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 2006 Bonds (as defined below) is excluded from gross income for federal income tax purposes. However, interest on the 2006 Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2006 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.

$175,250,000
VERMONT STUDENT ASSISTANCE CORPORATION

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

Education Loan Revenue Bonds

$58,450,000 Senior Series 2006TT
(Auction Rate Securities)

$58,400,000 Senior Series 2006UU
(Auction Rate Securities)

$58,400,000 Senior Series 2006VV
(Auction Rate Securities)

Dated: Date of Delivery **Price:** 100% **Due:** December 15, 2040

The Vermont Student Assistance Corporation (the "Corporation") will issue its Education Loan Revenue Bonds, Senior Series 2006TT in the aggregate principal amount of $58,450,000 (the "Senior Series 2006TT Bonds"), its Education Loan Revenue Bonds, Senior Series 2006UU in the aggregate principal amount of $58,400,000 (the "Senior Series 2006UU Bonds") and its Education Loan Revenue Bonds, Senior Series 2006VV in the aggregate principal amount of $58,400,000 (the "Senior Series 2006VV Bonds" and, together with the Senior Series 2006TT Bonds and the Senior Series 2006UU Bonds, the "2006 Bonds") pursuant to the Corporation's 1995 Education Loan Revenue Bond Resolution as adopted on June 16, 1995 (the "General Resolution") and the 2006 Twelfth Series Resolution as adopted on June 8, 2006 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution").

The 2006 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 2006 Bonds. Purchasers of the 2006 Bonds will not receive certificates representing their beneficial ownership interests in the 2006 Bonds. Purchases and sales by the beneficial owners of the 2006 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 2006 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 2006 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 2006 BONDS -- Book-Entry-Only System."

The 2006 Bonds will bear interest initially at an Auction Rate, determined as set forth herein. Interest on the 2006 Bonds will be payable based on a 365- or 366-day year, as applicable, and actual days elapsed. Interest on the 2006 Bonds is payable on each June 15 and December 15, commencing on December 15, 2006 (subject to possible adjustment as described herein).

The Resolution provides that under certain circumstances the interest rate on any Series of the 2006 Bonds may be changed from an Auction 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 2006 Bonds prior to the new interest rate mode taking effect. This Official Statement does not describe terms of the 2006 Bonds in any mode other than an Auction Rate mode.

The 2006 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 2006 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the 2006 Bonds.

The 2006 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 2006 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 2006 Bonds.

THE CORPORATION HAS NO TAXING POWER. THE 2006 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2006 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 2006 BONDS. THE 2006 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 2006 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 2006 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC on or about July 12, 2006.

Citigroup

Dated: July 5, 2006

Citigroup Global Markets Inc. will serve as the initial Broker-Dealer with respect to the 2006 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 2006 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 2006 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 2006 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE 2006 BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2006 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement. The offering of the 2006 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 $58,450,000 aggregate principal amount of Senior Series 2006TT Bonds (the "Senior Series 2006TT Bonds"), $58,400,000 aggregate principal amount of Senior Series 2006UU Bonds (the "Senior Series 2006UU Bonds"), and $58,400,000 aggregate principal amount of Senior Series 2006VV Bonds (the "Senior Series 2006 VV Bonds" and collectively with the Senior Series 2006TT Bonds and the Senior Series 2006UU Bonds, the "2006 Bonds"). The 2006 Bonds will be issued as Auction Rate Securities.

Broker-Dealer

Citigroup Global Markets Inc. will serve as the initial Broker-Dealer with respect to the 2006 Bonds.

Priority

There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of $1,641,685,000, being comprised of Senior Series 1995 A, B, C and D Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H and I Bonds (collectively, the "1996 Bonds"), Senior Series 1998 K, L, M and N Bonds (the "Senior 1998 Bonds"), Subordinate Series 1998O Bonds (the "Subordinate 1998O Bonds" and collectively with the Senior 1998 Bonds, the "1998 Bonds"), Senior Series 2000 R, S, T and U Bonds (the "2000 Bonds"), Senior Series 2001 V, W, X, Y, Z and AA Bonds (the "2001 Bonds"), Senior Series 2002 BB, CC and DD Bonds (the "2002 Bonds"), Senior Series 2003 FF, GG, HH, II, JJ, KK and LL (the "2003 Bonds"), Senior Series 2004 MM, NN, OO and PP (the "2004 Bonds") and Senior Series 2005 QQ, RR and SS (the "2005 Bonds"). The 2006 Bonds, the 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the Senior 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any bonds issued on a parity therewith and outstanding under the Resolution in the future (collectively, the "Senior Bonds") are secured equally and ratably by the security provided thereunder and are secured on a superior basis to the Subordinate 1998O Bonds. Failure of the Corporation to pay principal or interest on the Subordinate 1998O Bonds or any other Subordinate Bonds shall not be an Event of Default under the Resolution if any Senior Bonds are outstanding on which no

payment default has occurred and is continuing. Additional Bonds may be issued under the Resolution if (a) each Rating Agency confirms that the issuance of the Additional Bonds will not cause such Rating Agency to withdraw or downgrade the rating on any Bonds and (b) the Bond Insurer consents to the issuance of the Additional Bonds.

Global Bond; Securities Depository

The 2006 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 2006 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 2006 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 2006 Bonds.

2006 Bonds

Interest Rate on the 2006 Bonds. The interest rate during the Initial Period for the 2006 Bonds will be determined on or about the day preceding the date of issuance. The Initial Period will commence on the date of issuance and will continue through and include the following dates: for the Senior Series 2006TT Bonds, August 15, 2006; for the Senior Series 2006UU Bonds, August 17, 2006; and for the Senior Series 2006VV Bonds, July 18, 2006. For each Interest Period thereafter until any Conversion Date, Auction Period Conversion Date or Auction Period Adjustment, the interest rate for (i) the Senior Series 2006TT and the Senior Series 2006UU Bonds will be the Auction Rate based generally upon a 35-day Auction Period (subject to certain interest rate limitations described herein under the caption "THE 2006 BONDS — Maximum Rate, All-Hold Rate and Non-Payment Rate for the 2006 Bonds") and (ii) the interest rate for the Senior Series 2006VV Bonds will be the Auction Rate based generally upon a 7-day Auction Period (subject to certain interest rate limitations described herein under the caption "THE 2006 BONDS – Maximum Rate, All-Hold Rate and Non-Payment Rate for the 2006 Bonds"), in each case as determined by the Auction Agent (initially The Bank of New York) pursuant to the Auction Procedures described in Appendix B "AUCTION PROCEDURES FOR THE 2006 BONDS" hereto.

Interest Payment Dates. Interest on the 2006 Bonds is payable to each Registered Owner on each June 15 and December 15 (subject to possible adjustment as described herein), commencing on December 15, 2006. So long as the 2006 Bonds are in Book-Entry Form, the securities depository will be the sole Owner.

Interest on the 2006 Bonds while bearing interest at an Auction Rate will be computed on the basis of a 365- or 366-day year, as applicable, and actual days elapsed.

Mandatory Tender Upon Conversion. In the event of a conversion of the interest rate for any series of the 2006 Bonds to a Fixed Rate or a Variable Rate (a "Conversion") and an Auction Period Conversion, the applicable 2006 Bonds are subject to mandatory tender. See "THE 2006 BONDS — Conversion and Auction Period Conversion of and Mandatory Tender of the 2006 Bonds."

Conversion. At the option of the Corporation, the method of determining the interest rate for any series of the 2006 Bonds is subject to Conversion on any Rate Adjustment Date (a "Conversion Date") to a fixed interest rate or a variable interest rate calculated on a different basis. No Conversion will be effective unless the Corporation has furnished to the Trustee prior to such Conversion written evidence from each Rating Agency then rating any Outstanding Bonds that such Conversion will not adversely affect the ratings on any Outstanding Bonds and the consent of the Bond Insurer to such Conversion.

Auction Period Conversion. The Corporation may, from time to time upon compliance with the conditions set forth in the 2006 Twelfth Series Resolution, change the length of the Auction Period for any series of the 2006 Bonds pursuant to an Auction Period Conversion. An Auction Period Conversion means the change, after prior written notification to each Rating Agency, in the length of an Auction Period (i) from an Auction Period between seven and 90 days, inclusive, to an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, (ii) from an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, to an Auction Period between seven and 90 days, inclusive, or (iii) from an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, to an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, if such latter Auction Period is at least three months shorter or at least three months longer than the Auction Period for such Bonds established upon its initial issuance or pursuant to the most recent Auction Period Conversion.

Auction Period Adjustment. Until Conversion, if any, the Corporation may, from time to time and upon compliance with the conditions set forth in the 2006 Twelfth Series Resolution, change the length of the Auction Period for any series of the 2006 Bonds in order to conform with then current market practice or accommodate other economic or financial factors that may affect or be relevant to the length of the Auction Period or the Auction Rate (as hereinafter described, an "Auction Period Adjustment"). An Auction Period Adjustment may be made within a period of between seven and 90 days (a "Short Auction Period") or a period of between 91 days and the Stated Maturity for the 2006 Bonds (a "Long Auction Period"). No Auction Period Adjustment may result in an Auction Period of less than seven nor more than 90 days if the current Auction Period is a Short Auction Period, or in an Auction Period that is more than three months shorter or longer than the then current Auction Period, if the current Auction Period is a Long Auction Period, or be allowed unless certain conditions described herein and in the 2006 Twelfth Series Resolution are satisfied. See Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS – Changes in Auction Terms – Changes in Auction Period or Periods."

Redemption	The 2006 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2006 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 2006 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") concurrently with the delivery of the 2006 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 2006 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 104.04% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 103.47% 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 2006 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading "CERTAIN INVESTMENT CONSIDERATIONS."

THE 2006 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON SUCH BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. SUCH BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON SUCH BONDS.

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OFFICIAL STATEMENT
of the

VERMONT STUDENT ASSISTANCE CORPORATION

relating to its

$175,250,000

Education Loan Revenue Bonds

$58,450,000 Senior Series 2006TT
(Auction Rate Securities)

$58,400,000 Senior Series 2006UU
(Auction Rate Securities)

$58,400,000 Senior Series 2006VV
(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 $175,250,000 Education Loan Revenue Bonds, consisting of the following series of Bonds: Senior Series 2006TT in the principal amount of $58,450,000 initially issued Auction Rate Securities as described herein, Senior Series 2006UU in the principal amount of $58,400,000 initially issued as Auction Rate Securities as described herein, and Senior Series 2006VV in the principal amount of $58,400,000 initially issued as Auction Rate Securities (collectively, the "2006 Bonds"). The 2006 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 2006 Twelfth Series Resolution adopted on June 8, 2006 (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 $1,641,685,000, being comprised of Senior Series 1995 A, B, C and D Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H and I Bonds (collectively, the "1996 Bonds"), Senior Series 1998 K, L, M and N Bonds (collectively, the "Senior 1998 Bonds"), Subordinate Series 1998O Bonds (the "Subordinate 1998 Bonds" and collectively with the Senior 1998 Bonds, the "1998 Bonds"), Senior Series 2000 R, S, T and U Bonds (the "2000 Bonds"), Senior Series 2001 V, W, X, Y, Z and AA Bonds (the "2001 Bonds"), Senior Series 2002 BB, CC and DD Bonds (the "2002 Bonds"), Senior Series 2003 FF, GG, HH, II, JJ, KK and LL Bonds (the "2003 Bonds"), Senior Series 2004 MM, NN, OO and PP Bonds (the "2004 Bonds") and Senior Series 2005 QQ, RR and SS Bonds (the "2005 Bonds"). The term "Bonds" as used herein shall refer to the 2006 Bonds, the 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any Additional Bonds issued under the Resolution in the future.

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

INTRODUCTION

The Corporation is a non-profit public corporation created in 1965 and existing under and by virtue of Chapter 87 of Title 16 of the Vermont Statutes Annotated, as amended (the "State Act"). The State Act provides that the Corporation is to provide opportunities for students to pursue further education by awarding grants and guaranteeing, making, financing and servicing loans to borrowers qualifying under the State Act. The Corporation, acting as a loan originator or secondary market, originates education loans and purchases education loans previously originated by other lenders. Such loans include Federal Act Loans, HEAL Loans and Statutory Loans (as defined below). The Corporation, serving as a guarantor (the "State Guarantor") guarantees, to the extent required by

applicable federal law, Federal Act Loans. In addition, the Corporation administers a program of grants, scholarships, work study and outreach services and career, education and financial aid counseling, related information services and a Section 529 savings plan.

The 2006 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 2006 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 2006 Bonds.

The 2006 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, the 2006 Bonds will be issued as Auction Rate Securities. Interest on each series of 2006 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 2006 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 2006 Bonds when due will be insured by a Financial Guaranty Insurance Policy (as hereafter defined) to be issued by Ambac Assurance Corporation (the "Bond Insurer").

The descriptions of the Act, the Public Health Services Act, the State Act, the Resolution and the 2006 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 2006 Bonds from Citigroup Global Markets Inc., 388 Greenwich Street, 19th 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, 21st Floor, New York, New York 10022.

THE 2006 BONDS

General

The 2006 Bonds will bear interest from their date of issue and will mature as indicated on the cover page hereof. The 2006 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 2006 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2006 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 2006 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 2006 Bonds is payable to beneficial owners of the 2006 Bonds according to the procedures described under "THE 2006 BONDS -- Book-Entry Only System." Should the Corporation discontinue the book-entry-only system for any Series of 2006 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 2006 Bonds, which request may provide that it will remain in effect unless and until changed or revoked in writing.

Interest Rate on the 2006 Bonds

The interest rate during the Initial Period for each series of the 2006 Bonds will be determined on or about the day preceding the Date of Issuance. Thereafter, until a Conversion Date, if any, each series of the 2006 Bonds will bear interest during each Auction Period at a rate established by the Auction Agent (initially The Bank of New York) on each Rate Determination Date pursuant to the Auction Procedures described in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS".

The initial Rate Determination Date and the initial Rate Adjustment Date for each series of the 2006 Bonds after the Initial Period are set forth below:

Series	Initial Rate Determination Date	Rate Adjustment Date
2006TT	August 15, 2006	August 16, 2006
2006UU	August 17, 2006	August 18, 2006
2006VV	July 18, 2006	July 19, 2006

The Auction Period (i) with respect to the Senior Series 2006TT Bonds and the Senior Series 2006UU Bonds, will be based initially upon a 35-day Auction Period, and (ii) with respect to the Senior Series 2006VV Bonds, will be based initially on a 7-day Auction Period, in each case the length of which may be increased or decreased pursuant to an Auction Period Adjustment or Auction Period Conversion described below under "– Auction Period Adjustment for the 2006 Bonds" and "– Conversion and Auction Period Conversion of and Mandatory Tender of the 2006 Bonds." Each Auction Period will commence on a Rate Adjustment Date and terminate on and include the day preceding the next Rate Adjustment Date, subject to adjustment as described below in the event that there are fewer than three Business Days in any week during which such Auction Period would otherwise be scheduled to expire.

Interest on the 2006 Bonds initially will be payable on December 15, 2006 and on each June 15 and December 15 thereafter (subject to change as described herein) (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the 2006 Bonds will be computed on the basis of a 365- or 366-day year, as appropriate, and actual days elapsed during the time such 2006 Bonds bear interest at an Auction Rate.

The Auction Rate for each Series of the 2006 Bonds will be determined in accordance with the Auction Procedures described in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS" provided that:

(a) If a notice of an adjustment in the percentages used to determine the Maximum Rate, the All-Hold Rate and the Non-Payment Rate has been given by the Market Agent, but such notice is not effective because of a failure to satisfy the condition set forth in section (i) of the third paragraph of Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS — Auction Procedures — Adjustment in Percentages Used to Determine Maximum, All Hold and Non-Payment Rates," then the rate of interest on the Auction Rate Securities for the next succeeding Interest Period will be determined in accordance with the Auction Procedures. If such notice is not effective because of a failure to satisfy the condition set forth in section (ii) of that paragraph of Appendix B, an Auction will not be held on the Rate Determination Date immediately preceding the next succeeding Interest Period, and the rate of interest on such series of the 2006 Bonds for such next succeeding Interest Period will be the Maximum Rate on such Rate Determination Date; or

(b) (i) If, on any Rate Determination Date, an Auction is not held for any reason other than that described in clause (ii) of this paragraph (b), then the rate of interest on such Series of the 2006 Bonds for the next succeeding Interest Period will be the Maximum Rate on such Rate Determination Date; (ii) if, due to circumstances beyond the reasonable control of the Auction Agent and the Corporation, an Auction is not held on a day which would otherwise be a Rate Determination Date: (a) an Auction shall be held on the next succeeding Business Day on which an Auction can reasonably be held, (b) the then current Interest Period will be extended through the last day preceding the first Business Day following such Auction, and (c) the next succeeding Interest Period will commence on the first Business Day following such Auction and shall end on the same day that it would have ended if the Auction had been held on the originally scheduled Rate Determination Date.

Notwithstanding the foregoing:

(A) If the ownership of the Auction Rate Securities is no longer maintained in book-entry form by the Securities Depository, the rate of interest on such Auction Rate Securities for any Interest Period commencing after the delivery of certificates representing such Auction Rate Securities will be the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period;

(B) If a Payment Default with respect to the 2006 Bonds has occurred, the rate of interest on the Auction Rate Securities for the Interest Period commencing on or immediately after such Payment Default and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two Business Days after such Payment Default is cured in accordance with the 2006 Twelfth Series Resolution, will be the Non-Payment Rate on the first day of each such Interest Period;

(C) If a proposed Conversion or Auction Period Conversion has failed, the rate of interest on the Auction Rate Securities subject to such failed Conversion or Auction Period Conversion will be the Maximum Rate as of the failed Conversion Date or Auction Period Conversion Date, as applicable, for the Interest Period commencing on such date, and the length of the Auction Period commencing upon the failed Conversion Date or Auction Period Conversion Date will be the same as was in effect immediately preceding such failed Conversion Date or Auction Period Conversion Date, as applicable; and

(D) The Auction Rate for an Auction Period that commences on an Auction Period Conversion Date will be equal to the lesser of (i) the interest rate necessary to enable the remarketing agent to sell all of such 2006 Bonds at par plus accrued interest on the Auction Period Conversion Date or (ii) the Maximum Rate as of the Auction Period Conversion Date.

The Auction Agent will promptly give written notice to the Trustee and the Corporation of the Auction Rate for each Series of the 2006 Bonds (unless the Auction Rate is the Non-Payment Rate, in which case the Non-Payment Rate will be determined and written notice thereof given to the Corporation). The Trustee will notify the Registered Owners of each series of the Auction Rate Securities of the Auction Rate for each Auction Period not later than the second Business Day of such Auction Period.

In the event that the Auction Agent no longer determines, or fails to determine, when required, the interest rate for any series of the Auction Rate Securities, or if for any reason such manner of determination shall be held to be invalid or unenforceable, the interest rate for the next succeeding Auction Period for such series of the Auction Rate Securities will be the Maximum Rate.

Maximum Rate, All-Hold Rate and Non-Payment Rate for the 2006 Bonds

The Maximum Rate on any date of determination is the interest rate per annum equal to the lesser of (a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent on such date and (ii) the Index on such date, and (b) the Maximum Interest Rate. The Maximum Interest Rate means the lesser of (A) fourteen percent (14%) per annum or such higher amount as may be established by the Corporation following receipt by the Trustee of written confirmation from each of the Rating Agencies that such action will not affect the ratings on the Auction Rate Securities, a Favorable Opinion and written consent of the Bond Insurer, or (B) the maximum rate of interest permitted under the laws of the State of Vermont.

The All-Hold Rate on any date of determination is the interest rate per annum equal to 85% (as such percentage may be adjusted as described in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS — Auction Procedures — Adjustment in Percentages Used to Determine Maximum, All Hold and Non-Payment Rates") of the lesser of (a) the After-Tax Equivalent on such date and (b) the Index on such date (as such terms are defined in Appendix A hereto); provided, however, that in no event shall the All-Hold Rate be more than the Maximum Rate.

The Non-Payment Rate on any date of determination is the interest rate per annum equal to the lesser of (a) 265% of the Index on such date (as such percentage may be adjusted as described in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS — Auction Procedures — Adjustment in Percentages Used to Determine Maximum, All Hold and Non-Payment Rates") and (b) fourteen percent (14%).

Auction Period Adjustment for the 2006 Bonds

Upon compliance with the conditions set forth in the 2006 Twelfth Series Resolution, including in some circumstances upon consent of the Bond Insurer, the Corporation may, from time to time, change the length of one or more Auction Periods for any series of the 2006 Bonds 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 length of the Auction Period and the interest rate borne by the affected Auction Rate Securities (as hereinafter described, an "Auction Period Adjustment"). Any such Auction Period Adjustment may not result in an Auction Period of less than 7 days nor more than 90 days prior to an Auction Period Conversion. The Corporation must initiate an Auction Period Adjustment by giving written notice thereof to the Trustee, the Auction Agent, the Market Agent, each Rating Agency and the Securities Depository at least 10 days prior to the Rate Determination Date for such Auction Period. See Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS — Changes in Auction Terms — Changes in Auction Period or Periods."

Conversion and Auction Period Conversion of and Mandatory Tender of the 2006 Bonds

Conversion. The Corporation may, at its option and with the prior consent of the Bond Insurer, convert the interest rate on any series of the 2006 Bonds on any Rate Adjustment Date (a "Conversion Date") from an Auction Rate to a Fixed Rate or a Variable Rate (a "Conversion"). Terms relating to the 2006 Bonds bearing interest at a Fixed Rate or a Variable Rate are not described in this Official Statement. All series of the 2006 Bonds subject to Conversion are subject to mandatory tender to the Trustee on the Conversion Date at the purchase price of par plus unpaid accrued interest to such mandatory tender date.

Auction Period Conversion. Upon compliance with the conditions set forth in the 2006 Twelfth Series Resolution, including in some circumstances upon consent of the Bond Insurer, the Corporation may, from time to time, change the length of the Auction Period for any series of the 2006 Bonds pursuant to an Auction Period Conversion. An Auction Period Conversion means the change, after prior written notification to each Rating Agency, in the length of an Auction Period (i) from an Auction Period between seven and 90 days, inclusive, to an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, (ii) from an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, to an Auction Period between seven and 90 days, inclusive, or (iii) from an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, to an Auction Period between 91 days and the Stated Maturity of such Bonds, inclusive, if such latter Auction Period is at least three months shorter or at least three months longer than the then current Auction Period for such Bonds. All of the series of the 2006 Bonds subject to Auction Period Conversion are subject to mandatory tender to the Trustee

on the Auction Period Conversion Date at the purchase price of par plus unpaid accrued interest to such mandatory tender date.

In the event of a failed Auction Period Conversion, the interest rate for the Auction Period for which the proposed Auction Period Conversion was to have been effective will be the Maximum Rate and the length of the Auction Period will be the Auction Period determined without reference to the proposed change. See Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS – Changes in Auction Terms."

Certain Considerations Affecting Auction Rate Securities

The following information under this caption has been furnished by the Broker-Dealer for inclusion herein.

Securities and Exchange Commission Settlement. On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation against 15 firms, including Citigroup Global Markets Inc. (the "Broker-Dealer"), 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 Broker-Dealer agreed to pay civil money penalties of $1,500,000. In addition, the Broker-Dealer, without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide customers with written descriptions of material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurances are given as to how the settlement may affect the market for auction rate securities.

Bidding by Initial Broker-Dealer. Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because Broker-Dealer would have knowledge of some or all of the other Orders placed through Broker-Dealer in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because Broker-Dealer is appointed and paid by the Trustee to serve as a Broker-Dealer in the Auction, Broker-Dealer's interests in conducting an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. See "Auction Dealer Fees" below. 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.

Broker-Dealer may routinely place one or more Bids in an Auction for its own account to acquire the 2006 Bonds for its inventory, to prevent an "auction failure event" (i.e., an event where there are insufficient clearing bids which would result in the Auction Rate being set at the Maximum Rate) or an Auction from clearing at a rate that Broker-Dealer believes does not reflect the market for the 2006 Bonds. Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding for its own account, Broker-Dealer may also bid outside or inside the range of rates that it posts in its Price Talk. See "Price Talk" below.

Broker-Dealer also may routinely encourage bidding by others in Auctions, including to prevent an "auction failure event" or an Auction from clearing at a rate that Broker-Dealer believes does not reflect the market for the 2006 Bonds. Broker-Dealer may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by 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 higher or lower rate than they might have received had Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of 2006 Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer 2006 Bonds than they would have received if Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the 2006 Bonds involves no significant liquidity or credit risk. Broker-Dealer is not obligated to continue to place such bids or encourage other Bidders to do so in any particular Auction to prevent an Auction from failing or clearing at a rate Broker-Dealer believes does not reflect the market for the securities. Investors should

not assume that Broker-Dealer will do so or that "auction failure events" and unfavorable Auction Rates will not occur. Investors should also be aware that Bids by Broker-Dealer or by those it may encourage to place Bids may cause unfavorable Auction Rates to occur.

In any particular Auction, if all outstanding 2006 Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding distribution period will be the All Hold Rate (such a situation is called an "All Hold Auction"). When an All Hold Auction is likely, Broker-Dealer may, but is not obligated to, advise Existing Holders of that fact, which might facilitate the submission of Bids by Existing Holders that would avoid the occurrence of an All Hold Auction. If the Broker-Dealer decides to inform Existing Holders of the likelihood of an All Hold Auction, it will make that information available to all Existing Holders at the same time.

If Broker-Dealer holds any 2006 Bonds for its own account on an Auction Date, Broker-Dealer will submit a Sell Order into the Auction with respect to such 2006 Bonds, which would prevent that Auction from being an All Hold Auction. Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction, as set forth above.

Auction Dealer Fees. For many auction rate securities, Broker-Dealer has been appointed by the issuer of the securities to serve as a dealer in the auction and is paid by the issuer for its services. With respect to the 2006 Bonds in this offering, Broker-Dealer will receive from the Trustee auction dealer fees at the annual rate of 0.15% of the principal amount of the 2006 Bonds sold or successfully placed through Broker-Dealer. As a result, Broker-Dealer's interests in conducting Auctions may differ from those of investors who participate in Auctions. Broker-Dealer may share a portion of such fees with other broker-dealers that submit Orders through Broker-Dealer that Broker-Dealer successfully places in the Auction.

In general, auction dealers may share with Broker-Dealer a portion of the fees they receive from an issuer when those dealers submit orders for Broker-Dealer (on behalf of Broker-Dealer or its customers) into auctions in which Broker-Dealer does not serve as a dealer. Similarly, with respect to auctions for other auction rate securities for which Broker-Dealer does not serve as a dealer, the other broker-dealers who serve as dealers in those auctions may share broker-dealer fees with Broker-Dealer for orders that Broker-Dealer submits through those broker-dealers that those broker-dealers successfully place in those auctions.

"Price Talk". Before the start of an Auction, Broker-Dealer may, in its discretion, make available to Existing Holders and Potential Holders Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty, and Existing Holders and Potential Holders are free to use it or ignore it. Broker-Dealer may occasionally 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. Broker-Dealer will make such changes available to all Existing Holders and Potential Holders that were given the original Price Talk.

"All-or-Nothing" Bids. Broker-Dealer does 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 securities where there are not sufficient sell orders to fill all bids at the clearing rate.

No Assurances Regarding Auction Outcomes. Broker-Dealer provides no assurance as to the outcome of any Auction. Nor does Broker-Dealer provide any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any 2006 Bonds purchased or retained may be lower than the Bidder expected.

Deadlines/Auction Periods. Each particular Auction has a formal time deadline by which all Bids must be submitted by 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, Broker-Dealer imposes an earlier deadline — called the "Internal Submission Deadline" — by which Bidders must submit Bids to Broker-Dealer. The Internal Submission Deadline is subject to change by Broker-Dealer. Broker-Dealer

may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. Broker-Dealer may submit Bids for its own account at any time until the Auction Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Auction Submission Deadline.

During any Auction Period, the Corporation may, pursuant to the terms of the Auction Procedures, change the length of the next Auction Period. In Auctions that are subject to changed Auction Period, Broker-Dealer may place a bid to buy the 2006 Bonds that may effectively place an upper limit on the rate that can be set at the Auction at the rate that is below the "maximum" rate. Broker-Dealer may negotiate a separate fee from the Corporation in such circumstances.

Existing Holder's Ability to Resell Auction Rate Securities May Be Limited. Existing Holders will be able to sell the 2006 Bonds in an Auction only if there are Bidders willing to purchase all the 2006 Bonds offered for sale in the Auction. If sufficient clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the 2006 Bonds subject to such submitted Sell Orders. As discussed above (see "Bidding By Initial Broker-Dealer" above), Broker-Dealer may submit a bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough bidders to prevent an Auction from failing in the absence of Broker-Dealer bidding in the Auction for its own account. Therefore, "auction failure events" are possible, especially if the Corporation's credit were to deteriorate, a market disruption were to occur or if, for any reason, Broker-Dealer were unable or unwilling to bid.

Between Auctions, there can be no assurance that a secondary market for the 2006 Bonds will develop or, if it does develop, that it will provide Existing Holders the ability to resell the 2006 Bonds in the secondary market on the terms or at the times desired by an Existing Holder. Broker-Dealer may, in its own discretion, decide to buy or sell the 2006 Bonds in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the 2006 Bonds. However, Broker-Dealer is not obligated to make a market in the 2006 Bonds, and may discontinue trading in the 2006 Bonds without notice for any reason at any time. Existing Holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the 2006 Bonds will depend on various factors affecting the market for the 2006 Bonds, including news relating to the Corporation, the attractiveness of alternative investments, the perceived risk of owning the 2006 Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the 2006 Bonds (including recent clarification of 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 Settlement" above) or press reports, financial reporting cycles and market conditions generally. Demand for the 2006 Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent Under the Auction Agent Agreement or the Broker-Dealer Under the Broker-Dealer Agreement 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 45 days notice to the Trustee, the Corporation, and each Broker-Dealer 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 Auction Agent may terminate the Auction Agent Agreement if, after notifying the Trustee, the Bond Insurer, and the Corporation that it has not received payment of any Auction Agent Fee due it in accordance with the terms thereof, the Auction Agent does not receive such payment within 30 days. Any resignation or termination of the Auction Agent, other than as described in the immediately preceding sentence, shall not become effective until a successor Auction Agent has been appointed and such successor auction agent has accepted such position; provided, however, that in the event that a successor Auction Agent has not been appointed within 45 days after the date specified in its notice of resignation, then the Auction Agent may petition a court of competent jurisdiction for a replacement. 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 during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the 2006 Bonds will be the Maximum Rate.

Optional Redemption

Bonds of any series of 2006 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 2006 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 2006 Bonds, such moneys may be used to redeem 2006 Bonds only if such moneys constitute Available Moneys.

Extraordinary Mandatory Redemption

Each Series of 2006 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 2006 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 2006 Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 2006 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 2006 Bonds or any other Bonds may be used to finance Eligible Education Loans until July 1, 2007 and, except upon the occurrence and continuation of a Recycling Suspension Event, amounts on deposit in the Loan Account representing Principal Receipts and amounts on deposit in the Extraordinary Reserve Account consisting of cash and investments may be used to finance Eligible Education Loans until July 1, 2008; 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 2006 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 2006 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 2006 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 2006 Bonds to be Redeemed

The 2006 Bonds or portions of the 2006 Bonds to be redeemed shall be selected by the Corporation. If less than an entire series of the 2006 Bonds is to be redeemed, the 2006 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.

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 2006 Bonds. The 2006 Bonds are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as requested by an authorized representative of DTC. One fully registered bond certificate is to be issued for each maturity of each series of the 2006 Bonds, as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2006 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 2006 Bonds on DTC's records. The ownership interest of each actual purchaser of each offered Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2006 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 2006 Bonds, except in the event that use of the book-entry system for the 2006 Bonds is discontinued.

To facilitate subsequent transfers, all 2006 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 2006 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 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2006 Bonds such as redemptions, tenders, defaults, and proposed amendments to the 2006 Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2006 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the 2006 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC, nor Cede & Co. (nor any other DTC nominee), will consent or vote with respect to the 2006 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the Record Date. The Omnibus Proxy

assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2006 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2006 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2006 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2006 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2006 Bonds in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the 2006 Bonds are transferred by Direct Participants on DTC's records and followed by book-entry credit of tendered 2006 Bonds to Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2006 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

In the event the book-entry-only system is discontinued for any series of the 2006 Bonds, the Beneficial Owners of such 2006 Bonds should be aware of the following restrictions on transfer and exchange which will then apply; the Corporation will not be obligated to (a) register the transfer or exchange any such 2006 Bonds during a period beginning on the date 2006 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2006 Bonds selected for redemption; (b) register the transfer of or exchange any such 2006 Bonds selected for redemption in whole or in part, except the unredeemed portion of a 2006 Bond being redeemed in part; or (c) make any exchange or transfer of any 2006 Bond during the period beginning on the Record Date and ending on the Interest Payment Date.

The Corporation and the Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of DTC or any DTC Participant with respect to any beneficial ownership interest in the 2006 Bonds, (b) the delivery to any beneficial owner of the 2006 Bonds or other person, other than DTC, of any notice with respect to the 2006 Bonds, or (c) the payment to any beneficial owner of the 2006 Bonds or other person, other than DTC, of any amount with respect to the principal of or interest on the 2006 Bonds. Neither the Corporation nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the Owners.

No assurance can be given by the Corporation or the Trustee that DTC will distribute to the Participants or the Participants and Indirect Participants will distribute to the beneficial owners (a) payments of debt service on the 2006 Bonds paid to DTC or its nominee, as Registered Owner, or (b) any redemption or other notices, or that DTC or the Participants will serve and act on a timely basis or in a manner described in this Official Statement.

Reference to Owners

So long as DTC or its nominee is the Owner, references herein to the Owners or registered owners of the 2006 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 2006 Bonds.

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 $1,631,685,000 aggregate principal amount of its Bonds which will rank on a parity with the 2006 Bonds, and which, together with the 2006 Bonds, will be secured on a basis superior to the Subordinate Series 1998 Bonds. The security for the Bonds under the Resolution is pledged equally and ratably first, to the payment of the principal of and interest on all Senior Bonds (including the 2006 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 2006 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 104.04% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 103.47% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding.

Under the Resolution there is established a Debt Service Reserve Account to be held by the Trustee which is available to make payments of principal and interest due on the Bonds (first to Senior Bonds and then to Subordinate Bonds), to the extent other sources are insufficient, to redeem Bonds and to make certain other payments required under the Resolution to the extent other sources are insufficient or the balance on deposit in the Debt Service Reserve Account is then in excess of the Debt Service Reserve Requirement. The Debt Service Reserve Account is to be funded in the amount of the Debt Service Reserve Requirement, but in no event in an amount that would subject interest on any Bond or Bonds to taxation for federal income tax purposes and, with respect to a particular Series of Bonds, such greater or lesser amount as may be established in the Series Resolutions pursuant to which particular Series of Bonds may thereafter be issued. The Debt Service Reserve Requirement need not be funded by cash or securities but may be funded by a surety, insurance policy, letter of credit, or other similar obligation (in all cases either issued by the Bond Insurer or approved by the Bond Insurer) (a "Funding Instrument"). The Corporation has established Debt Service Reserve Requirements for each Series of the 1995 Bonds, the 1996 Bonds, the 1998 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, the 2004 Bonds, the 2005 Bonds and the 2006 Bonds at 2% of the par amount of the Bonds of such Series Outstanding, provided, however, that while any of the 2006 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 2006 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 and the 2005 Bonds. The Bond Insurer has made a commitment to issue a surety bond (the "2006 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 2006 Bonds, and the 2006 Surety Bond shall constitute a Funding Instrument. The 2006 Bonds will only be delivered upon the issuance of such 2006 Surety Bond. The entire premium on the 2006 Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2006 Bonds. The 2006 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 2006 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 2006 Bonds, but in no event exceeding the Surety Bond Coverage. The Surety Bond coverage is equal to 2% of the principal of the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, the 2004 Bonds, the 2005 Bonds and the 2006 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 2006 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 2006 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2006 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2006 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 2006 BONDS.

INSURANCE ON THE 2006 BONDS

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

The Bond Insurer has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the 2006 Bonds effective as of the date of issuance of the 2006 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, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2006 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the 2006 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 2006 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2006 Bonds, the Bond Insurer will remain obligated to pay principal of and interest on outstanding 2006 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 2006 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 Corporation). 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 2006 Bond which has become Due for Payment and which is made to a 2006 Bondholder by or on behalf of the Corporation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

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

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

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

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

4. loss relating to payments made in connection with the sale of 2006 Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell.

5. loss relating to payments of the purchase price of 2006 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of 2006 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 2006 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2006 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 2006 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2006 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 2006 Bonds, the 2005 Bonds, the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the Senior 1998 Bonds, the 1996 Bonds and the 1995 Bonds, or superior to or equal to or subordinated to the Subordinate Series 1998 Bonds if (a) each Rating Agency requested by the Corporation to rate any Series of Bonds then Outstanding that has issued a current rating thereon confirms that it will not downgrade or withdraw such rating on account of the issuance of the Additional Bonds and (b) so long as any Bonds are insured by the Bond Insurer, the Bond Insurer consents to the issuance of the Additional Bonds.

EXPECTED APPLICATION OF THE 2006 BOND PROCEEDS

The Corporation expects to apply the proceeds of the 2006 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans (approximately $174,373,750), 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 2006 Bonds and related expenses (approximately $876,250), including the Underwriter's discount. A portion of such amount will be used to purchase the 2006 Surety Bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2006 Bonds and to pay the insurance premium for the Financial Guaranty Insurance Policy.

CHARACTERISTICS OF EDUCATION LOANS

As of April 30, 2006, Education Loans in an aggregate principal amount of approximately $1,583,490,880 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of April 30, 2006.

LOAN TYPE

	Education Loans Held Under Resolution as of April 30, 2006	
	Outstanding Principal	
Consolidation	$922,962,944	58.29%
HEAL	$14,364,815	0.91%
PLUS	$104,472,867	6.60%
SLS	$564,298	0.04%
Stafford Subsidized	$193,028,643	12.19%
Stafford Unsubsidized	$134,984,865	8.52%
VSAC Extra Advantage	$120,784,179	7.63%
VSAC Extra Classic	$1,853,192	0.12%
VSAC Extra Institutional	$23,853,924	1.51%
VSAC Extra Law	$61,633,259	3.89%
VSAC Extra Medical	$4,987,894	0.30%
Total	$1,583,490,880	100.00%

BORROWER PAYMENT STATUS

	Education Loans Held Under Resolution as of April 30, 2006	
Deferred	$305,763,093	19.30%
Grace	$38,585,475	2.44%
Repay	$893,049,735	56.40%
School	$346,092,577	21.86%
Total	$1,583,490,880	100.00%

The characteristics of Education Loans held under the Resolution as of April 30, 2006 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 2006 Bond on any Interest Payment Date and the payment of principal on any 2006 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 2006 Bonds coming due by reason of acceleration, optional redemption or extraordinary mandatory redemption. See "INSURANCE ON THE 2006 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 April 30, 2006, 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 2006 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 2006 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. The United States Senate and House of Representatives have both passed, and the President has signed into law, the Deficit Reduction Act of 2005. Included in the Deficit Reduction Act of 2005 is the Higher Education Reconciliation Act of 2005 (the "2005 Higher Education Act Amendments"), which amend several provisions of the Higher Education Act governing the Federal Family Education Loan Program (the "FFEL Program"). The 2005 Higher Education Act Amendments extend various provisions of the Higher Education Act through September 30, 2012 and include, but are not limited to, provisions that (i) reduce student loan insurance from 98% to 97% for loans for which the first disbursement is made after July 1, 2006, (ii) reduce the reimbursement available for student loans services by servicers designated for exceptional performance from 100% to 99%, (iii) require payment by lenders to the Department of Education of any interest paid by borrowers on student loans first disbursed on or after April 1, 2006, 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" below, and (iv) phases out 9.5% floor loan recycling for lenders like the Corporation by the year 2010. See Appendix E -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

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 it 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. The Corporation is unable to predict the impact of this change on the 2006 Bonds or on its education loan program.

During the continued reauthorization process of other provisions of the Higher Education Act, proposed amendments are likely. Any changes could affect the student loans expected to be held under the Resolution following the issuance of the 2006 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.

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

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

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 Series 2006 Bonds.

Interest Rate Risk

The interest rates on the 2006 Bonds initially outstanding as Auction Rate Securities (sometimes referred to herein as "Auction Rate Securities" or "ARS") will be based on auctions of those 2006 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 2006 Bonds, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds, including the 2006 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 2006 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).

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 2006 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 2006 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 2006 Bonds.

On May 24, 2005, the Office of Inspector General ("OIG") of the United States Department of Education issued its Final Audit Report into certain amounts billed to the Department of Education by the New Mexico Educational Assistance Foundation ("NMEAF") in respect of certain education loans held by NMEAF. In the Report, the OIG questioned NMEAF's ability to extend a certain type of loan return billing (the so-called "9.5% floor loan" return treatment) on its pre-October 1, 1993 bonds refunded by the issuance of tax-exempt refunding bonds issued on or before September 30, 2004. NMEAF disagreed strongly with the Report, stating publicly that the Report incorrectly analyzed applicable law and regulations, and that a series of Department of Education policy statements have clearly supported NMEAF's floor loan billing practices since October 1, 1993. NMEAF also pointed out that the OIG can only recommend certain actions to the Secretary of the Department of Education, and has no separate enforcement capability. The Secretary subsequently determined that NMEAF had complied with applicable laws, regulations, and departmental guidance.

The 9.5% floor loan return treatment is advantageous to the Corporation, and to the Trust Estate, in certain low-interest rate environments such as were experienced for a number of years. The Trust Estate includes Federal

Act Loans which the Corporation considers eligible for 9.5% floor loan return treatment, including loans refunded by the issuance of tax-exempt refunding bonds issued on or before September 30, 2004. The Corporation believes that its treatment of such Federal Act Loans as 9.5% floor loans complies with the Higher Education Act (including the Taxpayer-Teacher Protection Act of 2004 and the Higher Education Reconciliation Act of 2005) and Department of Education guidance since November 1993, and is consistent with industry practice.

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

Uncertainty as to Available Remedies

The remedies available to Owners of the 2006 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 2006 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by limitations on the availability of equitable remedies. In addition, the Higher Education Act provides that a security interest in student loans made pursuant to the FFEL Program may be perfected either through the taking of possession of the promissory notes evidencing such loans (or copies thereof) or by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law. If, through fraud, inadvertence or otherwise, a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Education Loans (or copies thereto), any security interest of the Trustee in the related Education Loans could be defeated.

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

The Resolution provides that the Corporation and the Trustee may undertake certain various actions based upon receipt by the Trustee of the written consent of the Bond Insurer and/or confirmation from each of the 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 2006 Bonds, investors in the 2006 Bonds will be subject to such actions and their impact on credit quality. Currently, the Rating Agencies rating the 2006 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 2006 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 2006 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:

DIRECTORS	PRINCIPAL OCCUPATIONS OR AFFILIATIONS
Chris A. Robbins Chair	Executive Vice President, EHV - Weidmann Industries, Inc. St. Johnsbury, 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 *ex officio*	Treasurer, State of Vermont Montpelier, Vermont
David Ginevan	Executive Vice President for Facilities Planning (Retired) Middlebury College Middlebury, Vermont
Pamela A. Chisolm	Director of Financial Aid Community College of Vermont Waterbury, Vermont
Dorothy R. Mitchell	Higher Education and Community Volunteer Worcester, Vermont
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:

NAME	POSITION
Chris A. Robbins	Chair
Martha P. Heath	Vice Chair
David Larsen	Secretary
Donald R. Vickers	President – CEO
Steven Karcher	Vice President of Finance and Administration and Assistant Secretary
Patrick J. Kaiser	Vice President of Student Services and Assistant Secretary
Scott A. Giles	Vice President of Policy, Research and Planning 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 Administration and Assistant Secretary of the Corporation, joined the Corporation in 1999. Mr. Karcher was previously the Vice President of Business Affairs at Marywood University, Scranton, Pennsylvania. He is a licensed Certified Public Accountant.

Mr. Scott A. Giles, Vice President of Policy, Research and Planning 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 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 acquires and originates Federal Act Loans, HEAL Loans and Statutory Loans.

Certain Education Loans are eligible for the Corporation's Vermont Value Program. Under the Vermont Value Program, a program that was established by the Corporation on July 1, 1994, students or parents with qualified loans held by the Corporation are eligible for 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 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 April 30, 2006, 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 April 30, 2006, federally-reinsured education loans in the outstanding aggregate principal amount of approximately $1,589,527,735 were guaranteed by the Corporation.

Reserve Ratio. As of April 30, 2006, the Corporation's reserve ratio was 0.490%. 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, 2005 was .92%. 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 April 30, 2006.

School Type	Outstanding Principal	Percentage of Guaranteed Loans Outstanding (as of April 30, 2006)
Four-Year	$1,146,382,968	73%
Two-Year	$ 98,320,781	6%
Proprietary	$ 110,599,415	7%
Other[1]	$ 228,187,716	14%
Total	$1,583,490,880	100%

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

Outstanding Debt of the Corporation

As of April 30, 2006, the Corporation had outstanding the following bonds and notes. Except for the 1995 Bonds, the 1996 Bonds, the 1998 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 Bonds, the 2003 Bonds, the

2004 Bonds and the 2005 Bonds (which were issued and are secured under the Resolution), all such debt obligations were issued and are secured under resolutions that are separate and distinct from the Resolution.

Designation	Amount Outstanding	Credit Enhancement
1985 Series A	$ 40,900,000	Letter of Credit from State Street Bank
1995 Series A,B,C,D	$ 96,000,000	Insured by Ambac Assurance
1996 Series F,G,H,I	$ 100,000,000	Insured by Ambac Assurance
1998 Series K,L,M,N	$ 155,000,000	Insured by Ambac Assurance
1998 Series O	$ 10,000,000	No Credit Support
2000 Series 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	$ 21,430,000	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
Total	$ 1,704,015,000	

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the 2006 Bonds. Failure to comply with such requirements could cause interest on the 2006 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds. The Corporation has covenanted to comply with such requirements. Bond Counsel is further of the opinion that interest on the 2006 Bonds is a specific preference item for purposes of the federal alternative minimum tax.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2006 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 2006 Bonds.

Tax Matters Related to the 2006 Bonds

The accrual or receipt of interest on the 2006 Bonds may otherwise affect the federal income tax liability of the owners of the 2006 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 2006 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 2006 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

2006 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 2006 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 2006 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the 2006 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 2006 Bonds or the due existence or powers of the Corporation.

APPROVAL OF LEGALITY

The legality of the authorization, issuance and sale of the 2006 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 opinion of Bond Counsel to the Corporation is to be delivered with the 2006 Bonds substantially in the form 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 2006 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 2006 Bonds) and such obligations (including the 2006 Bonds) are authorized security for any and all public deposits.

UNDERWRITING

The 2006 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 2006 Bonds at a price of par less a discount equal to $464,413. The obligation of the Underwriter to purchase the 2006 Bonds is subject to certain terms and conditions set forth in the bond purchase contract. The bond purchase contract provides that the Underwriter will not be obligated to purchase any of the 2006 Bonds unless all such Bonds are available for

purchase. The initial public offering prices of the 2006 Bonds may be changed by the Underwriter from time to time without notice.

The Underwriter may offer and sell the 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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 2006 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, 2005, were audited by Baker Newman & Noyes LLC, independent auditors, as stated in their report thereon dated October 7, 2005. 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 2006 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 2006 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and /or interest on the 2006 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 2006 Bonds from Citigroup Global Markets, Inc., 388 Greenwich Street, 19th Floor, New York, NY 10013, Attention: Student Loan Group, and thereafter from Vermont Student Assistance Corporation, P.O. Box 2000, 10 East Allen Street, Winooski, Vermont 05404, Attention: President or the Financial Advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022.

MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any of the 2006 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 2006 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 2006 Bonds.

Use of this Official Statement in connection with the sale of the 2006 Bonds has been authorized by the Corporation.

VERMONT STUDENT ASSISTANCE CORPORATION

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

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

ARTICLE I

SHORT TITLE, DEFINITIONS, INTERPRETATIONS

Section 1.1. Definitions. In the Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings. Certain terms used in the Resolution and defined therein are summarized in this Official Statement in Appendix B —"AUCTION PROCEDURES FOR THE 2006 BONDS."

"'AA' Financial Commercial Paper Rate," means, as of any date of determination, (i) the interest equivalent of the 30-day rate on commercial paper placed on behalf of financial issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, as of the close of business on the Business Day immediately preceding such date of determination. If at the time quotations are required, any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Financial Commercial Paper Rate, or if less than three Commercial Paper Dealers are then serving as such for any reason, the "AA" Financial Commercial Paper Rate shall be determined on the basis of such quotations or quotations furnished by the Commercial Paper Dealer or Commercial Paper Dealers then serving as such and providing a quotation. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (a) 100 times (b) the quotient (rounded upward to the next higher one thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (A) 1.00 and (B) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days from (and including) the date of determination to (but excluding) the date on which such commercial paper matures and the denominator of which shall be 360.

"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 2006 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.

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

"All-Hold Rate" on any date of determination, means the interest rate per annum equal to 85% (as such percentage may be adjusted) of the lesser of: (a) the After-Tax Equivalent on such date and (b) the Index on such date; provided, that in no event shall the All -Hold Rate be more than the Maximum Rate.

"Applicable Number of Business Days" means the greater of (i) two (2) Business Days or (ii) one (1) Business Day plus the number of Business Days by which the Rate Determination Date for an Auction Period precedes the next Interest Payment Date.

"Applicable Percentage," on any date of determination, means the percentage determined (as such percentage may be adjusted as described in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS — Auction Procedures — Adjustment in Percentages Used to Determine Maximum, All Hold and Non-Payment Rates") based on the lower of the prevailing rating of a series of the Auction Rate Securities in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

Credit Rating		Applicable Percentage
S&P	Moody's	
"AAA"	"Aaa"	175%
"AA-" to "AA+"	"Aa3" to "Aa1"	175%
"A-" to "A+"	"A3" to "A1"	175%
"BBB- to "BBB+"	"Baa3" to "Baa1"	200%
Below "BBB-"	Below "Baa3"	265%

provided, that if the Auction Rate Securities are not then rated by either Moody's or S&P, the Applicable Percentage shall be 265%.

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

"Auction" means the implementation of the Auction Procedures on a Rate Determination Date.

"Auction Agent" means the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which the Auction Agent means the Substitute Auction Agent.

"Auction Agent Agreement" means the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement is entered into, after which Auction Agent Agreement means such Substitute Auction Agent Agreement.

"Auction Period" means the Interest Period applicable to any 2006 Bonds, with respect to which, after the Initial Period, the Interest Rate is determined pursuant to the Auction Procedures, which Period shall generally consist of (i) with respect to the Senior Series 2006TT Bonds and the Senior Series 2006UU Bonds, thirty-five (35) days and (ii) with respect to the Senior Series 2006VV Bonds, seven (7) days, in each case commencing on a Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date, as the same may be adjusted as described in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS— Changes in Auction Terms — Changes in Auction Period or Periods".

"Auction Period Adjustment" shall mean the change, from time to time, in the length of an Auction Period and, specifically, (i) with respect to an Auction Period between seven (7) and ninety (90) days, inclusive, from such an Auction Period to any other Auction Period between seven (7) and ninety (90) days, inclusive, or (ii) with respect to an Auction Period between ninety-one (91) days and the Stated Maturity of the series of Auction Rate Securities, inclusive, from such an Auction Period to an Auction Period between ninety-one (91) days and the Stated Maturity for the Auction Rate Securities, inclusive, if such latter Auction Period is no more than three (3) months shorter or no more than three (3) months longer than the Auction Period for the series of Auction Rate Securities established upon its initial issuance or pursuant to the most recent Auction Period Conversion.

"Auction Period Conversion" shall mean with respect to one or more series of Auction Rate Securities, the change, after prior written notification to each Rating Agency, in the length of an Auction Period (i) from an Auction Period between seven (7) and ninety (90) days, inclusive, to an Auction Period between ninety-one (91) days and the Stated Maturity of such series of 2006 Bonds, inclusive (ii) from an Auction Period between ninety-one (91) days and the Stated Maturity of such series of 2006 Bonds, inclusive, to an Auction Period between seven (7) and ninety (90) days, inclusive, or (iii) from an Auction Period between ninety-one (91) days and the Stated Maturity of such series of 2006 Bonds, inclusive, to an Auction Period between ninety-one (91) days and the Stated Maturity of such series of 2006 Bonds, inclusive, if such latter Auction Period is at least three (3) months shorter or at least three (3) months longer than the Auction Period for such series of 2006 Bonds established upon its initial issuance or pursuant to the most recent Auction Period Conversion.

"Auction Period Conversion Date" shall mean the date on which an Auction Period Conversion is effective which shall be a Rate Adjustment Date.

"Auction Procedures" means the procedures set forth in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS."

"Auction Rate" means the rate of interest per annum determined for the 2006 Bonds pursuant to the implementation of the Auction Procedures while such 2006 Bonds are Auction Rate Securities.

"Auction Rate Securities" means the 2006 Bonds bearing interest at an Auction Rate.

"Authorized Denominations" means while the 2006 Bonds bear interest at an Auction 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 Auction Rate Securities" has the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS — Auction Procedures — Determination of Sufficient Clearing Bids and Auction Rate".

"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.

"Bid" has the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Submission of Orders".

"Bidder" has the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Submission of Orders".

"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.

"Broker-Dealer" means, with respect to the 2006 Bonds, Citigroup Global Markets Inc., or any other broker or dealer (as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that is a Participant (or an affiliate of a Participant), has been selected by the Corporation pursuant to the 2006 Twelfth Series Resolution and has entered into a Broker-Dealer Agreement that remains in effect on the date of reference.

"Broker-Dealer Agreement" means each agreement between the Auction Agent and a Broker-Dealer, approved by the Corporation 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. Each Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement, dated as of July 1, 2006 between The Bank of New York, as Auction Agent, and Citigroup Global Markets, Inc., as Broker-Dealer.

"Business Day" means, with respect to the 2006 Bonds, any day on which banks located (a) in the city in which the principal corporate trust office of the Trustee is located, (b) in the city in which the office of the Bond Insurer at which drawings under the Financial Guaranty Insurance Policy are to be honored (initially, New York,

New York) is located, and (c) in the city in which the principal office of the remarketing agent is located, are generally open for business and on which the New York Stock Exchange is open.

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

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

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

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

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

"Certificate and Agreement" means the Certificate and Agreement by and between the Corporation and the Bond Insurer to be entered into as of the date of initial delivery of the 2006 Bonds to the Purchaser.

"Change of Tax Law" means , with respect to any beneficial owner of the Auction Rate Securities, any amendment to the Internal Revenue Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the effective date of the initial Auction Period which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any Owner of the Auction Rate Securities the interest of which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

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

"Commercial Paper Dealers" shall mean Citigroup Global Markets Inc., its successors and assigns, and any other commercial paper dealer appointed as provided in the 2006 Twelfth Series Resolution.

"Conversion" means a change, after prior written notification to each Rating Agency, in interest rate from an Auction Rate to a Fixed Rate or from an Auction Rate to a Variable Rate or from a Variable Rate to an Auction Rate.

"Conversion Date" shall mean, with respect to a series of 2006 Bonds, the date on which a change from an Auction Rate to a Fixed Rate or a change from an Auction Rate to a Variable Rate or from a Variable Rate to an Auction Rate, or from a Variable Rate to a Variable Rate with a different Interest Period becomes effective, which date shall only occur on a Rate Adjustment Date for such series of 2006 Bonds.

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

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

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

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

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

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

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

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

"Electronic Means" means, with respect to the 2006 Bonds, telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

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

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

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

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

"Existing Holder" shall have the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS – Auction Participants."

"Existing Holder Registry" shall mean the registry of Persons who are Existing Holders, maintained by the Auction Agent as provided in the Auction Agent Agreement.

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

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

"Financial Guaranty Insurance Policy" means the financial guaranty insurance policy issued by Ambac Assurance on the date of issuance and delivery of the 2006 Bonds, insuring the payment when due of the principal of and interest on such 2006 Bonds as provided therein.

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

"Fixed Rate" means the fixed rate of interest borne on any series of 2006 Bonds on and after the Conversion Date with respect to such series and determined in accordance with the 2006 Twelfth Series Resolution.

"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.

"Hold Order" shall have the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS – Auction Procedures – Submission of Orders."

"Index", on any Rate Determination Date, shall mean (a) with respect to any series of 2006 Series Bonds with an Auction Period of 60 days or less, the S&P Weekly High Grade Index and (b) with respect to any series of 2006 Bonds with an Auction Period of more than 60 days, the Index so determined by the Market Agent which shall equal the average yield on no less than three publicly offered securities selected by the Market Agent which are offered at par, have substantially the same underlying security, bear interest determined for approximately the same period as the relevant Interest Period on such series of 2006 Bonds, bear interest not subject to the alternative minimum tax, and are rated no lower than "Aa" by Moody's or "AA" by S&P. If the Index cannot be determined as provided above, a comparable substitute index selected by the Market Agent with the approval of an Authorized Officer of the Corporation may be used.

"Initial Auction Agent" means The Bank of New York, its successors and assigns.

"Initial Auction Agent Agreement" means the Auction Agency Agreement, dated as of July 1, 2006, between the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

"Initial Market Agent" means Citigroup Global Markets Inc., its successors and assigns.

"Initial Interest Payment Date" means, with respect to the 2006 Bonds, December 15, 2006.

"Initial Period" means the period commencing on the Date of Issuance and continuing through and including (a) with respect to the Senior Series 2006TT Bonds, August 15, 2006, (b) with respect to the Senior Series 2006UU Bonds, August 17, 2006 and (c) with respect to the Senior Series 2006VV Bonds, July 18, 2006.

"Initial Rate Adjustment Date" means, with respect to (a) the Senior Series 2006 TT Bonds, August 16, 2006, (b) the Senior Series 2006UU Bonds, August 18, 2006 and (c) the Senior Series 2006VV Bonds, July 19, 2006.

"Initial Rate Determination Date" means, (i) with respect to the Senior Series 2006TT Bonds, August 15, 2006, (ii) with respect to the Senior Series 2006UU Bonds, August 17, 2006, and (iii) with respect to the Senior Series 2006VV Bonds, July 18, 2006.

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

"Interest Payment Date" means, with respect to the 2006 Bonds, each June 15 and December 15, commencing December 15, 2006, which dates may be changed as described in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS— Changes in Auction Terms — Changes in the Interest Payment Dates" and also the Stated Maturity if such date is not a June 15 or December 15.

"Interest Period" means, with respect to the 2006 Bonds bearing interest at an Auction Rate or a Variable Rate, each period commencing on a Rate Adjustment Date and ending on the day before the next Rate Adjustment Date or on a Conversion Date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Market Agent" means the Initial Market Agent unless and until a Substitute Market Agent Agreement is entered into, after which Market Agent shall mean the Substitute Market Agent.

"Market Agent Agreement" means the Market Agent Agreement, to be dated as of July 1, 2006, between the Trustee and the Initial Market Agent, until and unless a Substitute Market Agent Agreement is effective, after which Market Agent Agreement shall mean such Substitute Market Agent Agreement, in each case as from time to time amended or supplemented.

"Material Adverse Change in the Loan Program" means, with respect to all Series of Bonds, any change enacted by the United States Congress or implemented by the Secretary or the Department or, if applicable, the legislature of the State, or any change resulting from the actions of the Corporation after the initial delivery date of the 2006 Bonds with respect to (a) the guarantee obligation or guarantee percentage of any Guarantor, or (b) federal insurance provisions with respect to Education Loans, or (c) any other characteristics that would reduce the yield to maturity of such Education Loan, such characteristics to include, to the extent applicable, but not limited to (i) Special Allowance Payments formulae, (ii) the loan interest rate or yield formulae, (iii) federal interest subsidies, or (iv) rebate provisions to either the student borrower or to any other party other than the Corporation or the Trustee; provided that so long as any Bonds are insured by a Financial Guaranty Insurance Policy, (A) such change is determined by the Bond Insurer in its sole discretion to be material and adverse (any such change in one of the characteristics set forth in (c) above resulting in a change of five (5) basis points or less to the yield to maturity of an Education Loan or any such change that does not adversely affect the Cash Flow Statement attached to the

Certificate and Agreement as such Cash Flow Statement may be changed from time to time by a certificate of an Authorized Officer, as reasonably determined by the Bond Insurer, shall not be deemed material) and (B) the Bond Insurer so notifies the Corporation and the Trustee in writing.

"Maximum Interest Rate" means with respect to the Auction Rate Securities 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 Auction Rate Securities and a Favorable Opinion and (ii) written consent of the Bond Insurer or (b) the maximum rate of interest permitted under Vermont law.

"Maximum Rate", on any date of determination, shall mean the interest rate per annum equal to the lesser of (a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent on such date and (ii) the Index on such date, and (b) the Maximum Interest Rate.

"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.

"Non-Payment Rate," on any date of determination, means the interest rate per annum equal to the lesser of (a) 265% of the Index on such date (as such percentage may be adjusted as described in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Adjustment in Percentages Used to Determine Maximum, All Hold and Non-Payment Rates") and (b) fourteen percent (14%).

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

"Order" shall have the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS – Auction Procedures – Submission of Orders."

"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.

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

"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.

"Payment Default" means, with respect to the Auction Rate Securities, (a) a default in the due and punctual payment of any installment of interest on the Auction Rate Securities or (b) a default in the due and punctual payment of any interest on and principal of the Auction Rate Securities at their Maturity.

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

"Potential Holder" has the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS – Auction Participants."

"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.

"Purchaser" means, with respect to the 2006 Bonds, Citigroup Global Markets Inc.

"Rate Adjustment Date" means any date on which the rate of interest borne by a series of 2006 Bonds is subject to change, which shall be the first day of each Interest Period for a series of 2006 Bonds, being the first Business Day following each Rate Determination Date.

"Rate Determination Date" means any date on which the rate of interest to be borne by any Series of the 2006 Bonds for the succeeding Interest Period is determined, which until an Auction Period Adjustment or an Auction Period Conversion shall mean (i) with respect to the Senior Series 2006TT Bonds and Senior Series 2006VV Bonds, the Initial Rate Determination Date and each fifth Tuesday thereafter or, if each Tuesday thereafter is not a Business Day, then the next Business Day, and (ii) with respect to the Senior Series 2006UU Bonds, the

Initial Rate Determination Date and each Thursday thereafter; or, if each Thursday thereafter is not a Business Day, then the next Business Day.

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

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

"Record Date" means with respect to the Auction Rate Securities, the Applicable Number of Business Days immediately preceding each Interest Payment Date.

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

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

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

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

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

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

"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 Rate Determination Date. If the S&P Weekly High

Grade Index is no longer available, then the Market Agent 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 Market Agent for each Rate Determination Date shall be used in lieu of the S&P Weekly High Grade Index for each Rate Determination Date.

"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.

"Securities Depository" means Cede & Co., as the nominee of DTC and its successors and assigns or any successor depository selected or approved by the Corporation.

"Sell Order" has the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Submission of Orders".

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

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

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

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

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

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

"State" means the State of Vermont.

"State Act" means Vermont Statutes Annotated, 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 2006 Bonds, December 15, 2040.

"Statutory Corporate Tax Rate" means, as of any date of determination, the highest tax bracket (expressed in decimals) now or hereafter applicable in each taxable year on the income tax of corporations as set forth in Section 11 of the Internal Revenue Code or any successor section, without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year; the Statutory Corporate Tax Rate as of July 1, 2006, is 35%.

"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.

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

"Submitted Bid" has the meaning set forth in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Validity of Orders".

"Submitted Hold Order" has the meaning set forth in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Validity of Orders".

"Submitted Order" has the meaning set forth in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Validity of Orders".

"Submitted Sell Order" has the meaning set forth in Appendix B, "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Validity of Orders".

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

"Substitute Auction Agent" means the Person with whom the Trustee enters into a Substitute Auction Agent Agreement with the approval of the Corporation.

"Substitute Auction Agent Agreement" means an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Person having the qualifications required by the 2006 Twelfth Series Resolution agrees with the Trustee and the Corporation to perform the duties of the Auction Agent under the 2006 Twelfth Series Resolution.

"Substitute Market Agent" means the Person with whom the Trustee enters into a Substitute Market Agent Agreement with the approval of the Corporation.

"Substitute Market Agent Agreement" means a market agent agreement containing terms substantially similar to the terms of the initial Market Agent Agreement, whereby a Person having the qualifications required by the 2006 Twelfth Series Resolution agrees with the Trustee to perform the duties of the Market Agent under the 2006 Twelfth Series Resolution.

"Sufficient Clearing Bids" has the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR THE 2006 BONDS— Auction Procedures — Submission of Orders".

"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 2006 Bonds.

"2006 Surety Bond" means, with respect to the 2006 Bonds, the amendment to the Surety Bond in an amount equal to the Debt Service Reserve Requirement with respect to the 2006 Bonds (which Surety Bond, issued on June 27, 2001, covers other portions of the Debt Service Reserve Requirement).

"U.S. Government Securities Business Day" means any day except for a Saturday, Sunday or a day on which The Bond Market 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.

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

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

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

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

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

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

"Variable Rate" means any interest rate borne by any 2006 Bonds which is not a Fixed Rate or an Auction Rate.

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

"Vermont Value Program" means any program under which Education Loans are originated, purchased, acquired, financed or refinanced and under which the Corporation has specifically reserved the right (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.

"Winning Bid Rate" shall have the meaning set forth in Appendix B under the caption "AUCTION PROCEDURES FOR 2006 BONDS — Auction Procedures — Determination of Sufficient Clearing Bids and Auction Rate".

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 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 2006 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

AUTHORITY PROCEDURES FOR THE 2006 BONDS

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Resolution (and described in APPENDIX A of this Official Statement). The procedures described in this APPENDIX B apply only to the 2006 Bonds and apply separately to each series of the 2006 Bonds.

Auction Participants

Existing Holders and Potential Holders. Participants in each Auction will include: (a) "Existing Holders," which means (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Auction Rate Securities subject to that Auction; and (b) "Potential Holders," which means any Person (including an Existing Holder) that is (i) a Broker-Dealer when dealing with the Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer, who may be interested in acquiring Auction Rate Securities (or, in the case of an Existing Holder, an additional principal amount of Auction Rate Securities). See "Broker-Dealer" below.

By purchasing the Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser of the Auction Rate Securities or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms described in the 2006 Twelfth Series Resolution; (ii) so long as the beneficial ownership of the Auction Rate Securities is maintained in Book-Entry Form to sell, transfer or otherwise dispose of the Auction Rate Securities, only pursuant to a Bid or Sell Order (each as defined below) placed in an Auction, or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of the Auction Rate Securities so transferred, its Participant or Broker-Dealer advises the Auction Agent of such transfer; (iii) to have its beneficial ownership of the Auction Rate Securities maintained at all times in Book-Entry Form for the account of its Participant, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; (iv) that a Sell Order placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of the Auction Rate Securities specified in such Sell Order; (v) that a Bid placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of the Auction Rate Securities specified in such Bid if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction; (vi) that a Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the principal amount, or a lesser principal amount, of the Auction Rate Securities specified in such Bid if the rate specified in such Bid is, respectively, less than or equal to the Auction Rate determined in the Auction; and (vii) to tender its Auction Rate Securities for purchase at 100% of the principal amount thereof, plus accrued but unpaid interest on a Conversion Date or Auction Period Conversion Date.

The principal amount of the Auction Rate Securities purchased or sold may be subject to proration procedures on the Rate Determination Date. Each purchase or sale of the Auction Rate Securities on the Rate Determination Date will be made for settlement on the first day of the Interest Period immediately following such Rate Determination Date at a price equal to 100% of the principal amount thereof, plus accrued interest. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

Auction Agent. The Bank of New York is appointed in the 2006 Twelfth Series Resolution as Initial Auction Agent to serve as agent for the Corporation in connection with Auctions. The Trustee is directed in the 2006 Twelfth Series Resolution by the Corporation to enter into the Initial Auction Agent Agreement with The Bank of New York, as the Initial Auction Agent. Any Substitute Auction Agent must be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Trustee and the Market Agent in writing and having a combined capital stock or surplus of at least $50,000,000, or (ii) a member of the National Association of Securities Dealers, Inc. 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 2006 Twelfth Series Resolution and

under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the 2006 Twelfth Series Resolution by giving at least 90 days notice to the Trustee, the Corporation and the Market Agent. The Auction Agent may be removed at any time by the Trustee upon the written direction of an Authorized Officer of the Corporation, or the Owners of at least 66-2/3% of the aggregate principal amount of the Auction Rate Securities then Outstanding, and if by the Owners, by an instrument signed by such Owners or their attorneys and filed with the Auction Agent, the Corporation, the Trustee and the Market Agent upon at least 90 days notice. Neither resignation nor removal of the Auction Agent pursuant to the preceding two sentences will be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. If required by the Market Agent, a Substitute Auction Agent Agreement will be entered into with any Substitute Auction Agent by the Trustee at the direction of an Authorized Officer of the Corporation. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 30 days after notifying the Trustee, the Corporation and the Market Agent in writing that it has not received payment of any fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

If the Auction Agent should resign or be removed or be dissolved, or if the property or affairs of the Auction Agent are taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of an Authorized Officer of the Corporation will use its best efforts to appoint a Substitute Auction Agent.

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

The Auction Agent is entitled to a fee, which is payable from the Operating Account as provided in the 2006 Twelfth Series Resolution.

Broker-Dealer. Existing Holders and Potential Holders 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 for the Auction Rate Securities, or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is an Agent Member or an affiliate of an Agent Member, (ii) has been selected by the Corporation and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealer is entitled to a fee, which is payable by the Auction Agent from monies received from the Trustee. Such fee is payable from the Operating Account as provided in the 2006 Twelfth Series Resolution. A Broker-Dealer may submit Orders in Auctions for its own account. Any Broker-Dealer submitting an Order for its own account in any Auction might have an advantage over other Bidders in that it would have knowledge of other Orders placed through it in that Auction, but it would not have knowledge of Orders submitted by other Broker-Dealers. The Broker-Dealer Agreement provides that the Broker-Dealer shall handle its customers' Orders in accordance with its duties under applicable securities laws and rules.

Market Agent. Under the Market Agent Agreement, and in connection with the Auction Rate Securities, the "Market Agent," initially Citigroup Global Markets Inc., will act solely as agent of the Trustee and will not assume any obligation or relationship of agency or trust for or with any of the beneficial owners of Auction Rate Securities.

Auction Procedures

General. Auctions to establish the Auction Rate for the Auction Rate Securities will be held on each Rate Determination Date, except as described in this Official Statement under "THE Auction Rate Securities — Interest Rates on the Auction Rate Securities" by application of the Auction Procedures described in the 2006 Twelfth Series Resolution. The "Rate Determination Date" means (a) with respect to the Senior Series 2006TT Bonds and the

Senior Series 2006VV Bonds, the Initial Rate Determination Date and each fifth Tuesday thereafter or the next Business Day if such Tuesday is not a Business Day, and (b) with respect to the Senior Series 2006UU Bonds, the Initial Rate Determination Date and each Thursday thereafter or the next Business Day if such Thursday is not a Business Day, other than with respect to: (i) an Auction Period which commences on an Auction Period Conversion Date or a Conversion Date; (ii) each Auction Period commencing after the ownership of the Auction Rate Securities is no longer maintained in Book-Entry Form; (iii) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (iv) any Auction Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Periods may be changed as described below under "Changes in Auction Terms."

Calculation of Maximum Rate, All-Hold Rate and Non-Payment Rate. The Auction Agent will calculate the Maximum Rate and the All-Hold Rate on each Rate Determination Date. Upon receipt of notice from the Trustee of a failed Conversion or Auction Period Conversion, the Auction Agent will calculate the Maximum Rate as of such failed Conversion Date or Auction Period Conversion Date and give notice thereof as provided and to the parties specified in the Auction Agent Agreement. If the ownership of the Auction Rate Securities is no longer maintained in book-entry form, the Market Agent will calculate the Maximum Rate on the Business Day immediately preceding each Rate Adjustment Date after delivery of certificates representing the Auction Rate Securities. If a Payment Default has occurred, the Trustee will calculate the Non-Payment Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default. The Auction Agent will determine the "AA" Financial Commercial Paper Rate for each Auction Period other than the first Auction Period; provided that if the ownership of the Auction Rate Securities is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Market Agent will determine the "AA" Financial Commercial Paper Rate for each such Interest Period. The determination by the Market Agent or the Auction Agent, as the case may be, of the "AA" Financial Commercial Paper Rate will (in the absence of manifest error) be final and binding upon all parties. If calculated or determined by the Auction Agent, the Auction Agent will promptly advise the Trustee and the Corporation of the "AA" Financial Commercial Paper Rate.

If the Federal Reserve Bank of New York does not make available its 30-day commercial paper rate for purposes of determining the "AA" Financial Commercial Paper Rate, the Auction Agent will notify the Trustee of such fact and the Trustee will thereupon request that an Authorized Officer of the Corporation promptly appoint at least two Commercial Paper Dealers (in addition to Citigroup Global Markets Inc. who has been appointed as such) to provide commercial paper quotes for purposes of determining the "AA" Financial Commercial Paper Rate. Pending appointment of both such additional Commercial Paper Dealers, Citigroup Global Markets Inc. and any other Commercial Paper Dealer appointed and serving as such will provide the required quotations and such quotations will be used for purposes of the 2006 Twelfth Series Resolution.

Adjustment in Percentages Used to Determine Maximum, All Hold and Non-Payment Rates. The Market Agent will, subject to receipt of written confirmation from each of the Rating Agencies that such action will not affect the rating on any Outstanding Auction Rate Securities, adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate, if any such adjustment is necessary, in the judgment of the Market Agent to reflect any Change of Tax Law such that Auction Rate Securities bearing interest at the Maximum Rate, the All-Hold Rate or the Non-Payment Rate in each case will have substantially equal market values before and after such Change of Tax Law. In making any such adjustment, the Market Agent will take the following factors, as in existence both before and after such Change of Tax Law, into account: (1) short-term taxable and tax-exempt market rates and indices of such short-term rates; (2) the market supply and demand for short-term tax-exempt securities; (3) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Auction Rate Securities; (4) general economic conditions; and (5) economic and financial factors present in the securities industry that may affect or that may be relevant to the Auction Rate Securities.

The Market Agent will communicate its determination to adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate by means of a written notice delivered at least 10 days prior to the Rate Determination Date on which the Market Agent desires to effect the change to the Corporation, the Trustee and the Auction Agent. Such notice will be effective only if it is accompanied by a Favorable Opinion.

An adjustment in the percentages used to determine the All-Hold Rate, the Maximum Rate and the Non-Payment Rate will take effect on a Rate Determination Date only if the Trustee has confirmed that:

(i) the Trustee, the Auction Agent and the Corporation have received, by 11:00 A.M., on the Business Day immediately preceding such Rate Determination Date, a certificate from the Market Agent by telex, telecopy, or similar means, in substantially the form required under the 2006 Twelfth Series Resolution authorizing the adjustment of the percentage used to determine the All-Hold Rate, the Applicable Percentages used to determine the Maximum Rate and the percentage of the Index used in determining the Non-Payment Rate which will be specified in such authorization, and confirming that a Favorable Opinion is expected to be received with respect thereto; and

(ii) the Trustee and the Auction Agent have received a Favorable Opinion by 9:30 A.M., eastern time, on such Rate Determination Date.

If any of the conditions referred to in (i) above are not met, the existing percentage used to determine the All-Hold Rate, the Applicable Percentages used to determine the Maximum Rate and the percentage of the Index used to determine the Non-Payment Rate will remain in effect, and the interest rate on the Auction Rate Securities for the next succeeding Interest Period will be determined in accordance with the Auction Procedures. If the condition referred to in (ii) above is not met, the existing percentage used to determine the All-Hold Rate, the percentage of the Index used to determine the Non-Payment Rate and the Applicable Percentages used to determine the Maximum Rate will remain in effect and the interest rate of the next succeeding Interest Period will equal the Maximum Rate on the Rate Determination Date.

If, on any Rate Determination Date, an Auction is not held for any reason other than that described in the next sentence of this paragraph, then the rate of interest on such series of the Auction Rate Securities for the next succeeding Interest Period will be the Maximum Rate on such Rate Determination Date. If, due to circumstances beyond the reasonable control of the Auction Agent and the Corporation, an Auction is not held on a day which would otherwise be a Rate Determination Date: (a) an Auction shall be held on the next succeeding Business Day on which an Auction can reasonable be held, (b) the then current Interest Period shall be extended through the last day preceding the first Business Day following such Auction, and (c) the next succeeding Interest Period shall commence on the first Business Day following such Auction and shall end on the same day that it would have ended if the Auction had been held on the originally scheduled Rate Determinate Date.

Submission of Orders. So long as the ownership of the Auction Rate Securities is maintained in Book-Entry Form by the Securities Depository, an Existing Holder may sell, transfer or otherwise dispose of the Auction Rate Securities only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to an Auction, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Prior to a Conversion Date, Auctions for the Auction Rate Securities will be conducted on each Rate Determination Date, if there is an Auction Agent on such Rate Determination Date, in the following manner:

Prior to the Submission Deadline (defined as 1:00 P.M., eastern time, on any Rate Determination Date or such other time on any Rate Determination Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Rate Determination Date:

(a) each Existing Holder of Auction Rate Securities may submit to a Broker-Dealer by telephone or otherwise information as to: (i) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period (a "Hold Order"); (ii) the principal amount of Outstanding Auction Rate Securities, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period (a "Sell Order"); and

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Auction Rate Securities which each such Potential Holder offers to purchase, if the Auction Rate for the next succeeding Interest Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Each Hold Order, Bid and Sell Order will be an "Order." Each Existing Holder and each Potential Holder placing an Order is referred to as a "Bidder."

Subject to the provisions described below under "Validity of Orders," a Bid by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be less than the rate specified in such Bid, (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described in clause (d) below under "Acceptance and Rejection of Orders – Sufficient Clearing Bids," if the Auction Rate will be equal to the rate specified in such Bid or (iii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described in clause (c) below under "Acceptance and Rejection of Orders – Insufficient Bids," if the rate specified therein will be higher than the Maximum Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under "Validity of Orders," a Sell Order by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Sell Order or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described in clause (c) below under "Acceptance and Rejection of Orders – Insufficient Bids," if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under "Validity of Orders," a Bid by a Potential Holder will constitute an irrevocable offer to purchase: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be higher than the rate specified in such Bid or (ii), such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described in clause (e) below in "Acceptance and Rejection of Orders – Sufficient Clearing Bids," if the Auction Rate is equal to the rate specified in such Bid.

Validity of Orders

Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Rate Determination Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order: (i) the name of the Bidder placing such Order; (ii) the aggregate principal amount of Auction Rate Securities that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder: (a) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Holder; (b) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and (c) the principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

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

If an Order or Orders covering all Outstanding Auction Rate Securities held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Auction Rate Securities held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Neither the Corporation, the Trustee nor the Auction Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Securities held by such Existing Holder, such Orders will be considered valid as follows and in the following order of priority:

Hold Orders. All Hold Orders will be considered valid, but only up to the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder, and if the aggregate principal amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Holder, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order will be reduced pro rata so that the aggregate principal amount of Auction Rate Securities subject to all such Hold Orders equals the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder.

Bids. Any Bid will be considered valid up to an amount equal to the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to any Hold Orders referred to under "- Hold Orders" above. Subject to the preceding sentence, if multiple Bids with the same rate are submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids will be considered valid up to the amount of such excess. Subject to the two preceding sentences, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to the amount of such excess. In any event, the amount of Outstanding Auction Rate Securities, if any, subject to Bids not valid as described under this caption "- Bids" will be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

Sell Orders. All Sell Orders will be considered valid up to the amount equal to the excess of the principal amount of all Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to Hold Orders and valid Bids referred to above.

If more than one Bid for Auction Rate Securities is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid with the rate and principal amount therein specified. Any Existing Holder that offers to purchase additional Auction Rate Securities is, for purposes of such offer, treated as a Potential Holder. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected. Any Bid specifying a rate higher than the Maximum Rate will be (i) treated as a Sell Order if submitted by an Existing Holder and (ii) will not be accepted if submitted by a Potential Holder. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Rate Determination Date will be irrevocable; provided, however that the Auction Agent with consent of the Market Agent and Broker-Dealer may modify such restriction to allow revocation prior to the Submission Deadline.

A Hold Order, a Bid or a Sell Order that has been determined valid pursuant to the procedures described above is referred to as a "Submitted Hold Order," a "Submitted Bid" and a "Submitted Sell Order," respectively (collectively, "Submitted Orders").

Determination of Sufficient Clearing Bids and Auction Rate**.** Not earlier than the Submission Deadline on each Rate Determination Date, the Auction Agent will assemble all valid Submitted Orders and will determine:

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

(b) from such Submitted Orders whether the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate exceeds or is equal to the sum of (i) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate and (ii) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders described above will be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the "Winning Bid Rate," will be the lowest rate specified in such Submitted Bids such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates were accepted,

the result would be that such Existing Holders described in subparagraph (i) above would continue to hold an aggregate principal amount of Outstanding Auction Rate Securities which, when added to the aggregate principal amount of Outstanding Auction Rate Securities to be purchased by such Potential Holders described in subparagraph (ii) above, would equal not less than the Available Auction Rate Securities.

Notice of Auction Rate. Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Trustee and the Corporation of the Maximum Rate and the All-Hold Rate and the components thereof on the Rate Determination Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period will be equal to the Winning Bid Rate so determined;

(b) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Rate; or

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

Acceptance and Rejection of Orders. Existing Holders will continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as described below under "Sufficient Clearing Bids" and "Insufficient Bids".

Sufficient Clearing Bids. If Sufficient Clearing Bids have been made, all Submitted Sell Orders will be accepted and, subject to the provisions described below under "- Authorized Denominations Requirement", Submitted Bids will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be accepted;

(d) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Outstanding Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of Auction Rate

Securities subject to all such Submitted Bids will be greater than the principal amount of Auction Rate Securities (the "remaining principal amount") equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder will be rejected in part and such Existing Holder will be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(e) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be accepted, but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

Insufficient Bids. If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders) subject to the provisions described below under "- Authorized Denominations Requirement", Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be accepted, and specifying any rate that is higher than the Maximum Rate will be rejected; and

(c) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

All Hold Orders. If all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids will be rejected.

Authorized Denominations Requirement. If, as a result of the procedures described above regarding Sufficient Clearing Bids and Insufficient Clearing Bids, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Auction Rate Securities purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Insufficient Clearing Bids, any Potential Holder would be entitled or required to purchase less than a principal amount of Auction Rate Securities equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, allocate Auction Rate Securities for purchase among Potential Holders so that only Auction Rate Securities in an Authorized Denomination are

purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Auction Rate Securities.

Based on the results of each Auction, the Auction Agent will determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Auction Rate Securities.

Neither the Corporation nor any affiliate of the Corporation may submit an Order in any Auction.

Any calculation by the Auction Agent (or the Market Agent or Trustee, if applicable) of the Auction Rate, the "AA" Financial Commercial Paper Rate, the Maximum Rate, the All-Hold Rate, and the Non-Payment Rate will, in the absence of manifest error, be binding on all other parties.

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

Trustee Not Responsible For Auction Agent, Market Agent and Broker-Dealers

Neither the Trustee nor the Corporation will be liable or responsible for the actions of or failure to act by the Auction Agent, the Market Agent or any Broker-Dealer under the 2006 Twelfth Series Resolution or under the Auction Agent Agreement, the Market Agent Agreement or any Broker-Dealer Agreement, except as otherwise provided in any such agreements. The Trustee and the Corporation may conclusively rely upon any information required to be furnished by the Auction Agent, the Market Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

Changes in Auction Terms

Changes in Auction Period or Periods. Upon meeting certain conditions set forth in the 2006 Twelfth Series Resolutions (including, in some cases, with the consent of the Bond Insurer), while any of the Auction Rate Securities are Outstanding, the Corporation may, from time to time, change the length of one or more Auction Periods pursuant to an Auction Period Adjustment 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 length of the Auction Period and the interest rate borne by the Auction Rate Securities. The Corporation will not initiate such change in the length of the Auction Period unless it will have received the written consent of the Market Agent, which consent will not be unreasonably withheld, not less than 15 days nor more than 20 days prior to the Auction Period Adjustment. The Corporation will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent, each Rating Agency and the Securities Depository in substantially the form of, or containing substantially the information contained in, the 2006 Twelfth Series Resolution at least 10 days prior to the Rate Determination Date for such Auction Period.

The length of any such adjusted Auction Period pursuant to an Auction Period Adjustment is subject to the limitations thereon set forth in the definition of an Auction Period Adjustment and the Auction Period Adjustment will occur only on a Rate Adjustment Date.

An Auction Period Adjustment will not be allowed unless Sufficient Clearing Bids existed or all the affected Outstanding Auction Rate Securities were subject to Submitted Hold Orders at both the Auction immediately preceding the date on which the notice of the proposed change was given as described above and the Auction immediately preceding the proposed change.

The Auction Period Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., eastern time, on the Business Day before the Rate Determination Date for the first such Auction Period,

a certificate from the Corporation authorizing an Auction Period Adjustment specified in such certificate and (B) Sufficient Clearing Bids exist or all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders at the Auction on the Rate Determination Date for such first Auction Period. If the condition referred to in (A) is not met, the Auction Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met, but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period will be the Maximum Rate and the Auction Period will be the Auction Period determined without reference to the proposed change.

Upon meeting certain conditions set forth in the 2006 Twelfth Series Resolution (including, in some cases, with the consent of the Bond Insurer), the Corporation may, from time to time, change the length of one or more Auction Periods pursuant to an Auction Period Conversion. In the event of a failed Auction Period Conversion, the interest rate for the Auction Period for which the proposed Auction Period Conversion was to have been effective will be the Maximum Rate, and the Auction Period will be the Auction Period determined without reference to the proposed change.

Changes in the Rate Determination Date. So long as any Auction Rate Securities bear interest at an Auction Rate, the Market Agent, with the written consent of an Authorized Officer of the Corporation, may specify an earlier Rate Determination Date (but in no event more than five Business Days earlier) than the Rate Determination Date that would otherwise be determined in accordance with the definition of Rate Determination Date with respect to one or more specified Auction Periods 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 a Rate Determination Date and the interest rate borne on the Auction Rate Securities. The Corporation will not consent to such change in the Rate Determination Date unless the Corporation will have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Rate Determination Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Rate Determination Date to the Trustee, the Auction Agent, the Corporation and the Securities Depository.

Changes in the Interest Payment Dates. The Corporation may change the Interest Payment Date with respect to the Auction Rate Securities to or from semi-annual payments on June 15 and December 15 of each year to or from the Interest Payment Dates specified in the notice of such change described below 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 date on which interest should be paid and the interest rate borne on the Auction Rate Securities. The Corporation will not initiate such change in the Interest Payment Date unless it receives written confirmation from each Rating Agency that such action will not affect the rating on any Outstanding Bond and the written consent of the Market Agent, which consent will not be unreasonably withheld, not less than three days nor more than 20 days prior to the effective date of such change. The Corporation will initiate the change in the Interest Payment Date of the Auction Rate Securities by giving written notice to the Trustee, the Auction Agent, the Market Agent and the Securities Depository in substantially the form of, or containing substantially the information contained in the 2006 Twelfth Series Resolution at least 10 days prior to the Rate Determination Date for such Auction Period.

A change in the Interest Payment Date for the Auction Rate Securities will not be allowed unless Sufficient Clearing Bids existed at both the Auction for the Auction Rate Securities before the date on which the notice of the proposed change was given as provided in the 2006 Twelfth Series Resolution and the Auction for the Auction Rate Securities immediately preceding the proposed change.

The changes in Auction terms described above must be made with respect to all of the Auction Rate Securities of a series. In connection with any change in Auction Terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

APPENDIX C

SETTLEMENT PROCEDURES FOR AUCTION RATE SECURITIES

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Resolution (and described in Appendix A of this Official Statement). These Settlement Procedures apply only to the 2006 Bonds.

(a) Not later than 3:00 P.M. on each Rate Determination Date, the Auction Agent is required to notify by telephone or other means of electronic communication acceptable to the Auction Agent and such Broker-Dealer each Broker-Dealer that participated in the Auction held on such Rate Determination Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

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

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

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted Bids or Sell Orders on behalf of an Existing Holder, whether such Bids or Sell Orders were accepted or rejected, in whole or in part, and the principal amount of 2006 Bonds, if any, to be sold by such Existing Holder;

(iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of 2006 Bonds, if any, to be purchased by such Potential Holder;

(v) if the aggregate amount of 2006 Bonds to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of 2006 Bonds to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers and the name of the Participant, if any, of each such Buyer's Broker-Dealer acting for one or more purchasers of such excess principal amount of 2006 Bonds and the principal amount of 2006 Bonds to be purchased from one or more Existing Holders on whose behalf such Seller's Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;

(vi) if the principal amount of 2006 Bonds to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the amount of 2006 Bonds to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of 2006 Bonds and the principal amount of 2006 Bonds to be sold to one or more Potential Holders on whose behalf such Buyer's Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted;

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

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

(b) On each Rate Determination Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder must:

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

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Participant to pay to such Buyer's Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of the 2006 Bonds to be purchased pursuant to such Bid against receipt of such 2006 Bonds;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Seller's Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Seller's Broker-Dealer (or its Participant) through the Securities Depository the principal amount of the 2006 Bonds to be sold pursuant to such Order against payment therefor;

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

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

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

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any 2006 Bonds received by it in connection with such Auction pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Rate Determination Date:

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

(ii) each Seller's Broker-Dealer that is not a Participant in the Securities Depository must instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Holder delivering 2006 Bonds to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such 2006 Bonds against receipt of such 2006 Bonds, and (B) deliver such 2006 Bonds through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository must instruct its Participant (A) to pay through the Securities Depository to Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the 2006 Bonds to be purchased pursuant to (b)(ii) above against receipt of such 2006 Bonds and (B) deliver such 2006 Bonds through the Securities Depository to the Participant of the purchaser against payment therefor.

(e) On the Business Day following each Rate Determination Date:

(i) each Participant for a Bidder in the Auction on such Rate Determination Date referred to in (d)(i) above must instruct the Securities Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository will execute such transactions;

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

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

(f) If an Existing Holder selling 2006 Bonds in an Auction fails to deliver such 2006 Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of 2006 Bonds that is less than the principal amount of 2006 Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of 2006 Bonds to be so delivered will be determined solely by such Broker-Dealer, but only in Authorized Denominations. Delivery of such lesser principal amount of 2006 Bonds will constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of 2006 Bonds which represents any departure from the results of an Auction, as determined by the Auction Agent, will be of no effect unless and until the Auction Agent has been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Participant to take delivery of or deliver, as the case may be, the principal amount of the 2006 Bonds or to pay for the 2006 Bonds purchased or sold pursuant to an Auction or otherwise.

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APPENDIX D

AMBAC ASSURANCE CORPORATION

The following information concerning Ambac Assurance has been provided by representatives of Ambac Assurance and has not been confirmed or verified by the Corporation or the Underwriter or their respective counsel. No representation is made herein as to the accuracy of such information or as to the absence of material changes in such information subsequent to the date of such information or the date hereof.

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $9,417,000,000 (unaudited) and statutory capital of $5,879,000,000 (unaudited) as of March 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Issuer of the 2006 Bonds.

Ambac Assurance makes no representation regarding the 2006 Bonds or the advisability of investing in the 2006 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "INSURANCE ON THE 2006 BONDS".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006; and

2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006.

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 have recently been introduced and/or passed by Congress. 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 parents of dependent students, graduate students or professional 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 Subsidized Stafford Loans.

Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than PLUS Loans made to "parent borrowers") selected by the borrower, as well as loans made pursuant to the Perkins Loan Program, the Health Professional Student Loan Programs and the William D. Ford Federal Direct Loan Program (the "Direct Loan Program" further described below). 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 percent, with a maximum rate of 8.25 percent. 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 percent, with a maximum rate of 8.25 percent. 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% percent 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 one percent, with a maximum rate of 8.25 percent.

Loan Limits

The Higher Education Act requires that Subsidized and Unsubsidized Stafford Loans made to cover multiple enrollment periods, such as a semester, trimester or quarter be disbursed by eligible lenders in at least two separate disbursements. A Stafford Loan borrower may receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of a Stafford Loan, 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, 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 (ii) or 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 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; in instances in which a borrower and spouse both have such loans outstanding, the total combined payments for such a couple may not be less than $600 per year. Regulations of the Secretary require lenders to offer standard, graduated or income-sensitive repayment schedules to borrowers. Use of income sensitive repayment plans may extend the ten-year maximum term for up to 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 interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or rehabilitation training program, (b) not in excess of three years while the borrower is seeking and unable to find full-time employment, (c) 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, is in active military duty, or is in reserve status and called to active duty, and (d) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance ("Forbearance") during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which Forbearance is mandatory. Mandatory Forbearance periods exist when the borrower is impacted by a national emergency, military mobilization, or when the geographical area in which the borrower resides or works is declared a disaster area by certain officials. Other mandatory periods include periods during which the borrower is (a) participating in a medical or dental residency and is not eligible for deferment; (b) serving in a qualified medical or dental internship program or certain national service programs; or (c) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, Forbearance may be granted at the lender's option. Forbearance also extends the maximum repayment periods.

Master Promissory Note

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

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.

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.1%[(1)]
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8%[(2)]
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34%[(3)]

(1) Substitute 2.5% in this formula while such loans are in the in-school or grace period.
(2) Substitute 2.2% in this formula while such loans are in the in-school or grace period.
(3) Substitute 1.74% in this formula while such loans are in the in-school or grace period.

The formula for Special Allowance Payment rates for PLUS and Consolidation Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.64%

Special Allowance Payments are generally payable, with respect to variable rate 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 Guarantor 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 Guarantor 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 Guarantor's Federal 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, 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 are not retained by the lender, but 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, education loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower's dependents. Further, the Secretary is to reimburse a guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below. 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[(1)]	GUARANTOR REINSURANCE RATE FOR LOANS MADE ON OR AFTER OCTOBER 1, 1998[(1)]
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

[(1)] Other than student loans made pursuant to the lender-of-last resort program or student loans transferred by an insolvent guarantor as to which the amount of reinsurance is equal to 100%.

The original principal amount of loans guaranteed by a guarantor which are in repayment for purposes of computing reimbursement payments to a guarantor means the original principal amount of all loans guaranteed by a guarantor less: (i) guarantee payments on such loans, (ii) the original principal amount of such loans that have been fully repaid, and (iii) the original amount of such loans for which the first principal installment payment has not become due.

In addition, the Secretary may withhold reimbursement payments if a guarantor makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary or applicable federal law. A supplemental guarantee agreement is subject to annual renegotiation and to termination for cause by the Secretary.

Under the Guarantee Agreements, if a payment on a Federal Family Education Loan guaranteed by a guarantor is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the payment. Guarantor retentions remaining after payment of the Secretary's equitable share on such collections on consolidations and rehabilitations of defaulted loans is 18.5% and for other loans is 23%. 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). 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, 2006. The Corporation anticipates a renewal of this contract with respect to HEAL consolidation loans.

Insurance contracts entered into after August 29, 1991 eliminated reimbursement for lenders upon the filing by a borrower for bankruptcy under Chapter 7 of the Bankruptcy Code unless such borrower also files a complaint to determine dischargeability of the HEAL Loan. This amendment to insurance contracts is based upon 42 U.S.C. 294(g) which provides that HEAL Loans may not be discharged in any bankruptcy proceeding until five years after the date on which repayment of this loan begins. Such amendment does not affect reimbursement provisions in connection with Chapter 11 and 13 bankruptcies by borrowers.

The Corporation's receipt of federal reimbursement payments under the HEAL Loan program is subject to compliance by the Corporation with the Insurance Contract and requirements of the Public Health Service Act. The Corporation is required, among other matters, to assure that all of the requirements for the initial insurability of the HEAL Loans have been met and to exercise due diligence in servicing and collecting such loans and to maintain required records.

Failure to comply with the terms and conditions of the Insurance Contract and the provisions of the Public Health Service Act and regulations thereunder entitles the Secretary of HHS to terminate its agreement with the Corporation. In the event of termination, the Secretary of HHS remains obligated to make reimbursement payments for claims made by the Corporation prior to termination. The Secretary of HHS also may take less severe actions than termination, such as requesting the return of certain payments made to the Corporation, all in accordance with procedures for the limitation, suspension or termination of lender eligibility under the Higher Education Act program of direct federal insurance to holders of student loans ("FISLP").

Eligibility for Federal Insurance

A HEAL Loan is federally insurable provided:

(i) The loan was made to an eligible student by an eligible lender pursuant to loan documents containing certain provisions, which, in general, require a loan term of not less than 10 years nor more than 25 years (with deferments, 33 years), minimum annual payments and may provide for payments of additional amounts (including costs and insurance premiums in the event of a borrower default);

(ii) Principal and interest may be deferred (a) during the term that the borrower continues study, (b) for up to four years of residency or internship training, (c) for up to three years during which the

borrower is a member of the Armed Forces, a Peace Corps volunteer or a volunteer under the National Health Service Corps or the Domestic Volunteer Act. For HEAL Loans received on and after October 22, 1985, payments may be additional deferred up to two years during which time the borrower is in fellowship training study or engaged in a post-doctoral training.

(iii) The loan, (a) if made to a student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, or podiatric medicine does not exceed $20,000 in any one academic year, (b) if made to a student enrolled in a school of pharmacy, public health, allied health, or chiropractic, or a graduate program in health administration or clinical psychology did not exceed $12,500 in any one academic year; and

(iv) Loans made to a student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry or podiatric medicine did not exceed $80,000 in aggregate principal amount and in the case of a student enrolled in a school of pharmacy, public health, allied health or chiropractic, or a graduate program in health administration or clinical psychology did not exceed $25,000 in aggregate principal amount.

HEAL Loans could also have been made to non-student borrowers for the limited purpose of consolidating and refinancing existing HEAL Loans.

Interest Provisions

At a lender's option, the interest rate on a HEAL Loan may be calculated on a fixed rate or on a variable rate basis. Whichever method is selected, that method must continue over the life of the HEAL Loan, except where the HEAL Loan is consolidated with another HEAL Loan. Interest that is calculated on a fixed rate basis is determined for the life of the HEAL Loan during the calendar quarter in which the HEAL Loan is disbursed. It may not exceed the maximum rate determined for that quarter by the Secretary of HHS. Interest that is calculated on a variable rate basis will vary every calendar quarter throughout the life of the Loan as the market price of U.S. Treasury Bills changes. For any quarter, the interest may not exceed the maximum rate determined by the Secretary of HHS.

For each calendar quarter, the Secretary of HHS determines the maximum annual HEAL interest rate by, (i) determining the average of the bond equivalent rates reported for the 91-day U.S. Treasury Bill auctioned for the preceding calendar quarter, (ii) adding 3.5 percentage points for loans made before October 22, 1985 and 3 percentage points for loans made on or after October 22, 1985, and (iii) rounding that figure to the next higher one-eighth of one percent.

Any borrower who received a HEAL Loan bearing an interest rate that is fixed at a rate in excess of 12 percent per year may enter into an agreement with the eligible lender that made for the reissuance of such loan in order to permit the borrower to obtain the interest rate in effect for HEAL Loans as of the date the borrower submits an application to such lender for such reissuance.

As a general rule, unpaid accrued interest may be compounded annually and added to principal. However, if a borrower postpones payment of interest before the beginning of the repayment period or during deferment periods or if the lender permits postponement during the forbearance, the lender may refrain from annual compounding of interest and add accrued interest to principal only at the time repayment of principal begins or resumes. A lender may refrain only if this practice does not result in interest being compounded more frequently than annually. Interest begins to accrue when a loan is disbursed. However, a borrower may postpone payment of interest before the beginning of the repayment period or during deferment periods or a lender may permit postponement during forbearance. In these cases, payment of interest must begin or resume on the date on which repayment of principal begins or resumes. If payment of interest is postponed, it may be added to the principal for purposes of calculating a repayment schedule.

HEAL Consolidation Loans

HEAL Loans may be consolidated by the lender only if the borrower agrees. A lender may (i) consolidate two or more HEAL Loans of the same borrower into a single HEAL Loan or (ii) consolidate the HEAL Loan with any other loan to the borrower if the consolidation will not result in terms less favorable to the borrower than if no consolidation had occurred.

A lender may reissue any HEAL Loan selected by the borrower for incorporation in a consolidation loan, if (i) a lender determines that (a) the HEAL Loan to be consolidated is a legal, valid and binding obligation of the borrower; (b) each such loan was made and serviced in compliance with applicable laws and regulations; and (c) the insurance on such loan is in full force and effect; and (ii) the loan being reissued was not in default at the time the request for consolidation is made.

The Secretary of HHS insures the HEAL Loan components of consolidation loans under a certificate of comprehensive insurance with no insurance limit. The reissued loan is made in an amount which includes outstanding principal, capitalized interest, accrued unpaid interest not yet capitalized, and authorized late charges.

Due Diligence Obligations Under the Public Health Service Act

Under the Public Health Service Act, pursuant to regulations promulgated by the Secretary of HHS, a lender must exercise due diligence in the collection of HEAL Loans. In order to exercise due diligence, certain procedures must be implemented. These procedures include notification to the borrower at specified intervals of a delinquency, that the continued delinquent status will be reported to consumer credit reporting agencies if payment is not made, and if required, skip tracing procedures. Records must be made of compliance with such collection procedures. When a borrower is 90 days delinquent in making a payment, a lender must request pre-claim assistance from the Public Health Service.

With respect to the default by a borrower on any HEAL Loan, a lender must commence and prosecute an action for such default unless, in the determination of the Secretary of HHS (i) a lender has made reasonable efforts to serve process on the borrower involved and has been unsuccessful with respect to such efforts and prosecution of such an action would be fruitless because of the financial or other circumstances of the borrower; (ii) for HEAL Loans made before November 4, 1988, the loan amount was less than $5,000; or (iii) for HEAL Loans after November 4, 1988 the loan amount was less than $2,500. Only after such collection effort does the Secretary of HHS pay the amount of the loss sustained.

STATUTORY LOAN PROGRAM

The Corporation has established loan programs that are separate and apart from the Higher Education Act or the Public Health Service Act (the "Statutory Loan Program"). Loans made pursuant to the Corporation's Statutory Loan Program are herein referred to as "Statutory Loans."

THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM HAVE BEEN ESTABLISHED TO SERVE THE GOALS OF THE CORPORATION IN INCREASING THE AVAILABILITY OF CREDIT FOR EDUCATION, CONSISTENT WITH PROVIDING FOR PAYMENT OF DEBT SERVICE ON THE CORPORATION'S OBLIGATIONS. THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM ARE, HOWEVER, SUBJECT TO CHANGE AT ANY TIME WITHOUT NOTICE TO OR CONSENT OF THE OWNERS OF THE 2006 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 2006 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 2006 Bonds.

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

$175,250,000
VERMONT STUDENT ASSISTANCE CORPORATION
EDUCATION LOAN REVENUE BONDS
SERIES 2006

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 $175,250,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2006TT, Senior Series 2006UU and Senior Series 2006VV (collectively, the "2006 Bonds").

The 2006 Bonds have been authorized and issued pursuant to Sections 2821 through 2873 of Title 16 of the Vermont Statutes Annotated, as amended (the "Act"), and the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted by the Corporation's Board of Directors on June 16, 1995 and the 2006 Twelfth Series Resolution of the Corporation adopted by the Corporation's Board of Directors on June 8, 2006 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2006 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 2006 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 2006 Bonds are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2006 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 2006 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 2006 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 2006 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 2006 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding limited obligations of the Corporation, payable solely from the amounts pledged therefor as described in (2) above, and entitled to the protections, benefits and security of the Resolution.

4. The 2006 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 2006 Bonds.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the 2006 Bonds. Failure to comply with such requirements could cause interest on the 2006 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds. The Corporation has covenanted to comply with such requirements. We are further of the opinion that interest on the 2006 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 2006 Bonds.

The accrual or receipt of interest on the 2006 Bonds may otherwise affect the federal income tax liability of the owners of the 2006 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws of the State of Vermont, the 2006 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 2006 Bonds and the Resolution and the rights of the registered owners of the 2006 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

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

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

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

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

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

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

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

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

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APPENDIX H

FINANCIAL STATEMENTS

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

FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

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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, 2005 and 2004, 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, 2005 and 2004, 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 October 7, 2005, 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 – 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2005 and 2004 information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 7, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended June 30, 2005 and 2004

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

VSAC administers the State grant program, funded by State appropriations, at no cost to the State. VSAC also administers and awards over 105 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 2005 and Fiscal 2004 information due to the fact that the Financial Statements include Fiscal 2005 and Fiscal 2004 information.

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 $494.4 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.5 billion in education loans receivable at June 30, 2005.
- VSAC returned over $7.6 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 gain a complete understanding of VSAC's financial position.

Condensed Financial Information

Statement of Revenues and Expenses

	2005	2004
	(in thousands)	
Revenues:		
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	2,693	3,823
Scholarship and gift revenue	4,718	3,710
Other revenue	791	552
Total operating revenues	136,257	116,314
Expenses:		
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	39,064	13,095
Corporate operating expenses and depreciation	30,307	28,383
Total expenses	130,083	94,333
Excess of revenue over expenses	6,174	21,981
Total net assets at the beginning of the year	101,670	79,689
Total net assets at the end of the year	$107,844	$101,670

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 $46.5 million in 2004 to $52.4 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 $3.8 million to $2.7 million in fiscal 2005. A one-time award of approximately $1.0 million was received in fiscal 2004.

Scholarship revenues increased from $3.7 million in 2004 to $4.7 million for 2005.

Expenses

VSAC has four main types of expenses: 1. Student aid, 2. Interest and other costs of debt, 3. Noninterest 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 continuing 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 $494 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. Interest on debt 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 30.0% of total operating expenses. Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness, and by changes in 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 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.

Condensed Financial Information

Statement of Net Assets

	2005	2004
	(in thousands)	
Assets:		
Cash and investments	$ 399,071	$ 341,371
Education loans receivable (plus interest)	1,473,076	1,310,175
Other assets	27,874	16,843
Total assets	$1,900,021	$1,668,389
Liabilities:		
Bonds and notes payable (plus interest)	$1,762,638	$1,551,701
U.S. Treasury arbitrage payable	20,083	8,604
Other liabilities	9,456	6,414
Total liabilities	1,792,177	1,566,719
Net assets:		
Restricted	54,736	48,829
Unrestricted	50,731	50,392
Net investment in property and equipment	2,377	2,449
Total net assets	107,844	101,670
Total liabilities and net assets	$1,900,021	$1,668,389

Net Assets

Cash balances from June 30, 2004 to 2005 increased from $341.4 million 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 $1.5 billion at June 30, 2005, up from $1.3 billion in 2004.

U.S. Treasury arbitrage payable was 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. 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.

FISCAL 2004

Fiscal 2004 Highlights and Overall Financial Position

- During the year ended June 30, 2004 VSAC provided over $21.6 million in grants and scholarships to Vermont students.
- VSAC originated over $451.7 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.3 billion in education loans receivable at June 30, 2004.
- VSAC returned over $13.3 million in interest and principal rebates to students in its loan programs during fiscal 2004.
- VSAC expanded its services and offerings to students and families through its Resource Center, outreach counselors, website and through the Vermont Higher Education Investment Plan.
- VSAC's total net assets increased $22.0 million to $101.7 million. As a result of a change in interpretation of DE regulations surrounding special allowance, VSAC made a reassignment of student loans that qualify for special allowance categories eligible for the 9.5% floor interest rate. This resulted in approximately $8.3 million of additional special allowance billings in 2004 from the DE. This amount was collected in July of 2004. In September 2004, the DE issued a report indicating the adjustment appeared to be in compliance with current guidance and regulations.
- VSAC's unrestricted Net Assets increased $22.7 million as a result of available equity from bonds either maturing or refunded. VSAC's net revenue base continued to grow as loan originations, including traditional Stafford and PLUS loans, consolidation loans and alternative loans, increased.

Condensed Financial Information

Statement of Revenues and Expenses

	2004	2003
	(in thousands)	
Revenues:		
Interest and fees earned from education loan financing	$ 84,539	$ 70,530
Other loan and guarantee program revenues	4,948	4,973
Investment interest	2,058	2,568
Vermont state appropriations	16,684	16,582
Federal grants	3,823	2,550
Scholarship and gift revenue	3,710	3,651
Other revenue	552	1,189
Total operating revenues	116,314	102,043
Expenses:		
Student aid	21,609	20,603
Interest rebated to borrowers	13,309	14,664
Interest on debt	17,937	20,043
Other loan financing costs	13,095	12,174
Corporate operating expenses and depreciation	28,383	26,345
Total expenses	94,333	93,829
Excess of revenue over expenses	21,981	8,214
Total net assets at the beginning of the year	79,689	71,475
Total net assets at the end of the year	$101,670	$ 79,689

Revenues

VSAC's fiscal 2004 operations resulted in an increase in net assets of $22.0 million. All revenues for 2004 are considered operating revenues. VSAC realized $116.3 million in revenues versus $94.3 million in total expenses in 2004. VSAC's revenues include interest income on student loans, as well as various federal interest subsidies and special allowance payments.

Overall loan revenue to VSAC is closely related to the general interest rate environment. Most student loans held by VSAC have variable interest rates. During 2004, interest revenue and subsidies increased from $70.5 to $84.4 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented $8.6 million in 2004. VSAC also receives special allowance payments when variable borrower interest rates fall below certain levels. Low interest rates, and the reinterpretation of Department of Education Regulations in 2004 accounted for an increase in these special allowance payments from $16.1 to $29.4 million. The reinterpretation accounted for approximately $8.3 million of the increase.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled $5.0 million in 2004 and 2003.

Lower interest rates resulted in declining interest revenue on investments. Investments include student loan funds temporarily invested in cash and short term investments, and scholarship funds invested for long-term growth and income. Interest on all investments declined from $2.6 million to $2.1 million in 2004, as interest rates declined. These investments are related to timing of student loan bond issues.

VSAC's appropriation increased slightly from $16.6 million to $16.7 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.

Federal grants also increased from $2.6 million to $3.8 million in fiscal 2004. A one-time award of approximately $1.0 million accounted for the majority of the increase.

Scholarship revenues remained at $3.7 million for 2004.

Expenses

VSAC has four main types of expenses: student aid; interest and other costs of debt; non-interest costs of financing loans; and costs of operations.

Student Aid – VSAC provided Vermont students with $21.6 million in student aid during 2004; $16.7 million was provided from State appropriations. An additional $3.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 22.9% of VSAC's operating expenses. The total aid in 2004 increased 4.9% over 2003.

While not strictly a student aid expense, interest rebated to borrowers is an item that helps current and former students and parents manage their education debt. VSAC provided $13.3 million in rebates of interest to borrowers in fiscal 2004 down slightly from 2003 due to the overall decline in interest rates on these loans. These rebates represent 14.1% of VSAC's fiscal 2004 operating expenses.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the $451.7 million of loans VSAC made available to students and parents in fiscal 2004.

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

With the decrease in interest rates from fiscal 2003 to 2004, VSAC interest costs fell from $20.0 to $17.9 million, even as overall indebtedness increased from $1.33 to $1.55 billion. This represented 18.9% of VSAC operating expenses in fiscal 2004.

Other loan financing costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, and provisions for changes in arbitrage earnings liability to the U.S. Treasury, as well as a variety of other costs incurred in issuing and managing over $1.55 billion in outstanding bonds and notes. These costs totaled $13.1 million in 2004, representing approximately 13.9% 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.

Costs of operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $28.4 million in 2004, an increase of approximately 7.7% from 2003. Salaries and benefits were $20.5 million in fiscal 2004, approximately 72% of costs of operations. Overall costs of operations represent 30.1% of total operating expenses.

Total expenses for 2004 were $94.3 million. Revenues totaled $116.3. The excess of revenues over expenses was $22.0 million. The change in total net assets for the year was an increase of $22.0 million. The ending balance of net assets was $101.7 million, as compared to $79.7 million at June 30, 2003.

Condensed Financial Information

Statement of Net Assets

	2004	2003
	(in thousands)	
Assets:		
Cash and investments	$ 341,371	$ 272,538
Education loans receivable (plus interest)	1,310,175	1,147,143
Other assets	16,843	12,265
Total assets	$1,668,389	$1,431,946
Liabilities:		
Bonds and notes payable (plus interest)	$1,551,701	$1,333,404
U.S. Treasury arbitrage payable	8,604	13,007
Other liabilities	6,414	5,846
Total liabilities	1,566,719	1,352,257
Net assets:		
Restricted	48,829	48,681
Unrestricted	50,392	28,144
Net investment in property and equipment	2,449	2,864
Total net assets	101,670	79,689
Total liabilities and net assets	$1,668,389	$1,431,946

Net Assets

Cash balances increased from June 30, 2003 to 2004 from $272.5 to $341.3 million as a result of fiscal 2004 bond proceeds not fully utilized for loan originations at June 30, 2004. Combined cash and investments were $341.3 million at year end.

Student loans and interest receivable totaled $1.31 billion at June 30, 2004, up from $1.15 billion in 2003.

U.S. Treasury arbitrage payable was described in the expense discussion. This liability decreased as of June 30, 2004, to $8.6 million, or approximately 0.52% of total assets.

Unrestricted net assets increased from $28.1 million in 2003 to $50.4 million in 2004 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 $36.3 million at June 30, 2004.

Property, plant and equipment increased during the fiscal year, as new acquisitions of $4.9 million exceeded depreciation expense of $1.5 million. The result was an increase in both the property, plant and equipment asset, and the corresponding net asset figure to $6.3 million at June 30, 2004. Land purchased for VSAC's new building accounted for $3.2 million of the acquisitions.

Changes in Long-Term Debt

Bonds, notes and interest payable increased by $218.3 million to $1.55 billion in 2004. The increase resulted from new borrowings exceeding maturities and refundings of existing debt during fiscal year 2004. During the fiscal year, VSAC issued $380.9 million in new bonds and notes. These bonds and notes provided $218 million of new capital, and retired and refunded $160.6 million of existing debt.

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

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

ASSETS

	2005	2004
	(In Thousands)	
Current assets:		
Cash and cash equivalents (notes 3, 8 and 9)	$ 398,557	$ 341,371
Investments (note 3)	515	–
Receivables:		
Student loans, net (notes 4, 5, 8 and 9)	108,329	104,380
Student loan interest and special allowance (note 10)	32,276	33,941
Investment interest	577	218
Federal administrative and program fees	253	446
Other	727	1,073
Other assets	1,382	1,389
Total current assets	542,616	482,818
Noncurrent assets:		
Receivables:		
Student loans, net (notes 4, 5, 8 and 9)	1,332,471	1,171,854
Capital assets, net (note 7)	16,598	6,324
Deferred bond issuance costs, net	8,336	7,393
Total noncurrent assets	1,357,405	1,185,571
Total assets	$1,900,021	$1,668,389

LIABILITIES AND NET ASSETS

	2005	2004
	(In Thousands)	
Current liabilities:		
Bonds and notes payable (notes 8 and 9)	$ 57,675	$ 30,400
Accounts payable and other liabilities	6,915	3,117
Deferred revenue	2,541	3,297
Accrued interest on bonds payable	2,459	1,307
U.S. Treasury rebates payable (note 9)	253	2,560
Total current liabilities	69,843	40,681
Noncurrent liabilities:		
Bonds and notes payable (notes 8 and 9)	1,702,504	1,519,994
U.S. Treasury rebates payable (note 9)	19,830	6,044
Total noncurrent liabilities	1,722,334	1,526,038
Total liabilities	1,792,177	1,566,719
Commitments and contingencies (notes 7, 12 and 13)		
Net assets:		
Invested in capital assets, net of related debt	2,377	2,449
Restricted:		
Bond resolution	52,696	48,197
Grants and scholarships	2,040	632
Unrestricted	50,731	50,392
Total net assets	107,844	101,670
Total liabilities and net assets	$1,900,021	$1,668,389

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, 2005 and 2004

	2005	2004
	(In Thousands)	
Operating revenues:		
U.S. Department of Education (note 10):		
Interest benefits	$ 8,667	$ 8,590
Special allowance	40,931	29,420
Interest and fees on student loans	52,420	46,529
Vermont state appropriations	17,143	16,684
Interest on investments	4,472	2,058
Guarantee agency administrative revenues	4,422	4,948
Federal grants	2,693	3,823
Scholarship and gift income	4,718	3,710
Other income	791	552
Total operating revenues	136,257	116,314
Operating expenses:		
Interest, net of amortization	32,317	17,937
Salaries and benefits (note 11)	21,516	20,457
State grants and scholarships	20,828	21,609
Interest rebated to borrowers	7,567	13,309
Other general and administrative	7,324	6,399
Interest subject to U.S. Treasury rebate (note 9)	11,529	(3,145)
Credit enhancement and remarketing fees	5,677	5,040
Consolidation and lender paid fees	9,578	8,387
Other loan related expenses	284	470
Provision for losses on student loans (note 4)	11,640	1,260
Depreciation and amortization (note 7)	1,467	1,529
Amortization of bond issuance costs	356	1,081
Total operating expenses	130,083	94,333
Excess of operating revenues over operating expenses	6,174	21,981
Net assets, beginning of year	101,670	79,689
Net assets, end of year	$107,844	$101,670

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, 2005 and 2004

	2005	2004
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	$ 66,646	$ 39,729
Principal payments received on student loans	316,109	297,849
Cash paid to suppliers for goods and services	(49,546)	(57,949)
Loans made	(494,359)	(451,689)
Cash paid to employees for services	(21,504)	(20,329)
Interest received on student loans	52,191	47,049
Vermont state appropriations received	17,143	16,684
Net cash used in operating activities	(113,320)	(128,656)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds/notes payable	270,385	358,850
Payments on bonds/notes payable	(60,800)	(160,585)
Interest paid to bond holders	(30,124)	(18,123)
Premiums paid at redemption for bond refunding	–	(1,562)
Net cash provided by noncapital financing activities	179,461	178,580
Cash flows from capital and related financing activities:		
Proceeds from the sale of bonds/notes payable	–	22,006
Interest paid to bond holders	(841)	(226)
Acquisition and construction of fixed assets	(11,760)	(4,989)
Net cash (used) provided by capital and related financing activities	(12,601)	16,791
Cash flows from investing activities:		
Interest received on investments	4,113	2,118
Redemption of investments	–	10,870
Purchase of investments	(467)	–
Net cash provided by investing activities	3,646	12,988
Net increase in cash and cash equivalents	57,186	79,703
Cash and cash equivalents, beginning of year	341,371	261,668
Cash and cash equivalents, end of year	$ 398,557	$ 341,371

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

STATEMENTS OF CASH FLOWS
(CONTINUED)

Years Ended June 30, 2005 and 2004

	2005	2004
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities:		
Excess of operating revenues over operating expenses	$ 6,174	$ 21,981
Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities:		
Depreciation and amortization	1,467	1,529
Provision for losses on student loans	11,640	1,260
Amortization of alternative fees received	(466)	(145)
Amortization of bond issuance costs	356	1,081
Amortization of bond (premium) discount	200	(508)
Unrealized gain on investments	(48)	–
Gains/losses on disposal of fixed assets	19	–
Investment interest received	(4,113)	(2,118)
Interest paid to bond holders	30,964	18,349
Changes in operating assets and liabilities:		
(Increase) decrease in investment interest receivable	(359)	60
Increase in student loans receivable	(175,740)	(153,695)
Decrease (increase) in student loans interest receivable	1,665	(10,452)
Decrease (increase) in federal administrative and program fees receivable	193	(36)
Decrease (increase) in other receivables	346	(273)
Decrease in other assets	7	96
Increase in deferred bond issuance costs	(1,298)	(2,046)
Increase in accounts payable and other liabilities	3,798	14
(Decrease) increase in deferred revenue	(756)	554
Increase in accrued interest on bonds payable	1,152	96
(Increase) decrease in U.S. Treasury rebates payable	11,479	(4,403)
Total adjustments	(119,494)	(150,637)
Net cash used in operating activities	$(113,320)	$(128,656)

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, 2005 and 2004

	Federal Loan Reserve Fund	VHEIP	2005 Total	2004 Total
		(In Thousands)		
ASSETS HELD FOR OTHERS				
Cash and cash equivalents	$ 8,663	$ 405	$ 9,068	$ 9,171
Investments	–	40,446	40,446	29,166
Student loans receivable and accrued student loan interest	–	3,533	3,533	3,028
Investment interest receivable	19	8	27	19
Due from U.S. Department of Education	2,716	–	2,716	1,044
Other assets	39	40	79	46
Total assets	$11,437	$44,432	$55,869	$42,474
LIABILITIES				
Accounts payable and other liabilities	$ 968	$ 70	$ 1,038	$ 398
Note payable	–	3,504	3,504	3,009
Federal advances	538	–	538	538
Amounts held on behalf of investors (note 6)	–	40,858	40,858	29,487
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)	9,379	–	9,379	8,490
Total liabilities	$11,437	$44,432	$55,869	$42,474

See accompanying notes to the financial statements.

1. Authorizing Legislation

The Vermont Student Assistance Corporation ("VSAC") was created as a public non-profit corporation by an act of the General Assembly of the State of Vermont in accordance with the provisions of the Higher Education Act of 1965, as amended ("the Act"). The purpose of VSAC is to provide opportunities for Vermont residents to pursue post-secondary education by awarding grants and guaranteeing, making, financing, and servicing loans to students. VSAC also administers scholarships, student employment programs, and outreach services to students seeking post-secondary education. In addition, VSAC manages the Vermont Higher Education Investment Plan (VHEIP).

Pursuant to Vermont statutes, VSAC is responsible for the administration of the Loan Finance Program. Under this program, VSAC originates, purchases, services and consolidates education loans. The majority of education loans are financed through the issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and reinsured by the U.S. Department of Education (DE) through the Federal Family Education Loan (FFEL) Program. The bonds and notes outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of the bonds and notes. The bonds and notes are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

For financial reporting purposes, VSAC is considered a component unit of the State of Vermont and is included as part of the State's financial reporting entity. VSAC's relationship with the State of Vermont primarily consists of an annual appropriation designated for grant aid to Vermont students.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

VSAC follows the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when obligation for payment is incurred.

2. Summary of Significant Accounting Policies (Continued)

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, VSAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, to the extent these pronouncements do not conflict with GASB pronouncements.

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

Restriction on Net Assets

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

Management Estimates

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

2. Summary of Significant Accounting Policies (Continued)

Student Loans

Student loans consist primarily of guaranteed student loans which are made to post-secondary students attending eligible educational institutions and guaranteed parental loans made to parents of dependent undergraduate students, graduate and professional students, and independent undergraduate students attending eligible educational institutions. Student loans also include consolidation loans which are loans to eligible students that combine two or more existing student loans and extend the repayment period.

Student loans are stated at their unpaid principal balance less net deferred loan origination fees. Loan origination fees received are deferred and amortized over the estimated life of the loan using a method that approximates the level yield method.

Allowance for Loan Losses

A substantial portion of student loans are guaranteed by VSAC, as guarantor under the FFEL Program, and substantially all such loans are reinsured by DE. However, there is still the risk that loans may lose their guarantee and become uncollectible under certain circumstances and certain student loans are not guaranteed. Also, loans originated subsequent to October 1, 1993, are only reinsured by DE for 98% of the principal amount. Student loans issued under the FFEL program originated prior to October 1, 1993, are 100% reinsured by DE. At June 30, 2005 and 2004, most of VSAC's student loans are subject to the 98% guarantee from DE. Therefore, management of VSAC has established an allowance for loan losses to provide for probable losses on the 98% guaranteed loans and for loans that have no guarantee. The amount of the allowance, which is established through a provision for losses on student loans charged to expense, is based on management's estimation of the probable losses within the portfolio. Primary considerations in establishing the allowance are the amounts of unguaranteed loans in the portfolio, delinquencies, current economic conditions and historical loss experience.

Operating Revenue and Expenses

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

Cash Equivalents

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

2. Summary of Significant Accounting Policies (Continued)

Investments

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. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Bond Issuance Costs

Costs of bond issuances, which are comprised of underwriters' 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.

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 2004 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.

(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, 2005 and 2004 are presented below:

	2005		2004	
	Balance	Amount Insured or Collateralized	Balance	Amount Insured or Collateralized
Cash and repurchase agreements	$ 5,871	$ 6,515	$ 4,307	$ 4,709
Money market accounts	392,686	See Below	337,064	See Below
	$398,557		$341,371	

At June 30, 2005 and 2004, 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, 2005, were $6,896 and the bank balances at June 30, 2004, were $5,161. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $6,515 and $4,709 of the bank balances at June 30, 2005 and 2004, 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 $381 and $452 at June 30, 2005 and 2004, respectively, were uninsured and uncollateralized.

At June 30, 2005 and 2004, the money market accounts are primarily invested in the Federated Prime Cash Obligations Fund. The Fund objective is to provide current income consistent with stability of principal and liquidity. The Prime Cash Obligations Fund invests primarily in a portfolio of short-term, high quality fixed income securities insured by banks, corporations and the U.S. Government. The underlying assets are not held in the name of VSAC.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Investments

VSAC held the following investments at June 30, 2005. There were no investments as of June 30, 2004.

	Cost	Fair Value
Domestic equities	$304	$354
Corporate bonds	123	121
U.S. Government bonds	40	40
	$467	$515

At June 30, 2005, the ratings for investments in debt securities are summarized as follows:

Investment	Maturities	Fair Value	Standard & Poor's Rating
Corporate bonds:			
Chevron Texaco Bonds (3.375%)	02/15/2008	25	AA
Citigroup Bonds (3.5%)	02/01/2008	25	AA-
GE Capital Corporation Bonds (6.5%)	11/01/2006	26	AAA
JP Morgan Chase Bonds (CPI +1.73%)	06/28/2009	20	A+
Wal-Mart Stores Bonds (5.45%)	08/01/2006	25	AA
		121	
U.S. Government bonds:			
U.S. Treasuries (1.65%)	09/30/2005	20	–
U.S. Treasuries (2.75%)	07/31/2006	20	–
		40	

Interest Rate Risk. Through its investment policy, VSAC manages its interest rate risk by establishing a target range of 20% to 35% of its investments in fixed rate securities. VSAC's current investment manager works with a target of 26% of investments in fixed rate securities with a target duration of no greater than three years, with a minimum of 10% of the total portfolio in U.S. Government treasury issues.

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.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

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 53% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap stocks (no investment in companies with market capitalizations less than $500 million). As of June 30, 2005, 8% of VSAC's investments were invested in U. S. Treasuries. No other single issuer represented more than 5% of VSAC's investments.

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

Student loans have annual interest rates ranging from 2.77% to 11.0%; the majority are insured by DE and the U.S. Department of Health and Human Services. There are certain student loans that are not guaranteed. Most of VSAC's borrowers are located in the New England states, primarily in the State of Vermont.

Student loans are classified as being in "interim" status during the period from the date the loan is made until a student is out of school either for six or nine months. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" status is a period during the life of the loan when repayment is suspended for authorized purposes.

Student loans receivable as of June 30, 2005 and 2004, are summarized as follows:

	2005	2004
Status:		
Interim status	$ 338,598	$ 306,215
Deferral status	254,206	214,247
Repayment status	864,105	759,031
Less: Allowance for loan losses	(12,611)	(1,806)
Deferred origination fees, net	(3,498)	(1,453)
Total student loans receivable	1,440,800	1,276,234
Less: noncurrent student loans receivable	1,332,471	1,171,854
Current student loans receivable	$ 108,329	$ 104,380

(Dollars in Thousands)

4. Student Loans Receivable (Continued)

	2005	2004
Guarantee type:		
U.S. Department of Education	$1,298,034	$1,179,464
U.S. Department of Health and Human Services	16,901	18,713
Other – nonguaranteed	141,974	81,316
Less: Allowance for loan losses	(12,611)	(1,806)
Deferred origination fees, net	(3,498)	(1,453)
Total student loans receivable	1,440,800	1,276,234
Less: noncurrent student loans receivable	1,332,471	1,171,854
Current student loans receivable	$ 108,329	$ 104,380

The student loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Balance July 1	$ 1,806	$ 1,079
Net loans charged off	(835)	(533)
Provision for losses on student loans	11,640	1,260
Balance June 30	$12,611	$1,806

The significant increase in the Allowance for loan losses from 2004 to 2005 resulted from a revised estimate. 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.

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

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

(Dollars in Thousands)

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

Changes in Federal loan reserve funds held for DE for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Additions:		
Reimbursement from DE on default loan purchases	$ 14,799	$ 13,444
Default loan collections	83	72
Loan administrative fees	2,128	1,982
Investment income	157	54
Total additions	17,167	15,552
Deductions:		
Purchases of defaulted loans from lenders	15,234	13,794
Default aversion fee paid	613	585
Other disbursements	431	257
Total deductions	16,278	14,636
Federal loan reserve funds held, at beginning of year	8,490	7,574
Federal loan reserve funds held, at end of year	$ 9,379	$ 8,490

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 2005 and 2004, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $1,298,034 and $1,179,464 at June 30, 2005 and 2004, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

(Dollars in Thousands)

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

VHEIP was established by the Vermont Legislature in April 1998. VHEIP encourages Vermont residents to save for college or other post-secondary education through tax favorable investments. The program has been designed to comply with the requirements for treatment as a "Qualified Tuition Program" under Section 529 of the Internal Revenue Code. There are 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.

The changes in assets held on behalf of investors for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Additions:		
Investment income	$ 1,279	$ 860
Net realized and unrealized gains	1,224	1,845
Student loan interest income	152	101
Net participant subscriptions/redemptions	8,761	8,144
Total additions	11,416	10,950
Deductions:		
Operational expenses	45	31
Total deductions	45	31
Assets held on behalf of investors, at beginning of year	29,487	18,568
Assets held on behalf of investors, at end of year	$40,858	$29,487

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2005 and 2004, were as follows:

	Estimated Lives	Balance July 1, 2003	Acquisitions	Balance June 30, 2004	Acquisitions	Balance June 30, 2005
Land	–	$ –	$ 3,150	$ 3,150	$ –	$ 3,150
Furniture and equipment	3 – 5 Years	2,660	1,701	4,361	705	5,066
Leasehold improvements	5 Years	721	–	721	–	721
Software	3 – 5 Years	1,754	43	1,797	680	2,477
Construction in progress		630	95	725	10,347	11,072
		5,765	4,989	10,754	11,732	22,486
Less accumulated depreciation		2,901	1,529	4,430	1,458	5,888
Capital assets, net		$ 2,864	$ 3,460	$ 6,324	$ 10,274	$ 16,598

The acquisitions and accumulated depreciation for 2005 was reduced by $28 and $9, respectively, for disposals.

Depreciation charged to operations for the years ended June 30, 2005 and 2004, was $1,467 and $1,529, respectively.

VSAC has a commitment to construct new corporate headquarters. At June 30, 2004, VSAC had incurred $10,621 in construction costs under this contract which leaves an outstanding commitment of $4,040.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2005 and 2004, which were issued to finance the origination of student loans:

Bonds Payable:	2005	2004
1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds with the balance maturing in January 2008; interest is payable monthly at variable rates which ranged from 1.15% to 2.85% during fiscal year 2005 (2.85% at June 30, 2005).	$ 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 1.3% to 3.17% during fiscal year 2005 (2.63% to 2.95% at June 30, 2005).	96,000	96,000

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2005	2004
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.3% to 3.12% during fiscal year 2005 (2.6% to 3.0% at June 30, 2005).	$ 100,000	$ 100,000
1998 Series K-O, dated June 16, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.38% to 3.25% during fiscal year 2005 (2.6% to 3.0% at June 30, 2005).	165,000	165,000
2000 Series P and Q, dated May 31, 2000; comprised of auction rate bonds maturing in December 2005. Interest is reset every 35 days and payable semi-annually; at rates which ranged from 1.4% to 3.17% during fiscal year 2005 (2.7% at June 30, 2005).	11,950	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 1.4% to 3.15% during fiscal year 2005 (2.62% to 3.04% at June 30, 2005).	172,550	172,550
2001 Series V, W and Z dated June 27, 2001; comprised of auction rate bonds maturing December 2035. Interest is reset every 35 days for Series V and W, and every 7 days for Series Z. Interest is payable semi-annually at rates which ranged from 1.12% to 3.17% during fiscal year 2005 (2.55% to 2.95% at June 30, 2005).	84,750	84,750
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA. Interest rates ranged from 1.2% to 3.33% during fiscal year 2005 (2.95% to 3.33% at June 30, 2005).	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 1.05% to 3.16% during fiscal year 2005 (2.6% to 2.75% at June 30, 2005).	112,500	112,500

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2005	2004
2003 Series EE dated May 30, 2003; comprised of auction rate bonds maturing December 2005; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.37% to 3.15% during fiscal year 2005 (2.93% at June 30, 2005).	$ 45,000	$ 45,000
2003 Series FF, GG, HH and LL dated May 30, 2003; comprised of auction rate bonds with maturity dates ranging from June 2009 through December 2015; interest is reset every 35 days and payable semi-annually which ranged from 1.38% to 3.15% during fiscal year 2005 (2.6% to 2.78% at June 30, 2005).	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 which ranged from 1.35% to 3.17% during fiscal year 2005 (2.65% to 2.9% at June 30, 2005).	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; which ranged from 1.43% to 3.03% during fiscal year 2005 (2.62% at June 30, 2005).	74,700	74,700
2004 Series NN and PP dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually; which ranged from 1.43% to 3.1% during fiscal year 2005 (2.6% to 3.1% at June 30, 2005).	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 1.57% to 3.16% during fiscal year 2005 (3.16% at June 30, 2005).	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; initial rates were 2.6% (2.6% at June 30, 2005).	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; initial rates were 3.27% (3.27% at June 30, 2005).	119,600	–

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2005	2004
2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates fixed ranging from 2.0% to 5.0% payable semi-annually.	$ 22,155	$ 22,155
Notes Payable:		
2003 Series A-XVII, dated December 15, 2003, is due December 2004, and interest at 1.5% is due at maturity.	–	30,400
Total bonds and notes payable	1,761,690	1,552,105
Bond discount, net	(144)	(149)
Deferred loss on refunding, net	(1,367)	(1,562)
Total bonds and notes payable	1,760,179	1,550,394
Less current portion of bonds and notes payable	57,675	30,400
Noncurrent portion bonds and notes payable	$1,702,504	$1,519,994

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, 2005, all bonds authorized under the underlying bond resolutions have been issued.

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

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.

The debt service requirements, which are based on the interest rates at June 30, 2005, through 2011 and in five-year increments thereafter to maturity for VSAC, are as follows:

Year ending June 30,	Principal	Interest	Total
2006	$ 57,675	$ 47,136	$ 104,811
2007	735	46,453	47,188
2008	41,655	45,925	87,580
2009	1,670	45,394	47,064
2010	795	45,349	46,144
2011 – 2015	117,660	220,853	338,513
2016 – 2020	52,840	204,937	257,777
2021 – 2025	3,630	203,574	207,204
2026 – 2030	100,635	191,228	291,863
2031 – 2035	342,160	175,453	517,613
2036 – 2040	1,042,235	80,146	1,122,381
Total	$1,761,690	$1,306,448	$3,068,138

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, 2005 and 2004:

	2005	2004
Balance at beginning of year	$1,550,394	$1,332,193
Issuance	270,385	380,856
Redemptions and refundings	(60,800)	(160,585)
Deferred loss on refunding	–	(1,562)
Amortization of premiums	–	(508)
Accretion of discount	200	–
Balance at end of year	$1,760,179	$1,550,394

8. Bonds and Notes Payable (Continued)

In 2005, VSAC issued $270,385 in education loan revenue bonds and notes. The primary purpose was to finance the origination of qualifying student loans.

In June 2004, VSAC issued $275,000 in education loan revenue bonds, 2004 Series MM-PP. The primary purpose was to finance the origination of qualifying student loans. The bonds were also issued to refund certain 1993 and 1992 Series bonds, totaling $74,700 prior to June 30, 2004. The loss of $1,562 on the refunding, resulting from the difference between the reacquisition price and the net carrying amount of the old debt, was deferred. The deferred loss on refunding, reported in the Statements of Net Assets as a reduction from bonds payable, is being amortized over the life of the original bonds. The refunding reduced VSAC's debt service payments over the next 8.5 years by $23,889 which results in an economic gain of $17,536. The economic gain is calculated using the interest rates outstanding as of June 30, 2004. The interest rates on the refunding debt are variable and subject to change in the future. As interest rates rise, the amount of the economic gain will be reduced. VSAC completed the refunding to reduce its total debt service payments and to consolidate its credit enhancement providers.

Included in the above refunding was a $2,000 advance refunding. $2,000 of the proceeds from the 2004 Series bonds issuance was deposited into an irrevocable trust with the trustee to provide for all future debt service payments on certain bonds outstanding. As a result, $2,000 of bonds were considered to be defeased and the bonds payable and the amounts held in the trust have been removed from VSAC's Statement of Net Assets at June 30, 2004.

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, 2005 and 2004, of $20,083 and $8,604, respectively. VSAC has estimated the current portion to be $253 and $2,560 at June 30, 2005 and 2004, respectively.

10. Student Loan Interest and Special Allowance Revenues

DE makes quarterly interest subsidy payments on behalf of certain qualified students until the student is required under the provisions of the Act to begin repayment. Repayment on Stafford Student Loans normally begins within six months after students complete their course of study, leave school or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS, SLS and Consolidation loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period. HEAL loans enter repayment status nine months after the expiration date of an interim period.

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

In 2004, as a result of a change in interpretation of DE regulations surrounding special allowance, VSAC made a reassignment of student loans that qualify for special allowance categories eligible for the 9.5% floor interest rate. This resulted in approximately $8,300 of additional special allowance billings in 2004 from the DE. This amount was collected in July of 2004. In September 2004, the DE issued a report indicating the adjustment appeared to be in compliance with current guidance and regulations.

11. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 2005 and 2004, amounted to $14,408 and $14,224, respectively; VSAC's total payroll was $15,215 and $14,652, respectively. Total contributions by VSAC amounted to $1,441 and $1,422 in 2005 and 2004, respectively, which represented 10% of the covered payroll.

(Dollars in Thousands)

12. Contingencies

VSAC participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time.

VSAC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSAC manages these risks through a combination of commercial insurance packages purchased in the name of VSAC, and through self insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced or settled claims resulting from these risks which have exceeded its commercial insurance coverage. In addition, VSAC has purchased stop-loss insurance for its self-insurance programs and has transferred the risk of loss to the commercial insurance carrier.

A summary of the reserve for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statement of net assets for the years ended June 30, 2005 and 2004, is as follows:

	2005	2004
Balance, beginning of year	$ 237	$ 258
Claims paid	(3,177)	(2,815)
Adjustment to reserve	3,193	2,794
Balance, end of year	$ 253	$ 237

13. Loan Commitments

At June 30, 2005 and 2004, VSAC had commitments to extend credit for student loans of approximately $59,278 and $15,932, respectively. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. VSAC uses the same credit policies in making commitments as it does for student loans receivable.

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APPENDIX 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 $175,250,000 Education Loan Revenue Bonds, Senior Series 2006TT, 2006UU and 2006VV (collectively, the "Bonds"). In consideration of the purchase of Bonds by the owners and Beneficial Owners thereof initially and thereafter from time to time, the Corporation undertakes and agrees as follows:

1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (defined below).

2. Definitions. In addition to the definitions set forth in the 1995 Education Loan Revenue Bond Resolution adopted on June 16, 1995, as amended and supplemented (the "Resolution") which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms used in this Disclosure Agreement have the following meanings:

"Annual Financial Information" shall mean any Annual Financial Information with respect to the Corporation as described in Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any individual beneficial owner of the Bonds. Beneficial ownership is to be determined consistent with the definition thereof contained in Rule 13d-3 of the Securities Exchange Act of 1934, as amended, or, in the event such provisions do not adequately address the situation at hand (in the opinion of nationally recognized federal securities law counsel), beneficial ownership is to be determined based upon ownership for federal income tax purposes.

"Dissemination Agent" shall mean any Dissemination Agent designated by the Corporation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
Attention: Municipal Department
100 Business Park Drive
Skillman, NJ 08558
E-Mail Address: MUNIS@Bloomberg.com
Phone: (609) 279-3225
Fax: (609) 279-5962

DPC Data, Inc.
One Executive Drive
Fort Lee, NJ 07024
Attention: Operations
E-Mail Address: nrmsir@dpcdata.com
Phone: (201) 346-0701
Fax: (201) 947-0107

FT Interactive Data
100 William Street, 15th Floor
New York, NY 10038
Attention: NRMSIR
mail to: NRMSIR@interactivedata.com
Phone: (212) 771-6999
Fax: (212) 771-7390

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
mail to: nrmsir_repository@sandp.com
Phone: (212) 438-4595
Fax: (212) 438-3975

"Official Statement" shall mean the Official Statement of the Corporation, dated July 5, 2006, 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 2006 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 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 July, 2006, by the persons whose signatures appear below.

Vermont Student Assistance Corporation

By:_____
Name:_____
Title:_____

Accepted on behalf of the owners and
Beneficial Owners of the Bonds by
Chittenden Trust Company, as Trustee

By:_____
Name:_____
Title:_____

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