In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Senior Series 2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds (collectively, the "2002 Bonds") is excluded from gross income for federal income tax purposes; however, interest on the 2002 Bonds is a specific item of tax preference 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 2002 Bonds and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes. For a more complete description of the opinion of Bond Counsel, see "Tax Matters" herein.

NEW ISSUE - Book-Entry Only

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

$112,500,000
Vermont Student Assistance Corporation
(a non-profit public corporation established by the laws of the State of Vermont)
Education Loan Revenue Bonds

$39,350,000 Senior Series 2002BB
(Auction Rate Certificates)

$39,400,000 Senior Series 2002CC
(Auction Rate Certificates)

$33,750,000 Senior Series 2002DD
(Auction Rate Certificates)

Dated: Date of Delivery **Price:** 100% **Due:** December 15, 2036

The Senior Series 2002BB Bonds, Senior Series 2002CC Bonds and Senior Series 2002DD Bonds will be issued as Auction Rate Certificates - ARCs® ("ARCs"). The Senior Series 2002BB Bonds, Senior Series 2002CC Bonds and Senior Series 2002DD Bonds (collectively, the "2002 Bonds") are being issued by the Vermont Student Assistance Corporation (the "Corporation"), pursuant to the Corporation's 1995 Education Loan Revenue Bond Resolution as adopted on June 16, 1995 (the "General Resolution") and the 2002 Eighth Series Resolution as adopted on September 27, 2002 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution"). The 2002 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 2002 Bonds. Purchasers of the 2002 Bonds will not receive certificates representing their beneficial ownership interests in the 2002 Bonds. Purchases and sales by the beneficial owners of the 2002 Bonds outstanding as ARCs shall be made in book-entry form in the principal amount of $50,000 or any integral multiple thereof. See "DESCRIPTION OF THE 2002 BONDS - - Book-Entry-Only System."

Payments of principal, redemption price and interest with respect to 2002 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 2002 Bonds. Disbursements of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants as more fully described herein. Interest on the 2002 Bonds is payable as described herein until maturity or earlier redemption. The Applicable ARCs Rate and ARCs Auction Periods shall be established from time to time pursuant to the ARCs Auction Procedures described herein. The 2002 Bonds are subject to redemption, acceleration and mandatory tender as described herein.

Payment of the principal of and interest on the 2002 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation ("Bond Insurer") simultaneously with the delivery of the 2002 Bonds.

Ambac

The 2002 Bonds are to be issued for the purpose of financing the origination or purchase of: (i) loans which are guaranteed by the Corporation acting pursuant to Vermont law as State Guarantor to the extent required by applicable federal law and reinsured by the Secretary of the United States Department of Education, pursuant to, and to the extent authorized by, the United States Higher Education Act of 1965, as amended; (ii) loans insured by the Secretary of the United States Department of Health and Human Services; and (iii) other loans permitted under the State Act.

THE CORPORATION HAS NO TAXING POWER. THE 2002 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2002 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 2002 BONDS. THE 2002 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 2002 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality by Kutak Rock LLP, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its counsel, Little, Cicchetti & Conard, P.C., Burlington, Vermont and for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. Government Finance Associates, Inc. serves as Financial Advisor to the Corporation. The 2002 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC on or about October 8, 2002.

UBS PaineWebber Inc. **William R. Hough & Co.**

Dated: September 30, 2002

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Bonds	Initial Auction Dates	Broker-Dealer
Senior Series 2002BB Bonds	November 14, 2002	UBS PaineWebber Inc.
Senior Series 2002CC Bonds	November 21, 2002	UBS PaineWebber Inc.
Senior Series 2002DD Bonds	October 16, 2002	William R. Hough & Co.

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

No dealer, broker, salesman or other person has been authorized by the Corporation, the Bond Insurer or the Underwriters to give any information or to make any representations, other than the information and representations contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any 2002 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, 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 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 2002 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 2002 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE 2002 BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2002 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 2002 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.
Broker-Dealers	UBS PaineWebber Inc. will serve as the initial Broker-Dealer with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds. William R. Hough & Co. will serve as the initial Broker-Dealer with respect to the Senior Series 2002DD Bonds.
The Offering	The Corporation is offering hereby its Education Loan Revenue Bonds consisting of $39,350,000 aggregate principal amount of Senior Series 2002BB Bonds (the "Senior Series 2002BB Bonds"), $39,400,000 aggregate principal amount of Senior Series 2002CC Bonds (the "Senior Series 2002CC Bonds") and $33,750,000 aggregate principal amount of Senior Series 2002DD Bonds (the "Senior Series 2002DD Bonds"), (collectively, the Senior Series 2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds are referred to as the "2002 Bonds").
Bond Insurance	The scheduled payment of the principal of and interest on the 2002 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 2002 Bonds.
Redemption	The 2002 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2002 Bonds are also subject to extraordinary mandatory redemption prior to maturity under certain specified circumstances as described herein.
Priority	There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of $729,650,000, being comprised of Senior Series 1995 A, B, C, D and E Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H, I and J Bonds (collectively, the "1996 Bonds"), Senior Series 1998K, 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 2000P, Q, R, S, T and U Bonds (the "2000 Bonds") and Senior Series 2001V, W, X, Y, Z and AA Bonds (the "2001 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 2002 Bonds shall be issued for each Series as one fully registered bond in the aggregate principal amounts and with the maturities set forth on the cover page hereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, the Securities Depository.

Purpose of Issuances

The 2002 Bonds will be issued for the purpose of (i) financing the origination or purchase of Eligible Education Loans, which generally include (a) loans qualifying under the Act and guaranteed and reinsured to the extent authorized under the Act ("Federal Act Loans"), (b) loans insured by the Secretary of the United States Department of Health and Human Services ("HEAL Loans") and (c) other loans permitted under the State Act and the Resolution ("Statutory Loans") and (ii) paying the costs associated with the issuance of the 2002 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 2002 Bonds.

The 2002 Bonds

While outstanding as Auction Rate Certificates ("ARCs"), the 2002 Bonds will be issued in denominations of $50,000 or any integral multiple thereof and will mature as indicated on the cover page hereof. The 2002 Bonds will bear interest at the rates established from time to time as set forth herein.

The Senior Series 2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds will be issued as ARCs. Interest on the 2002 Bonds is payable as described herein. Each of the Applicable ARCs Rates and ARCs Auction Periods shall be established from time to time as described herein.

Fixed Rate Conversion

The 2002 Bonds may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation (with the consent of the Bond Insurer) under the circumstances described herein.

Variable Rate Conversion

The 2002 Bonds may be converted to bear interest at a Variable Rate at the option of the Corporation (with the consent of the Bond Insurer) under the circumstances described herein.

Mandatory Tender Upon Conversion to Fixed Rate or Variable Rate	Bonds of any Series of 2002 Bonds converted to bear interest at a Fixed Rate or a Variable Rate are subject to mandatory tender for purchase as described herein, without right of retention.
Security for the Bonds	The Revenues, Principal Receipts, Education Loans, Investment Securities and all amounts held in any Account established under the Resolution, including investments thereof, are pledged by the Corporation in the Resolution for the benefit of the Bondowners and the Bond Insurer, as their interests may appear, to secure the payment of the Bonds and all amounts owing to the Bond Insurer, subject only to the provisions of the Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions therein set forth.
Guarantee and Reinsurance	Federal Act Loans pledged under the Resolution are to be guaranteed to the extent required by federal law by the Corporation acting pursuant to Vermont law as State Guarantor, or any other permitted guarantor under the Resolution, and reinsured pursuant to, and to the extent authorized by, the Act. HEAL Loans are 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 2002 Bonds and completion of the initial 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 101.2% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 100% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding.
Changes to the Federal Family Education Loan Program	The programs effected by the Higher Education Act have been the subject of numerous statutory and regulatory changes over the last several years that have resulted in material modifications to such programs. No assurance can be given that relevant laws, including the Higher Education Act, will not be further changed in the future in a manner which might adversely affect the availability and flow of funds of the Corporation. See Appendix E - "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."
Certain Investment Considerations	Investment in the 2002 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading "CERTAIN INVESTMENT CONSIDERATIONS."

THE 2002 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON SUCH BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. SUCH BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON SUCH BONDS.

OFFICIAL STATEMENT
of the

VERMONT STUDENT ASSISTANCE CORPORATION

relating to its

$112,500,000

Education Loan Revenue Bonds

$39,350,000 Senior Series 2002BB (Auction Rate Certificates -- ARCs®)
$39,400,000 Senior Series 2002CC (Auction Rate Certificates -- ARCs®)
$33,750,000 Senior Series 2002DD (Auction Rate Certificates -- ARCs®)

This Official Statement, which includes the cover page, the Summary Statement and the Appendices hereto, is being provided by the Vermont Student Assistance Corporation (the "Corporation") to furnish pertinent information to all who may become owners of its $112,500,000 Education Loan Revenue Bonds, consisting of the following series of Bonds, initially issued as Auction Rate Certificates--ARCs® ("ARCs"): Senior Series 2002BB in the principal amount of $39,350,000, Senior Series 2002CC in the principal amount of $39,400,000 and Senior Series 2002DD in the principal amount of $33,750,000 (collectively, the "2002 Bonds"). The 2002 Bonds are being offered hereby pursuant to the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted on June 16, 1995 (the "General Resolution") and the 2002 Eighth Series Resolution adopted on September 27, 2002 (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 $729,650,000, being comprised of Senior Series 1995 A, B, C, D and E Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H, I and J 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 2000P, Q, R, S, T and U Bonds (the "2000 Bonds"), and Senior Series 2001V, W, X, Y, Z and AA Bonds (the "2001 Bonds"). The term "Bonds" as used herein shall refer to the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any Additional Bonds issued under the Resolution in the future.

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

INTRODUCTION

The Corporation is a non-profit public corporation created in 1965 and existing under and by virtue of Chapter 87 of Title 16 of the Vermont Statutes Annotated, as amended (the "State Act"). The State Act provides that the Corporation is to provide opportunities for students to pursue further education by awarding grants and guaranteeing, making, financing and servicing loans to borrowers qualifying under the State Act. The Corporation, acting as a loan originator or secondary market, originates education loans and purchases education loans previously originated by other lenders. Such loans include Federal Act Loans, HEAL Loans and Statutory Loans (as defined below). The Corporation, serving as a guarantor (the "State Guarantor") guarantees, to the extent required by applicable federal law, Federal Act Loans. In addition, the Corporation administers a program of grants, scholarships, work study and outreach services and career, education and financial aid counseling, related information services and a Section 529 savings plan.

The 2002 Bonds will be issued for the purposes of financing or refinancing the origination or purchase of Eligible Education Loans, which generally include (a) loans qualifying under the Higher Education Act of 1965, as amended (the "Act"), which are guaranteed by a permitted guarantor such as the Corporation to the extent required

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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"), (b) 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 (c) other loans permitted under the State Act and the Resolution (referred to herein as "Statutory Loans").

The 2002 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, each Series of 2002 Bonds will be issued as ARCs. Interest on each Series of 2002 Bonds will be payable as described herein.

Bonds of certain of the Series of 2002 Bonds may be converted to bear interest at a Fixed Rate to their final maturity or at a Variable Rate at the option of the Corporation under the circumstances described herein. Bonds of any Series of 2002 Bonds converted to bear interest at a Fixed Rate or at a Variable Rate are subject to mandatory tender for purchase prior to such conversion as described herein without right of retention.

This Official Statement contains a description of the 2002 Bonds while outstanding as ARCs but does not address any terms or conditions which would be applicable to any Series of the 2002 Bonds if converted to a Fixed Rate or a Variable Rate.

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 2002 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 2002 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 2002 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 such documents may be obtained upon written request during the initial offering period of the 2002 Bonds from UBS PaineWebber Inc., 1285 Avenue of the Americas, 15th Floor, New York, New York 10019, Attention: Municipal Securities Group, and thereafter from the Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 06504, Attention: President or to the Corporation's financial advisor, Government Finance Associates, Inc., 919 Third Ave., 27th Floor, New York, New York 10022.

THE SERIES 2002 BONDS

General

The 2002 Bonds will bear interest from their date of issue and will mature as indicated on the cover page hereof. The initial Auction Dates for the 2002 Bonds are as set forth on the inside cover page hereof. The 2002 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 2002 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2002 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 2002 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 2002 Bonds is payable to beneficial owners of the 2002 Bonds according to the procedures described under "THE SERIES 2002 BONDS -- Book-Entry-Only System." Should the Corporation discontinue the book-entry-only system for any Series of 2002 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 2002 Bonds, which request may provide that it will remain in effect unless and until changed or revoked in writing.

Book-Entry-Only System

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

DTC, New York, New York, will act as securities depository for the 2002 Bonds. The 2002 Bonds are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond certificate is to be issued for each maturity of each series of the 2002 Bonds, as set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Bonds on DTC's records. The ownership interests of each actual purchaser of each offered Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Bonds are to be accomplished by entries made on the books of the Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Bonds, except in the event that use of the book-entry system for the 2002 Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2002 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Bonds are credited, which may or may not be the Beneficial Owners. The Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the 2002 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 2002 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Corporation as soon as possible after the Record Date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Bonds are credited on the Record Date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the 2002 Bonds will be made to DTC. 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 2002 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 2002 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2002 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2002 Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the 2002 Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the 2002 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 2002 Bonds, the Beneficial Owners of such 2002 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 2002 Bonds during a period beginning on the date 2002 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2002 Bonds selected for redemption; (b) register the transfer of or exchange any such 2002 Bonds selected for redemption in whole or in part, except the unredeemed portion of a 2002 Bond being redeemed in part; or (c) make any exchange or transfer of any 2002 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 2002 Bonds, (b) the delivery to any beneficial owner of the 2002 Bonds or other person, other than DTC, of any notice with respect to the 2002 Bonds, or (c) the payment to any beneficial owner of the 2002 Bonds or other person, other than DTC, of any amount with respect to the principal of or interest on the 2002 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 2002 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 2002 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 2002 Bonds.

AUCTION RATE CERTIFICATES

General

The Senior Series 2002BB Bonds, Senior Series 2002CC Bonds and Senior Series 2002DD Bonds will be issued as Auction Rate Certificates, shall be dated the date of initial delivery thereof and shall mature on the dates set forth on the cover page of this Official Statement. "ARCs" means the Senior Series 2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds. Certain capitalized terms used herein with respect to the ARCs are defined in Appendix B to this Official Statement.

Interest

Interest Payments. Interest on the 2002 Bonds while they are Outstanding as ARCs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. An "Interest Payment Date" for the 2002 Bonds means each June 15 and December 15, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding June 14 and December 14), commencing December 15, 2002 and in all cases at maturity or earlier redemption and upon mandatory tender, or if any such date is not a Business Day, the next succeeding Business Day. Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods. An "Interest Period" means, (a) with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, so long as interest is payable on June 15 and December 15 with respect thereto and unless otherwise changed as described below under "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods," the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on a Friday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day) and with respect to the Senior Series 2002DD Bonds, so long as interest in payable on June 15 or December 15 with respect thereto and unless otherwise changed as described below under "Changes in ARC Auction Periods or ARC Auction Date—Changes in ARC Auction Period or Periods," the Initial Interest Period and each successive period of generally 7 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) with respect to the 2002 Bonds outstanding as ARCs, if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as described below under "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods," each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of ARCs in respect of each $50,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate for such Interest Period or part thereof to the principal amount of $50,000, multiplying such product by the actual number of days in the Interest Period or part thereof divided by 365 or 366, as applicable, truncating the resultant figure and rounding up to the nearest cent. Interest on the ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after January 1 of a leap year through December 31 of a leap year, such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year. The Trustee shall make the calculation described above not later than the close of business on each Auction Date upon receipt of the relevant information from the Auction Agent.

Interest payments on the ARCs are to be made by the Trustee to DTC as the registered Owner of the ARCs, as of the Record Date preceding each Interest Payment Date. The ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the ARCs. See "THE SERIES 2002 BONDS -- Book-Entry-Only System" for a description of how DTC, as Owner, is expected to disburse such payments to the Beneficial Owners.

Applicable ARCs Rate. The rate of interest on the ARCs for each Interest Period, subsequent to the Initial Interest Period, shall be equal to the annual rate of interest that results from implementation of the Auction

Procedures described in Appendix B (the "Auction Rate"), unless the Auction Rate exceeds the Maximum Rate, in which case the rate of interest on the ARCs for such Interest Period shall be the Maximum Rate or unless the Maximum Rate shall actually be lower than the All Hold Rate, in which case the rate of interest on the ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall be equal to the Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be, with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, 35 days in duration, and with respect to the Senior Series 2002DD Bonds, 7 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than, with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, generally 35 days in duration and with respect to the Senior Series DD Bonds, generally 7 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period. Notwithstanding the foregoing, (a) if the ownership of the ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the ARCs for any Interest Period commencing after the delivery of certificates representing ARCs as described above shall be the Maximum Rate established on the Business Day immediately preceding the first day of such Interest Period, (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARC Rate (as defined below) for the Interest Period commending on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate; or (c) if a proposed conversion to a Fixed Rate or Variable Rate shall have failed, as described below under the caption "Inadequate Funds for Tender of ARCs; Failed Conversion of ARCs," and the next succeeding Auction Date shall be two or fewer Business Days after (or on) any such failed Rate Conversion Date (as hereinafter defined), then an Auction shall not be held on such Auction Date and the rate of interest on the ARCs subject to the failed conversion for the next succeeding Interest Period shall be equal to the Maximum Rate calculated as of the first Business Day of such Interest Period.

The rate per annum at which interest is payable on any Series of 2002 Bonds that are ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." There will be separate Applicable ARCs Rates for the Bonds of each Series of 2002 Bonds that are ARCs. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate.

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

Auction Participants

Existing Owners and Potential Owners. Participants in each Auction will include (a) "Existing Owners," which shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, any Person who is a Broker-Dealer listed in the existing owner registry prior to the conversion to a Variable or Fixed Rate at the close of business on the Business Day preceding the Auction Date for such Auction, and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of ARCs; and (b) "Potential Owner," which shall mean any Person (including any Existing Owner that is (i) a Broker-Dealer when dealing with an Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer), who may be interested in acquiring ARCs (or in the case of an Existing Owner, an additional principal amount of ARCs).

By purchasing ARCs, whether in an Auction or otherwise, each prospective purchaser of ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (a) to participate in Auctions on the terms set forth in Appendix B hereto, (b) so long as the beneficial ownership of the ARCs is maintained in book-entry form by DTC,

to sell, transfer or otherwise dispose of ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix B) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Owner of ARCs so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, and (c) to have its beneficial ownership of ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant of DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. The Bank of New York has been appointed as the initial Auction Agent for the 2002 Bonds Outstanding as ARCs. The Trustee is directed to enter into the initial Auction Agency Agreement with The Bank of New York for each such Series of 2002 Bonds. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, and having a combined capital stock, surplus and undivided profits of at least $40,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $40,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Auction Agency Agreement by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee, if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the ARCs of the series of 2002 Bonds for which the Auction Agent is being removed by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

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

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

Broker-Dealer. Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including UBS PaineWebber Inc. as the initial Broker-Dealer with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, William R. Hough & Co. as the initial Broker-Dealer with respect to the Senior Series 2002DD Bonds, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (*i.e.,* a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (c) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent. The "Market Agent," initially UBS PaineWebber Inc., acting pursuant to a Market Agent Agreement with the Trustee, and in connection with the ARCs, shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the beneficial owners.

ARC Auctions

Prior to a Fixed Rate Conversion Date or a Variable Rate Conversion Date, Auctions to establish the Applicable ARCs Rate for each Series of 2002 Bonds Outstanding as ARCs are to be held on each Auction Date, except as described above under "Interest -- Applicable ARCs Rate," by application of the Auction Procedures described in Appendix B hereto. "Auction Date" shall mean initially, for the Senior Series 2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds, the Auction Dates set forth on the inside cover page hereof and thereafter the Business Day immediately preceding the first day of each Interest Period, other than in all cases (a) each Interest Period commencing after the date when ownership of the ARCs of the applicable Series of ARCs is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one of more Auction Periods may be changed as described below under "Changes in ARC Auction Periods or ARC Auction Date -- Changes in ARC Auction Period or Periods."

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

So long as the ownership of the ARCs is maintained in book-entry form by DTC, an Existing Owner may sell, transfer or otherwise dispose of ARCs only pursuant to a Bid or Sell Order (as defined in Appendix B hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Prior to a Fixed Rate Conversation Date or a Variable Rate Conversion Date, Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in Appendix B hereto. A description of the Settlement Procedures to be used with respect to Auctions is contained in Appendix C hereto.

Adjustment in Percentages Pertaining to ARCs

The Market Agent shall adjust the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the Applicable Percentage of the Kenny Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that ARCs paying the Maximum Rate, ARCs paying the All-Hold Rate and ARCs paying the Default Rate shall respectively have equal market values before and after such Change of Preference Law. Prior to any such adjustment, the Corporation shall give notice thereof to the Rating Agency, and no such adjustment shall be made unless such adjustment will not adversely affect the Rating on any of the Bonds. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account: (a) short-term taxable and market rates and indices of such short-term rates; (b) the market supply and demand for short-term securities; (c) yield curves for short-term and long-term securities or obligations having a credit rating that is comparable to that of the ARCs; (d) general

economic conditions; and (e) economic and financial factors present in the securities industry that may affect or that may be relevant to the ARCs.

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

Changes in ARC Auction Periods or ARC Auction Date

Changes in ARC Auction Period or Periods. While any of the 2002 Bonds are Outstanding as ARCs, the Market Agent may change, upon meeting certain conditions, the length of one or more Auction Periods. In connection with any such change, or otherwise, the Market Agent may change Interest Payment Dates; any such change shall be considered a "change in the length of one or more Auction Periods" for purposes of the Resolution. Any change in the length of the Auction Period requires the consent of the Corporation and must be made for the purpose of conforming to current market practice with respect to certain securities.

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

Changes in the ARC Auction Date. While any of the 2002 Bonds are Outstanding as ARCs, the Market Agent:

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

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

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

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

No change shall be made to the Auction Period or Auction Date unless the Corporation and the Trustee shall have received an Affirmation from each Rating Agency then rating the ARCs or any Bonds outstanding under the Resolution.

Fixed Rate Conversion of ARCs

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

Not later than the 15th day preceding the Fixed Rate Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Auction Agent and the Owners of all such ARCs, and the 2002 Bonds being converted will be subject to mandatory tender as described below under "-- Mandatory Tender of ARCs upon Conversion; Certain Notices."

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

Variable Rate Conversion of ARCs

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

Not later than the 15th day preceding the Variable Rate Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Auction Agent and the Owners of all such ARCs, and the 2002 Bonds being converted will be subject to mandatory tender as described below under "-- Mandatory Tender of ARCs upon Conversion, Certain Notices."

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

Mandatory Tender of ARCs Upon Conversion; Certain Notices

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

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

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

Delivery of Bonds; Effect of Failure to Surrender Bonds. All Bonds of a Series of Bonds to be purchased on any Rate Conversion Date shall be required to be delivered to the designated office of the Trustee or its

designated agent for such purpose, at or before 12:00 Noon (New York time) on such date. If the Owner of any Bond that is subject to purchase as described herein fails to deliver such Bond to the Trustee or its designated agent for such purpose, for purchase on the Purchase Date, and if the Trustee or its designated agent for such purpose is in receipt of the Purchase Price thereof, such Bond shall nevertheless be deemed tendered and purchased on the Rate Conversion Date and shall be deemed an Undelivered Bond as described below under "Undelivered ARCs" and registration of the ownership of such Bond shall be transferred to the purchaser thereof as described below under "Undelivered ARCs." The Trustee shall, as to any Undelivered Bonds (a) promptly notify the Remarketing Agent, the Auction Agent, the Paying Agent and the Registrar of such non-delivery, and (b) the Registrar shall place a stop transfer against an appropriate amount of Bonds subject to conversion registered in the name of the Owner(s) on the Bond Register. The Registrar shall place such stop transfer(s) on the Bonds subject to conversion registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Bonds of the appropriate Series) until the appropriate tendered Bonds are delivered to the Trustee or its designated agent. Upon delivery of the Bond, the Registrar shall make any necessary adjustments to the Bond Register. Pending delivery of such tendered Bonds, the Tender Agent shall hold the Purchase Price therefor uninvested in a segregated subaccount for the benefit of such Owners.

Inadequate Funds for Tenders of ARCs; Failed Conversion of ARCs

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

No Tender Purchases of ARCs on Redemption Date

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

Undelivered ARCs

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

REDEMPTION OF THE 2002 BONDS

Optional Redemption

Bonds of any Series of 2002 Bonds that are outstanding as ARCs 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 2002 Bonds may be made from (i) amounts held in the Loan Account or the Debt Service Reserve Account, or, after providing for the payment of certain amounts required under the Resolution, the Revenue Account, or (ii) other moneys that prior to the determination to use such moneys for redemption were not subject to

the pledge set forth in the Resolution; provided, however, that in the case of the 2002 Bonds, such moneys may be used to redeem 2002 Bonds only if such moneys constitute Available Moneys.

Extraordinary Mandatory Redemption

Each Series of 2002 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 2002 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 2002 Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 2002 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 2002 Bonds or any other Bonds may be used to finance Eligible Education Loans until October 1, 2003 and, except upon the occurrence and continuation of a Recycling Suspension Event, amounts on deposit in the Loan Account representing Principal Receipts may be used to finance Eligible Education Loans until October 1, 2005; 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 2002 Bonds. Notwithstanding the foregoing, no Eligible Education Loans will be financed upon the notice to the Corporation by the Bond Insurer of the occurrence of a Recycling Suspension Event. In the event that a Recycling Suspension Event is cured (such cure to be evidenced by the written approval of the Bond Insurer), the financing of Eligible Education Loans may resume. Upon the expiration of the ninety (90) day period following the date on which financing of Eligible Education Loans is no longer permitted in accordance with this provision (or such longer period as may be approved in writing by the Bond Insurer), the Corporation shall direct the Trustee to use amounts in the Loan Account representing proceeds of sale of the Bonds and Principal Receipts to redeem or purchase for cancellation Bonds (including 2002 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 2002 Bonds.

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

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

Selection of 2002 Bonds to be Redeemed

The 2002 Bonds or portions of the 2002 Bonds to be redeemed shall be selected by the Corporation. If less than an entire Series of the 2002 Bonds is to be redeemed, the 2002 Bonds of such Series to be redeemed shall be selected by lot by the Trustee or in such other manner as the Trustee in its discretion may deem appropriate.

Notice of Redemption

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

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

Bonds Due and Payable on Redemption Date

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

Partial Redemption of Bonds

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

SECURITY FOR THE BONDS

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

The Corporation has Outstanding under the Resolution $719,650,000 aggregate principal amount of its Bonds which will rank on a parity with the 2002 Bonds, and which, together with the 2002 Bonds, will be secured on a basis superior to the Subordinate Series 1998O Bonds. The security for the Bonds under the Resolution is pledged equally and ratably first, to the payment of the principal of and interest on all Senior Bonds (including the 2002 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 2002 Bonds and completion of the initial 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 101.2% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 100% 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 and the 2002 Bonds at 2% of the par amount of the Bonds of such Series Outstanding, provided, however, that while any of the 2002 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 2002 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 issued a surety bond (the "2001 Surety Bond") for the purpose of funding the Debt Service Requirement with respect to the 2001 Bonds. The Bond Insurer has also made a commitment to issue a surety bond (the "2002 Surety Bond" and together with the 2001 Surety Bond, the "Surety Bond") for the purpose of funding the Debt Service Reserve Requirement with respect to the 2002 Bonds, and the 2002 Surety Bond shall constitute a Funding Instrument. The 2002 Bonds will only be delivered upon the issuance of such 2002 Surety Bond. The premium on the 2002 Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2002 Bonds. The 2002 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 2002 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 2002 Bonds, but in no event exceeding the Surety Bond Coverage. The Surety Bond coverage is $5,545,000 or such lesser amount as is equal to 2% of the principal of the 2001 Bonds and the 2002 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 2002 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.

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 Moody's and Fitch notice of such transfer.

THE 2002 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2002 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2002 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 2002 BONDS.

INSURANCE ON THE 2002 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 2002 Bonds effective as of the date of issuance of each Series of the 2002 Bonds. A specimen copy of the Financial Guaranty Insurance Policy is attached hereto as Appendix G. Under the terms of the Financial Guaranty Insurance Policy, the Bond Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2002 Bonds insured thereby which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the 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 2002 Bonds insured thereby 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 any Series of 2002 Bonds becomes subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds of such Series, the Bond Insurer will remain obligated to pay principal of and interest on outstanding Bonds of the Series on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of any Series of 2002 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on a 2002 Bond which has become Due for Payment and which is made to a 2002 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 or Paying Agent, if any;

4. loss related to payment of the purchase price of 2002 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of 2002 Bonds upon tender by a registered owner thereof, on the Fixed Rate Conversion Date or the Variable Rate Conversion Date; and

5. loss related to payments made in connection with the sale of 2002 Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell Bonds.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the 2002 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2002 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 2002 Bond, appurtenant coupon, if any, or the right to receive payment of principal or interest on such 2002 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 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 1998O 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 2002 BOND PROCEEDS

The Corporation expects to apply the proceeds of the 2002 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans ($111,674,040.70), 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 2002 Bonds and related expenses ($825,959.30), including the Underwriters' discount. A portion of such amount will be used to purchase the 2002 Surety Bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2002 Bonds and to pay the insurance premium for the Financial Guaranty Insurance Policy.

CHARACTERISTICS OF EDUCATION LOANS

As of June 30, 2002, Education Loans in an aggregate principal amount of approximately $649,083,459 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of June 30, 2002.

LOAN TYPE

	Education Loans Held Under Resolution as of June 30, 2002	
Consolidation	$207,557,360	31.98%
VSAC Extra	$3,195,174	0.49%
VSAC Extra Law	$24,505,253	3.78%
VSAC Extra Medical	$1,810,867	0.28%
HEAL	$17,358,784	2.67%
PLUS	$95,085,190	14.65%
SLS	$5,360,318	0.83%
Stafford Subsidized	$192,343,727	29.63%
Stafford Unsubsidized	$101,866,786	15.69%
Total	$649,083,459	100%

BORROWER PAYMENT STATUS

	Education Loans Held Under Resolution as of June 30, 2002	
Deferred	$124,845,442	19.23%
Grace	$45,824,395	7.06%
Repay	$356,207,469	54.88%
School	$122,206,153	18.83%
Total	$649,083,459	100%

The characteristics of Education Loans held under the Resolution as of June 30, 2002 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. Under the Vermont Value Program, a program that was established by the Corporation on July 1, 1994, students or parents with qualified loans held by the Corporation are eligible for certain reductions in interest rate or interest rate rebates on any such loan. The Vermont Value Program is subject to the availability of funds and modification or termination by the Corporation in its discretion, subject in certain instances to the consent of the Bond Insurer. Currently the Program provides for (a) a rebate of interest equivalent to one percent of the principal balance of the

loan annually for certain qualified Higher Education Act Eligible Loans, (b) an interest-free period for July 1 through June 30 of each year, or for the corresponding academic year period for certain schools with nontraditional academic year schedules, for qualified Unsubsidized Stafford or PLUS Loans first disbursed during that period, and (c) a one-quarter percent reduction in loan interest for qualified borrowers who elect to make loan payments with an automatic, electronic deduction from a bank account.

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 services payments on the Bonds.

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 Funds under the Resolution, and the occurrence of future events and conditions. For a brief description of selected characteristics of the Education Loans held under the Resolution as of June 30, 2002, 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 Funds 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 2002 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 2002 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.

Interest Rate Risk

The interest rates on the 2002 Bonds (sometimes referred to herein as "Auction Rate Certificates " or "ARCs ") will be based on auctions of those 2002 Bonds. The interest rates for other series of Bonds may be fixed or based on auctions, or other indices, formulas or methods of determination. The Corporation can make no representation as to what such rates (other than currently established fixed 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 91-day Treasury bills for each quarter (the "91-day Treasury Bill Rate") (or, in certain circumstances, 52-week Treasury bills or 3-month commercial paper rates) 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 Bonds issued under the Resolution, there could be periods of time when the Loan Rates are inadequate to cover the interest on the 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 series of 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).

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

Future Changes in Relevant Law. Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times. Certain of these amendments significantly affect the federal student loan programs under the Higher Education Act. As a result of such amendments, the United States Department of Education (the "Department of Education") currently is engaging in a rulemaking process to revise the regulations promulgated by the Department of Education under the Higher Education Act. The Higher Education Act is also scheduled to be considered for reauthorization no later than September 30, 2003. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation's education loan finance program.

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

Federal Direct Student Loan Program. The Student Loan Reform Act of 1993 established the William D. Ford Federal Direct Student Loan Program (the "FDSL Program"). Under the FDSL Program, approved institutions of higher education, or alternative loan originators approved by the Department 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 repayment plans, including extended, graduated and income-contingent repayment plans, forbearance of payments during periods of national service and consolidation under the FDSL Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the FDSL Program. The FDSL Program also provides certain programs under which principal may be forgiven or interest rates may be reduced.

The 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.

The impact of the FDSL Program on the Corporation could include, among other things, the eventual termination of the Corporation's education loan finance program, with a resulting reduction of income to the Corporation and early retirement of the Corporation's outstanding Bond issues, including the 2002 Bonds. In any event, the transition from the FFEL Program to the FDSL Program involved reduction over time in the volume of loans made under the FFEL Program, and may continue to do so unless the FDSL Program is limited or eliminated legislatively.

Federal Budgetary Legislation. The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. In addition, certain federal regulations have not been finalized which would expressly implement certain recent amendments to the Higher Education Act. No 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 2002 Bonds.

Financial Status of the Guaranty Agencies

A deterioration in the financial status of a Guaranty Agency could result in the inability of such Guaranty Agency to make guaranty claim payments to the Corporation. Among the possible causes of deterioration in a Guaranty Agency's financial status are: (a) the amount and percentage of defaulting FFELP Loans guaranteed by such Guaranty Agency; (b) an increase in the costs incurred by such Guaranty Agency in connection with FFELP Loans guaranteed; and (c) a reduction in revenues received in connection with FFELP Loans guaranteed. The Higher Education Act grants the Department broad powers over Guaranty Agencies and their reserves. These provisions create a risk that the resources available to the Guaranty Agencies to meet their guaranty obligations may

be reduced and no assurance can be given that exercise of such powers by the Department will not affect the overall financial condition of the Guaranty Agencies. Under Section 432(o) of the Higher Education Act, if the Department has determined that a Guaranty Agency is unable to meet its guaranty obligations, the loan holder may submit claims directly to the Department and the Department is required to pay the full guaranty claim amount due with respect thereto in accordance with guaranty claim processing standards no more stringent than those of the Guaranty Agency. However, the Department's obligation to pay guaranty claims directly in this fashion is contingent upon the Department making the determination referred to above. There can be no assurance that the Department would ever make such a determination with respect to any specific Guaranty Agency or, if such a determination was made, whether such determination or the ultimate payment of such guaranty claims would be made in a timely manner. In addition, the 1998 Reauthorization Bill contained changes to the FFEL Program which could adversely affect the financial status of the Guaranty Agencies. 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."

The Balanced Budget Act of 1997 (the "Balanced Budget Act") amended the Higher Education Act to require the Secretary to recall $1 billion in Federal reserve funds from guaranty agencies on September 1, 2002. Under the Balanced Budget Act, each Guaranty Agency is required to transfer its equitable share of the $1 billion, as defined in the Balanced Budget Act, to a restricted account. Each Guaranty Agency must transfer its required share to the restricted account in equal annual installments for each of the five federal Fiscal years 1998 through 2002. However, a Guaranty Agency with a reserve ratio equal to or less than 1.1% as of September 30, 1996 may transfer its required share to the restricted account in four equal annual installments beginning in federal fiscal year 1999. The Balanced Budget Act also reduced the Guaranty Agencies' required reserve ratio from 1.1% to .5%.

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Federal Loans by any lender, any Guaranty Agency, any Servicer or the Corporation may adversely affect payment of principal of and interest on the Bonds when due. The Higher Education Act, and the applicable regulations thereunder, require the lenders making Federal Act Loans, guarantors guaranteeing Federal Act Loans and parties servicing Education Loans to follow certain due diligence procedures in an effort to ensure that Federal Act Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a student loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Federal Act Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to completely describe those procedures. Failure to follow such procedures may result in the refusal by the Department to make reinsurance payments to a guarantor on such loans or may result in the guarantor's refusal to honor its guarantee on such loans to the Corporation. Such action by the Department could adversely affect a guarantor's ability to honor guarantee claims made by the Corporation, and loss of guarantee payments to the Corporation by a guarantor could adversely affect payment of principal of and interest on the 2002 Bonds.

If the Department of Education or the Guaranty Agency determines that the Corporation owes a liability to the Department of Education or the Guaranty Agency on any FFELP Loan for which the Corporation is legal titleholder, the Department of Education or the Guaranty Agency 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 2002 Bonds.

Uncertainty as to Available Remedies

The remedies available to Owners of the 2002 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 2002 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.

Reliance on Bond Insurer Consent or Affirmations

The Resolution provides that the Corporation and the Trustee may undertake certain various actions based upon receipt by the Trustee of the written consent of the Bond Insurer and/or confirmation from each of the Rating Agencies that the outstanding respective ratings assigned by such Rating Agencies to the Bonds are not thereby impaired. Such actions include, among others, the issuance of Additional Bonds, restrictions on the optional redemption of the Subordinate Bonds, the inclusion in the Accounts held under the Resolution of a larger percentage of Eligible Education Loans which are not Federal Act Loans or which are not guaranteed at least as to the maximum percentage of the principal amount thereof permitted by the Act at the time of origination, the extension of certain dates for the acquisition or origination of Eligible Education Loans, amendments to the Resolution, removal of the Trustee and appointment of a successor, the acquisition of certain investments and the addition of loan servicers or liquidity providers. To the extent such actions are taken after issuance of the 2002 Bonds, investors in the 2002 Bonds will be relying on the consent of the Bond Insurer in certain instances or on the evaluation by each Rating Agency in certain instances of such actions and their impact on credit quality. Currently, the only Rating Agencies rating the 2002 Bonds are Moody's Investors Service ("Moody's"), Fitch, Inc. ("Fitch") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). Information on the ratings assigned to the 2002 Bonds can be obtained from Moody's at 99 Church Street, New York, New York 10007-2796, from Fitch at One State Street Plaza, New York, New York 10004 and from S&P at 26 Broadway, New York, New York 10041.

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 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 Robbins Chair	President, Weidmann Industries, Inc. St. Johnsbury, Vermont
Representative Martha P. Heath Vice-Chair	Vermont House of Representatives Westford, Vermont
Jon F. Ratti Secretary	Director of Guidance Bellows Falls Union High School Bellows Falls, Vermont
Joseph L. Boutin	President, The Merchants Bank Burlington, Vermont
Senator Ann E. Cummings	Vermont State Senator Montpelier, Vermont
James H. Douglas *ex officio*	Treasurer, State of Vermont Montpelier, Vermont
David Ginevan	Executive Vice President for Facilities Planning Middlebury College Middlebury, Vermont
Joan D. Goodrich	Vice President, Planning and Special Programs Bennington College Bennington, Vermont
Dorothy R. Mitchell	Higher Education and Community Volunteer Worcester, Vermont
Barbara G. Ripley	Attorney-at-Law Wilson & White Montpelier, Vermont
Diane M. Wolk	Principal, Northeast Elementary School Rutland, Vermont

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

The following persons are the officers of the Corporation:

NAME	POSITION
Chris Robbins	Chair
Martha P. Heath	Vice Chair
Jon F. Ratti	Secretary
Donald R. Vickers	President
Steven Karcher	Vice President of Finance, Corporate Services, Information Technology and the Vermont Higher Education Investment Plan, and Assistant Secretary
Patrick J. Kaiser	Vice President of Student Services and Assistant Secretary
Timothy Wick	Vice President of Planning, Human Resources and Development

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

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

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

Management

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

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

Mr. Steven Karcher, Vice President of Finance, Corporate Services, Information Technology and the Vermont Higher Education Investment Plan, and Assistant Secretary of the Corporation, joined the Corporation in 1999. Mr. Karcher was previously the Vice President of Business Affairs at Marywood University, Scranton, Pennsylvania. He is a licensed Certified Public Accountant.

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

Mr. Timothy Wick, Vice President of Planning, Human Resources and Development, joined the Corporation in 1977. Mr. Wick served the Corporation as Director of Outreach Programs from 1977 to 1995, and has been a member of the Corporation's Executive Committee since 1997. Mr. Wick previously served as Executive Director of the Mountain Road School in Jeffersonville, Vermont.

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

Origination and Acquisition of Loans

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

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

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

Servicing of Education Loans

The Corporation provides the personnel necessary to perform all origination and servicing of Eligible Education Loans (including all Federal Act Loans, HEAL Loans and Statutory Loans). 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 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 Guarantor's duties include processing loans submitted for guarantee, issuing loan guarantees, providing collections assistance to lenders for delinquent loans, paying lender claims for loans in default, collecting loans on which default claims have been paid and making appropriate reports to the Secretary. The Corporation is also responsible for initiating policy, conducting activities to keep lenders informed with respect to Stafford Loans and PLUS/SLS Programs, encouraging lender participation and performing lender/school compliance activities.

In accordance with the provisions of Section 2864 of Title 16 of the Vermont Statues Annotated and with the terms of its agreements with lenders, including with itself in its capacity as an originator of Eligible Education Loans, for the guarantee of loans, the Corporation has established a fund (the "Guarantee Reserve Fund") for the purpose of providing for the payment of any defaulted notes under the Federal Stafford Loan, PLUS/SLS and the Consolidation programs. The Guarantee Reserve Fund also serves as the Corporation's Federal Loan Reserve Fund under the Act. The Corporation is obligated to make payments with respect to such guaranteed loans solely from the revenues or other funds of the Guarantee Reserve Fund, and neither the State nor any political subdivision thereof is obligated to make such payments. Neither the faith and credit nor the taxing power of the State or of any of its political subdivisions is pledged to any such payments required to be made. The amount on deposit in the Guarantee Reserve Fund at any time (including federal funds) is required by the State Act to be an amount equal to the amount required by the Act but not less than 8% of the total loans outstanding as of such date not covered by federal reinsurance. As of June 30, 2002, the amount on deposit in the Guarantee Reserve Fund exceeded the amount required by the State Act, and as of such date the Corporation's Federal Loan Reserve Fund complied with the requirements of the Act.

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

Guaranty Volume. As of June 30, 2002, federally-reinsured education loans in the outstanding aggregate principal amount of approximately $1,130,345,667.36 were guaranteed by the Corporation.

Reserve Ratio. As of June 30, 2002, the Corporation's reserve ratio was .660%. 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, 2001 was 1.190%. See Appendix E -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS -- Federal Insurance and Reimbursement of Guaranty Agencies."

Loan by School Type. The following table sets forth, by school type, the percentage of loans (based upon actual loan balances) guaranteed by the Corporation as of June 30, 2002.

School Type		CPB	Percentage of Guaranteed Loans Outstanding (as of June 30, 2002)
Four-Year	$	384,348,023	59.22%
Two-Year	$	29,110,517	4.48%
Proprietary	$	25,895,166	3.99%
Other[1]	$	209,729,753	32.31%
Total	$	649,083,459	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 June 30, 2002, the Corporation had outstanding the following bonds and notes. Except for the 1995 Bonds, the 1996 Bonds, the 1998 Bonds, the 2000 Bonds and the 2001 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
1992 Series A-2, A-3	$	48,270,000	Insured by Financial Security Assurance
1992 Series B,C	$	50,000,000	Insured by Financial Security Assurance
1993 Series D,E	$	80,000,000	Insured by Financial Security Assurance
1993 Series F,G,H,I,J	$	122,500,000	Insured by Financial Security Assurance
1995 Series A,B,C,D	$	96,000,000	Insured by AMBAC Assurance
1995 Series E	$	5,300,000	Insured by AMBAC Assurance
1996 Series F,G,H,I	$	100,000,000	Insured by AMBAC Assurance
1996 Series J	$	3,100,000	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 P,Q,R,S,T,U	$	195,500,000	Insured by AMBAC Assurance
2001 Series V,W,X,Y,Z,AA	$	164,750,000	Insured by AMBAC Assurance
2001 Series A-XIII Note	$	8,520,000	No Credit Support
2002 Series A-XIV Note	$	16,860,000	No Credit Support
Total	$	1,096,700,000	

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2002 Bonds is excluded from gross income for federal income tax purposes; however, interest on the 2002 Bonds is a specific preference item for purposes of the alternative minimum tax. 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 2002 Bonds. Failure to comply with such requirements could cause interest on the 2002 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2002 Bonds. The Corporation has covenanted to comply with such requirements.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2002 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 2002 Bonds.

Tax Matters Related to the 2002 Bonds

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon 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 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 obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the 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 2002 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 2002 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 2002 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the 2002 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 2002 Bonds or the due existence or powers of the Corporation.

APPROVAL OF LEGALITY

The legality of the authorization, issuance and sale of the 2002 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 counsel, Little, Cicchetti & Conard, P.C., Burlington, Vermont, and for the Underwriters by their

counsel, Krieg DeVault LLP, Indianapolis, Indiana. The enforceability of the Financial Guaranty Insurance Policy will be passed upon for Ambac Assurance Corporation by a Vice President and Assistant General Counsel of Ambac Assurance Corporation. The unqualified approving opinion of Bond Counsel to the Corporation is to be delivered with the 2002 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 2002 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 2002 Bonds) and such obligations (including the 2002 Bonds) are authorized security for any and all public deposits.

UNDERWRITING

The 2002 Bonds are to be purchased by UBS PaineWebber Inc., as representative of the underwriters (the "Underwriters") pursuant to a bond purchase contract with the Corporation. The Underwriters have agreed to purchase the 2002 Bonds at a price of par less a discount equal to $410,623. The bond purchase contract provides that the Underwriters will not be obligated to purchase any of the 2002 Bonds unless all such Bonds are available for purchase. The initial public offering prices of the 2002 Bonds may be changed by the Underwriters from time to time without notice.

The Underwriters may offer and sell the 2002 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 2002 Bonds may be changed from time to time by the Underwriters.

RATINGS

Moody's Investors Service ("Moody's"), Fitch, Inc. ("Fitch") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), are each expected to assign their municipal bond ratings of "Aaa", "AAA" and "AAA" respectively to the 2002 Bonds based upon the delivery of the Financial Guaranty Insurance Policy. Such ratings reflect only the view of Moody's, Fitch and S&P and an explanation of the significance of such ratings can only be obtained from Moody's, Fitch 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, Fitch 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 2002 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 2002 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 2002 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 2002 Bonds and their market price.

FINANCIAL ADVISOR

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

FINANCIAL STATEMENTS

The Financial Statements of the Corporation for the fiscal year ended June 30, 2001 were audited by KPMG LLP, as set forth in their report dated September 14, 2001. 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 2002 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 2002 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and /or interest on the 2002 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 2002 Bonds from UBS PaineWebber Inc., 1285 Avenue of the Americas, New York, New York 10019, Attention: Municipal Securities Group, and thereafter from Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404, Attention: President or the Financial Advisor, Government Finance Associates, Inc., 919 Third Ave., 27th 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 2002 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 2002 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 2002 Bonds.

Use of this Official Statement in connection with the sale of the 2002 Bonds has been authorized by the Corporation.

VERMONT STUDENT ASSISTANCE CORPORATION

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

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

ARTICLE I

SHORT TITLE, DEFINITIONS, INTERPRETATIONS

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

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

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

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

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

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

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

"Additional Bonds" means any issue of Bonds issued subsequent to the 2002 Eighth Series Resolution.

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

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

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

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

"Authorized Denominations" means with respect to the 2002 Bonds while such are Outstanding as Auction Rate Certificates, $50,000 and any integral multiple thereof, or otherwise as provided in the Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Certificate and Agreement" means the Certificate and Agreement by and between the Corporation and the Bond Insurer to be entered into as of the date of initial delivery of the 2002 Bonds to the Purchaser.

"Code" means the Internal Revenue Code of 1986.

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

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

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

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

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

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

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

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

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

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

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

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

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

"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 Corporation insuring the payment when due of the principal of and interest on the 2002 Bonds as provided therein.

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

"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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Material Adverse Change in the Loan Program" means, with respect to all Series of Bonds, any change enacted by the United States Congress or implemented by the Secretary or the Department of Education or, if applicable, the legislature of the State, or any change resulting from the actions of the Corporation after the initial delivery date of the 2002 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.

"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.

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

"1995 Senior Series Resolution" means the series resolution so named providing for the issuance of the Senior Series 1995E Bonds.

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

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

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

"2000 Sixth Series Resolution" means the series resolution so named providing for the issuance of the Senior Series 2000P Bonds, Senior Series 2000Q Bonds, Senior Series 2000R Bonds, Senior Series 2000S Bonds, Senior Series 2000T Bonds, and Senior Series 2001U Bonds as authorized pursuant to and defined in the 2000 Sixth Series Resolution.

"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 Senior Series Resolution.

"2001 Seventh Series Resolution" means the series resolution so named providing for the issuance of the Senior Series 2001V Bonds, Senior Series 2001W Bonds, Senior Series 2001X Bonds, Senior Series 2001Y Bonds, Senior Series 2001Z Bonds, and Senior Series 2001AA Bonds as authorized pursuant to and defined in the 2001 Seventh Series Resolution.

"2001 Surety Bond" means the Surety Bond issued in an amount equal to the Debt Service Reserve Requirement with respect to 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 resolution so named providing for the issuance 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 Surety Bond" means the Surety Bond issued in an amount equal to the Debt Service Requirement with respect to the Series 2002 Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Purchaser" means UBS PaineWebber Inc., as representative of the underwriters.

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

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

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

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

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

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

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

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

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

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

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

"Remarketing Agent" means (a) with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds UBS PaineWebber Inc., (b) with respect to the Senior Series 2002DD Bonds, William R. Hough & Co., or (c) any other entity assuming the duties and obligations of the Remarketing Agent as may be appointed by the Corporation.

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

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

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

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

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

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

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

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

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

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

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

"State" means the State of Vermont.

"State Act" means Vermont Statutes Annotated, 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.

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

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

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

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

"Surety Bond" means the surety bond or bond 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 pursuant to Article XI of the Resolution as such from time to time by the Corporation.

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

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

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

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

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

"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 Loan" means any Education Loan originated, purchased, acquired, financed or refinanced under the Vermont Value Program.

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

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

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

TERMS OF BONDS

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

contract among the Corporation, the Trustee and the Owners from time to time of the bonds, as their interests may appear.

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

GENERAL TERMS AND PROVISIONS OF BONDS

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

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

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

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

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

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

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

PLEDGE OF RESOLUTION; ACCOUNTS

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

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

(1) Loan Account;

(2) Revenue Account;

(3) Debt Service Reserve Account;

(4) Rebate Account; and

(5) Operating Account.

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

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

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

(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 the provisions of Article VI of the Resolution.

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

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

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

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

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

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

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

SIXTH: Into the Debt Service Reserve Account, to the extent necessary, the amount required to restore the Debt Service Reserve Account to the Debt Service Reserve Requirement; 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 Account to the required level, after taking into account the amount available under the Funding Instruments.

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

(C) Notwithstanding the provisions of (A) above, 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 in accordance with the Resolution, 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.

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

(E) Notwithstanding the foregoing, 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 pursuant to Section 5.4 of the Resolution are insufficient. Amounts on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement shall be transferred to the Revenue Account as soon as practicable after the determination of such excess. The Debt Service Reserve Requirement for the 2002 Bonds and the 2001 Bonds will be, and any Additional Bonds issued thereafter may be, represented by a Funding Instrument.

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

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

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

REDEMPTION OF BONDS

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

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

PARTICULAR COVENANTS

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

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

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

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

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

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

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

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

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

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

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

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

State Covenant. The State Act provides that the Corporation may execute the following pledge and agreement of the State, in any agreement with the holders of the Corporation's notes, bonds, or other obligations and

the Corporation includes such pledge and agreement for the benefit of the owners of the Bonds and the Bond Insurer, to the extent permitted by law:

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

SUPPLEMENTAL RESOLUTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AMENDMENTS

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

DEFAULTS AND REMEDIES

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

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

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

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

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

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

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

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

(2) by bringing suit upon the Bonds;

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

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

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

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

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

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

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

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

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

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

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

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

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

CONCERNING THE BANKING ENTITIES AND OTHERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEFEASANCE; MISCELLANEOUS PROVISIONS

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

is authorized to transfer all moneys or securities held by it, at the direction of the Corporation, with the consent of the Bond Insurer, to secure any obligations owing under the Insurance Agreement. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the Outstanding Bonds, the redemption price and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the Corporation to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

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

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

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

GENERAL PROVISIONS RELATING TO THE BOND INSURER

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

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

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

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

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

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

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

(4) The Rating Agencies then rating the Bonds shall have confirmed in writing prior to the effective date of the Replacement Bond Insurance Policy that the provision of the Replacement Bond

Insurance Policy will result in long-term ratings on the Bonds of the Series of Bonds to be secured by the Replacement Bond Insurance Policy of at least Aa3/AA-; and

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

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

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

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

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

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

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

(iv) any conversion of any Series of the 2002 Bonds to a different interest mode or, if any of the 2002 Bonds bear interest at an Auction Rate or any change in the length of an Auction Period or (A) from a period of 90 days or less to a period of greater than 90 days, (B) from a period of greater than 90 days to a period of 90 days or less, or (C) which results in the length of that period being a length of time that is more than 90 days different than the preceding period;

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

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

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

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

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

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

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

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

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APPENDIX B

AUCTION PROCEDURES

The Auction Procedures for the ARCs are as set forth below. **These procedures will apply separately to an Auction of Bonds of a Series of 2002 Bonds that are ARCs.** All of the terms used in this Appendix B are defined herein or in other parts of this Official Statement. *"ARCs" means the Senior* Series *2002BB Bonds, the Senior Series 2002CC Bonds and the Senior Series 2002DD Bonds.*

Definitions

"AA Financial Commercial Paper Rate," on any date of determination, shall mean (a) for Auction Periods of 35 days or less, the interest equivalent of commercial paper having a maturity of 30 days, (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper having a maturity of 90 days; as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site http://www.federalreserve.gov/releases/cp/hisrates.txt, or any successor publication ("H.15(519)") under the caption "AA financial." In the event that such publication has not been published in a timely manner, the "AA" Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include UBS PaineWebber Inc.) selected by the Market Agent, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial issuers whose bond rating is "AA" or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Market Agent are not quoting as mentioned in this sentence (and if the Market Agent, in its discretion, determines that such quotations can not be obtained from any three leading dealers of U.S. dollar commercial paper in The City of New York) such rate shall be the same rate as in effect for the immediately preceding Interest Payment Period.

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 discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

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

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

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

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

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

(b) the Kenny Index on such date;

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

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

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

Credit Ratings		
Moody's	Fitch, Inc.	Applicable Percentage
"Aaa"	"AAA"	175%
"Aa3" to "Aa1"	"AA-" to "AA+"	175%
"A3" to "A1"	"A-" to "A+"	175%
"Baa3" to "Baa1"	"BBB-" to "BBB+"	200%
Below "Baa3"	Below "BBB-"	265%

provided, that, in the event that the ARCs are not rated by any nationally recognized rating agency, the Applicable Percentage shall be 265%; and provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%. For purposes of this definition, the rating categories listed above refer to and include the respective rating categories correlative thereto if any or all of such rating agencies have changed or modified their generic rating categories or if they no longer rate the ARCs and have been replaced.

"Auction Agency Agreement" means the Auction Agency Agreement dated as of October 1, 2002, between the Trustee and the Auction Agent, for the ARCs and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

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

"Auction Date" means, for the Senior Series 2002BB Bonds outstanding as ARCs, November 14, 2002, for the Senior Series 2002CC Bonds outstanding as ARCs, November 21, 2002, and for the Senior Series 2002DD Bonds outstanding as ARCs, October 16, 2002, and thereafter, in each instance the Business Day immediately preceding the first day of each Interest Period other than;

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

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

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

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

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

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

"*Broker-Dealer*" means UBS PaineWebber Inc. with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds and William R. Hough & Co. with respect to the Senior Series 2002DD Bonds or any

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

"*Broker-Dealer Agreement*" means with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, the Broker-Dealer Agreement dated as of October 1, 2002 between the Auction Agent and UBS Paine Webber Inc. (the "UBS Paine Webber Broker-Dealer Agreement") and with respect to the Senior Series 2002DD Bonds, the Broker-Dealer Agreement dated as of October 1, 2002 between the Auction Agent and William R. Hough & Co. (the "William R. Hough Broker-Dealer Agreement") and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

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

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

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

"Existing Owner" means (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 owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of ARCs.

"Fitch" means Fitch, Inc., New York, New York, and its successors and assigns.

"*Fixed Rate*" means the fixed rate or rates of interest, or manner of determining the same, on any Senior Series 2002BB Bonds, Senior Series 2002CC Bonds and Senior Series 2002DD Bonds determined pursuant to the Resolution.

"Fixed Rate Conversion Date" means (a) a date on which any of the Senior Series 2002BB Bonds, Senior Series 2002CC Bonds or Senior Series 2002DD Bonds begin to bear interest at a Fixed Rate as provided in Exhibit A to the Eighth Supplemental Resolution.

"*Initial Interest Period"* means the period from the date of delivery of the 2002 Bonds and ending on and including November 14, 2002 with respect to the Senior Series 2002BB Bonds, November 21, 2002 with respect to the Senior Series 2002CC Bonds, and October 16, 2002 with respect to the Senior Series 2002DD Bonds.

"*Interest Payment Date"* means, with respect to the 2002 Bonds, (a) while outstanding as ARCs, (i) each June 15 and December 15, commencing December 15, 2002 except as changed as described in the Resolution (or, if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding June 14 or December 14)), (ii) any day on which the 2002 Bonds are subject to mandatory tender for purchase pursuant to the Resolution or redemptions pursuant to the Resolution, and (iii) on the maturity date thereof,

or if such date is not a Business Date, the next succeeding Business Day (but only for interest accrued through the day preceding the maturity date), (b) after the Variable Rate Conversion Date each June 15 and December 15 next following the Variable Rate Conversion Date and on any day on which 2002 Bonds are subject to mandatory tender for purchase pursuant to the Resolution, or redemption pursuant to the Resolution and (c) after the Fixed Rate Conversion Date, each June 15 and December 15 commencing with the June 15 or December 15 that occurs no sooner than three months after the Fixed Rate Conversion Date.

"*Interest Period*" means, (a) with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, so long as interest is payable on June 15 or December 15 with respect thereto and unless otherwise changed as described in the Resolution, the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on a Friday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day) and with respect to the Senior Series 2002DD Bonds, so long as interest is payable on June 15 or December 15 with respect thereto and unless otherwise changed as described in the Resolution, the Initial Interest Period and each successive period of generally 7 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) with respect to the 2002 Bonds outstanding as ARCs, if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period as described in the Resolution, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

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

"Market Agent Agreement" means the Market Agent Agreement dated as of October 1, 2002, between the Trustee and the Market Agent for the ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

"Maximum Interest Rate" means with respect to ARCs 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) a Rating Confirmation 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, means the interest rate per annum equal to the lesser of:

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

(b) the Maximum Interest Rate;

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

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

"*Participant*" means a member of or participant in DTC.

"Payment Default" means failure by the Corporation to make payment of interest on, premium, if any, and principal of the ARCs when due, followed in the case of the 2001 Bonds, by a default by the Bond Insurer under the Financial Guaranty Insurance Policy therefor.

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

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

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

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

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

"Remarketing Agent" means (a) with respect to the Senior Series 2002BB Bonds and the Senior Series 2002CC Bonds, UBS PaineWebber Inc., (b) with respect to the Senior Series 2002DD Bonds, William R. Hough & Co. or (c) such other remarketing agent appointed by the Corporation pursuant to the Resolution.

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

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

"*Variable Rate*" means the variable rate or rates of interest, or manner of determining the same, on any Senior Series 2002BB Bonds, Senior Series 2002CC Bonds or Senior Series 2002DD Bonds determined pursuant to the provisions of the Resolution.

"*Variable Rate Conversion Date*" means a date on which any Senior Series 2002BB Bonds, Senior Series 2002CC Bonds, or Senior Series 2002DD Bonds begin to bear interest at a Variable Rate as provided in the Resolution.

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

Introduction

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

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

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

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

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

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

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

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

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such

Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

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

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

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

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

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

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

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

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

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

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

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

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the

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

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

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

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

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

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

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

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

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

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

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

Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

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

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

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

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

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

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

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

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

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

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

(D) each Existing Owners' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal

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

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

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

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

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

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

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

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

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

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APPENDIX C

SETTLEMENT PROCEDURES

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

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

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

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

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

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

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

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

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

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

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

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

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

amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

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

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

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

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

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

(d) On each Auction Date:

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

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

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

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

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

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

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

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

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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 Underwriters or their respective counsel. No representation is made herein as to the accuracy of such information or as to the absence of material changes in such information subsequent to the date of such information or the date hereof.

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $5,587,000,000 (unaudited) and statutory capital of approximately $3,453,000,000 (unaudited) as of June 30, 2002. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch, Inc. 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 2002 Bonds.

Ambac Assurance makes no representation regarding the 2002 Bonds or the advisability of investing in the 2002 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented in this Appendix or under the heading "INSURANCE ON THE 2002 BONDS" in the Official Statement.

AVAILABLE INFORMATION

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "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") at 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 documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

(1) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;

(2) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;

(3) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;

(4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;

(5) The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;

(6) The Company's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002; and

(7) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of these Offering Materials will be available for inspection in the same manner a described above in "*AVAILABLE INFORMATION*".

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

SUMMARY OF CERTAIN PROVISIONS OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

SUMMARY OF CERTAIN PROVISIONS OF THE STATUTORY LOAN PROGRAM

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

Introduction

The following descriptions of the Federal Family Education Loan Program (the "FFELP," formerly known as the Guaranteed Student Loan Program, including the Stafford Student Loan Program, the Supplemental Loans for Students (SLS) Program, Parent Loans for Undergraduate Students (PLUS) Program, and Consolidation Loan Program as authorized under Title IV, part B of the Higher Education Act of 1965, as amended) are qualified in their entirety by reference to the Higher Education Act. Since its original enactment in 1965, the Higher Education Act has been amended and re-authorized many times, including by the Higher Education Amendments of 1986, 1990, 1992, 1993, 1994, 1997 and 1998. The Higher Education Act is again scheduled for reauthorization no later than September 30, 2002. There can be no assurance that the Higher Education Act, or other relevant federal or state laws, rules and regulations, will not be changed in the future in a manner that will adversely impact the programs described below and the student loans (the "Guaranteed Student Loans") made thereunder. In particular, the enacted legislation and other measures described under "Legislative and Administrative Matters" below, or future measures, may adversely affect these programs.

Legislative and Administrative Matters

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

Fiscal Year 1998 Budget. In the 1997 Budget Reconciliation Act (P.L. 105-33), several changes were made to the Higher Education Act that impacted the FFELP. These provisions included, among other things, requiring federal guarantors to return $1 billion of their reserves to the U.S. Treasury by September l, 2002 (to be paid in annual installments), greater restrictions on use of reserves by federal guarantors and a continuation of the Administrative Cost Allowance payable to federal guarantors (which is a fee paid to federal guarantors equal to 0.85% of new loans guaranteed).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Reform. The 1990 Reconciliation Act included the Credit Reform Act of 1990. Under this legislation, beginning in fiscal year 1992, the budgeted cost of the FFELP included the present value of the long-term cost to the government of loans reinsured during the fiscal year (excluding administrative costs and certain incidental costs), regardless of how far into the future the costs will be incurred. The costs resulting from loan reinsurance commitments made prior to fiscal year 1992 will also be reflected in future budgets based on the years in which they are paid.

Eligibility Requirements for Educational Institutions. The 1990 Reconciliation Act made major changes in the provisions granting eligibility to educational institutions to participate in the FFELP. The 1990 Reconciliation Act eliminated eligibility for any institution with a default rate over 35%, with the exception of historically black colleges, certain tribally-controlled community colleges and other schools that can demonstrate "exceptional mitigating circumstances" to the satisfaction of the Secretary. Both of these changes have eliminated from the FFELP many new loans with a high probability of default. In addition, the 1992 Reauthorization Bill lowered the default rate trigger for disqualifying schools to 25% beginning in fiscal year 1994, further reducing the risk of default in the program.

Financial Status of Guaranty Agencies. The 1992 Reauthorization Bill amended and reauthorized the Higher Education Act effective through October l, 1998. The 1998 Reauthorization Bill amended and reauthorized the Higher Education Act effective through June 30, 2003. Pursuant to the 1992 Reauthorization Bill and additional changes made in 1997 and 1998, each Guaranty Agency is required to maintain a current minimum reserve level of at least .25% of the aggregate principal amount of all outstanding Federal Loans guaranteed by the Guaranty Agency. For purposes of the .25% determination, the total attributable amount of all outstanding Federal Loans guaranteed by the Guaranty Agency will not include amounts of outstanding loans transferred to the Guaranty

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

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

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

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

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

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

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

Eligibility Requirements for Stafford Loans

The Higher Education Act provides for federal (a) insurance or reinsurance of eligible Stafford Loans (described below), (b) interest subsidy payments ("Interest Subsidy Payments") to eligible lenders with respect to

certain eligible Stafford Loans, and (c) special allowance payments ("Special Allowance Payments") representing an additional subsidy paid by the Secretary to such holders of eligible Guaranteed Student Loans.

Stafford Loans are eligible for reinsurance under the Higher Education Act if the eligible student to whom the loans are made has been accepted or is enrolled in good standing at an eligible institution of higher education or vocational school and is carrying at least one-half the normal full-time workload at that institution. In connection with eligible Stafford Loans there are limits as to the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. Both aggregate limitations exclude loans made under the PLUS Program. The Secretary has authorized higher limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

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

Qualified Student. Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (b) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (c) has agreed to notify promptly the holder of the loan of any address change, (d) meets the applicable "needs" requirements and (e) if they are an undergraduate enrolled in an institution participating in the Pell Grant Program, then their eligibility or ineligibility for the Pell Grant Program has been determined. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. Each loan is to be evidenced by an unsecured note.

Principal and Interest. Stafford Loans bear interest at a rate not in excess of 7% per annum if made to a borrower prior to January l, 1981 or, subsequent to such date, if made to a borrower who, upon entering into a note for a loan, has outstanding Guaranteed Student Loans under the FFELP for which the interest rate does not exceed 7%. Stafford Loans made between January l, 1981 and September 13, 1983 bear interest at a rate of 9% per annum and, for Stafford Loans made beginning on or after September 13, 1983, the rate is 8% per annum. Further, loans to first time borrowers made on or after July l, 1988, bear interest at the rate of 8% per annum from disbursement through four years after repayment commences and at a variable rate reset each July l equal to the 91-day Treasury Bill rate plus 3.25%, or for loans made after July 23, 1992, 3.10%, not to exceed 10% per annum thereafter. However, pursuant to the Higher Education Technical Amendments of 1993, which was signed into law by the President on December 20,1993, lenders converted all loans subject to this provision to a variable rate equal to the 91-day Treasury Bill rate plus 3.25% or, in the case of a loan made to a borrower with outstanding Guaranteed Student Loans under the FFELP after October l, 1993, the 91-day Treasury Bill rate plus 3.1%, such conversion having taken place on or about January 1, 1995.

Stafford Loans to new borrowers made on or after October l, 1992 but prior to October l, 1994 bear interest at a variable rate adjusted annually based on 91-day Treasury Bill plus 3.1%, or 9%, whichever is less. Stafford Loans disbursed on or after October l, 1992 to borrowers with outstanding Guaranteed Student Loans bear interest at a variable rate equal to 91-day Treasury Bill plus 3.10%, with a maximum ranging from 7% to 10% based upon the borrower's outstanding loans and how long the new Stafford Loan has been in repayment. Stafford Loans first disbursed on or after July l, 1995 and prior to July l, 1998 bear interest at a rate equal to 91-day Treasury Bill plus 2.5% while the borrowers are in-school, grace or deferment status and at a rate equal to 91-day Treasury Bill plus 3.l% during periods in which the loan does not qualify for Interest Subsidy Payments. Stafford Loans disbursed on or after July l, 1998 bear interest at a variable rate equal to the bond equivalent yield of 91-day Treasury Bill plus 1.7% while borrowers are in-school, grace, or deferment status, and at a rate equal to the bond equivalent rate of 91-day Treasury Bill plus 2.3% while borrowers are in repayment with a cap of 8.25%.

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

Repayment. Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student but generally begins upon expiration of the applicable Grace Period, as described below. Such Grace Periods may be waived by borrowers. In general, each such loan must be scheduled for repayment over a period of not more than ten years (excluding any Deferment Period or Forbearance Period as defined in the Higher Education Act) after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of $600 including principal and interest (but in no event less than the accrued interest), unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total of combined payments for such a couple may not be less than $600 per year. For Stafford Loans first disbursed on or after July 1, 1993 to a borrower who has no outstanding Federal Loans on the date such loan is made, the borrower must be offered the opportunity to repay the loan according to a graduated or income-sensitive repayment schedule established in accordance with Department of Education regulations. For Stafford Loans entering repayment on or after October l, 1995, borrowers may choose among several repayment options, including the option to make interest only payments for limited periods.

Grace Period, Deferment Periods and Forbearance. Repayment of principal of an insured student loan must generally commence following a period of (a) not less than nine months or more than twelve months (with respect to loans for which the applicable interest rate is 7% per annum) and (b) not more than six months (with respect to loans for which the applicable interest rate is other than 7%) after the student borrower ceases to pursue at least a half-time course of study (a "Grace Period"). However, during certain other periods and subject to certain conditions, no principal repayments need be made, including periods when the student has returned to an eligible educational institution on at least a half-time basis or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily totally disabled, or during which the borrower is unable to secure employment, or when the borrower is experiencing economic hardship (the "Deferment Periods"). The lender may also, and in some cases must, allow periods of forbearance during which the borrower may defer principal and/or interest payments because of temporary financial hardship (a "Forbearance Period"). The 1992 Reauthorization Bill simplified the deferment categories for new loans and expanded the opportunities for students to obtain forbearance from lenders due to temporary financial hardship.

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

Interest Subsidy Payments

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

(d) in the case of loans initially disbursed prior to October l, 1981, during a six-month grace period following any authorized deferment period before repayment is required to resume.

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

Special Allowance Payments

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

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

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

Unsubsidized Stafford Loan Program

Under the 1992 Reauthorization Bill, a new type of Stafford Loan was created for students who do not qualify for the full subsidized Stafford Loan after application of the need analysis methodology. Such students are entitled to borrow the difference between the Stafford Loan maximum and their Stafford eligibility through the new program. The new unsubsidized Stafford Loan is substantially identical to other Stafford Loans, except that the

interest accruing on the loan while the student is in school or in grace or deferment is capitalized or paid by the student, rather than paid by the Secretary through the Interest Subsidy. On August 15, 1996, the Secretary authorized higher annual (but not aggregate) unsubsidized Stafford Loan limits for certain new health professions student borrowers to compensate for restrictions recently enacted by Congress on the ability of those students to borrow under other Federal Loan programs.

PLUS and SLS Loans

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

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

Interest rates on PLUS and SLS Loans are higher than those on Stafford Loans. The applicable interest rate depends upon the date of issuance of the loan and the period of enrollment for which the loan is to apply. For PLUS Loans issued on or after October l, 1981, but for periods of educational enrollment beginning prior to July l, 1987, the applicable rate of interest is either 12% or 14% per annum. A variable interest rate applies to PLUS and SLS Loans made and disbursed on or after July l, 1987 or made to refinance PLUS Loans pursuant to the Higher Education Act. This rate is determined on the basis of any 12-month period beginning on July 1 and ending on the following June 30, such that the rate will be equal to the sum of the bond equivalent rate of 52-week Treasury Bills auctioned at the final auction held prior to the June l preceding the applicable 12-month period, plus 3.25% (3.10% for loans first disbursed on and after October l, 1992 but prior to July l, 1994), with a maximum rate of 12% per annum (11% for SLS Loans first disbursed on or after October l, 1992 and 10% for Plus Loans first disbursed on or after October 1, 1992). Special Allowance Payments are available on variable rate PLUS and SLS Loans only if the rate determined by the formula above exceeds the applicable maximum borrower interest rate. For PLUS Loans first disbursed on or after July l, 1994, the cap has been further reduced to 9%. For PLUS Loans disbursed on or after July 1, 1998, the interest rate will be based on 91-day Treasury Bills plus 3.1% not to exceed 9%. Special Allowance Payments are available if the interest rate calculated under the new formula would exceed the applicable cap. Commencing July 1, 1994, however, the SLS Loan program was merged into the unsubsidized Stafford Loan program with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger.

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

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

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

Consolidation Loans

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

Consolidation Loans bear an interest rate equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent; for loans consolidated prior to July l, 1994, such rate may not be less than 9% per annum. However, Consolidation Loans made on or after November 13, 1997 through September 30, 1998 bear interest at the annual variable rate applicable to Stafford Loans. Consolidation Loans for which the application is received on or after July 1, 2003 and before July 1, 2006 bear interest at a rate equal to the weighted average interest rate of the loans consolidated, rounded up to the nearest one-eighth percent and capped at 8.25%. Lenders of Consolidation Loans made on or after July 1, 1994 are required to offer borrowers income-sensitive repayment schedules. Effective July 1, 1994, Consolidation Loans for less than $7,500 have a repayment schedule of not more than ten years. Repayment must commence within 60 days after all holders have discharged the liability of the borrower on the loans selected for consolidation. Effective for Consolidation Loan applications received by lenders on or after August 10, 1993, the Secretary will not make federal Interest Subsidy Payments on Consolidation Loans other than those loans which consolidate only subsidized Stafford Loans. Special Allowance Payments are made on Consolidation Loans whenever the rate charged the borrower is limited by the 9/8.25% cap. However, for applications received on or after October 1, 1998, and before January 1, 2000, Special Allowance Payments are paid in order to afford the lender a yield equal to the 91-day Treasury Bill plus 3.1% whenever the formula exceeds the borrower's interest rate, and for applications received on or after January 1, 2000, and before July 1, 2003, Special Allowance Payments are paid in order to afford the lender a yield equal to the 3-month commercial paper rate reported by the Federal Reserve plus 2.64% whenever the formula exceeds the borrower's interest rate.

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

FISL Loans

(Note: Few, if any, loans under the Federal Insured Student Loan Program ("FISL Loans") are or are expected to be included in the Trust Estate due to the fact that the federal government discontinued insuring new FISL Loans in the late 1970s.)

General. FISL Loans are eligible for insurance by the Secretary under the Higher Education Act only if the beneficiary of the loan has been accepted for enrollment 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 as determined

by the institution. Interest Subsidy Payments are made to holders of FISL Loans on basically the same terms as holders of Guaranteed Loans which are described above.

Terms and Conditions of FISL Loans. FISL Loans have basically the same terms as described under the caption "Legislative and Administrative Matters—Guaranty Agency and Lender Provisions" above.

Insurance Benefits. A FISL Loan is considered in default for purposes of the Higher Education Act upon the failure of the borrower to make an installment payment when due, or to comply with other terms of the FISL Loan under circumstances where the Secretary finds it reasonable to conclude that the borrower no longer intends to honor his obligation to repay, which failure persists, in the case of a FISL Loan repayable in monthly installments, for 180 days or, in the case of a FISL Loan repayable in less frequent installments, for 240 days.

The Secretary will honor claims for insurance if (a) the FISL Loan is determined to be in default or the borrower has died or become permanently disabled or the borrower has been relieved of his obligation to repay the FISL Loan through a discharge in bankruptcy; (b) the lender has used due diligence in attempting to effect collection of a defaulted FISL Loan; (c) written demand for payment has been made on the student and any endorser on a defaulted note not less than 30 days nor more than 60 days prior to the filing of the claim for loss; and (d) the claim is supported by such documents as are required by the Secretary.

Upon determination that a claim is to be honored, the amount of loss reimbursed by the Secretary with respect to a FISL Loan purchased by the Authority would equal 100% of the unpaid balance of the principal amount of the FISL Loan plus accrued and unpaid interest, except that payment of interest, or any other charges which may have been added to and become part of the principal amount of the FISL Loan, is insured only as to loans for which the application for insurance commitment was received by the Secretary between July 1 and August 18, 1972 or after February 28, 1973. Section 425(b)(1)(A) of the Higher Education Act provides that student loans made by an eligible lender that is the single agency designated by the State approximately five years after it begins to carry on a loan program may receive less than 100% (but at least 80%) insurance coverage in certain circumstances based on the number of claims submitted for payment to the Secretary in a given fiscal year. The Department has stated that this provision would not be applicable to loans which are acquired by such a lender from another eligible lender, and thus a lender of this type functioning as a secondary market for commercial lenders (rather than a loan originator) would be assured that the federal guarantee would be, without regard to the lender's default experience, 100% of the unpaid principal balance of the loan plus interest.

THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

General

The Public Health Service Act provides a program of federal insurance for education loans for graduate students of Health professions ("HEAL Loans") by the Secretary of the United States Department of Health and Human Services (the "Secretary of HHS"). The information contained in this heading is intended to summarize certain provisions of the Public Health Service Act and regulations promulgated thereunder which affect a lender's activities in financial HEAL Loans under the Health Education Assistance Loan Program (the "HEAL Loan Program"). The summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Public Health Service Act.

The Public Health Service Act currently authorizes Federal Loan Insurance for HEAL Loans issued or installments paid prior to September 30, 1995. After 1995, the Secretary of HHS may authorize federal insurance only for loans issued to enable students who have obtained prior HEAL Loans to continue or complete their educational program or to obtain a loan to pay interest on such prior loans but no insurance may be granted for any HEAL Loan made after September 30, 1998.

No assurance can be given that Congress will extend the September 30, 1998 authorization date, that the Public Health Service Act will be continued in its present form, or that relevant federal laws, including the Public Health Service Act, will not be changed in a manner that may adversely affect the receipt of funds by the Corporation with respect to insured HEAL Loans.

Federal Reimbursement Pursuant to the Public Health Service Act

The Corporation receives reimbursement under the HEAL Loan program in accordance with an Insurance Contract for Secondary Markets which presently runs through September 30, 2000. Under this Insurance Contract, the Secretary of HHS has agreed to reimburse the Corporation for 98 percent of the Corporation's losses on HEAL Loans held by the Corporation during such period resulting from the default, bankruptcy, death or total and permanent disability of a borrower, subject to certain terms and conditions as further described below. The Insurance Contract is an annual agreement and the Corporation must enter into a new contract with the Secretary of HHS upon its expiration in order to be eligible for insurance coverage for new HEAL Loans. The Corporation anticipates that a new Insurance Contract will be entered into with effect as of September 30, 2000. The Corporation also receives reimbursement with respect to HEAL consolidation loans under a Consolidation Lender Insurance Contract with the Secretary of HHS which provides insurance for the period through September 30, 2000. The Corporation anticipates a renewal of this contract with respect to HEAL consolidation loans.

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

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

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

Eligibility for Federal Insurance

A HEAL Loan is federally insurable provided:

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

(ii) Principal and interest may be deferred (a) during the term that the borrower continues study, (b) for up to four years of residency or internship training, (c) for up to three years during which the borrower is a member of the Armed Forces, a Peace Corps volunteer or a volunteer under the National Health Service Corps or the Domestic Volunteer Act. For HEAL Loans received on and after October 22, 1985, payments may be additional deferred up to two years during which time the borrower is in fellowship training study or engaged in a post-doctoral training.

(iii) The loan, (a) if made to a student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, or podiatric medicine does not exceed $20,000 in any one

academic year, (b) if made to a student enrolled in a school of pharmacy, public health, allied health, or chiropractic, or a graduate program in health administration or clinical psychology does not exceed $12,500 in any one academic year; and

(iv) Loans made to a student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry or podiatric medicine do not exceed $80,000 in aggregate principal amount and in the case of a student enrolled in a school of pharmacy, public health, allied health or chiropractic, or a graduate program in health administration or clinical psychology do not exceed $50,000 in aggregate principal amount.

HEAL Loans may also be made to non-student borrowers for the limited purpose of consolidating and refinancing existing HEAL Loans.

Interest Provisions

At a lender's option, the interest rate on a HEAL Loan may be calculated on a fixed rate or on a variable rate basis. Whichever method is selected, that method must continue over the life of the HEAL Loan, except where the HEAL Loan is consolidated with another HEAL Loan. Interest that is calculated on a fixed rate basis is determined for the 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 2002 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 2002 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 2002 Bonds.

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

$112,500,000
VERMONT STUDENT ASSISTANCE CORPORATION
EDUCATION LOAN REVENUE BONDS
SERIES 2002

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 $112,500,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2002BB (the "2002BB Bonds"), Senior Series 2002CC (the "2002CC Bonds") and Senior Series 2002DD (the "2001DD Bonds") (collectively, the "2002 Bonds").

The 2002 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 2002 Eighth Series Resolution of the Corporation adopted by the Corporation's Board of Directors on September 27 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2002 Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Education Loans and pay certain costs and other expenses of the Corporation associated with the issuance of the 2002 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 2002 Bonds are dated, mature on the dates and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and mandatory tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2002 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 2002 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 2002 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 2002 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 2002 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding limited obligations of the Corporation, payable solely from the amounts pledged therefor as described in (2) above, and entitled to the protections, benefits and security of the Resolution, subject to the priorities contained therein of Senior Bonds over Subordinate Bonds.

4. The 2002 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 2002 Bonds.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 2002 Bonds is excluded from gross income of the recipients thereof for federal income tax purposes; however, interest on the 2002 Bonds is a specific preference item for purposes of the alternative minimum tax for individuals and corporations. The Corporation has covenanted in the Resolution and the Tax Regulatory Certificate to comply with certain guidelines designed to assure that interest on the 2002 Bonds will not become includable in gross income. Failure to comply with these covenants may result in interest on the 2002 Bonds being included in gross income from the date of issuance of the 2002 Bonds. Our opinion assumes continuing compliance with such covenants.

The accrual or receipt of interest on the 2002 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws of the State of Vermont, the 2002 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 2002 Bonds and the Resolution and the rights of the registered owners of the 2002 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

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

Form No.: 2B-0012 (1/01)

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APPENDIX H

FINANCIAL STATEMENTS

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Financial Statements

June 30, 2001

(With Comparative Information for 2000)

(With Independent Auditors' Report Thereon)

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Table of Contents

Independent Auditors' Report

The Board of Directors
Vermont Student Assistance Corporation:

We have audited the accompanying balance sheet of the Vermont Student Assistance Corporation (a component unit of the State of Vermont) as of June 30, 2001, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation at June 30, 2001, and its revenues, expenses and changes in fund balances and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2001 on our consideration of Vermont Student Assistance Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

September 14, 2001

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Balance Sheet
June 30, 2001
(With Comparative Totals for June 30, 2000)

Assets	General Fund	Loan Finance Fund	Federal Loan Reserve Fund	VT Higher Education Investment Plan	2001 (Memorandum Only) Total	2000 (Memorandum Only) Total
	(Dollars in Thousands)					
Cash and cash equivalents (note 3)	$ 3,265	253,576	7,035	136	264,012	248,145
Investments (note 3)	—	20,458	—	4,334	24,792	26,886
Receivables:						
Investment interest	3	359	22	12	396	1,295
Student loans (notes 4 and 5)	—	869,051	—	374	869,425	760,574
Student loan interest and special allowance (note 7)	—	25,340	—	8	25,348	22,960
Federal administrative and program fees	324	—	—	—	324	322
Grants and other	407	32	31	14	484	702
Due from other funds	5,113	2,794	—	—	7,907	8,805
Federal reinsurance receivable (note 5)	—	—	2,291	—	2,291	1,626
Property and equipment (note 9)	2,107	1,110	—	—	3,217	4,521
Deferred bond issuance costs, less accumulated amortization of $3,334	—	5,604	—	—	5,604	5,173
Other assets	228	940	—	—	1,168	1,132
Total assets	$ 11,447	1,179,264	9,379	4,878	1,204,968	1,082,141

See accompanying notes to financial statements.

Liabilities and Fund Balances	General Fund	Loan Finance Fund	Federal Loan Reserve Fund	VT Higher Education Investment Plan	2001 (Memorandum Only) Total	2000 (Memorandum Only) Total
	(Dollars in Thousands)					
Bonds and notes payable (note 12)	$ —	1,097,480	—	—	1,097,480	984,056
Accounts payable and other liabilities	2,336	106	64	140	2,646	1,671
Grants and scholarships payable	1,277	—	—	—	1,277	1,127
Accrued interest on bonds payable	—	1,977	—	—	1,977	2,852
U.S. Treasury rebates payable (note 13)	—	10,678	—	—	10,678	17,270
Federal advances (note 8)	—	—	538	—	538	538
Due to other funds	2,794	5,113	—	—	7,907	8,805
Due to U.S. Department of Education	—	272	259	—	531	428
Federal Fund liability (note 14)	—	—	6,372	—	6,372	5,271
Assets managed on behalf of others (note 16)	—	—	—	4,738	4,738	1,332
Return of reserve due to U.S.D.E. (note 6)	—	—	2,146	—	2,146	2,146
Total liabilities	6,407	1,115,626	9,379	4,878	1,136,290	1,025,496
Fund balances:						
Restricted:						
Bond resolution	—	39,322	—	—	39,322	42,948
Loan guarantees	1,063	—	—	—	1,063	920
Grants and scholarships	769	—	—	—	769	69
Unrestricted	1,101	—	—	—	1,101	320
Unrestricted - designated (note 11)	—	23,206	—	—	23,206	7,866
Net investment in property and equipment	2,107	1,110	—	—	3,217	4,522
Total fund balances	5,040	63,638	—	—	68,678	56,645
Commitments and contingencies (notes 17 and 18)						
Total liabilities and fund balances	$ 11,447	1,179,264	9,379	4,878	1,204,968	1,082,141

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Revenues, Expenses and Changes in Fund Balances
Year ended June 30, 2001
(With Comparative Totals for June 30, 2000)

	2001			2000
	(Dollars in Thousands)			
	General Fund	Loan Finance Fund	(Memorandum Only) Total	Total
Revenues:				
U.S. Department of Education:				
Interest (note 7)	$ —	13,595	13,595	10,826
Special allowance (note 7)	—	6,506	6,506	9,795
Interest on investments	305	10,185	10,490	7,927
Interest and other charges on student loans, net	—	53,814	53,814	44,026
State appropriations	14,912	—	14,912	13,832
Consolidation fees	378	—	378	316
Default aversion fee	325	—	325	594
Federal administrative and program fees	2,173	—	2,173	1,603
Collections on defaulted loans, net	549	—	549	1,835
Loan rehabilitation and repurchase revenue	555	—	555	1,474
Federal grants	2,196	—	2,196	1,726
Scholarship income	1,891	—	1,891	1,927
Contribution income	37	—	37	—
Software sales and maintenance	79	—	79	490
Other income	498	566	1,064	561
Total revenues	23,898	84,666	108,564	96,932
Expenses:				
Salaries and benefits	4,059	11,189	15,248	13,244
Other general and administrative	1,137	3,730	4,867	4,464
State grants and scholarships	16,634	—	16,634	15,986
Reimbursement of collections to U.S.D.E.	216	—	216	1,567
Loan rehabilitation and repurchases to U.S.D.E.	43	—	43	1,167
Other guarantee agency expenses	171	—	171	173
Interest rebated to borrowers (note 13)	—	12,431	12,431	9,347
Interest subject to U.S. Treasury rebate (note 13)	—	(5,087)	(5,087)	84
Interest, net of amortization of discount/premium	—	41,696	41,696	35,863
Credit enhancement and remarketing fees	—	3,687	3,687	3,105
Consolidation and lender paid fees	—	3,871	3,871	3,101
Other loan financing expense	—	209	209	201
Depreciation and amortization	1,192	918	2,110	1,845
Amortization of bond issuance costs	—	435	435	466
Total expenses	23,452	73,079	96,531	90,613
Excess of revenues over expenses	446	11,587	12,033	6,319
Transfers (to) from other funds	645	(645)	—	—
Net increase in fund balance	1,091	10,942	12,033	6,319
Fund balances at beginning of year	3,949	52,696	56,645	50,326
Fund balances at end of year	$ 5,040	63,638	68,678	56,645

See accompanying notes to financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Cash Flows
Year ended June 30, 2001
(With Comparative Totals for June 30, 2000)

	2001			2000
	(Dollars in Thousands)			
	General Fund	Loan Finance Fund	(Memorandum Only) Total	Total
Cash flows from operating activities:				
Cash received from customers	$ 8,040	155,186	163,226	163,289
Cash paid to suppliers for goods and services	(17,596)	(69,171)	(86,767)	(75,416)
Loans made	—	(240,677)	(240,677)	(218,117)
Cash paid to employees for services	(4,059)	(11,189)	(15,248)	(13,244)
Interest received	—	50,253	50,253	41,929
VT State appropriation received	14,912	—	14,912	13,832
Net cash provided by (used in) operating activities	1,297	(115,598)	(114,301)	(87,727)
Cash flows from noncapital financing activities:				
Proceeds from sale of notes/bonds payable	—	185,890	185,890	216,035
Payments on notes/bonds	—	(72,355)	(72,355)	(43,485)
Net cash provided by financing activities	—	113,535	113,535	172,550
Cash flows from capital and related financing activities:				
Acquisition and construction of fixed assets	(659)	(146)	(805)	(2,919)
Net cash used in capital and related financing activities	(659)	(146)	(805)	(2,919)
Cash flows from investing activities:				
Interest received on investments	309	11,051	11,360	7,278
Redemption of investments (Net)	—	5,205	5,205	10,900
Net cash provided by investing activities	309	16,256	16,565	18,178
Net increase in cash and cash equivalents	947	14,047	14,994	100,082
Cash and cash equivalents at June 30, 2000	2,318	239,528	241,846	141,764
Cash and cash equivalents at June 30, 2001	$ 3,265	253,575	256,840	241,846

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Cash Flows, Continued

	2001			2000
	(Dollars in Thousands)			
	General Fund	Loan Finance Fund	(Memorandum Only) Total	Total
Reconciliation of operating income to net cash by operating activities:				
Excess of revenues over expenses	$ 446	11,587	12,033	6,319
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:				
Transfers (to) from other funds	645	(645)	—	—
Depreciation and amortization	1,192	918	2,110	1,845
Amortization of bond issuance costs	—	448	448	466
Amortization of bond discount/premium	—	(111)	(111)	(91)
Investment interest received	(309)	(11,051)	(11,360)	(7,278)
Changes in assets and liabilities:				
Decrease (increase) in investment interest receivable	4	867	871	(649)
Increase in student loans receivable	—	(108,581)	(108,581)	(84,964)
Increase in student loan interest and special allowance receivables	—	(2,381)	(2,381)	(3,755)
Decrease (increase) in federal administrative and program fees	(2)	—	(2)	528
Decrease (increase) in grants and other receivables	8	28	36	(83)
Decrease (increase) in due from other funds	(365)	1,263	898	559
Increase in deferred bond issuance costs	—	(879)	(879)	(994)
Decrease (increase) in other assets	13	(49)	(36)	(186)
Increase (decrease) in accounts payable and other liabilities	778	32	810	(207)
Increase in grants and scholarships payable	150	—	150	449
Increase (decrease) in accrued interest on bonds payable	—	(875)	(875)	1,058
Increase in U.S. Treasury rebates payable	—	(6,592)	(6,592)	81
Increase (decrease) in due to other funds	(1,263)	365	(898)	(560)
Increase (decrease) in due to U.S. Department of Education	—	58	58	(265)
Total adjustments	851	(127,185)	(126,334)	(94,046)
Net cash provided by (used in) operating activities	$ 1,297	(115,598)	(114,301)	(87,727)

See accompanying notes to financial statements.

(1) Authorizing Legislation and Nature of Funds

(a) Authorizing Legislation

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

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

As required by generally accepted accounting principles, VSAC is considered a component unit of the State of Vermont and is included as part of the State's financial reporting entity. VSAC's relationship with the State primarily consists of an annual appropriation designated for grant aid to Vermont students.

(b) Basis of Presentation and Nature of Funds

The accompanying financial statements are presented in four distinct funds, each of which is considered a separate accounting entity.

General Fund - This fund is used to account for all financial transactions for Federal and State grant programs, the Guaranty Agency Operating Fund, The Vermont Student Development Fund (see note 19) and related administration and support services of VSAC. The Guaranty Agency Operating Fund (a fund required by The Higher Education Amendments of 1998) is considered the property of VSAC and may be used generally for all guaranty agency and other student financial aid related activities.

Loan Finance Fund - This fund is used to account for the operations of the Loan Finance Program. Revenues are derived from interest on student loans, U.S. Department of Education interest subsidies and special allowances, and investment earnings related to the issuance of VSAC's revenue bonds.

Federal Loan Reserve Fund - This fund is required by The Higher Education Amendments of 1998. The Federal Loan Reserve Fund assets and earnings on those assets are the property of the Federal Government. This fund is an agency fund and is represented in VSAC's financial statements on the balance sheet only. VSAC does not recognize any revenues, expenses, or cash flows for this fund.

Vermont Higher Education Investment Plan - This fund was established by the Vermont Legislature in April 1998. The plan was established to encourage Vermont residents to save for college or other post-secondary education through tax favorable investments. This fund is an agency fund and is represented in VSAC's financial statements on the balance sheet only. VSAC does not recognize any revenues, expenses, or cash flows for this fund.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

In accordance with generally accepted accounting principles, VSAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to the extent these pronouncements do not conflict with GASB pronouncements.

(b) Cash, Cash Equivalents and Investments

VSAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Investments are comprised of short-term investments other than cash equivalents with original maturities of one year or less, and long-term investments with original maturities in excess of one year. Cash equivalents and investments are carried at fair value which approximates cost.

(c) Property and Equipment

Property and equipment are stated at historical cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

(d) Costs of Bond Issuances

Costs of bond issuances, which are comprised of underwriters' discount, legal fees, and other related financing costs, are deferred and amortized over the lives of the respective bond issues using the straight-line method.

(e) Amortization of Bond Premiums and Discounts

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

(f) Fund Balances

Restricted fund balances represent resources that can only be used for specific purposes as set forth under the terms of the underlying bond resolutions or by Federal or State statute.

(g) Compensated Absences

VSAC employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitation, unused vacation earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation recognized as expense is the amount earned.

(h) Income Tax Status

VSAC is exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code.

(i) Use of Estimates in Financial Statement Preparation

Management has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(j) Memorandum Only

The "memorandum only" columns contain totals of similar accounts of the three funds. Since assets of certain funds are restricted by the related resolutions, totaling of these accounts is for illustrative purposes only and does not indicate the assets available in any manner other than provided for in the resolutions for the separate funds.

(k) Reclassifications

Certain items in the 2000 financial statements have been reclassified to conform with 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.

The book balance of cash and cash equivalents totaled $264,012 at June 30, 2001. The bank balance of cash and cash equivalents totaled $264,278 at June 30, 2001, of which $103 was covered by Federal depository insurance (FDIC) and other insurance. The remaining cash and cash equivalents are held in either money market accounts or repurchase agreements that are backed by U.S. Government securities. Investments totaling $24,792 at June 30, 2001 were comprised primarily of U.S. treasury notes and guaranteed investment contracts. Investments were uninsured and unregistered, with securities held by an agent of the trustee, but not in VSAC's name. During the year, VSAC had balances in bank accounts, money market accounts, guaranteed investment contracts and U.S. treasury notes that were not fully insured or collateralized.

(4) Student Loans Receivable - Loan Finance Fund

The Loan Finance Fund has outstanding student loans with annual interest rates ranging from 6.0% to 12.0% that are insured by the U.S. Department of Education and U.S. Department of Health and Human Services. There is an allowance for loan losses of $340 as of June 30, 2001.

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, before allowance for loan losses, are summarized as follows as of June 30, 2001 (in thousands):

Status:		
Interim status	$	198,811
Deferral status		121,992
Repayment status		548,962
	$	869,765
Guarantee Type:		
Department of Education	$	823,868
Department of Health and Human Services		20,363
Other		25,534
	$	869,765

(Continued)

(5) Federal Reinsurance

Under its contract with the U.S. Department of Education, the Loan Guarantee program is reimbursed for payments to participating lending institutions on defaulted loans based upon a reimbursement formula ranging from 75% to 100% of the unpaid balance of the principal plus accrued interest on the insured loss. For loans originated between October 1, 1993 and September 30, 1998 the reimbursement formula ranges from 78% to 98% and for loans originated on or after October 1, 1998 the reimbursement formula ranges from 75% to 95%. The level of reinsurance is determined by calculating current year default claims paid as a percentage of loans in repayment at the end of the preceding federal fiscal year. VSAC received the highest reinsurance rate allowed by this formula during 2001.

(6) Student Loan Guarantee Reserves

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement institutions. The Higher Education Amendments of 1998 require VSAC to maintain reserves equal to .25% of loans guaranteed. During 2001, VSAC maintained sufficient reserves to fully comply with these requirements.

The Tax Reform Act of 1997 called for the recall of reserves from all Federal Family Education Loan Program Guarantors. The recall requires setting aside reserve funds in four equal annual installments beginning in December 1998. The transfer to the U.S. Treasury will occur September 30, 2002. Effective October 1, 1998, the reserve funds are included in the Federal Loan Reserve Fund.

(7) Student Loan Interest and Special Allowance Revenues

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

The U.S. Department of Education 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 predetermined 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 predetermined 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 after October 1, 1993 are eligible for full special allowance and are not subject to a minimum return.

(Continued)

(8) Federal Advances

The liability for Federal advances of $538 includes advances received under Section 422(A) of $102, and Section 422(C) of $436. This liability represents a segregation of Federal "seed money" which was advanced for the HEA Program. The advances are subject to recall by the Federal government.

(9) Property and Equipment

A summary of property and equipment at June 30, 2001 is as follows (in thousands):

	Estimated Lives	General Fund	Loan Finance Fund
Furniture and equipment	5-10 years	$ 3,928	—
Leasehold improvements	5 years	939	—
Software	3- 5 years	337	3,948
		5,204	3,948
Less accumulated depreciation and amortization		3,097	2,838
Net property and equipment		$ 2,107	1,110

(10) Bank Line of Credit

VSAC has a line of credit agreement with a commercial bank, which provides for maximum borrowings of up to $3,000. The line of credit is unsecured, bears interest at the prime interest rate and is renewed annually. There were no borrowings outstanding under this line of credit agreement at June 30, 2001.

(11) Designated Fund Balances

Designated fund balances of $23,206 represents amounts designated to provide funding for student loans, cost of issuance fees, and bond issuance.

(12) Bonds and Notes Payable - Loan Finance Fund

VSAC has issued the following bonds and notes outstanding at June 30, 2001, which were issued to finance student loans (in thousands):

1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds that mature in increments through January 2004; interest is payable monthly at variable rates which ranged from 2.85% to 4.80% during 2001.	$ 44,900

(Continued)

Notes to Financial Statements (Dollars in Thousands)

1992 Series A-2 and A-3, dated June 15, 1992; comprised of serial and auction variable rate bonds maturing in increments between June 15, 1999 and December 15, 2005; interest on Series A-2 is paid every 35 days at rates which ranged from 2.90% to 4.65% during 2001; interest on Series A-3 bonds is paid semi-annually at fixed rates ranging from 5.8% to 6.5%. The face amount of the bonds payable is $56,890 and $41 of unamortized discount has been netted against the liability.	$	56,849
1992 Series B and C, dated July 15, 1992; comprised of term, serial, and auction variable rate bonds maturing in increments between June 15, 2003 and December 15, 2012; interest on Series B is paid semi-annually at fixed rates ranging from 6.0% to 6.7%; interest on Series C bonds is paid every 35 days at rates which ranged from 2.90% to 4.85% during 2001. The face amount of the bonds payable is $50,000 and $371 of unamortized premium has been added to the liability.		50,371
1993 Series D and E, dated June 22, 1993; comprised of term, serial, and auction variable rate bonds maturing in increments between December 15, 2003 and June 15, 2012; interest on Series D is paid semi-annually at fixed rates ranging from 5.3% to 9.5%; interest on Series E bonds is paid every 35 days at rates which ranged from 3.00% to 4.80% during 2001. The face amount of the bonds payable is $80,000 and $450 of unamortized premium has been added to the liability.		80,450
1993 Series F, G, H, I and J, dated September 27, 1993; comprised of auction variable rate bonds maturing in increments between December 21, 2005 and December 15, 2015. Interest is reset every 35 days and payable semi-annually at rates which ranged from 2.92% to 4.80% during 2001.		122,500
1995 Series A, B, C and D, dated June 27, 1995; comprised of auction variable rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 2.90% to 4.83% during 2001.		96,000
1995 Series E, dated October 17, 1995; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 2.75% to 4.60% during 2001.		5,300

(Continued)

Notes to Financial Statements (Dollars in Thousands)

1996 Series F, G, H and I, dated May 22, 1996; comprised of auction variable rate bonds maturing February 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 2.80% to 4.90% during 2001.	$	100,000
1996 Series J, dated October 23, 1996; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 2.90% to 4.85% during 2001.		3,100
1998 Series K-O, dated June 16, 1998; comprised of auction variable rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually; at rates which ranged from 2.90% to 4.95% during 2001.		165,000
2000 Series P and Q, dated May 31, 2000; comprised of auction variable rate bonds maturing in increments between December 15, 2002 and December 15, 2005. Interest is reset every 35 days and payable semi-annually; initial rates ranged from 2.98% to 4.70% during 2001.		22,950
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction variable rate bonds maturing December 15, 2034. Interest is reset every 35 days and payable semi-annually; initial rates ranged from 2.80% to 4.95% during 2001.		172,550
2001 Series V, W and Z, dated June 27, 2001; comprised of auction variable rate bonds maturing on December 15, 2035. Interest is reset every 35 days for Series V and W, and every seven days for Series Z. Interest is payable semi-annually. Initial rates ranged from 2.80% to 2.95%.		84,750
2001 Series X, Y and AA, dated June 27, 2001; comprised of taxable auction variable rate bonds maturing on December 15, 2036. Interest is reset, and payable, every 28 days for Series X and Y, and every seven days for Series AA. Initial rates ranged from 3.80% to 3.95%.		80,000
VSAC has the following note outstanding at June 30, 2001: 2001 Series A-XII, dated June 15, 2001, principal and interest at 3.25%, due June 15, 2002.		12,760
Total bonds and notes payable	$	1,097,480

(Continued)

All bonds are limited obligations of VSAC and are secured, as provided in underlying bond resolutions, by an assignment and pledge to the trustee of all VSAC's rights, title and interest in student loans and revenues derived therefrom and the guarantee thereof, including the reinsurance of the student loans by the U.S. Department of Education. The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by State Street Bank. The 1995 Series A, B, C, D and E, 1996 Series F, G, H, I and J, 1998 Series K-O, 2000 Series P-Q, 2000 Series R-U, 2001 Series V, W and Z, and 2001 Series X, Y and Z bonds are secured for credit-worthiness by AMBAC Indemnity Corporation. The 1992 Series A-2, and A-3, 1992 Series B and C, 1993 Series D and E, and 1993 Series F, G, H, I and J bonds are secured for credit-worthiness by Financial Security Assurance Corporation. All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2001 all bonds authorized under the underlying bond resolutions have been issued.

Proceeds from issuance of the bonds and all revenues related to them are restricted as follows: repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses in carrying out the Loan Finance Program.

The future maturities of debt are as follows (in thousands):

Year ending June 30:

2002	$	25,380
2003		28,920
2004		15,050
2005		14,860
2006		70,175
Thereafter		942,315
	$	1,096,700

During the year ending June 30, 2001, VSAC issued the 2000 Series A-XI note totaling $8,380 to refund the scheduled principal maturities of the 1985 Series A bonds, the 1992 Series A bonds and the 1999 Series A-IX note of $4,100 $4,245 and $35, respectively. VSAC also issued the 2001 series A-XII note totaling $12,760 to refund scheduled maturities of the 2000 Series A-XI note and the Series 1992 A bonds of $8,380 and $4,380, respectively. Based on the terms of the old and new debt, these refundings are estimated to result in additional interest payments in fiscal year 2002 of $627.

(13) U.S. Treasury Rebates Payable

In connection with VSAC's tax exempt bond issues, VSAC is subject to rebatable arbitrage when bond proceeds are invested in investments and student loans. The amount accrued for U.S. Treasury rebates payable at June 30, 2001 represents the estimated amount of arbitrage rebates due to the Federal government for excess earnings on the bond proceeds.

(14) Federal Loan Reserve Fund Liability

Under the Higher Education Amendments of 1998 all liquid and non-liquid assets related to the FFEL program guaranty functions were transferred to the Federal Loan Reserve Fund (Federal Fund) on October 1, 1998. The Federal Fund is administered by VSAC on behalf of the ED 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 Amendments of 1998.

The net assets in the Federal Fund are shown in the financial statements as a liability to the U.S. Department of Education (ED). The following shows the activity in the Federal Reserve Fund from July 1, 2000 to June 30, 2001. The amounts payable to ED for the federal recall and the federal advance were transferred separately and are not included in the following information (in thousands).

Federal Reserve Fund Liability at June 30, 2000	$	5,271
Reimbursement from ED on default loan purchases		11,489
Default loan collections		15
Loan administrative fees		1,466
Investment income		369
Purchases of default loans from lenders		(11,673)
Default Aversion Fee		(403)
Other expenses		(162)
Federal revenue fund liabilities of June 30, 2001	$	6,372

(15) 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, 2001 amounted to $9,914; VSAC's total payroll was $11,424. Total contributions by VSAC amounted to $991 in 2001, which represented 10% of the covered payroll.

(16) Assets Managed on Behalf of Others

The Vermont Higher Education Investment Plan (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. There are two plans available: the Managed Allocation Option and the Interest Income Option. The Managed Allocation Option is managed by TFI. TFI is part of TIAA-CREF, a New York-based financial services organization. Funds in the Managed Allocation Option are directed into special investment portfolios based on the age of the beneficiary. Investments in this option are not guaranteed. The Interest Income Option is managed by VSAC. Funds in the Interest Income Option are invested in an interest-bearing note to VSAC, which is expected to return at least the 91-day U.S. Treasury Bill rate. VSAC uses the note to make federally guaranteed education loans. Assets managed on behalf of others represents VHEIP participant deposits and earnings as of June 30, 2001.

(Continued)

The following shows the activity in VHEIP from July 1, 2000 to June 30, 2001:

Assets managed on behalf of others at June 30, 2000	$	1,332
Investment income		142
Net realized loss on investments		(39)
Net change in unrealized depreciation of investments		(340)
Participant subscriptions		3,696
Participant redemptions		(53)
Assets managed on behalf of others at June 30, 2001	$	4,738

(17) Commitments Under Operating Lease

VSAC has entered into two noncancellable operating leases for its office facilities that expire in 2002 and 2004. Both leases provide for renewal options. Rental expense for the year ended June 30, 2001 amounted to $590. The following is a summary of future minimum rental commitments under these noncancellable operating leases (in thousands):

Year ending June 30:

2002	$	628
2003		430
2004		165
	$	1,223

(18) Contingencies

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

VSAC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSAC manages these risks through a combination of commercial insurance packages purchased in the name of VSAC, and beginning July 1, 1996 through self insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced settled claims resulting from these risks which have exceeded its commercial insurance coverage. VSAC has purchased stop-loss insurance for its self insurance programs and has transferred the risk of loss to the commercial insurance carrier.

Reserves for self insured medical and dental liabilities are included in accounts payable and other liabilities in the amount of $144 at June 30, 2001.

(Continued)

(19) Component Unit

VT Student Development Fund – The Vermont Student Development Fund, Inc., a non-profit 501 (c) (3) corporation (the "Fund"), 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. As a result, it is considered a blended component unit of VSAC, and is included in the General Fund of VSAC's financial statements.

(Continued)

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 $112,500,000 Education Loan Revenue Bonds, Senior Series 2002BB, 2002CC and 2002DD (collectively, the "Bonds"). In consideration of the purchase of Bonds by the owners and Beneficial Owners thereof initially and thereafter from time to time, the Corporation undertakes and agrees as follows:

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board, 1150 18th Street, N.W., Suite 400, Washington, D.C. 20036-2491.

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

Bloomberg Municipal Repositories
Attention: Municipal Department
P.O. Box 840
Princeton, NJ 08542-0840
E-Mail Address: MUNIS@Bloomberg.com
Phone: (609) 279-3200
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

Kenny Information Systems, Inc.
65 Broadway - 16th Floor
New York, NY 10006
Attention: Kenny Repository Servicemailto:nrmsir_repository@sandp.com
Phone: (212) 770-4595
Fax: (212) 797-7994

Thompson Municipal Services, Inc.
The Bond Buyer NRMSIR
395 Hudson Street
New York, NY 10004
Attention: Municipal Statement Repository
Phone: (212) 807-5940
Fax: (212) 989-9150

"Official Statement" shall mean the Official Statement of the Corporation, dated September 30, 2002, relating to the Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as such rule may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" or "SID" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

"Underwriter" or "Participating Underwriter" shall mean collectively, and individually, UBS PaineWebber Inc. and William R. Hough & Co.

3. Provision of Annual Financial Information. The Corporation shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of each fiscal year of the Corporation (currently the twelve months ended June 30), commencing with the report for the 2002 fiscal year, provide to each Repository the Annual Financial Information for the Corporation for the preceding fiscal year. The Annual Financial Information may be submitted as a single document or as separate documents comprising a package; provided that, if the financial statements of the Corporation are audited, the audited financial statements of the Corporation must be submitted but may be submitted separately from the balance of the Annual Financial Information and later than the date required above for the filing of the Annual Financial Information if they are not available by that date. If the fiscal year of the Corporation changes, the Corporation shall give written notice of such change in the same manner as for a Listed Event under Section 5(a) hereof. If the financial statements of the Corporation specified in Section 4(I) hereof are audited but are not available by the time the Annual Financial Information must be provided, unaudited financial statements of the Corporation will be provided by the Corporation as part of the Annual Financial Information and such audited financial statements of the Corporation, when and if available, will be provided by the Corporation to each Repository.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so included by reference.

4. Content of Annual Financial Information. The Annual Financial Information of the Corporation shall consist of the following:

(i) Annual financial statements for the Corporation prepared in accordance with generally accepted accounting principles.

(ii) An update and a discussion of the financial information and operating data presented under the heading "Characteristics of Education Loans" or the heading "The Corporation" in the Official Statement, including the following:

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

(b) The following Resolution information:

(i) Debt Service Reserve Account balance,

(ii) Outstanding principal amount of the Bonds and other bonds issued under the Resolution,

(iii) Breakdown of Education Loans by loan type and borrower payment status and

(iv) Issuance of any Additional Bonds.

(c) Outstanding debt of the Corporation.

(d) The deposit level of the Guarantee Reserve Fund established by the Corporation.

(i) An update of the information concerning the availability of information with respect to the parent company of Ambac Assurance Corporation, Ambac Inc., of the type included under the heading "Ambac Assurance Corporation -- Available Information" in Appendix D of the Official Statement.

(ii) Changes to the Higher Education Act having a special financial impact on the program of the Corporation financed by the Bonds which is not generally experienced in the student loan sector.

5. Reporting of Significant Events

(a) The Corporation shall give, or cause to be given, on behalf of the Corporation and in a timely manner, notice of the occurrence of any of the following events with respect to the Bonds, if material, to each National Repository or the MSRB and to the SID, if any:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. Modifications to rights of owners of the Bonds;

8. Bond calls;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the Bonds;

11. Rating changes.

(b) Each notice given pursuant to this Section 5 shall be captioned "Material Event Notice" and shall prominently state the date, title and CUSIP numbers of the Bonds.

6. Termination of Reporting Obligation. The obligations under this Disclosure Agreement shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give or cause to be given notice of such event in the same manner as for a Listed Event under Section 5(a) hereof.

7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation may unilaterally amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, but only upon the delivery by the Corporation to the Trustee of the proposed amendment or waiver and an opinion of nationally recognized bond counsel to the effect that such amendment or waiver, and giving effect thereto, will not adversely affect the compliance of this disclosure Agreement and the Corporation with the Rule, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3, 4, 5 or 10 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Corporation or any other Obligated Person (as defined in the Rule) or the type of business conducted;

(b) this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the rule at the time of the offering of the Bonds, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) the amendment or waiver does not materially impair the interests of the owners or Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the Corporation or any other Obligated Person (as defined in the Rule) (e.g., either the trustee for the Bonds or nationally recognized bond counsel), or by approving vote of holders of the Bonds pursuant to the terms of the Resolution at the time of the amendment.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Financial Information, and shall include a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being provided by or in respect of the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a) hereof, and (ii) the Annual Financial Information relating to the Corporation for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Corporation to meet its obligations. To the extent reasonably feasible, the comparison also shall be quantitative.

9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Financial Information or notice of

occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation hereunder to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Agreement, any owner or Beneficial Owner of Bonds may seek, and may only seek, specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Agreement, it being agreed by the parties that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy hereunder in the event of any failure of the Corporation to comply with this Disclosure Agreement shall be an action to compel specific performance. If the Corporation fails to provide the Annual Financial Information to each Repository by the date required by and in accordance with Section 3 of this Disclosure Agreement, the Corporation shall promptly provide notice of such failure to (a) either the MSRB or each National Repository and (b) the State Repository.

11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Dissemination Agent, if any, the Underwriter, and owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

12. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Vermont, provided that, to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

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

14. Severability. In case any part of this Disclosure Agreement is held to be illegal or invalid, such illegality or invalidity shall not affect the remainder or any other section of this Disclosure Agreement. This Disclosure Agreement shall be construed and enforced as if such illegal or invalid portion were not contained therein, nor shall such illegality or invalidity of any application of this Agreement affect any legal and valid application.

15. Further Assurances. The Corporation agrees that it shall take such further action, and agrees to such further undertakings, as may be necessary in the opinion of nationally recognized bond counsel, which opinion and counsel shall be reasonably satisfactory to the Corporation and the Underwriter, in order for the Underwriter to comply with the Rule.

IN WITNESS WHEREOF, the Parties have caused this CONTINUING DISCLOSURE AGREEMENT to be executed on their behalf as of this _____day of October, 2002, 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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