 0.5% for loans disbursed on or after July 1, 2009 and before July 1, 2010; and 0% for loans disbursed on or after July 1, 2010. Lenders are authorized to charge borrowers of Direct Loans 3.0% for loans disbursed on or after July 1, 2006 and before July 1, 2007, 2.5% for loans disbursed on or after July 1, 2007 and before July 1, 2008, 2.0% for loans disbursed on or after July 1, 2008 and before July 1, 2009, 1.5% for loans disbursed on or after July 1, 2009 and before July 1, 2010 and 1.0% for



loans disbursed on or after July 1, 2010. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. These fees must be passed on to the Secretary.

**Lender Loan Fee.** The lender of any FFEL Loan 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 of plus accrued interest on the loan.

## INSURANCE AND GUARANTEES

### Default

A Federal Family Education Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other 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% for loans first disbursed prior to July 1, 2006 and 97% for loans first disbursed on or after July 1, 2006) 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; provided, however, if the servicer which services such loan has been designated as an "Exceptional Performer" by the Secretary, the eligible lender is reimbursed by the guarantor for 99% of the unpaid principal balance of the defaulted loan plus accrued unpaid interest. 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, educational 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. See "Education Loans Generally Not Subject to Discharge in Bankruptcy" herein.

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 <sup>(1)</sup>	GUARANTOR REINSURANCE RATE FOR LOANS MADE ON OR AFTER OCTOBER 1, 1998 <sup>(1)</sup>
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

<sup>(1)</sup> 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). The Higher Education Act provides that on or after October 1, 2006 a guarantor may not charge a borrower collection costs in an amount in excess of 18.5% of the outstanding principal and interest of a defaulted loan that is paid off through consolidation by the borrower, provided that the guarantor must remit to the Secretary a portion of the collection charge equal to 8.5% of the outstanding principal and interest of the defaulted loan. In addition, on or after October 1, 2009 a guarantor must remit to the Secretary any collection fees on defaulted loans paid off through consolidation by the borrower in excess of 45% of the guarantors total collections on default loans in any one federal fiscal year.

***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 but prior to July 1, 2006 or 97% for loans in default made on or after July 1, 2006 (100% for loans made on or after October 1, 1993 and prior to July 1, 2006, and 99% for loans made on or after July 1, 2006, so long as the servicer retains the "Exceptional Performer" designation). 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 0.40% 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. For Subsidized and Unsubsidized Stafford Loans disbursed after July 1, 2006, guarantors must collect and deposit a federal default fee to the Federal Fund equal to 1% of the principal of the loan.

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; provided, however, the Secretary is not authorized to waive any deposit of default aversion fees by guarantors. 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.

### **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 education 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.

## **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, 2004, the date the HEAL consolidation loan program ended.

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 additionally 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**

During the HEAL consolidation loan program, which ended on September 30, 2004, HEAL Loans could be consolidated by the lender only if the borrower agreed. A lender could (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 did not result in terms less favorable to the borrower than if no consolidation had occurred.

During the program, a lender could reissue any HEAL Loan selected by the borrower for incorporation in a consolidation loan, if (i) the lender determined that (a) the HEAL Loan to be consolidated was 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 was in full force and effect; and (ii) the loan being reissued was not in default at the time the request for consolidation was made.

The Secretary of HHS insured the HEAL Loan components of consolidation loans under a certificate of comprehensive insurance with no insurance limit. The reissued loan was made in an amount which included 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 2007 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 2007 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 2007 Bonds.



**APPENDIX F**

**PROPOSED FORM OF BOND COUNSEL OPINION**

**[Date of Issuance]**

**\$138,900,000**

**Vermont Student Assistance Corporation**

**Education Loan Revenue Bonds**

**Senior Series 2007WW**

**Senior Series 2007XX**

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 \$138,900,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2007WW and Senior Series 2007XX (collectively, the "2007 Bonds").

The 2007 Bonds have been authorized and issued pursuant to Title 16, Chapter 87 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 2007 Thirteenth Series Resolution of the Corporation adopted by the Corporation's Board of Directors on June 8, 2007 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2007 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 2007 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 2007 Bonds are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and mandatory tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2007 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 2007 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 2007 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 2007 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 2007 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 paragraph 2 above, and entitled to the protections, benefits and security of the Resolution. The 2007

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 2007 Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the 2007 Bonds is excluded from gross income of the recipients thereof 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 2007 Bonds. Failure to comply with such requirements could cause interest on the 2007 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2007 Bonds. The Corporation has covenanted to comply with such requirements. We are further of the opinion that interest on the 2007 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 2007 Bonds.

The accrual or receipt of interest on the 2007 Bonds may otherwise affect the federal income tax liability of the owners of the 2007 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

5. Under existing laws of the State of Vermont, the 2007 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 2007 Bonds and the Resolution and the rights of the registered owners of the 2007 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,

[Date of Issuance]

**\$91,100,000**  
**Vermont Student Assistance Corporation**  
**Education Loan Revenue Bonds**  
**Senior Series 2007YY**

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 \$91,100,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2007YY (the “Senior Series 2007YY Bonds”).

The Senior Series 2007YY Bonds have been authorized and issued pursuant to Title 16, Chapter 87 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 2007 Thirteenth Series Resolution of the Corporation adopted by the Corporation’s Board of Directors on June 8, 2007 (collectively, together with all other supplements and amendments, the “Resolution”). The Resolution provides that the Senior Series 2007YY 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 Senior Series 2007YY 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 Senior Series 2007YY Bonds are dated, mature on the date and in the principal amount, bear interest at the rates, are payable and are subject to redemption and mandatory tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the Senior Series 2007YY 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 Senior Series 2007YY 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 Senior Series 2007YY Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the Senior Series 2007YY 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 Senior Series 2007YY 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 paragraph 2 above, and entitled to the protections, benefits and security of the Resolution. The Senior Series 2007YY 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 Senior Series 2007YY Bonds.

4. Interest on the Senior Series 2007YY Bonds is not excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended.

5. Under existing laws of the State of Vermont, the Senior Series 2007YY 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 Senior Series 2007YY Bonds and the Resolution and the rights of the registered owners of the Senior Series 2007YY 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 G**

**SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## Financial Guaranty Insurance Policy

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.

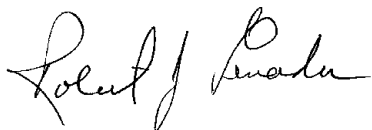
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form 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.

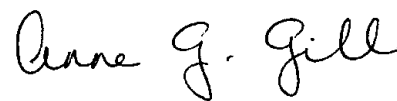
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used 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



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

[THIS PAGE INTENTIONALLY LEFT BLANK]



**APPENDIX H**  
**FINANCIAL STATEMENTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**Vermont Student Assistance Corporation**  
(A Component Unit of the State of Vermont)

Basic Financial Statements and  
Management's Discussion and Analysis

*Years Ended June 30, 2006 and 2005*

**VERMONT STUDENT ASSISTANCE CORPORATION**

(A Component Unit of the State of Vermont)

**BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

Years Ended June 30, 2006 and 2005

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2 – 11
Basic Financial Statements:	
Statements of Net Assets	12 – 13
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15 – 16
Statements of Fiduciary Net Assets – Agency Funds	17
Notes to Financial Statements	18 – 37

**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, 2006 and 2005, 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, 2006 and 2005, 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 15, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control on financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the 2006 and 2005 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.

Portland, Maine  
September 15, 2006

  
Limited Liability Company

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended June 30, 2006 and 2005

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, 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 110 scholarship funds, including both scholarship funds held and managed by VSAC, and outside scholarships.

VSAC's education loan programs are financed through issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education through the Federal Family Education Loan Program (FFELP). 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, and general corporate support.

Management's Discussion and Analysis Report includes Fiscal 2006 and Fiscal 2005 information due to the fact that the Financial Statements include Fiscal 2006 and Fiscal 2005 information.

## **FISCAL 2006**

### Fiscal 2006 Highlights and Overall Financial Position

During the year ended June 30, 2006, VSAC provided over \$22.8 million in grants and scholarships to Vermont students.

VSAC originated over \$742.5 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds \$1.63 billion in education loans receivable at June 30, 2006.

VSAC returned over \$6.5 million in interest and principal rebates to students in its loan programs during fiscal 2006, and paid over \$600 thousand in fees on behalf of our borrowers.

VSAC's total net assets increased \$15 million to \$122.8 million.

### The Financial Statements

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

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

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

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

The 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

### Statements of Net Assets

	<u>2006</u>	<u>2005</u>
	<i>(in thousands)</i>	
<b>Assets</b>		
Cash and investments	\$ 152,208	\$ 399,072
Education loans receivable (plus interest)	1,670,870	1,473,076
Other assets	<u>35,857</u>	<u>27,873</u>
Total assets	<u>\$1,858,935</u>	<u>\$1,900,021</u>
<b>Liabilities</b>		
Bonds payable (plus interest)	\$1,705,825	\$1,762,638
Arbitrage earnings rebatable	23,525	20,083
Other liabilities	<u>6,737</u>	<u>9,456</u>
Total liabilities	1,736,087	1,792,177
<b>Net Assets</b>		
Restricted	69,951	54,736
Unrestricted	50,786	50,731
Net investment in property and equipment	<u>2,111</u>	<u>2,377</u>
Total net assets	<u>122,848</u>	<u>107,844</u>
Total liabilities and net assets	<u>\$1,858,935</u>	<u>\$1,900,021</u>

## Statements of Revenues and Expenses

	<u>2006</u>	<u>2005</u>
	<i>(in thousands)</i>	
<b>Revenues</b>		
Interest earned from education loan financing	\$127,519	\$102,018
Other loan and guarantee program revenues	5,155	4,422
Investment interest	9,414	4,472
Vermont state appropriations	18,746	17,143
Federal grants	3,841	3,425
Scholarship and gift revenue	4,126	3,986
Other revenue	<u>1,087</u>	<u>791</u>
Total operating revenues	169,888	136,257
<b>Expenses</b>		
Student aid	23,429	20,828
Interest rebated to borrowers	6,561	7,567
Interest on debt	56,371	32,317
Other loan financing costs	35,538	39,066
Corporate operating expenses and depreciation	<u>32,985</u>	<u>30,305</u>
Total expenses	<u>154,884</u>	<u>130,083</u>
Excess of revenues over expenses	15,004	6,174
Total net assets at the beginning of the year	<u>107,844</u>	<u>101,670</u>
Total net assets at the end of the year	<u>\$122,848</u>	<u>\$107,844</u>

### Net Assets

Cash and investment balances decreased from June 30, 2005 to 2006 from \$399.0 to \$152.2 million. Bonds for fiscal 2007 loan originations were not issued until July 2006. The bonds for fiscal 2006 originations had been issued in June 2005.

Student loans and interest receivable totaled \$1.6 billion at June 30, 2006, up from \$1.4 billion in 2005.

U.S. Treasury arbitrage payable is described in the expense discussion. This liability increased as of June 30, 2006, to \$23.5 million, or approximately 0.3% of total assets.

Unrestricted net assets increased from \$50.7 million in 2005 to \$50.8 million in 2006. The unrestricted funds are used to finance student loans and for corporate working capital. Unrestricted net assets invested in student loans totaled \$42.1 million at June 30, 2006.

Property, plant and equipment increased to \$23.4 million as of June 30, 2006, with the completion of VSAC's new headquarters in Winooski. The net investment in plant, taking into account bonds payable for the construction of the building, was \$2.1 million at June 30, 2006, a reduction of \$266 thousand dollars from June 30, 2005.



Restricted net assets increased from \$54.7 million to \$70.0 million at June 30, 2006. \$66.6 million were restricted by bond resolutions, an increase in equity within the bond estates of \$13.9 million. The remaining \$3.4 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

### Revenues

VSAC's fiscal 2006 operations resulted in an increase in net assets of \$15.0 million. All revenues for 2006 are considered operating revenues. VSAC realized \$169.9 million in revenues versus \$154.9 million in total expenses. 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. During 2006, interest revenue and subsidies increased from \$102.0 to \$127.5 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented \$11.8 million in 2006. VSAC also receives special allowance payments under certain interest rate conditions. Increasing interest rates, and loan portfolio growth during 2006, resulted in an increase in special allowance payments from \$40.9 million in 2005 to \$45.4 million in 2006.

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Our outstanding bond rates are reset on 7, 28 and 35 day intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates. Thus, the net spread on loans carries minimal interest rate risk.

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 \$5.2 million in 2006 and \$4.4 million 2005.

Rising interest rates resulted in increasing 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 increased from \$4.5 million to \$9.4 million, as interest rates increased and our total invested funds increased. The increase in invested funds is related to the timing of student loan bond issues.

VSAC's regular appropriation increased from \$17.1 million to \$17.7 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. In fiscal 2006, VSAC received an additional \$1.0 million supplemental appropriation to invest in programs and other initiatives that encourage Vermont K-12 students to pursue educational opportunities beyond high school. The funds will be expended in future years, and are considered restricted net assets at June 30, 2006.

Federal grants increased from \$3.4 million to \$3.8 million in fiscal 2006.

Scholarship revenues, principally restricted gifts and grants, increased from \$4.0 million in 2005 to \$4.1 million in 2006.

### Expenses

VSAC has four main types of expenses: 1. Student aid, 2. Interest and other costs of debt, 3. Non-interest costs of financing loans, and 4. Costs of operations.

Student Aid – VSAC provided Vermont students with \$23.4 million in student aid during fiscal 2006. \$17.7 million in grant aid was provided from State appropriations. An additional \$4.1 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 14.7% of VSAC’s operating expenses. Beginning in fiscal 2006, VSAC paid origination and guarantee fees on behalf of Stafford loan borrowers to the Department of Education. In 2006, the total fees paid were \$600 thousand.

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 \$6.6 million in rebates of interest to borrowers in fiscal 2006. VSAC has not been able to provide the level of borrower benefits on consolidation loans that it has on other underlying FFELP loans, since VSAC is required to pay a 1.05% annual fee to the Department of Education on consolidated loans. The decrease in interest rebated to borrowers from 2005 to 2006 is primarily the result of the continuing shift from Stafford and PLUS loans to consolidation loans in our portfolio. These rebates represent 4.2% of VSAC’s fiscal 2006 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 \$742.5 million of loans VSAC made available to students and parents in fiscal 2006.

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 all bonds issued to finance loans 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 loans, so revenues and expenses related to the bonds are highly correlated.

With the increase in interest rates from fiscal 2005 to 2006, VSAC interest costs rose from \$32.3 to \$56.4 million. This represented 36.4% of VSAC operating expenses in fiscal 2006.

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, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC’s provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing over \$1.7 billion in outstanding bonds and notes. These costs totaled \$36.2 million in fiscal 2006, representing approximately 22.9% 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 fiscal 2006, VSAC’s provision for losses on student loans was \$10.7 million compared to \$11.6 million in fiscal 2005. In fiscal 2005, VSAC commissioned a study to gather historical default information from other lenders or servicers of non-guaranteed loans, and utilized both VSAC and industry experience to more accurately estimate expected default performance over the entire economic life of loans in our portfolio.

Costs of Operations – The costs of operating VSAC’s programs, as well as facilities and overhead costs totaled \$33.0 million in fiscal 2006, an increase of approximately 6.7% from fiscal 2005. Salaries and benefits were \$23.6 million in fiscal 2006, approximately 73% of costs of operations. Overall costs of operations represent 20.9% of total operating expenses.

Total expenses for 2006 totaled \$154.9 million. Revenues totaled \$169.9 million. The excess of revenues over expenses was \$15.0 million. The change in total net assets for the year was an increase of \$15.0 million. The ending balance of net assets was \$122.8 million, as compared to \$107.8 million at June 30, 2005.

## **FISCAL 2005**

### Fiscal 2005 Highlights and Overall Financial Position

During the year ended June 30, 2005 VSAC provided over \$20.8 million in grants and scholarships to Vermont students.

VSAC originated over \$488.2 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds \$1.4 billion in education loans receivable at June 30, 2005.

VSAC returned over \$7.5 million in interest and principal rebates to students in its loan programs during fiscal 2005.

VSAC's total net assets increased \$6.2 million to \$107.8 million.

### The Financial Statements

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

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

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

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

The 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

### Statements of Net Assets

	<u>2005</u>	<u>2004</u>
	<i>(in thousands)</i>	
<b>Assets</b>		
Cash and investments	\$ 399,072	\$ 341,371
Education loans receivable (plus interest)	1,473,076	1,310,175
Other assets	<u>27,873</u>	<u>16,843</u>
Total assets	<u>\$1,900,021</u>	<u>\$1,668,389</u>
<b>Liabilities</b>		
Bonds and notes payable (plus interest)	\$1,762,638	\$1,551,701
U.S. Treasury arbitrage payable	20,083	8,604
Other liabilities	<u>9,456</u>	<u>6,414</u>
Total liabilities	1,792,177	1,566,719
<b>Net Assets</b>		
Restricted	54,736	48,829
Unrestricted	50,731	50,392
Net investment in property and equipment	<u>2,377</u>	<u>2,449</u>
Total net assets	<u>107,844</u>	<u>101,670</u>
Total liabilities and net assets	<u>\$1,900,021</u>	<u>\$1,668,389</u>

## Statements of Revenues and Expenses

	<u>2005</u>	<u>2004</u>
	<i>(in thousands)</i>	
<b>Revenues</b>		
Interest and fees earned from education loan financing	\$102,018	\$ 84,539
Other loan and guarantee program revenues	4,422	4,948
Investment interest	4,472	2,058
Vermont state appropriations	17,143	16,684
Federal grants	3,425	4,347
Scholarship and gift revenue	3,986	3,186
Other revenue	<u>791</u>	<u>552</u>
Total operating revenues	136,257	116,314
<b>Expenses</b>		
Student aid	20,828	21,609
Interest rebated to borrowers	7,567	13,309
Interest on debt	32,317	17,937
Other loan financing costs	39,066	13,095
Corporate operating expenses and depreciation	<u>30,305</u>	<u>28,383</u>
Total expenses	<u>130,083</u>	<u>94,333</u>
Excess of revenue over expenses	6,174	21,981
Total net assets at the beginning of the year	<u>101,670</u>	<u>79,689</u>
Total net assets at the end of the year	<u>\$107,844</u>	<u>\$101,670</u>

### Net Assets

Cash balances increased from June 30, 2004 to 2005 from \$341.4 to \$399.0 million as a result of fiscal 2005 bond proceeds not fully utilized for loan originations at June 30, 2005. Combined cash and investments were \$399.0 million at year end.

Student loans and interest receivable totaled \$1.4 billion at June 30, 2005, up from \$1.3 billion in 2004.

U.S. Treasury arbitrage payable is described in the expense discussion. This liability increased as of June 30, 2005, to \$20.1 million, or approximately 1.0% of total assets.

Unrestricted net assets increased from \$50.4 million in 2004 to \$50.7 million in 2005 resulting from available equity from bonds either maturing or refunded. The unrestricted funds are used to finance student loans, funds used for corporate working capital and investments in property, plant and equipment. Unrestricted net assets invested in student loans totaled \$40.0 million at June 30, 2005.

Property, plant and equipment increased during the fiscal year, as new acquisitions of \$11.7 million exceeded depreciation expense of \$1.5 million. Construction costs of VSAC's new building accounted for \$10.3 million of the acquisitions.

## Revenues

VSAC's fiscal 2005 operations resulted in an increase in net assets of \$6.2 million. All revenues for 2005 are considered operating revenues. VSAC realized \$136.3 million in revenues versus \$130.1 million in total expenses. 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. During 2005, interest revenue and subsidies increased from \$84.5 to \$102.0 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented \$8.7 million in 2005. VSAC also receives special allowance payments under certain interest rate conditions. Increasing interest rates, and loan portfolio growth during 2005, resulted in an increase in special allowance payments from \$29.4 million in 2004 to \$40.9 million in 2005.

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 \$4.4 million in 2005 and \$4.9 million 2004.

Rising interest rates resulted in increasing 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 increased from \$2.1 million to \$4.5 million, as interest rates increased. These cash investments are related to timing of student loan bond issues.

VSAC's appropriation increased slightly from \$16.7 million to \$17.1 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 decreased from \$4.3 million to \$3.4 million in fiscal 2005. A one-time award of approximately \$1.0 million was received in fiscal 2004.

Scholarship revenues increased from \$3.2 million in 2004 to \$3.9 million for 2005.

## Expenses

VSAC has four main types of expenses: 1. Student aid, 2. Interest and other costs of debt, 3. Non-interest costs of financing loans, and 4. Costs of operations.

Student Aid – VSAC provided Vermont students with \$20.8 million in student aid during fiscal 2005, \$17.1 million was provided from State appropriations. An additional \$4.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 16.0% 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 \$7.6 million in rebates of interest to borrowers in fiscal 2005. VSAC has not been able to provide the level of borrower benefits on consolidation loans that it has on underlying FFELP loans, since VSAC is required to pay a 1.05% annual fee to the Department of Education on consolidated loans. The decrease in interest rebated to borrowers from 2004 to 2005 is primarily the result of the tremendous shift from Stafford and PLUS loans to consolidation loans in our portfolio. These rebates represent 5.8% of VSAC's fiscal 2005 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 \$488.2 million of loans VSAC made available to students and parents in fiscal 2005.

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 loans, so revenues and expenses related to the bonds are highly correlated.

With the increase in interest rates from fiscal 2004 to 2005, VSAC interest costs rose from \$17.9 to \$32.3 million. Overall indebtedness increased from \$1.5 to \$1.8 billion. This represented 24.8% of VSAC operating expenses in fiscal 2005.

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, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing over \$1.8 billion in outstanding bonds and notes. These costs totaled \$39.0 million in fiscal 2005, representing approximately 30.8% 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 fiscal 2005, VSAC's provision for losses on student loans increased \$10.3 million over the previous year due to a revised methodology to determine its allowance for loan loss. VSAC commissioned a study to gather historical default information from other lenders or servicers of non-guaranteed loans, and utilized both VSAC and industry experience to more accurately estimate expected default performance over the entire economic life of loans in our portfolio.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled \$30.3 million in fiscal 2005, an increase of approximately 6.8% from fiscal 2004. Salaries and benefits were \$21.5 million in fiscal 2005, approximately 71% of costs of operations. Overall costs of operations represent 23.3% of total operating expenses.

Total expenses for 2005 totaled \$130.1 million. Revenues totaled \$136.3. The excess of revenues over expenses was \$6.2 million. The change in total net assets for the year was an increase of \$6.2 million. The ending balance of net assets was \$107.8 million, as compared to \$101.6 million at June 30, 2004.

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

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents (notes 3, 8 and 9)	\$ 151,041	\$ 398,557
Investments (note 3)	1,167	515
Receivables:		
Student loans, net (notes 4, 5, 8 and 9)	117,298	108,329
Student loan interest and special allowance (note 10)	41,736	32,276
Investment interest	572	577
Federal administrative and program fees	109	253
Other	2,211	727
Other assets	<u>1,572</u>	<u>1,382</u>
Total current assets	315,706	542,616
Noncurrent assets:		
Receivables:		
Student loans, net (notes 4, 5, 8 and 9)	1,511,836	1,332,471
Capital assets, net (note 7)	23,402	16,598
Deferred bond issuance costs, net	<u>7,991</u>	<u>8,336</u>
Total noncurrent assets	1,543,229	1,357,405
Total assets	<u>\$1,858,935</u>	<u>\$1,900,021</u>



LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Current liabilities:		
Bonds payable (notes 8 and 9)	\$ 735	\$ 57,675
Accounts payable and other liabilities (note 14)	4,651	6,915
Deferred revenue	2,086	2,541
Accrued interest on bonds payable	3,120	2,459
U.S. Treasury rebates payable (note 9)	<u>233</u>	<u>253</u>
Total current liabilities	10,825	69,843
Noncurrent liabilities:		
Bonds payable (notes 8 and 9)	1,701,970	1,702,504
U.S. Treasury rebates payable (note 9)	<u>23,292</u>	<u>19,830</u>
Total noncurrent liabilities	<u>1,725,262</u>	<u>1,722,334</u>
Total liabilities	1,736,087	1,792,177
Commitments and contingencies (notes 14 and 15)		
Net assets:		
Invested in capital assets, net of related debt	2,111	2,377
Restricted (notes 11 and 12)	69,951	54,736
Unrestricted	<u>50,786</u>	<u>50,731</u>
Total net assets	<u>122,848</u>	<u>107,844</u>
Total liabilities and net assets	<u>\$1,858,935</u>	<u>\$1,900,021</u>

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Operating revenues:		
U.S. Department of Education (note 10):		
Interest benefits	\$ 11,764	\$ 8,667
Special allowance	45,427	40,931
Interest and fees on student loans	70,328	52,420
Vermont state appropriations	18,746	17,143
Interest on cash and investments	9,414	4,472
Guarantee agency administrative revenues	5,155	4,422
Federal grants	3,841	3,425
Scholarship and gift income	4,126	3,986
Other income	<u>1,087</u>	<u>791</u>
Total operating revenues	169,888	136,257
Operating expenses:		
Interest, net of amortization	56,371	32,317
Salaries and benefits (note 13)	23,578	21,516
Grants and scholarships	22,808	20,828
Interest rebated to borrowers	6,561	7,567
Other general and administrative	7,868	7,324
Interest subject to U.S. Treasury rebate (note 9)	4,791	11,529
Credit enhancement and remarketing fees	6,292	5,677
Consolidation and lender paid fees	13,534	9,578
Other loan related expenses	535	284
Provision for losses on student loans (note 4)	10,655	11,640
Depreciation and amortization (note 7)	1,539	1,467
Amortization of bond issuance costs	<u>352</u>	<u>356</u>
Total operating expenses	<u>154,884</u>	<u>130,083</u>
Excess of operating revenues over operating expenses	15,004	6,174
Net assets, beginning of year	<u>107,844</u>	<u>101,670</u>
Net assets, end of year	<u>\$122,848</u>	<u>\$107,844</u>

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	\$ 67,606	\$ 66,646
Principal payments received on student loans	551,007	316,109
Cash paid to suppliers for goods and services	(35,985)	(30,580)
Grants and scholarship disbursements	(23,210)	(21,432)
Loans made and purchased	(752,277)	(494,359)
Cash paid to employees for salaries and benefits	(23,567)	(21,504)
Interest and fees received on student loans	65,378	52,191
Vermont state appropriations received	<u>18,746</u>	<u>17,143</u>
Net cash used in operating activities	(132,302)	(115,786)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds/notes payable	–	270,385
Payments on bonds/notes payable	(56,950)	(60,800)
Interest paid to bond holders	<u>(54,733)</u>	<u>(30,124)</u>
Net cash (used) provided by noncapital financing activities	(111,683)	179,461
Cash flows from capital and related financing activities:		
Payments on bonds payable	(725)	–
Interest paid to bond holders	(776)	(841)
Acquisition and construction of fixed assets	<u>(10,821)</u>	<u>(9,294)</u>
Net cash used by capital and related financing activities	(12,322)	(10,135)
Cash flows from investing activities:		
Interest received on cash and investments	9,419	4,113
Purchase of investments	<u>(628)</u>	<u>(467)</u>
Net cash provided by investing activities	<u>8,791</u>	<u>3,646</u>
Net (decrease) increase in cash and cash equivalents	(247,516)	57,186
Cash and cash equivalents, beginning of year	<u>398,557</u>	<u>341,371</u>
Cash and cash equivalents, end of year	<u>\$ 151,041</u>	<u>\$ 398,557</u>

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

STATEMENTS OF CASH FLOWS  
(CONTINUED)

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities:		
Excess of operating revenues over operating expenses	\$ 15,004	\$ 6,174
Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities:		
Depreciation and amortization	1,539	1,467
Provision for losses on student loans	10,655	11,640
Amortization of alternative fees received	(889)	(466)
Amortization of bond issuance costs	352	356
Accretion of bond discount	201	200
Unrealized gain on investments	(24)	(48)
Losses on disposal of fixed assets	12	19
Investment interest received	(9,419)	(4,113)
Interest paid to bond holders	55,509	30,964
Changes in operating assets and liabilities:		
Decrease (increase) in investment interest receivable	5	(359)
Increase in student loans receivable	(198,100)	(175,740)
(Increase) decrease in student loans interest receivable	(9,460)	1,665
Decrease in federal administrative and program fees receivable	144	193
(Increase) decrease in other receivables	(1,484)	346
(Increase) decrease in other assets	(190)	7
Increase in deferred bond issuance costs	(7)	(1,298)
Increase in accounts payable and other liabilities	202	1,332
Decrease in deferred revenue	(455)	(756)
Increase in accrued interest on bonds payable	661	1,152
Decrease in U.S. Treasury rebates payable	<u>3,442</u>	<u>11,479</u>
 Total adjustments	 <u>(147,306)</u>	 <u>(121,960)</u>
 Net cash used in operating activities	 <u>\$ (132,302)</u>	 <u>\$ (115,786)</u>

Supplemental disclosure of noncash activity:

At June 30, 2005, approximately \$2,466 of building construction costs were included in accounts payable.

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, 2006 and 2005

	Federal Loan Reserve <u>Fund</u>	<u>VHEIP</u>	2006 <u>Total</u>	2005 <u>Total</u>
(In Thousands)				
<u>ASSETS HELD FOR OTHERS</u>				
Cash and cash equivalents	\$ 9,158	\$ 1,160	\$10,318	\$ 9,068
Investments (note 6)	—	52,564	52,564	40,446
Student loans receivable and accrued student loan interest	—	3,814	3,814	3,533
Investment interest receivable	35	14	49	27
Due from U.S. Department of Education	1,878	—	1,878	2,716
Other assets	<u>95</u>	<u>120</u>	<u>215</u>	<u>79</u>
Total assets	<u>\$11,166</u>	<u>\$57,672</u>	<u>\$68,838</u>	<u>\$55,869</u>
 <u>LIABILITIES</u>				
Accounts payable and other liabilities	\$ 560	\$ 75	\$ 635	\$ 1,038
Note payable	—	4,338	4,338	3,504
Federal advances	538	—	538	538
Amounts held on behalf of investors (note 6)	—	53,259	53,259	40,858
Return of reserves due to U.S. Department of Education	552	—	552	552
Federal loan reserve funds held for U.S. Department of Education (note 5)	<u>9,516</u>	<u>—</u>	<u>9,516</u>	<u>9,379</u>
Total liabilities	<u>\$11,166</u>	<u>\$57,672</u>	<u>\$68,838</u>	<u>\$55,869</u>

See accompanying notes to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**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 is 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, the Fund’s financial statements are consolidated and are 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**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, donor restrictions, 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 U.S. Treasury rebates payable.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**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 refinance existing student loans.

Student loans are stated at their unpaid principal balance net of allowance for loan losses and 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. Loans originated subsequent to October 1, 1993, are only reinsured by DE for 98% of the principal amount. At June 30, 2006 and 2005, most of VSAC's student loans are subject to the 98% guarantee from DE. 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 nonguaranteed 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.



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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**2. Summary of Significant Accounting Policies (Continued)**

Investments

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*.

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.

Bond Issuance Costs

Costs of bond issuances, which are comprised of underwriters' fees, 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 Discount and Deferred Loss on Refunding

Bond discounts are amortized using a method which approximates the level yield 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, as the services are provided.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**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 2005 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. Funds not related to the various bond resolutions may also be invested in domestic equities or corporate bonds.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**3. Cash, Cash Equivalents and Investments (Continued)**

*Cash and Cash Equivalents*

The carrying amounts which represent both cost and fair value of cash and cash equivalents as of June 30, 2006 and 2005 are presented below:

	2006		2005	
	<u>Balance</u>	Amount Insured or <u>Collateralized</u>	<u>Balance</u>	Amount Insured or <u>Collateralized</u>
Cash and repurchase agreements	\$ 14,414	\$ 14,889	\$ 5,871	\$ 6,515
Money market accounts	<u>136,627</u>	<u>See Below</u>	<u>392,686</u>	<u>See Below</u>
	<u>\$151,041</u>		<u>\$398,557</u>	

At June 30, 2006 and 2005, 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, 2006 were \$15,511 and the bank balances at June 30, 2005 were \$6,896. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, \$14,889 and \$6,515 of the bank balances at June 30, 2006 and 2005, 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 \$622 and \$381 at June 30, 2006 and 2005, respectively, were uninsured and uncollateralized.

At June 30, 2006 and 2005, 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 (Standard & Poor's rating AAA) 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 held the following investments at June 30, 2006 and 2005.

	2006		2005	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Domestic equities	\$ 727	\$ 752	\$ 304	\$ 354
Corporate bonds	239	233	123	121
U.S. Government bonds	<u>182</u>	<u>182</u>	<u>40</u>	<u>40</u>
	<u>\$ 1,148</u>	<u>\$ 1,167</u>	<u>\$ 467</u>	<u>\$ 515</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**3. Cash, Cash Equivalents and Investments (Continued)**

At June 30, 2006, the ratings for investments in debt securities are summarized as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard &amp; Poor's Rating</u>
Corporate bonds:			
Citigroup Commercial Paper (3.5%)	02/01/2008	24	AA+
Target Corporation (5.4%)	10/01/2008	20	A+
Texaco Capital (5.5%)	01/15/2009	20	AA
Washington Mutual (4.0%)	01/15/2009	14	A-
IBM Corporation (5.375%)	02/01/2009	20	A+
Bankamerica Corporation (7.125%)	03/01/2009	21	AA
FPL Group Cap Inc (7.375%)	06/01/2009	21	A
JP Morgan Chase Floating Rate (5.715%)	06/28/2009	19	AA-
Lehman Bros Holdings (7.875%)	11/01/2009	20	A+
Tenn Valley Auth (5.625%)	01/18/2011	10	AAA
Conoco Funding Co (6.35%)	10/15/2011	15	A+
Household Fin Co (6.375%)	10/15/2011	15	AA
Fed Natl Mtg Assn (5.0%)	04/30/2013	5	AAA
Capital One Fin (5.5%)	06/01/2015	<u>9</u>	BBB+
		<u>233</u>	
U.S. Government bonds:			
U.S. Treasury Note (4.375%)	01/31/2008	25	-
U.S. Treasury Note (4.625%)	02/29/2008	25	-
U.S. Treasury Note (4.5%)	02/15/2009	25	-
U.S. Treasury Note (5.5%)	05/15/2009	25	-
U.S. Treasury Note (6.0%)	06/28/2009	26	-
U.S. Treasury Note (5.75%)	08/15/2010	26	-
U.S. Treasury Note (4.5%)	11/15/2010	10	-
iShares Lehman TIPS Bond Fund		<u>20</u>	AAA
		<u>182</u>	

*Interest Rate Risk.* Through its investment policy, VSAC manages its interest rate risk by establishing a target range of 20% to 70% of its investments in fixed rate securities. VSAC's current investment manager works with a target of 35% of investments in fixed rate securities with a target duration of no greater than three years.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**3. Cash, Cash Equivalents and Investments (Continued)**

*Credit Risk.* VSAC minimizes its credit risk by requiring marketable bonds, debentures, notes, or instruments to be rated BBB or better by Standard and Poor's and Baa or better by Moody's Investors Service.

*Concentration of Credit Risk.* VSAC places no limit on the amount of investments in any one issuer. However, VSAC's investment manager is currently instructed to invest approximately 65% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap. As of June 30, 2006, 14% of VSAC's investments were invested in U.S. Treasuries. No other single issuer represented more than 5% of VSAC's investments at either June 30, 2006 or 2005.

*Custodial Credit Risk*

All of the investments are held by VSAC's agent in VSAC's name.

A significant portion of cash and cash equivalents 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**

At June 30, 2006, VSAC held student loans with interest rates ranging from 2.875% to 10.190%; the majority is 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**4. Student Loans Receivable (Continued)**

Student loans receivable as of June 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
<b>Status:</b>		
Interim status	\$ 360,984	\$ 338,598
Deferral status	283,972	254,206
Repayment status	1,011,220	864,105
Less: Allowance for loan losses	(21,265)	(12,611)
Deferred origination fees, net	<u>(5,779)</u>	<u>(3,498)</u>
 Total student loans receivable	 1,629,132	 1,440,800
Less: noncurrent student loans receivable	<u>1,511,836</u>	<u>1,332,471</u>
 Current student loans receivable	 <u>\$ 117,296</u>	 <u>\$ 108,329</u>
 <b>Guarantee type:</b>		
U.S. Department of Education	\$ 1,422,100	\$ 1,298,034
U.S. Department of Health and Human Services	13,928	16,901
Other – nonguaranteed	220,148	141,974
Less: Allowance for loan losses	(21,265)	(12,611)
Deferred origination fees, net	<u>(5,779)</u>	<u>(3,498)</u>
 Total student loans receivable	 1,629,132	 1,440,800
Less: noncurrent student loans receivable	<u>1,511,836</u>	<u>1,332,471</u>
 Current student loans receivable	 <u>\$ 117,296</u>	 <u>\$ 108,329</u>

\$1,614,303 and \$1,406,668 of student loans were pledged to the repayment of bonds as of June 30, 2006 and 2005, respectively.

Transactions in the allowance for loan losses for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Balance July 1	\$ 12,611	\$ 1,806
Net loans charged off	(2,001)	(835)
Provision for losses on student loans	<u>10,655</u>	<u>11,640</u>
 Balance June 30	 <u>\$ 21,265</u>	 <u>\$ 12,611</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**4. Student Loans Receivable (Continued)**

The allowance for loan losses represents management's estimate of probable losses on student loans. Management uses prior default history from its loan portfolios, including wide default trends, and type of loan program to arrive at this estimate. Should any of these factors change significantly from those currently used by management, the estimate will change.

**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.

Changes in Federal loan reserve funds held for DE for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
<i>Additions:</i>		
Reimbursement from DE on default loan purchases	\$ 17,780	\$ 14,799
Default loan collections	242	83
Loan administrative fees	2,231	2,128
Investment income	<u>360</u>	<u>157</u>
Total additions	20,613	17,167
<i>Deductions:</i>		
Purchases of defaulted loans from lenders	18,395	15,234
Default aversion fee paid	699	613
Other disbursements	<u>1,382</u>	<u>431</u>
Total deductions	<u>20,476</u>	<u>16,278</u>
Federal loan reserve funds held, at beginning of year	<u>9,379</u>	<u>8,490</u>
Federal loan reserve funds held, at end of year	<u>\$ 9,516</u>	<u>\$ 9,379</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

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

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 2006 and 2005, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were \$1,422,100 and \$1,298,034 at June 30, 2006 and 2005, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

**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 three plans available: the Managed Allocation Option, the 100% Equity Option, and the Interest Income Option. The Managed Allocation Option and the 100% Equity Option are 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. Funds in the 100% Equity Option are not age based and remain 100% in equity investments. Investments in the Managed Allocation and 100% Equity 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.



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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

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

The changes in assets held on behalf of investors for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
<i>Additions:</i>		
Investment income	\$ 2,686	\$ 1,279
Net realized and unrealized gains	251	1,224
Student loan interest income	231	152
Net participant subscriptions/redemptions	<u>9,272</u>	<u>8,761</u>
Total additions	12,440	11,416
<i>Deductions:</i>		
Operational expenses	<u>39</u>	<u>45</u>
Total deductions	<u>39</u>	<u>45</u>
Assets held on behalf of investors, at beginning of year	<u>40,858</u>	<u>29,487</u>
Assets held on behalf of investors, at end of year	<u>\$53,259</u>	<u>\$40,858</u>

**7. Capital Assets**

A summary of capital assets activity for the years ended June 30, 2006 and 2005, were as follows:

	<u>Estimated Lives</u>	Balance <u>July 1, 2004</u>	Acqui- <u>sitions</u>	Balance <u>June 30, 2005</u>	Acqui- <u>sitions</u>	Dispo- <u>sitions</u>	Balance <u>June 30, 2006</u>
Land	—	\$ 3,150	\$ —	\$ 3,150	\$ —	\$ —	\$ 3,150
Furniture and equipment	3 – 5 Years	4,361	705	5,066	2,496	189	7,373
Leasehold improvements	5 Years	721	—	721	—	721	—
Software	3 – 5 Years	1,797	680	2,477	278	1,508	1,247
Building		<u>725</u>	<u>10,347</u>	<u>11,072</u>	<u>5,581</u>	<u>—</u>	<u>16,653</u>
		10,754	11,732	22,486	8,355	2,418	28,423
Less accumulated depreciation		<u>4,430</u>	<u>1,458</u>	<u>5,888</u>	<u>1,539</u>	<u>2,406</u>	<u>5,021</u>
Capital assets, net		<u>\$ 6,324</u>	<u>\$ 10,274</u>	<u>\$ 16,598</u>	<u>\$ 6,816</u>	<u>\$ 12</u>	23,402
Less bonds payable, net							<u>21,291</u>
Net investment in property and equipment							<u>\$ 2,111</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**7. Capital Assets (Continued)**

Depreciation charged to operations for the years ended June 30, 2006 and 2005 was \$1,539 and \$1,467, respectively.

**8. Bonds Payable**

VSAC has issued the following bonds payable at June 30, 2006 and 2005, which were issued to finance the origination of student loans:

<i><u>Bonds Payable:</u></i>	<u>2006</u>	<u>2005</u>
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 2.60% to 3.75% during fiscal year 2006 (3.40% at June 30, 2006).	\$ 40,900	\$ 40,900
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 2.48% to 4.00% during fiscal year 2006 (3.60% to 4.00% at June 30, 2006).	96,000	96,000
1996 Series F, G, H and I, dated May 29, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 2.47% to 4.00% during fiscal year 2006 (3.65% to 4.00% at June 30, 2006).	100,000	100,000
1998 Series K-O, dated June 24, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 2.45% to 4.00% during fiscal year 2006 (3.60% to 4.00% at June 30, 2006).	165,000	165,000
2000 Series P and Q, dated May 31, 2000; comprised of auction rate bonds matured in December 2005. Interest was reset every 35 days and paid semi-annually; at rates which ranged from 2.56% to 3.25% during fiscal year 2006.	—	11,950
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction rate bonds maturing December 2034. Interest is reset every 35 days and payable semi-annually at rates which ranged from 2.50% to 3.95% during fiscal year 2006 (3.53% to 3.95% at June 30, 2006).	172,550	172,550

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**8. Bonds Payable (Continued)**

	<u>2006</u>	<u>2005</u>
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 2.01% to 3.95% during fiscal year 2006 (3.68% to 3.95% at June 30, 2006).	\$ 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 3.00% to 5.35% during fiscal year 2006 (5.00% to 5.35% at June 30, 2006).	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 2.55% to 3.75% during fiscal year 2006 (3.62% to 3.70% at June 30, 2006).	112,500	112,500
2003 Series EE dated May 30, 2003; comprised of auction rate bonds matured December 2005; interest was reset every 35 days and paid semi-annually at rates which ranged from 2.55% to 3.12% during fiscal year 2006.	—	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 at rates which ranged from 2.40% to 4.10% during fiscal year 2006 (3.58% to 4.10% at June 30, 2006).	165,900	165,900
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 at rates which ranged from 2.55% to 3.95% during fiscal year 2006 (3.73% to 3.95% at June 30, 2006).	150,000	150,000
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 at rates which ranged from 2.6% to 3.75% during fiscal year 2006 (3.75% at June 30, 2006).	74,700	74,700

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**8. Bonds Payable (Continued)**

	<u>2006</u>	<u>2005</u>
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 at rates which ranged from 2.57% to 3.85% during fiscal year 2006 (3.72% to 3.85% at June 30, 2006).	\$ 134,500	\$ 134,500
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset and payable every 28 days, interest rates ranged from 3.35% to 5.08% during fiscal year 2006 (5.08% at June 30, 2006).	65,800	65,800
2005 Series QQ dated June 21, 2005; comprised of floating rate weekly demand bonds maturing December 2039; interest is reset every 7 days and payable semi-annually at rates which ranged from 2.00% to 4.05% during fiscal year 2006 (4.05% at June 20, 2006).	120,385	120,385
2005 Series RR/SS dated June 21, 2005; comprised of auction rate bonds maturing December 2039; interest is reset and payable every 28 days at rates which ranged from 3.44% to 5.30% during fiscal year 2006 (5.15% and 5.30% at June 20, 2006).	119,600	119,600
2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates fixed ranging from 2.00% to 5.00% payable semi-annually (5.00% at June 30, 2006).	<u>21,430</u>	<u>22,155</u>
Total bonds payable	1,704,015	1,761,690
Bond discount, net	(138)	(144)
Deferred loss on refunding, net	<u>(1,172)</u>	<u>(1,367)</u>
Total bonds payable	1,702,705	1,760,179
Less current portion of bonds payable	<u>735</u>	<u>57,675</u>
Noncurrent portion bonds payable	<u>\$1,701,970</u>	<u>\$1,702,504</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**8. Bonds 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 and cash equivalents (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, 2004 Series OO, 2005 Series QQ and 2005 Series RR/SS bonds are secured for credit-worthiness by AMBAC Assurance Corporation. The 2003 General Obligation bonds and the 1998 Series O bonds payable have no credit support. The 2005 Series QQ bonds have liquidity support by a Standby Bond Purchase Agreement issued by the Bank of New York.

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, 2006, all bonds authorized under the underlying 1985 – 2005 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 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**8. Bonds Payable (Continued)**

The debt service requirements, which are based on the interest rates at June 30, 2006 through 2011 and in five-year increments thereafter to maturity for VSAC, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 735	\$ 67,683	\$ 68,418
2008	41,655	66,918	108,573
2009	1,670	66,149	67,819
2010	795	66,094	66,889
2011	820	66,069	66,889
2012 – 2016	167,355	316,723	484,078
2017 – 2021	2,980	298,597	301,577
2022 – 2026	99,815	295,822	395,637
2027 – 2031	4,865	278,801	283,666
2032 – 2036	425,840	244,020	669,860
2037 – 2039	<u>957,485</u>	<u>78,174</u>	<u>1,035,659</u>
Total	<u>\$1,704,015</u>	<u>\$1,845,050</u>	<u>\$3,549,065</u>

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$1,760,179	\$1,550,394
Issuance	–	270,385
Redemptions and refundings	(57,675)	(60,800)
Deferred loss on refunding	–	–
Amortization of premiums	–	–
Accretion of discount	<u>201</u>	<u>200</u>
Balance at end of year	<u>\$1,702,705</u>	<u>\$1,760,179</u>

**9. U.S. Treasury Rebates Payable**

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 U.S. Treasury. VSAC has estimated that there is an arbitrage liability at June 30, 2006 and 2005 of \$23,525 and \$20,083, respectively. VSAC has estimated the current portion to be \$233 and \$253 at June 30, 2006 and 2005, respectively. VSAC has refunded the U.S. Treasury \$1,112 in excess earnings in 2006.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**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 prior to February 8, 2006 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 made or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993, are eligible for full special allowance and are not subject to a minimum return.

**11. Endowment funds**

Donors have established a number of endowment funds through the Vermont Student Development Fund, Inc. All endowment funds are restricted to provide scholarship funds to Vermont students. All endowment funds are guided by specific agreements and instructions from donors regarding the uses of earnings and appreciation on invested funds.

In 1998, the Vermont General Assembly enacted a version of the Uniform Prudent Investor Act. The Act does not address in any explicit or clear manner a trustee's ability to spend net appreciation of donor-restricted endowments. The VSAC Board of Directors has established a policy, and most endowment agreements specify gains and appreciation on these funds be treated with a total return approach. In this approach, the amount of funds that may be expended from an endowment is based on a percentage of the fund's total value, and may come from the total return on the fund, including interest and dividend earnings, appreciation or original gift value. Total investment return in excess of the established spending rate is considered to be nonexpendable in future periods. The spending rate may be adjusted by the Board of Directors at their discretion.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**11. Endowment funds (Continued)**

At June 30, 2006 the total net assets related to endowment funds was \$1,564. Expendable restricted net assets totaled \$66. The remaining \$1,498 of net assets related to endowment funds were nonexpendable.

**12. Restricted Net Assets**

Restrictions on net assets are the result of bond resolutions, state statutes, various federal regulations and program agreements, and donor restrictions. Bond resolutions restrict net assets to the origination of student loans and payment of debt service on bonds and notes payable. State statutes and federal regulations and program agreements restrict various net assets to use for specific grant, scholarship and educational activities. Donors have restricted a number of endowment funds for scholarship awards. Restricted net assets as of June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Restricted by bond resolutions	\$ 66,576	\$ 52,696
Restricted for grants and scholarships	811	1,169
Donor restricted for scholarships	1,564	871
Restricted appropriation for educational programs	<u>1,000</u>	<u>—</u>
Total restricted net assets	<u>\$ 69,951</u>	<u>\$ 54,736</u>

**13. 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, 2006 and 2005 amounted to \$16,753 and \$14,408, respectively; VSAC's total payroll was \$16,464 and \$15,215, respectively. Total contributions by VSAC amounted to \$1,675 and \$1,441 in 2006 and 2005, respectively, which represented 10% of the covered payroll.

**14. 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.



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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Dollars in Thousands)

**14. Contingencies (Continued)**

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 liability for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statement of net assets for the years ended June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 253	\$ 237
Claims paid	(3,576)	(3,177)
Accrual for estimated claims	<u>3,742</u>	<u>3,193</u>
Balance, end of year	<u>\$ 419</u>	<u>\$ 253</u>

**15. Loan Commitments**

At June 30, 2006 and 2005, VSAC had commitments to extend credit for student loans of approximately \$56,557 and \$59,278, 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.

**16. Subsequent Event**

In July 2006, VSAC issued tax-exempt 2006 Series TT, UU and VV auction rate bonds totaling \$172,250 maturing December 2040.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX I

### 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 \$230,000,000 Education Loan Revenue Bonds, Senior Series 2007WW, 2007XX and 2007YY (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](mailto: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](mailto:nrmsir@dpcdata.com)  
Phone: (201) 346-0701  
Fax: (201) 947-0107

Interactive Data Pricing and Reference Data, Inc.  
100 William Street, 15<sup>th</sup> 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  
45<sup>th</sup> 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 \_\_, 2007, 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 Citigroup Global Markets Inc.

3. Provision of Annual Financial Information. The Corporation shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of each fiscal year of the Corporation (currently the twelve months ended June 30), commencing with the report for the 2007 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 D 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](http://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, 2007, 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: \_\_\_\_\_



[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



