

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 2001V Bonds, the Senior Series 2001W Bonds and the Senior Series 2001Z Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes; however, interest on the Tax-Exempt Bonds is a specific item of tax preference for purposes of the federal alternative minimum tax. Interest on the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds and the Senior Series 2001AA Bonds (collectively, the "Taxable Bonds") is includable in gross income for federal income tax purposes except as described herein. Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2001 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: S&P: Applied For
Fitch: Applied For
See "Ratings" herein



\$164,750,000
Vermont Student Assistance Corporation
(a non-profit public corporation established by the laws of the State of Vermont)
Education Loan Revenue Bonds

\$30,000,000 Senior Series 2001V
(Auction Rate Certificates)

\$27,500,000 Senior Series 2001Y
(Taxable Auction Rate Certificates)

\$29,750,000 Senior Series 2001W
(Auction Rate Certificates)

\$25,000,000 Senior Series 2001Z
(Select Auction Variable Rate Securities)

\$27,500,000 Senior Series 2001X
(Taxable Auction Rate Certificates)

\$25,000,000 Senior Series 2001AA
(Taxable Select Auction Variable Rate Securities)

Dated: Date of Delivery

Price: 100%

Due: See Inside Front Cover

The Senior Series 2001V Bonds, Senior Series 2001W Bonds, Senior Series 2001X Bonds and Senior Series 2001Y Bonds will be issued as Auction Rate Certificates - ARCs ("ARCs"). The Senior Series 2001Z Bonds and the Senior Series 2001AA Bonds will be issued as Select Auction Variable Rate Securities - SAVRSSM ("SAVRS"). 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 (collectively, the "2001 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 2001 Seventh Series Resolution as adopted on May 14, 2001 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution"). The 2001 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 2001 Bonds. Purchasers of the 2001 Bonds will not receive certificates representing their beneficial ownership interests in the 2001 Bonds. Purchases and sales by the beneficial owners of the 2001 Bonds outstanding as ARCs or SAVRS shall be made in book-entry form in the principal amount of \$50,000 or any integral multiple thereof. See "DESCRIPTION OF THE 2001 BONDS - - Book-Entry-Only System."

Payments of principal, redemption price and interest with respect to 2001 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 2001 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 2001 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 applicable SAVRS Rate and SAVRS Auction Periods shall be established from time to time pursuant to the SAVRS Auction Procedures described herein. The 2001 Bonds are subject to redemption, acceleration and mandatory tender as described herein. The Senior Series 2001X Bonds, the Senior Series 2001Y Bonds and the Senior Series 2001AA Bonds may be converted, at the option of the Corporation, to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, under the circumstances described herein, and are subject to mandatory tender upon such conversion.

Payment of the principal of and interest on the 2001 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 2001 Bonds.

Ambac

The 2001 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 2001 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2001 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 2001 BONDS. THE 2001 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 2001 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 2001 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC on or about June 27, 2001.

UBS PaineWebber Inc.

Lehman Brothers Inc.

Dated: June 15, 2001

® ARCs is a registered trademark of UBS PaineWebber Inc.

SM Select Auction Variable Rate Securities is a servicemark of Lehman Brothers Inc.

Initial Auction Dates

Senior Series 2001V Bonds:	August 6, 2001
Senior Series 2001W Bonds:	August 13, 2001
Senior Series 2001X Bonds:	July 31, 2001
Senior Series 2001Y Bonds:	August 7, 2001
Senior Series 2001Z Bonds:	July 9, 2001
Senior Series 2001AA Bonds:	July 10, 2001

Maturity Dates

Senior Series 2001V Bonds:	December 15, 2035
Senior Series 2001W Bonds:	December 15, 2035
Senior Series 2001X Bonds:	December 15, 2036
Senior Series 2001Y Bonds:	December 15, 2036
Senior Series 2001Z Bonds:	December 15, 2035
Senior Series 2001AA Bonds:	December 15, 2036

Notwithstanding the foregoing, if any Senior Series 2001X Bonds, Senior Series 2001Y Bonds or Senior Series 2001AA Bonds are converted to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate as described herein, and such conversion occurs prior to December 15, 2001, then, upon such conversion, the maturity of the 2001 Series Bonds so converted prior to such date shall be December 15, 2035, but such change shall not alter the maturity of any 2001 Series Bonds not so converted or converted after such date.

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, 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 2001 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 2001 BONDS" OR IN APPENDIX E ENTITLED "AMBAC ASSURANCE CORPORATION", NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOND INSURER AND THE BOND INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE 2001 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE 2001 BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2001 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 2001 Bonds to potential investors is made only by means of this Official Statement. No person is authorized to detach or otherwise deliver or use this Summary Statement without the entire Official Statement. Terms used in this summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Issuer

Vermont Student Assistance Corporation (the "Corporation") is a non-profit public corporation organized pursuant to the laws of the State of Vermont. The Corporation acts as a lender, servicer and guarantor under the student loan program authorized by and in compliance with the provisions of the Higher Education Act of 1965, as amended (the "Act" or the "Higher Education Act").

The Corporation also operates various other student assistance programs authorized by Vermont law, including the acquisition and origination of student loans which are not made under the Higher Education Act.

The Offering

The Corporation is offering hereby its Education Loan Revenue Bonds consisting of \$30,000,000 aggregate principal amount of Senior Series 2001V Bonds (the "Senior Series 2001V Bonds"), \$29,750,000 aggregate principal amount of Senior Series 2001W Bonds (the "Senior Series 2001W Bonds"), \$27,500,000 aggregate principal amount of Senior Series 2001X Bonds (the "Senior Series 2001X Bonds"), \$27,500,000 aggregate principal amount of Senior Series 2001Y Bonds (the "Senior Series 2001Y Bonds"), \$25,000,000 aggregate principal amount of Senior Series 2001Z Bonds (the "Senior Series 2001Z Bonds") and \$25,000,000 aggregate principal amount of Senior Series 2001AA Bonds (the "Senior Series 2001AA Bonds") (collectively, 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 are referred to as the "2001 Bonds").

Bond Insurance

The scheduled payment of the principal of and interest on the 2001 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 2001 Bonds.

Redemption

The 2001 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2001 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 \$564,900,000, 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") and Senior Series 2000P, Q, R, S, T and U (the

"2000 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 2001 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 inside cover page hereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, the Securities Depository.

Purpose of Issuances

The 2001 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 2001 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 2001 Bonds.

The 2001 Bonds

While outstanding as Auction Rate Certificates ("ARCs") or Select Auction Variable Rate Securities ("SAVRS"), the 2001 Bonds will be issued in denominations of \$50,000 or any integral multiple thereof and will mature as indicated on the inside cover page hereof. The 2001 Bonds will bear interest at the rates established from time to time as set forth herein.

The Senior Series 2001V Bonds and the Senior Series 2001W Bonds will be issued as Tax-Exempt ARCs. The Senior Series 2001X Bonds and the Senior Series 2001Y Bonds will be issued as Taxable ARCs and are subject to conversion to bear interest at a Tax-Exempt Auction Rate as described herein. The Senior Series 2001Z Bonds will be issued as Tax-Exempt SAVRS. The Senior Series 2001AA Bonds will be issued as Taxable SAVRS and are subject to conversion to bear interest at a Tax-Exempt SAVRS Rate as described herein. Interest on the 2001 Bonds is payable as described herein. Each of the Applicable ARCs Rates, ARCs Auction Periods, SAVRS Rates and SAVRS Rate Periods shall be established from time to time as described herein.

Fixed Rate Conversion

The Senior Series 2001V Bonds, the Senior Series 2001W Bonds, the Senior Series 2001Z Bonds, the Senior Series 2001AA Bonds and all or any portion of the Senior Series 2001X Bonds or Senior Series 2001Y Bonds converted to bear interest at a Tax-Exempt Auction Rate 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 Senior Series 2001V Bonds, the Senior Series 2001W Bonds, the Senior Series 2001Z Bonds, the Senior Series 2001AA Bonds and all or any portion of the Senior Series 2001X Bonds or Senior Series 2001Y Bonds converted to bear interest at a Tax-Exempt Auction Rate 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 2001 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.

Mandatory Tender Upon Conversion of Taxable Bonds to Tax-Exempt Bonds

The Senior Series 2001X Bonds, the Senior Series 2001Y Bonds and the Senior Series 2001AA Bonds may be converted to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, under the circumstances described herein. If Bonds of any such Series of 2001 Bonds or any part thereof are to be converted to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, then all Bonds of such Series are subject to mandatory tender for purchase as described herein.

Security for the Bonds

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

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 O - "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

**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 O - "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Certain Investment Considerations

Investment in the 2001 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading "CERTAIN INVESTMENT CONSIDERATIONS."

THE 2001 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

\$164,750,000

Education Loan Revenue Bonds

\$30,000,000	Senior Series 2001V (Auction Rate Certificates -- ARCs®)
\$29,750,000	Senior Series 2001W (Auction Rate Certificates -- ARCs®)
\$27,500,000	Senior Series 2001X (Taxable Auction Rate Certificates -- ARCs®)
\$27,500,000	Senior Series 2001Y (Taxable Auction Rate Certificates -- ARCs®)
\$25,000,000	Senior Series 2001Z (Select Auction Variable Rate Securities SM -- SAVRS)
\$25,000,000	Senior Series 2001AA (Taxable Select Auction Variable Rate Securities SM -- SAVRS)

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 \$164,750,000 Education Loan Revenue Bonds, consisting of the following series of Bonds, initially issued as Auction Rate Certificates--ARCs® ("ARCs") (except in the case of the Senior Series 2001Z Bonds and Senior Series 2001AA Bonds, which are initially issued as Select Auction Variable Rate SecuritiesSM -- SAVRS ("SAVRS")): Senior Series 2001V in the principal amount of \$30,000,000, Senior Series 2001W in the principal amount of \$29,750,000, Senior Series 2001X in the principal amount of \$27,500,000, Senior Series 2001Y in the principal amount of \$27,500,000, Senior Series 2001Z in the principal amount of \$25,000,000 and Senior Series 2001AA in the principal amount of \$25,000,000 (collectively, the "2001 Bonds"). The 2001 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 2001 Seventh Series Resolution adopted on May 14, 2001 (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 \$564,900,000, 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"), and Senior Series 2000P, Q, R, S, T and U Bonds (the "2000 Bonds"). The term "Bonds" as used herein shall refer to 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 Sections 2821 through 2873 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

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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 2001 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 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 2001 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, (a) the Senior Series 2001V Bonds and the Senior Series 2001W Bonds will be issued as Tax-Exempt ARCs, (b) the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds will be issued as Taxable ARCs, (c) the Senior Series 2001Z Bonds will be issued as Tax-Exempt SAVRS and (d) the Senior Series 2001AA Bonds will be issued as Taxable SAVRS. Interest on each Series of 2001 Bonds will be payable as described herein.

The Senior Series 2001X Bonds, the Senior Series 2001Y Bonds and the Senior Series 2001AA Bonds may be converted, at the option of the Corporation, to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, under the circumstances described herein. See Appendix F - "MECHANISM FOR CONVERSION OF TAXABLE ARCs TO TAX-EXEMPT ARCs" hereto and Appendix M - "MECHANISM FOR CONVERSION OF TAXABLE SAVRS TO TAX-EXEMPT SAVRS" hereto. The exercise of the Corporation's option to convert the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds and the Senior Series 2001AA Bonds to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, will depend on various factors, including the allocation or reallocation of the State of Vermont volume cap for tax-exempt private activity bonds. The Corporation is not required under any circumstances to convert all or any portion of the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds or the Senior Series 2001AA Bonds to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, and may choose to issue other tax-exempt bonds in the future without converting the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds or the Senior Series 2001AA Bonds to a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be. There can therefore be no assurances that the Corporation will elect to convert all or any portion of the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds or the Senior Series 2001AA Bonds. If Bonds of any Series of 2001 Bonds are converted to bear interest at a Tax-Exempt Auction Rate or a Tax-Exempt SAVRS Rate, as the case may be, then all Bonds of such series are subject to mandatory tender for purchase as described herein without right of retention.

Bonds of certain of the Series of 2001 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 2001 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 2001 Bonds while outstanding as ARCs or SAVRS but does not address any terms or conditions which would be applicable to any Series of the 2001 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 2001 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 2001 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 2001 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 2001 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., 63 Wall Street, 16th Floor, New York, New York 10005.

THE SERIES 2001 BONDS

General

The 2001 Bonds will bear interest from their date of issue and will mature as indicated on the inside cover page hereof. The initial Auction Dates for the 2001 Bonds are as set forth on the inside cover page hereof. The 2001 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 2001 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2001 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 2001 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 2001 Bonds is payable to beneficial owners of the 2001 Bonds according to the procedures described under "THE SERIES 2001 BONDS -- Book-Entry-Only System." Should the Corporation discontinue the book-entry-only system for any Series of 2001 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 2001 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 2001 Bonds. The 2001 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 2001 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 2001 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2001 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 2001 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 2001 Bonds, except in the event that use of the book-entry system for the 2001 Bonds is discontinued.

To facilitate subsequent transfers, all 2001 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2001 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 2001 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2001 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 2001 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 2001 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 2001 Bonds are credited on the Record Date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the 2001 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 2001 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 2001 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2001 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2001 Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the 2001 Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the 2001 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 2001 Bonds, the Beneficial Owners of such 2001 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 2001 Bonds during a period beginning on the date 2001 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2001 Bonds selected for redemption; (b) register the transfer of or exchange any such 2001 Bonds selected for redemption in whole or in part, except the unredeemed portion of a 2001 Bond being redeemed in part; or (c) make any exchange or transfer of any 2001 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 2001 Bonds, (b) the delivery to any beneficial owner of the 2001 Bonds or other person, other than DTC, of any notice with respect to the 2001 Bonds, or (c) the payment to any beneficial owner of the 2001 Bonds or other person, other than DTC, of any amount with respect to the principal of or interest on the 2001 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 2001 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 2001 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 2001 Bonds.

TAX-EXEMPT AUCTION RATE CERTIFICATES

General

The Senior Series 2001V and Senior Series 2001W Bonds will be issued as Tax-Exempt Auction Rate Certificates, shall be dated the date of initial delivery thereof and shall mature on the dates set forth on the inside cover page of this Official Statement. Initially, the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds will be issued as Taxable ARCs (as defined below) but are subject to conversion to bear interest at a Tax-Exempt Auction Rate as described herein. "Tax-Exempt ARCs" means the Senior Series 2001V Bonds, the Senior Series 2001W Bonds and any of the Senior Series 2001X Bonds or the Senior Series 2001Y Bonds converted to bear interest at a Tax-Exempt Auction Rate as described herein. Certain capitalized terms used herein with respect to the Tax-Exempt ARCs are defined in Appendix B to this Official Statement.

Interest

Interest Payments. Interest on the Tax-Exempt ARCs while they are Outstanding as Tax-Exempt 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 Senior Series 2001V Bonds and the Senior Series 2001W Bonds means each June 15 and December 15 (but only for interest accrued through the preceding June 14 or December 14 as the case may be), commencing December 15, 2001, and for the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds each June 15 and December 15 (but only for interest accrued through the preceding June 14 or December 14, as the case may be), commencing on the first June 15 or December 15 following the Tax-Exempt Conversion Date (as defined in Appendix D to this Official Statement), as applicable, 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) 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 Tuesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Monday) and ending on (and including) a Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day) and (b) if, 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 Tax-Exempt 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, and truncating the resultant figure to the nearest cent. Interest on the Tax-Exempt 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 Tax-Exempt ARCs are to be made by the Trustee to DTC as the registered Owner of the Tax-Exempt ARCs, as of the Record Date preceding each Interest Payment Date. The Tax-Exempt ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Tax-Exempt ARCs. See "THE SERIES 2001 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 Tax-Exempt 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"); 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. Notwithstanding the foregoing, (a) if the ownership of the Tax-Exempt ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the Tax-Exempt ARCs for any Interest Period commencing after the delivery of certificates representing Tax-Exempt 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 commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the 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 Tax-Exempt ARCs; Failed Conversion of Tax-Exempt 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 Tax-Exempt 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 2001 Bonds that are Tax-Exempt 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 2001 Bonds that are Tax-Exempt ARCs. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate.

Notwithstanding anything herein to the contrary, if any Tax-Exempt ARC or portion thereof has been selected for redemption during the next succeeding Interest Period, such Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt ARCs (or in the case of an Existing Owner, an additional principal amount of Tax-Exempt ARCs).

By purchasing Tax-Exempt ARCs, whether in an Auction or otherwise, each prospective purchaser of Tax-Exempt 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 Tax-Exempt ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 2001 Bonds Outstanding as Tax-Exempt ARCs. The Trustee is directed to enter into the initial Auction Agency Agreement with The Bank of New York for each such Series of 2001 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 Tax-Exempt ARCs of the series of 2001 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 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 Tax-Exempt 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.

Tax-Exempt 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 2001 Bonds Outstanding as Tax-Exempt ARCs are to be held on each Auction Date, except as described above under "Interest -- Applicable Tax-Exempt ARCs Rate," by application of the Auction Procedures described in Appendix B hereto. "Auction Date" shall mean initially, for the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds, the Auction Dates set forth on the inside cover page hereof and thereafter the Business Day immediately preceding the first day of each Auction Period and for the Senior Series 2001X Bonds or Senior Series 2001Y Bonds converted to a Tax-Exempt Auction Rate such initial date or dates as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation, other than in all cases (a) each Auction Period commencing after the date when ownership of the Tax-Exempt ARCs of the applicable Series of Tax-Exempt ARCs is no longer maintained in book-entry form by DTC; (b) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under "Changes in 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 Tax-Exempt ARCs; Failed Conversion of Tax-Exempt 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 Tax-Exempt ARCs of the applicable Series of Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt ARCs is maintained in book-entry form by DTC, an Existing Owner may sell, transfer or otherwise dispose of Tax-Exempt 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 Conversion 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 Tax-Exempt 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 Tax-Exempt ARCs paying the Maximum Rate, Tax-Exempt ARCs paying the All-Hold Rate and Tax-Exempt 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 tax-exempt market rates and indices of such short-term rates; (b) the market supply and demand for short-term tax-exempt securities; (c) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to that of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date

Changes in Tax-Exempt ARC Auction Period or Periods. While any of the 2001 Bonds are Outstanding as Tax-Exempt 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 Tax-Exempt ARC Auction Date. While any of the 2001 Bonds are Outstanding as Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt ARCs or any Bonds outstanding under the Resolution.

Fixed Rate Conversion of Tax-Exempt ARCs

All, but not less than all, of any series of Tax-Exempt 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 Tax-Exempt ARCs is to be converted to bear interest at a Fixed Rate, a Fixed Rate Conversion Date for the Tax-Exempt 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 Tax-Exempt ARCs, and the 2001 Bonds being converted will be subject to mandatory tender as described below under "-- Mandatory Tender of Tax-Exempt 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 Tax-Exempt ARCs as to which the conversion was to take place as provided in the Resolution.

Variable Rate Conversion of Tax-Exempt ARCs

All, but not less than all, of any series of Tax-Exempt 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 Tax-Exempt ARCs is to be converted to bear interest at a Variable Rate, a Variable Rate Conversion Date for the Tax-Exempt 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 Tax-Exempt ARCs, and the 2001 Bonds being converted will be subject to mandatory tender as described below under "-- Mandatory Tender of Tax-Exempt 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 Tax-Exempt ARCs as to which the conversion was to take place as provided in the Resolution.

Mandatory Tender of Tax-Exempt ARCs Upon Conversion; Certain Notices

MANDATORY TENDER UPON CONVERSION. ANY SERIES OF TAX-EXEMPT 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 Tax-Exempt ARCs" or "Variable Rate Conversion of Tax-Exempt 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 Tax-Exempt ARCs" and registration of the ownership of such Bond shall be transferred to the purchaser thereof as described below under "Undelivered Tax-Exempt 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 Tax-Exempt ARCs; Failed Conversion of Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt ARCs

Any Tax-Exempt 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.

TAXABLE AUCTION RATE CERTIFICATES

General

The Senior Series 2001X and Senior Series 2001Y Bonds shall initially be issued as Taxable Auction Rate Certificates (referred to as "Taxable ARCs" until converted to Tax-Exempt ARCs), shall be dated the date of initial delivery thereof and shall mature on the dates shown on the inside cover page of this Official Statement. Certain capitalized terms used herein with respect to the Senior Series 2001X and Senior Series 2001Y Bonds while Outstanding as Taxable ARCs are defined in Appendix D of this Official Statement.

Interest

Interest Payments. Interest on the Taxable ARCs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. Initially, the term "Interest Payment Date" means August 1, 2001 with respect to the Senior Series 2001X Bonds and August 8, 2001 with respect to the Senior Series 2001Y Bonds and thereafter the Business Day following the last day of each Interest Period, provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 15 and December 15 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date); and shall also mean the maturity date, redemption date and tender date of the Bonds, or if such day 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 or in certain other events. See "Changes in Auction Periods or Auction Date -- Changes in Auction Period or Periods" below. An "Interest Period" means (a) the period commencing on the date of delivery of the Taxable ARCs through and including July 31, 2001 with respect to the Senior Series 2001X Bonds and August 7, 2001 with respect to the Senior Series 2001Y Bonds, and each successive period of generally 28 days thereafter, respectively, commencing on a Wednesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on (and including) a Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if changed as described below under "Changes in Auction Periods or Auction Date -- Changes in Auction Period or Periods," each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of Taxable 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 Taxable 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, and truncating the resultant figure to the nearest cent. Interest on the Taxable 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 any year preceding a leap year through December 31 of such year (being the leap year), such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. The Trustee shall make the calculation described above not later than the close of business on each Auction Date.

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

Applicable ARCs Rate. The rate of interest on the Taxable ARCs for each Interest Period subsequent to the first Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix D hereto (the "Auction Rate") unless the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the Taxable 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 Taxable 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 equal the Maximum Rate on such Auction Date. Notwithstanding the foregoing, (a) if the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the Taxable ARCs for any Interest Period commencing after the delivery of certificates representing Taxable ARCs as described above shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period; or (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARCs Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate; or (c) if a proposed conversion of Taxable ARCs to Tax-Exempt ARCs shall have failed, as provided in Appendix F to this Official Statement, then an Auction shall not be held on such Auction Date and the rate of interest on the Taxable 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 the Taxable ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." There will be separate Applicable ARCs Rates for each Series of 2001 Bonds that are Taxable ARCs. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate unless the Applicable ARCs Rate is the Default Rate, in which case the Default Rate may exceed the Maximum Auction Rate but cannot exceed the Maximum Interest Rate.

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

Carry-over Amounts. If the Auction Rate for the Taxable ARCs is greater than the Maximum Rate, then the interest rate applicable for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Taxable ARCs at the Auction Rate over the amount of interest actually accrued at the Maximum Rate will accrue and be designated as the Carry-over Amount. The Carry-over Amount will bear simple interest calculated at a rate equal to One-Month LIBOR (as determined by the Auction Agent, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and if the Trustee has not, then as determined by the Trustee) from the Interest Payment Date for the Auction Period with respect to which such Carry-over Amount was calculated, until paid. As used in the Resolution, the terms "principal" and "interest" do not include within the meanings of such terms the Carry-over Amount or any interest accrued on any Carry-over Amount. The Carry-over Amount will be calculated for each Taxable ARC by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice to each Registered Owner of a Taxable ARC of such Carry-over Amount as described in the following sentence. On the Interest Payment Date for an Auction Period during which a Carry-over Amount has accrued, the Trustee will give written notice to each Registered Owner of a Taxable ARC on which a Carry-over Amount has accrued of such Carry-over Amount, which written notice may accompany the payment of interest by check made to each such Registered Owner on such Interest Payment Date, or otherwise will be mailed on such Interest Payment Date by first-class mail, postage prepaid, to each such Registered Owner at such Registered Owner's address as it appears on the books of registry maintained by the Trustee. Such notice will state, in addition to such Carry-over Amount, that, unless and

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

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

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

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

Auction Participants

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

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

Auction Agent. The Bank of New York has been appointed by the Corporation as the initial Auction Agent for the Taxable ARCs. The Trustee is directed by the Corporation to enter into the initial Auction Agency Agreement with The Bank of New York as registrar for the Series 2001 Bonds. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least \$40,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$40,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Resolution by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Taxable ARCs 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 (which initially is the case), the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

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

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

Broker-Dealer. Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer" including UBS PaineWebber Inc. as the sole initial Broker-

Dealer 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 the Market Agent Agreement, and in connection with the Taxable 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.

Taxable ARC Auctions

Auctions to establish the Applicable ARCs Rate 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 D. "Auction Date" shall mean initially July 31, 2001 with respect to the Senior Series 2001X Bonds and August 7, 2001 with respect to the Senior Series 2001Y Bonds and thereafter, the Business Day immediately preceding the first day of each Interest Period, other than: (a) each Interest Period commencing after the ownership of the Taxable 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 or more Auction Periods may be changed as described below under "Changes in Auction Periods or Auction Date -- Changes in Auction Period or Periods".

The Auction Agent shall determine the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate on each Auction Date. The determination by the Auction Agent of the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the Taxable 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 Taxable 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 Business Days after the cure of any Payment Default.

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

Changes in Taxable ARC Auction Periods or Taxable ARC Auction Date

Changes in Taxable ARC Auction Period or Periods. The Market Agent:

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

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

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

- (a) in order to conform with then-current market practice with respect to similar securities shall, and
- (b) with the written consent of an Authorized Officer of the Corporation, may

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

The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix D 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 Auction Date. The Market Agent:

- (a) in order to conform with then current market practice with respect to similar securities, shall, or
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting the Auction Date and the interest rate borne by the Taxable ARCs and with the written consent of an Authorized Officer, may

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

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

No change shall be made to the Auction Period or Auction Date unless the Corporation shall have received confirmation from any rating agency then rating the Bonds that the ratings on any of the Bonds will not be adversely affected thereby.

Conversion of Taxable ARCs to Tax-Exempt ARCs

The Taxable ARCs may be converted to bear interest at a Tax-Exempt Auction Rate. See the discussion under Appendix F – “MECHANISM FOR CONVERSION OF TAXABLE ARCs TO TAX-EXEMPT ARCs” hereto. The conversion shall, as determined by the Corporation, apply to the Taxable ARCs designated as Senior Series 2001X Bonds, the Taxable ARCs designated as Senior Series 2001Y Bonds or to any or all of either such series of Taxable ARCs. If any Bonds of any such Series of 2001 Bonds are to be converted to bear interest at a Tax-Exempt Auction Rate, then all Bonds of such Series are subject to mandatory tender for purchase as described under Appendix F – “MECHANISM FOR CONVERSION OF TAXABLE ARCs TO TAX-EXEMPT ARCs” hereto. If the Taxable ARCs are converted to bear interest at a Tax-Exempt Auction Rate, the provisions under “TAXABLE AUCTION RATE CERTIFICATES” shall not apply to the portion of the Senior Series 2001X Bonds and Senior Series 2001Y Bonds so converted and the provisions under “TAX-EXEMPT AUCTION RATE CERTIFICATES” shall apply to the Senior Series 2001X Bonds and Senior Series 2001Y Bonds so converted.

TAX-EXEMPT SELECT AUCTION VARIABLE RATE SECURITIES

General

The Senior Series 2001Z Bonds and the Senior Series 2001AA Bonds will be issued as Select Auction Variable Rate Securities (“SAVRS”), shall be dated the date of initial delivery thereof and shall mature on the dates set forth on the inside cover page of this Official Statement. Initially, the Senior Series 2001Z Bonds will be issued as Tax-Exempt SAVRS and the Senior Series 2001AA Bonds will be issued as Taxable SAVRS (as defined herein) but the Senior Series 2001AA Bonds are subject to conversion to bear interest at a Tax-Exempt SAVRS Rate as described herein. “Tax-Exempt SAVRS” means the Senior Series 2001Z Bonds and any of the Senior Series 2001AA Bonds converted to bear interest at a Tax-Exempt SAVRS Rate as described herein. Certain capitalized terms used herein with respect to the Tax-Exempt SAVRS are defined in Appendices G and H to this Official Statement.

Interest on the Tax-Exempt SAVRS

The SAVRS Rate. The interest rate on the Senior Series 2001Z Bonds for the period from and including the initial date of issuance to but excluding July 10, 2001 (the “Initial SAVRS Auction Period”) will be determined prior to the date of issuance.

Except as otherwise provided herein, the interest rate on the Tax-Exempt SAVRS for any period after the Initial SAVRS Auction Period to and including the succeeding SAVRS Auction Date (each a “Subsequent SAVRS Auction Period”), subject to certain exceptions described below, shall be equal to the interest rate (the “SAVRS Rate”) that the Auction Agent advises has resulted from the implementation of the auction procedures set forth in the Resolution and attached hereto as Appendix H (the “SAVRS Auction Procedures”) with respect to the Tax-Exempt SAVRS. Each periodic implementation of the SAVRS Auction Procedures is hereinafter referred to as a “SAVRS Auction.”

In a SAVRS Auction for Tax-Exempt SAVRS, persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell the Tax-Exempt SAVRS. A SAVRS Auction to determine the SAVRS Rate for each Subsequent SAVRS Auction Period will be held on the Business Day immediately preceding the first day of such Subsequent SAVRS Auction Period (each, a “SAVRS Auction Date”). Interest on Tax-Exempt SAVRS that bear interest at a SAVRS Rate shall be computed on the basis of a 365/366-day year for the number of days actually elapsed. The SAVRS Rate for Tax-Exempt SAVRS for any Subsequent SAVRS Auction Period may not exceed the lesser of 14% per annum and the maximum rate permitted by applicable law.

If a SAVRS Auction for the Tax-Exempt SAVRS for any Subsequent SAVRS Auction Period is not held for any reason (other than the occurrence and continuance of a Payment Default), including, without limitation, (a) if such Bonds are no longer represented by a global bond registered in the name of DTC or its nominee, (b) if there is a failure in connection with a proposed Change in the Interest Rate Mode or the establishment of a Fixed Rate or a proposed change in the SAVRS Auction Period or (c) because there is no Auction Agent, the SAVRS Rate with respect to the Tax-

Exempt SAVRS for the next succeeding Subsequent SAVRS Auction Period will be equal to the Maximum SAVRS Rate on the Auction Date for such Auction Period. See "AUCTIONS TO DETERMINE SAVRS RATE--General--Change in the Interest Rate Mode" and "--General--Change of SAVRS Auction Period" and "--Auction Procedures--Concerning the Auction Agent" contained in Appendix G hereto. See also "Book-Entry-Only System" below for a description of the circumstances under which Tax-Exempt SAVRS may no longer be represented by a global bond.

If a notice of an adjustment in the percentages used to determine the Maximum SAVRS Rate and the Minimum SAVRS Rate applicable to the Tax-Exempt SAVRS is given by the Market Agent and because of a failure to satisfy certain of the conditions to the effectiveness of such change on the proposed effective date of such change and such change does not take effect, the SAVRS Rate for the Bonds of such series of Bonds for the next succeeding Subsequent SAVRS Auction Period will be equal to the Maximum SAVRS Rate on the SAVRS Auction Date for such SAVRS Auction Period. See "AUCTIONS TO DETERMINE SAVRS RATE--Auction Procedures--Changes in Percentages Used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate" contained in Appendix G hereto.

If a Payment Default occurs under the Resolution, SAVRS Auctions for the Tax-Exempt SAVRS will be suspended and the SAVRS Rate for the Tax-Exempt SAVRS for each Subsequent SAVRS Auction Period commencing thereafter, to and including the Subsequent SAVRS Auction Period, if any, during which, or commencing less than two Business Days after, such Payment Default is waived or is cured, will equal the lesser of:

- (a) 300% of the Reference Rate then in effect; and
- (b) 14.0% per annum.

A "Payment Default" means (a) a default by the Corporation in the due and punctual payment of any installment of interest of any Tax-Exempt SAVRS or (b) a default by the Corporation in the due and punctual payment of the principal of any Tax-Exempt SAVRS whether at maturity or upon redemption or acceleration, which, in either such case, is followed by a default by the Bond Insurer in the due and punctual payment of the amounts due under the Bond Insurance Policy if amounts are then due under said Policy. See Appendix G – "AUCTIONS TO DETERMINE SAVRS RATE -- SAVRS Auction Procedures."

If all of the Tax-Exempt SAVRS are subject to Submitted Hold Orders in a SAVRS Auction, the Tax-Exempt SAVRS shall bear interest at the Minimum SAVRS Rate. The Minimum SAVRS Rate on any date of determination shall equal 45% of the Reference Rate.

Auction Periods for Tax-Exempt SAVRS. The length of a single SAVRS Auction Period for the Tax-Exempt SAVRS may be changed at any time by the Corporation, with the prior written consent of the Bond Insurer, in accordance with the Resolution unless an Event of Default has occurred. A SAVRS Auction Period of 7 days will be maintained as the "Standard SAVRS Auction Period." See "AUCTIONS TO DETERMINE SAVRS RATE--General--Change of Auction Period" contained in Appendix G hereto.

As used herein "SAVRS Auction Period" is the Initial SAVRS Auction Period and thereafter, any period not to exceed 365 days which shall commence on and include the SAVRS Auction Settlement Date for the prior SAVRS Auction Period and end on but exclude the next succeeding SAVRS Auction Settlement Date. The Initial SAVRS Auction Period for the Tax-Exempt SAVRS shall commence on and include the date of delivery and end on and exclude July 10, 2001 (the last Business Day of such period being the "Initial SAVRS Auction Date"). As used herein "SAVRS Auction Settlement Date" means July 10, 2001 with respect to the Senior Series 2001Z Bonds and such initial date as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation with respect to the Senior Series 2001AA Bonds converted to bear interest at a Tax-Exempt SAVRS Rate (the "Initial SAVRS Auction Settlement Date") and each Tuesday thereafter; provided that if such day is not a Business Day, then the SAVRS Auction Settlement Date shall be the next succeeding Business Day; provided, further, that if the Corporation changes the length of a SAVRS Auction Period, the next succeeding SAVRS Auction Settlement Date shall be the first Business Day after the last day of such SAVRS Auction Period and the next succeeding SAVRS Auction Settlement Date shall be the succeeding Tuesday thereafter, subject to this and the foregoing proviso.

Auction Dates for Tax-Exempt SAVRS. A SAVRS Auction to determine the SAVRS Rate for the Tax-Exempt SAVRS for each SAVRS Auction Period after the Initial SAVRS Auction Period shall occur on the Business Day immediately preceding the first day of such SAVRS Auction Period (each a "SAVRS Auction Date"). A SAVRS Auction Period of 7 days will be maintained as the Standard SAVRS Auction Period. The first SAVRS Auction Date for the Senior Series 2001Z Bonds will be July 9, 2001. The first SAVRS Auction Date for the Senior Series 2001AA Bonds converted to bear interest at a Tax-Exempt SAVRS Rate will be held on such initial date as determined by the Market Agent in a certificate delivered to the Trustee and the Corporation, which shall be a Tuesday. SAVRS Auctions for Standard SAVRS Auction Periods for Tax-Exempt SAVRS will be held every Monday (except where Monday is not a Business Day, in which case the SAVRS Auction shall be held on the next succeeding Business Day).

Interest Payment Dates for Tax-Exempt SAVRS. Interest on the Tax-Exempt SAVRS will be computed on the basis of a 365/366 day year for the number of days actually elapsed. Except as otherwise set forth herein, interest on the Tax-Exempt SAVRS will accrue at the SAVRS Rate with respect to such Bonds for each SAVRS Auction Period from the date of their initial issuance and will be payable in arrears, commencing on December 15, 2001 for the Senior Series 2001Z Bonds and commencing on the first June 15 or December 15 following the Tax-Exempt Conversion Date for the Senior Series 2001AA Bonds (the "Initial SAVRS Interest Payment Date") and thereafter on each June 15 and December 15 and at maturity (each a "SAVRS Interest Payment Date"). Prior to the close of business on the Business Day preceding the last day of each SAVRS Auction Period, the Trustee shall calculate the aggregate amount of accrued and unpaid interest per \$50,000 aggregate principal amount of the Tax-Exempt SAVRS that will have accrued on such Bonds through and including the last day of such SAVRS Auction Period and send a notice showing the calculation thereof to the Auction Agent.

The regular record date for each SAVRS Interest Payment Date for the Tax-Exempt SAVRS during a SAVRS Interest Rate Period will be the Business Day immediately preceding such SAVRS Interest Payment Date (the "Record Date").

As used herein, "Business Day" means any day other than April 14, April 15, December 30, December 31, a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized to close in New York, New York or in any city in which is located the principal corporate trust office of the Trustee or the Paying Agent.

Change in the Interest Rate Mode for Tax-Exempt SAVRS. The Corporation, with the prior written consent of the Bond Insurer, may change the interest rate on the Tax-Exempt SAVRS from one Adjustable Rate to another, or may convert the interest rate to a Fixed Rate to maturity, subject to compliance with certain conditions specified in the Resolution. Such Change in the Interest Rate Mode or establishment of a Fixed Rate shall be specified in a written notice delivered to the Trustee, the Bond Insurer, the Remarketing Agent and the Registrar and Paying Agent (and to the Auction Agent and Market Agent, if such Change in the Interest Rate Mode is to or from a SAVRS Rate) at least thirty (30) days prior to the proposed effective date of the Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as applicable. A Change in the Interest Rate Mode from a SAVRS Rate or the conversion from a SAVRS Rate to a Fixed Rate with respect to the Tax-Exempt SAVRS may only be effected on the last day of a SAVRS Auction Period for such Bonds. The Trustee shall mail a notice of the Change in the Interest Rate Mode or establishment of a Fixed Rate to all affected Bondowners within three (3) days of the receipt of such notice from the Corporation. Additionally, the Auction Agent shall mail a notice of the Change in the Interest Rate Mode or establishment of a Fixed Rate to the beneficial owners of the Tax-Exempt SAVRS if such Bonds are registered in the name of DTC or its nominee and if the Auction Agent has mailing addresses for such beneficial owners.

For additional description of changes of the interest rate mode for SAVRS, see "AUCTIONS TO DETERMINE SAVRS RATE--Change in the Interest Rate Mode" contained in Appendix G hereto.

MANDATORY TENDER. THE TAX-EXEMPT SAVRS ARE SUBJECT TO MANDATORY TENDER FOR PURCHASE UPON A CHANGE IN THE INTEREST RATE MODE OR THE ESTABLISHMENT OF A FIXED RATE FOR SUCH BONDS AND THE BONDOWNERS HAVE NO RIGHT TO RETAIN SUCH BONDS. All Tax-Exempt SAVRS will be purchased on the effective date for the Change in the Interest Rate Mode or establishment of

a Fixed Rate with respect to such Bonds at a price equal to the principal amount thereof, and accrued interest thereon to the effective date of the Change in the Interest Rate Mode or the Fixed Rate Conversion Date, if any, as appropriate.

Auctions to Determine SAVRS Rate. Set forth in Appendices G, H and I hereto are descriptions of various provisions that relate to the Tax-Exempt SAVRS that bear interest at the SAVRS Rate.

TAXABLE SELECT AUCTION VARIABLE RATE SECURITIES

General

The Senior Series 2001AA Bonds will initially be issued as Taxable Select Auction Variable Rate Securities (referred to as "Taxable SAVRS" until converted to Tax-Exempt SAVRS) shall be dated the date of initial delivery thereof and shall mature on the date shown on the inside cover page of this Official Statement. The Taxable SAVRS are subject to conversion to bear interest at a Tax-Exempt SAVRS Rate as described herein. Certain capitalized terms used herein with respect to the Senior Series 2001AA Bonds while Outstanding as Taxable SAVRS are defined in Appendices J and K hereto.

Interest on the Taxable SAVRS

The SAVRS Rate. The interest rate on the Taxable SAVRS (the "SAVRS Rate") for the period from and including the Date of Interest Accrual to but excluding July 11, 2001 (the "Initial Auction Rate Period") will be determined prior to the date of issuance of the Taxable SAVRS. The SAVRS Rate for each Subsequent Auction Rate Period shall, subject to certain exceptions described below, be equal to the interest rate (the "Auction Rate") that the Auction Agent advises has resulted from the implementation of auction procedures set forth in the Resolution and attached hereto as Appendix K (the "Auction Procedures") with respect to the Taxable SAVRS. Each periodic implementation of the Auction Procedures is hereinafter referred to as an "Auction." As used herein, (a) "Subsequent Auction Rate Period" means the period from and including the Initial Interest Payment Date to but excluding the next Regular Interest Payment Date and each period thereafter from and including one Regular Interest Payment Date to but excluding the next succeeding Regular Interest Payment Date; provided that if any Subsequent Auction Rate Period is also a Special Auction Rate Period consisting of more than 91 Rate Period Days, such term shall mean the period commencing on the first day of such Special Auction Rate Period and ending on the last day of the last Interest Period thereof, (b) "Auction Rate Period" means the Initial Auction Rate Period and any Subsequent Auction Rate Period, including any Special Auction Rate Period, (c) "Special Auction Rate Period" shall mean a Subsequent Auction Rate Period, other than a Standard Auction Rate Period, that consists of a specified number of Rate Period Days not fewer than 28 and not more than 1,092 and evenly divisible by seven, subject to adjustment and (d) "Standard Auction Rate Period" shall mean any Auction Rate Period consisting of 7 Rate Period Days.

Interest on the Taxable SAVRS for each Auction Rate Period shall be computed on the basis of the actual number of days in such Auction Rate Period and a 365 or 366 day year, as applicable. The SAVRS Rate for any Subsequent Auction Rate Period may not exceed the lesser of 14% per annum and the maximum rate permitted by applicable law.

If an Auction for the Taxable SAVRS for any Subsequent Auction Rate Period is not held for any reason (other than the occurrence and continuance of a Payment Default (as defined below)), including, without limitation, because there is no Auction Agent, the SAVRS Rate for the next succeeding Subsequent Auction Rate Period will be equal to the SAVRS Maximum Rate (as defined herein under "Auctions - Auction Procedures" below) on the Auction Date for such Auction Rate Period. There could be no Auction Agent if the Auction Agent has resigned and the Corporation has not appointed a successor. See "Auctions - Concerning the Auction Agent" below.

Determination of the SAVRS Rate pursuant to the Auction Procedures will be terminated on the effective date of a Change to Weekly Rate Mode or a conversion to a Fixed Rate. If a notice of a Change to Weekly Rate Mode or a conversion to a Fixed Rate is given by the Corporation and because of a failure to satisfy certain of the conditions to the effectiveness of such change on the proposed effective date thereof such change does not take effect, the SAVRS Rate

for the next succeeding Subsequent Auction Rate Period will be equal to the SAVRS Maximum Rate on the proposed effective date of such change.

If a Payment Default occurs (other than an Auction Rate Period consisting of more than 364 Rate Period Days), the rate of interest for each Subsequent Auction Rate Period commencing thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, all such Payment Defaults are cured, will equal the Overdue Rate for a Standard Auction Rate Period on the first day of each such Subsequent Auction Rate Period.

If a Payment Default occurs during a Special Auction Rate Period consisting of more than 364 days, (a) the rate of interest for the portion of such Special Auction Rate Period during which such Payment Default shall not have been cured shall equal the Overdue Rate for such Special Auction Rate Period on the date of the occurrence of such Payment Default and (b) if such Payment Default shall not have been cured at least two Business Days prior to the next succeeding Subsequent Auction Rate Period, the rate of interest for such Subsequent Auction Rate Period and for each Subsequent Auction Rate Period commencing thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured, shall equal the Overdue Rate for such Special Auction Rate Period on the first day of each such Subsequent Auction Rate Period.

A "Payment Default" means the default by the Corporation in the due and punctual payment of (a) any installment of interest on the SAVRS or (b) any principal of, premium, if any, or interest on, the SAVRS at their maturity (whether on the Stated Maturity Date, prior redemption or otherwise), which default shall continue for a period of two Business Days and which, in either case, is followed by the failure of the Bond Insurer to make, in accordance with the Financial Guaranty Insurance Policy, due and punctual payments to or on behalf of the registered owners of the SAVRS of such installments or payments described in clause (a) or (b), if so required under such Financial Guaranty Insurance Policy.

Auction Dates for Taxable SAVRS. Except as otherwise described herein, an Auction to determine the SAVRS Rate for each Subsequent Auction Rate Period will be held on the Business Day immediately preceding the first day of such Subsequent Auction Rate Period (each an "Auction Date"). The first Auction will be held on July 10, 2001. Thereafter, Auctions will normally be held every Tuesday and each Subsequent Auction Rate Period will normally begin on the following Wednesday, unless the Corporation changes the length of a Subsequent Auction Rate Period by designating it as a Special Auction Rate Period of between 28 and 1,092 days (approximately 3 years) and evenly divisible by seven. In that event, the Subsequent Auction Rate Period after such Special Auction Rate Period will normally begin on the Wednesday after the end of such Special Auction Rate Period and the Auction therefor will normally be held on the preceding Tuesday.

Interest Payment Dates for Taxable SAVRS. Prior to the Conversion Date, the Taxable SAVRS shall bear interest at a SAVRS Rate (computed on the basis of a 365-day or 366-day year, as applicable, for the number of days actually elapsed). From and after a Change to Weekly Rate Mode, the Taxable SAVRS shall bear interest at a Weekly Rate (computed on the basis of a 365-day or 366-day year, as applicable, for the number of days actually elapsed). From and after the Fixed Rate Conversion Date, the Taxable SAVRS shall bear interest at the Fixed Rate (computed on the basis of a 360-day year, consisting of twelve 30-day months). During the SAVRS Rate Period, interest on the SAVRS shall accrue at the SAVRS Rate for each Auction Rate Period and shall be payable in arrears, commencing on the Initial Interest Payment Date and, so long as each Subsequent Auction Rate Period is a Standard Auction Rate Period, on each succeeding Wednesday thereafter except as otherwise provided in the Resolution.

Alternative Interest Rates

Change to Weekly Rate Mode. The method for determining the interest rate to be borne by the SAVRS may be changed by the Corporation from a SAVRS Rate to a Weekly Rate (as defined below) upon at least 30 days prior notice to the Trustee, the Bond Insurer, the Auction Agent, the Market Agent and the Securities Depository. The Trustee shall mail notice of any proposed Change to Weekly Rate Mode to the Owners within three (3) Business Days or its

receipt thereof. Existing Holders to whom notice of a proposed Change to Weekly Rate Mode have been delivered should contact their respective Broker-Dealers to be given information regarding such proposed change.

A Change to Weekly Rate Mode may be effected only on a Regular Interest Payment Date. A Change to Weekly Rate Mode may only be effected with the prior written consent of the Bond Insurer.

The effectiveness of a Change to Weekly Rate Mode is subject to the following conditions:

(a) the Trustee and the Auction Agent shall receive:

(i) a certificate of the Corporation by no later than the third day prior to the proposed effective date of such Change to Weekly Rate Mode stating that (A) a written agreement between the Corporation and a firm or firms of investment bankers to remarket the SAVRS on such effective date at a price of 100% of the principal amount thereof (a "Remarketing Commitment") has been entered into, which agreement (1) may be subject to such reasonable terms and conditions which in the judgment of the Corporation reflect the current market standards regarding investment banking risk, (2) must include a provision requiring payment of the purchase price in same-day funds for the SAVRS and (3) must include a provision requiring the determination of the Weekly Rate for the initial Weekly Period no later than 11:00 A.M., New York City time, on the Business Day prior to the effective date of such Change to Weekly Rate Mode, (B) a Liquidity Facility meeting the requirements set forth in the Resolution is in effect or has been obtained by the Corporation with respect to the SAVRS and shall be in effect on or prior to the effective date such Change to Weekly Rate Mode and thereafter for a period of at least one year and (C) a Remarketing Agreement meeting the requirements set forth in the Resolution is or will be in effect on or prior to the effective date of such Change to Weekly Rate Mode;

(ii) by 11:00 A.M., New York City time, on the second Business Day prior to the effective date of such Change to Weekly Rate Mode by telecopy or other similar means, a certificate from the Corporation (A) authorizing the establishment of the Weekly Rate and (B) setting forth the Weekly Rate for the initial Weekly Period; and

(iii) by 4:00 P.M., New York City time, on the effective date of such Change to Weekly Rate Mode, a certificate from the Corporation that all of the SAVRS tendered or deemed tendered have been purchased at a price equal to the principal amount thereof with funds provided from the remarketing of the SAVRS pursuant to the Remarketing Commitment; and

(b) a Liquidity Facility has been delivered to the Trustee not less than one Business Day prior to the Effective Date and is, by its terms, in effect on or prior to the Effective Date; provided that if as of the proposed effective date of the Change to Weekly Rate Mode the short-term rating of the SAVRS is at least "A-1" by S&P or "VMIG-1" by Moody's, no Liquidity Facility shall be required;

(c) the Remarketing Agreement referred to above has been duly executed and delivered by the parties thereto and is in full force and effect not less than one Business Day prior to the effective date of such Change to Weekly Rate Mode; and

(d) a tender agent (a "Tender Agent") has been duly appointed by the Corporation in accordance with the Resolution.

If a Change to Weekly Rate Mode is effective, the SAVRS shall cease to bear interest at the SAVRS Rate and shall bear interest at a floating rate determined weekly by a remarketing agent under the Remarketing Agreement (the "Weekly Rate"). If any one of the conditions referred to in (a)(i) or (ii) above is not met, the SAVRS Rate for the next succeeding Subsequent Auction Rate Period shall be determined pursuant to the Auction Procedures. If any one of the conditions referred to in (a), (b), (c) or (d) is not met, the SAVRS Rate for the next succeeding Subsequent Auction Rate

Period shall be equal to the SAVRS Maximum Rate as determined on the proposed effective date of such Change to Weekly Rate Mode. If any one of the foregoing conditions is not met, the Trustee shall give a notice thereof to the Auction Agent and the registered owners of the SAVRS by telecopy or similar means.

Conversion to Fixed Rate. The Corporation may fix the interest rate to be borne by the SAVRS to a fixed rate (the "Fixed Rate") upon not less than 35 nor more than 45 days' prior notice to the Trustee, the Bond Insurer, and during the SAVRS Rate Period, the Auction Agent, the Market Agent and the Securities Depository or, after a Change to Weekly Rate Mode, the Liquidity Facility Issuer, the Tender Agent and the Remarketing Agent. The proposed effective date of the conversion to a Fixed Rate is referred to herein as the "Fixed Rate Conversion Date". The Auction Agent shall mail notice of any proposed conversion to a Fixed Rate to Existing Holders within two Business Days of its receipt thereof. Existing Holders to whom notice of a proposed conversion to a Fixed Rate has been delivered should contact their respective Broker-Dealers to be given information regarding such proposed conversion.

The Fixed Rate Conversion Date may only be a Regular Interest Payment Date. A conversion to a Fixed Rate may only be effected with the prior written consent of the Bond Insurer.

The effectiveness of a conversion to a Fixed Rate is subject to the following conditions:

(a) the Trustee and the Auction Agent shall receive:

(i) a certificate of the Corporation by no later than the tenth day prior to a Fixed Rate Conversion Date stating that a written agreement has been entered into between the Corporation and a firm or firms of investment bankers to remarket the SAVRS on the Fixed Rate Conversion Date at a price of not less than 100% of the principal amount thereof (a "Fixed Rate Commitment"), which written agreement (A) may be subject to such reasonable terms and conditions which in the judgment of the Corporation reflect current market standards regarding investment banking risk, (B) must include a provision requiring payment of the purchase price in same-day funds for the SAVRS and (C) must include a provision requiring the determination of the Fixed Rate no later than 11:00 A.M., New York City time, on the second Business Day prior to the Fixed Rate Conversion Date, which Fixed Rate shall not exceed 18% per annum;

(ii) by 11:00 A.M., New York City time, on the second Business Day prior to the Fixed Rate Conversion Date, by telecopy or other similar means, a certificate from the Corporation (A) authorizing the establishment of a Fixed Rate and (B) setting forth the Fixed Rate; and

(iii) by 4:00 P.M., New York City time, on the Fixed Rate Conversion Date, a certificate from the Corporation that all of the SAVRS tendered or deemed tendered have been purchased at a price equal to the principal amount thereof, with funds provided from the remarketing of the SAVRS in accordance with the Fixed Rate Commitment; and

(b) a Tender Agent has been duly appointed by the Corporation in accordance with the Resolution.

If a conversion to a Fixed Rate is effective as provided above, the SAVRS shall cease to bear interest at the SAVRS Rate and shall bear interest at the Fixed Rate determined pursuant to the Fixed Rate Commitment. If any one of the conditions referred to in (i)(A) or (i)(B) above is not met with respect to any change to a Fixed Rate, the SAVRS Rate for the next succeeding Auction Rate Period shall be determined pursuant to the Auction Procedures. If any one of the conditions referred to in (i)(C), or (ii) above is not met with respect to any change to a Fixed Rate, the SAVRS Rate for the next succeeding Auction Rate Period shall be equal to the SAVRS Maximum Rate as determined as of the proposed Fixed Rate Conversion Date. If any one of the foregoing conditions is not met, the Trustee shall give a notice thereof to the Auction Agent and to the registered owners of the SAVRS by telecopy or similar means.

Mandatory Tender for Purchase of SAVRS Upon Change to Weekly Rate Mode or Conversion to Fixed Rate

Upon a Change to Weekly Rate Mode, a change in the Standard Auction Rate Period or a conversion to a Fixed Rate or at the request of the Corporation, the SAVRS are subject to mandatory tender for purchase on the effective date of such change (a "Mandatory Tender Date") at a price equal to the principal amount thereof, together with interest accrued and unpaid thereon. The Trustee shall give notice of any mandatory tender for purchase to the registered owners of the SAVRS at their addresses appearing in the registration books maintained by the Trustee no later than 15 days prior to the Mandatory Tender Date in the case of a mandatory tender upon a Change to Weekly Rate Mode or a conversion to a Fixed Rate and no later than 30 days prior to the Mandatory Tender Date with respect to a mandatory tender for purchase at the request of the Corporation. If less than all of the SAVRS shall be subject to mandatory tender for purchase, such SAVRS (or portions thereof) to be so purchased shall be selected by the Trustee by lot or in any customary manner of selection as determined by the Trustee, provided that for so long as Cede & Co., as nominee of DTC, is the registered owner, the particular SAVRS (or portions thereof to be purchased) shall be selected by lot by DTC, in such manner as DTC may determine, from all SAVRS Outstanding.

The registered owners of SAVRS shall be required to tender the SAVRS to the Tender Agent on any Mandatory Tender Date. If any such registered owner fails to properly deliver any SAVRS on any Mandatory Tender Date, such SAVRS shall be deemed to have been properly tendered to the Tender Agent and, to the extent that there shall be on deposit with the Tender Agent on such Mandatory Tender Date an amount sufficient to pay the principal amount thereof, no interest shall accrue on such SAVRS from and after the Mandatory Tender Date and such registered owner of SAVRS shall have no rights under the Resolution thereafter as the owner of such SAVRS, except the right to receive the purchase price of such SAVRS.

Holders of the SAVRS will not have the right to elect to retain SAVRS subject to mandatory tender for purchase.

Auctions to Determine SAVRS Rate

Set forth in Appendices J, K and L are descriptions of various provisions that relate to Taxable SAVRS that bear interest at the SAVRS Rate.

Transfer of Taxable SAVRS

So long as the ownership of the SAVRS is maintained in book-entry form by the Securities Depository, a Beneficial Owner or an Existing Holder may sell, transfer or otherwise dispose of SAVRS only pursuant to a Bid or Sell Order placed in an Auction or to a Broker-Dealer (or other person, if permitted by the Corporation) provided, however, that (a) a sale, transfer or other disposition of SAVRS from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such SAVRS to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the foregoing if such Broker-Dealer remains the Existing Holder of the SAVRS so sold, transferred or disposed of immediately after such sale, transfer or disposition and (b) in the case of all transfers other than pursuant to Auctions such Broker-Dealer (or other person, if permitted by the Corporation), to whom such transfer is made shall advise the Auction Agent of such transfer.

Conversion of Taxable SAVRS to Tax-Exempt SAVRS

The Taxable SAVRS may be converted to bear interest at a Tax-Exempt SAVRS Rate. See the discussion under Appendix M – “MECHANISM FOR CONVERSION OF TAXABLE SAVRS TO TAX-EXEMPT SAVRS” hereto. The conversion shall, as determined by the Corporation, apply to all or any of the Taxable SAVRS designated as Senior Series 2001AA Bonds. If any of the Senior Series 2001AA Bonds are to be converted to bear interest at a Tax-Exempt SAVRS Rate, then all of the Series 2001AA Bonds are subject to mandatory tender for purchase as described under Appendix M – “MECHANISM FOR CONVERSION OF TAXABLE SAVRS TO TAX-EXEMPT SAVRS” hereto. If the Senior Series 2001AA Bonds are converted to bear interest at a Tax-Exempt SAVRS Rate, the provisions under “TAXABLE SELECT AUCTION VARIABLE RATE SECURITIES” shall not apply to the portion of Senior Series

2001AA Bonds so converted and the provisions under "TAX-EXEMPT SELECT AUCTION VARIABLE RATE SECURITIES" shall apply to the Senior Series 2001AA Bonds so converted.

REDEMPTION OF THE 2001 BONDS

Optional Redemption

Bonds of any Series of 2001 Bonds that are outstanding as ARCs or SAVRS 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 2001 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 2001 Bonds, such moneys may be used to redeem 2001 Bonds only if such moneys constitute Available Moneys.

Extraordinary Mandatory Redemption

Each Series of 2001 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 2001 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 2001 Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 2001 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. Such amounts on deposit in the Loan Account may be used to finance Eligible Education Loans until July 1, 2003; 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 2001 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 2001 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 2001 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 2001 Bonds to be Redeemed

The 2001 Bonds or portions of the 2001 Bonds to be redeemed shall be selected by the Corporation. If less than an entire Series of the 2001 Bonds is to be redeemed, the 2001 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 or SAVRS 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 \$554,900,000 aggregate principal amount of its Bonds which will rank on a parity with the 2001 Bonds, and which, together with the 2001 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 2001 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.

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 tax-exempt 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 and the 2001 Bonds at 2% of the par amount of the Bonds of such Series Outstanding, provided, however, that while any of the 2001 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 2001 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 made a commitment to issue a surety bond ("2001 Surety Bond") for the purpose of funding the Debt Service Reserve Requirement with respect to the Series 2001 Bonds, and the 2001 Surety Bond shall constitute a Funding Instrument. The 2001 Bonds will only be delivered upon the issuance of such 2001 Surety Bond. The premium on the 2001 Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2001 Bonds. The 2001 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 2001 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 2001 Bonds, but in no event exceeding the Surety Bond Coverage. The Surety Bond coverage is \$3,295,000 or such lesser amount as is equal to 2% of the principal of the 2001 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 2001 Surety Bond, includes amounts available under a Funding Instrument other than the 2001 Surety Bond (an "Additional Funding Instrument"), draws on the 2001 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 2001 Surety Bond and the Corporation is required to reimburse the Bond Insurer for any draws under such 2001 Surety Bond with interest at a market rate. Upon such reimbursement, the 2001 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 2001 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 2001 Surety Bond, any draw on the 2001 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 2001 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 2001 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 S&P and Fitch notice of such transfer.

THE 2001 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2001 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2001 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 2001 BONDS.

INSURANCE ON THE 2001 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 N 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 2001 Bonds effective as of the date of issuance of each Series of the 2001 Bonds. A specimen copy of the Financial Guaranty Insurance Policy is attached hereto as Appendix Q. 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 2001 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 2001 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 2001 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 2001 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 2001 Bond which has become Due for Payment and which is made to a 2001 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 2001 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of 2001 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 2001 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 2001 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2001 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 2001 Bond, appurtenant coupon, if any, or the right to receive payment of principal or interest on such 2001 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 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 2001 BOND PROCEEDS

The Corporation expects to apply the proceeds of the 2001 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans (\$163,713,534), 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 2001 Bonds and related expenses (\$1,036,466), including the Underwriters' discount. A portion of such amount will be used to purchase the 2001 Surety Bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2001 Bonds and to pay the insurance premium for the Financial Guaranty Insurance Policy.

CHARACTERISTICS OF EDUCATION LOANS

As of March 31, 2001, Education Loans in an aggregate principal amount of approximately \$523,571,480 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of March 31, 2001.

LOAN TYPE

	Education Loans Held Under Resolution as of March 31, 2001	
Consolidation	\$ 121,701,893	23.24%
Stafford Subsidized	194,572,218	37.16%
Stafford Unsubsidized	99,373,679	18.98%
PLUS	71,108,195	13.58%
SLS	8,263,679	1.58%
VSAC EXTRA	1,132,376	0.22%
HEAL	7,217,404	1.38%
VSAC EXTRA Law	19,063,692	3.64%
VSAC EXTRA Medical	1,138,344	0.22%
Total	\$ 523,571,480	100.00%

BORROWER PAYMENT STATUS

	Education Loans Held Under Resolution as of March 31, 2001	
School	\$ 151,453,499	28.93%
Grace	14,574,700	2.78%
Deferment	103,775,324	19.82%
Repayment	<u>253,767,957</u>	<u>48.47%</u>
Total	\$ 523,571,480	100.00%

The characteristics of Education Loans held under the Resolution as of March 31, 2001 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 projections using 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 March 31, 2001, 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, other 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 and interest on the 2001 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 analysis of the Education Loans held under the Resolution and the Eligible Education Loans expected to be financed with proceeds of the 2001 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 which may affect the timing of the receipt of funds by the Corporation. Lenders, including the Federal Direct Student Loan Program, may make consolidation loans to borrowers for the purpose of retiring certain borrowers' existing loans under various federal higher education loan programs. To the extent that Education Loans are repaid with consolidation loans, the Corporation would realize repayment of such Education Loans earlier than projected.

Delay in the receipt of principal 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; and (e) the commencement of principal repayment by borrowers at dates later than those assumed.

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 Bonds. Failure to pay amounts owing with respect to Subordinate Bonds when due to the extent Revenues are not available for such purpose under and in accordance with the Resolution does not constitute an Event of Default under the Resolution so long as any Senior Bonds are outstanding.

Changes in Federal Law

The provisions governing the terms of loans originated pursuant to the Higher Education Act have been subject to repeated amendments in recent years, as discussed in Appendix O --"SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto. No assurance can be given that the Higher Education Act or other relevant federal or state laws, rules and regulations and the programs implemented thereunder will not be amended or modified in the future in a manner that might adversely impact the programs described in this Official Statement and might prospectively or retroactively adversely change the terms and conditions under which student loans are made and under which lenders are provided interest subsidy payments or Special Allowance Payments in a manner that might adversely affect the ability of the Corporation to pay the principal of and interest on the Bonds, including the 2001 Bonds, when due, or that might adversely affect the Corporation. Funding under the Higher Education Act is subject to the annual budget and appropriation process by Congress. In addition, existing legislation and future measures to reduce the federal budget deficit or for other purposes may adversely affect the amount and nature of federal financial assistance available with respect to these programs. In recent years, federal budget legislation, including the Balanced Budget Act of 1997, has provided for the recovery by the Secretary of Education of certain funds held by Guaranty Agencies in order to achieve reductions in federal spending. No assurance can be made that future budget legislation or other legislation or administrative actions will not adversely affect expenditures by the Secretary

of Education or the financial condition of the Corporation. See APPENDIX O--"SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS".

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

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

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

Further legislation changed the formulas discussed above for the period from July 1, 1998 through September 30, 1998. Stafford Loans originated during this period will bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 2.3% (1.7% for in-school or grace period loans), capped at 8.25%; PLUS Loans will bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 3.1%, capped at 9%; and Special Allowance Payments are based on the 91-day Treasury Bill rate plus 2.8% (2.2% for in-school or grace period loans). This legislation is only applicable for loans originated through September 30, 1998.

The Higher Education Amendments of 1998 (the "1998 Amendments") reauthorized the Higher Education Act. The 1998 Amendments amended Sections 427A and 455(b) of the Higher Education Act in order to effectively extend the interest rate formulas discussed in the preceding paragraph to loans made between October 1, 1998 and July 1, 2003. Under the 1998 Amendments, both Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 1.7%, with a maximum rate of 8.25%. Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 2.3% with a maximum rate of 8.25%. Federal PLUS Loans in all periods bear interest at a rate equivalent to the 91-day Treasury Bill rate plus 3.1%, with a maximum rate of 9%. Federal Consolidation Loans in all periods bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

The Special Allowance Payment provisions of the Higher Education Act were also recently amended for loans originated on and after January 1, 2000. Special Allowance Payments for loans originated and first disbursed on and after January 1, 2000 are based upon the 3-month financial commercial paper rate reported by the Federal Reserve, although the loans continue to bear interest to the borrowers at rates based upon the 91-day Treasury Bill. See APPENDIX O--"SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto.

Financial Status of the Guarantors

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 O – "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 Act 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 in their entirety. 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 2001 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 2001 Bonds.

Uncertainty as to Available Remedies

The remedies available to Owners of the 2001 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 remedies specified by the Resolution and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2001 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.

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 2001 Bonds, investors in the 2001 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 2001 Bonds are Standard and Poor's Rating Service ("S&P") and Fitch, Inc. ("Fitch"). Information on the ratings assigned to the 2001 Bonds can be obtained from S&P at 26 Broadway, 15th Floor, New York, New York 10004 and from Fitch at One State Street Plaza, New York, New York 10004.

Carry-over Amount

The Auction Rates on the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds while Outstanding as Taxable ARCs will be limited to the Maximum Rate. See Appendix D – "ARC AUCTION PROCEDURES RELATING TO TAXABLE ARCs – Definitions" hereto. For an Interest Payment Date on which the Maximum Rate applies to the Senior Series 2001X Bonds or Senior Series 2001Y Bonds, the difference between the amount of interest at the Auction Rate and the amount of interest at the Maximum Rate will be paid on succeeding Interest Payment Dates to the extent of available funds pursuant to the Resolution and may never be paid. See "Taxable Auction Rate Certificates – Interest – Carry-over Amounts" herein.

Conversion of Taxable Bonds to Tax-Exempt Bonds

The Taxable ARCs are subject to mandatory tender upon conversion to bear interest at a Tax-Exempt Auction Rate. See Appendix F – "MECHANISM FOR CONVERSION OF TAXABLE ARCs TO TAX-EXEMPT ARCs" hereto. The Taxable SAVRS are subject to mandatory tender upon conversion to bear interest at a Tax-Exempt SAVRS Rate. See Appendix M – "MECHANISM FOR CONVERSION OF TAXABLE SAVRS TO TAX-EXEMPT SAVRS" hereto. The Corporation may or may not elect to convert all or any part of these Taxable ARCs or Taxable SAVRS. See the discussion of the conversion under "INTRODUCTION" herein.

THE CORPORATION

General

The Corporation, a public non-profit corporation, was created in 1965 and exists under the State Act for the purpose of providing opportunities for Vermont residents to pursue further education by awarding grants and guaranteeing, making, acquiring, financing and servicing loans to borrowers qualifying under the State Act and, where applicable, the Act and the Health Act. The Corporation serves as a central clearinghouse and information center for financial aid and career information.

The Corporation has significant responsibility for the administration of postsecondary education loan programs and services in the State of Vermont. The purpose of these programs is to make low interest loans available to eligible borrowers to assist them in meeting education expenses. The loans are made by the Corporation principally through its loan origination services, and may also be made through approved lenders, thus facilitating access to post-secondary education.

In 1982, the Corporation was authorized by the Vermont legislature to originate and acquire education loans and to provide a secondary market for education loans.

In 1993, the Vermont Legislature authorized the Corporation to develop and implement a variety of non-federal loan programs for borrowers and lenders both within and outside the State. The Corporation also administers a program of grants, financial aid services, scholarships, work-study and informational and career counseling services to students seeking further education.

In 1998, the Vermont Legislature authorized the Corporation to establish the Vermont Higher Education Savings Plan, a tax-advantaged savings program established under Section 529 of the Internal Revenue Code of 1986, as amended. The Corporation began administering the Plan in 1999.

To finance the conduct of certain of its affairs, the Corporation receives appropriations from the Vermont Legislature 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.

The Corporation is governed by an eleven-member Board of Directors. Board membership is comprised of the following persons: five appointed by the Governor, one State Senator, one State Representative, the State Treasurer, ex officio, and three members elected by the Board. The present directors' names and, principal occupations or affiliations are as follows:

<u>Directors</u>	<u>Principal Occupations or Affiliations</u>
Joan D. Goodrich Chair	Special Assistant to the President Bennington College Bennington, Vermont
Chris Robbins Vice Chair	President, E.H.V. Weidman St. Johnsbury, Vermont
David M. Wilson Secretary	Attorney at Law Wilson & White, P.C. Montpelier, Vermont
Joseph L. Boutin	President, The Merchants Bank Burlington, Vermont

Edwin H. Amidon, Jr.	Attorney at Law, Roesler, Whittlesey, Meekins & Amidon Burlington, Vermont
David Ginevan	Executive Vice President and Treasurer Middlebury College Middlebury, Vermont
Representative Martha Heath	Representative Vermont Legislature Westford, Vermont
Bette Matkowski	President Lamar Community College Lamar, Colorado
Senator Ann Cummings	Senator Vermont Senate Montpelier, Vermont
James H. Douglas	Treasurer, State of Vermont Montpelier, Vermont
Jon F. Ratti	Director of Guidance Bellows Falls Union High School Bellows Falls, Vermont

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

The following persons are officers of the Corporation:

<u>Name</u>	<u>Position</u>
Joan D. Goodrich	Chair
Chris Robbins	Vice Chair
David M. Wilson	Secretary
Donald R. Vickers	President and CEO
Steven Karcher	Vice President of Finance and Assistant Secretary
Patrick J. Kaiser	Vice President of Student Services and Assistant Secretary
Elizabeth McLain	Vice President of Community and Government Relations
Timothy Wick	Vice President of Planning, Human Resources and Training

Ms. Joan D. Goodrich, Chair of the Board of Directors, has served as a Board member since October 1985.

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

Mr. David M. Wilson, Secretary of the Board of Directors, has served as a Board member since June 1997.

Mr. Donald R. Vickers, President and CEO of the Corporation, has served the Corporation since 1971. Mr. Vickers previously served as Director of Financial Aid and Placement at Johnson State College, Johnson, Vermont.

Mr. Steven Karcher, Vice President of Finance and Assistant Secretary of the Corporation, joined the Corporation in 1999. Mr. Karcher was previously Vice President for 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.

Ms. Elizabeth McLain, Vice President of Community and Government Relations, joined the Corporation in 1997. Ms. McLain previously served as Chief of Staff for Governor Richard Snelling, as Deputy Secretary of the Vermont Agency of Natural Resources, and for four terms in the Vermont House of Representatives.

Mr. Timothy Wick, Vice President of Planning, Human Resources and Training, 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 1977. Mr. Wick previously served as Executive Director of the Mountain Road School in Jeffersonville, Vermont.

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 Statutes Annotated and with the terms of its agreements with lenders, including with itself in its capacity as an originator of Eligible Education Loans, for the guarantee of loans, the Corporation has established a fund (the "Guarantee Reserve Fund") for the purpose of providing for the payment of any defaulted notes under the 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 April 1, 2001, the amount on deposit in the Guarantee Reserve Fund exceeded the amount required by the State Act, and as of such date the Corporation's Federal Loan Reserve Fund complied with the requirements of the Act.

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

Guaranty Volume. As of March 31, 2001, federally-reinsured education loans in the outstanding aggregate principal amount of approximately \$957,109,928.53 were guaranteed by the Corporation. The original aggregate principal amount of these loans was approximately \$1,334,258,647.00.

Reserve Ratio. As of March 31, 2001, the Corporation's reserve ratio was .62%. 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, 2000 was 1.250%. See Appendix O -- "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 March 31, 2001.

<u>Type</u>	<u>Percentage of Guaranteed Loans Outstanding (as of March 31, 2001)</u>
Four-year	61%
Two-year	5%
Proprietary	2%
Other*	32%
Total	100%

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

Outstanding Debt of the Corporation

As of March 31, 2001, the Corporation had outstanding the following bonds and notes. Except for the 1995 Bonds, the 1996 Bonds, the 1998 Bonds and the 2000 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.

<u>Designation</u>	<u>Amount Outstanding</u>	<u>Credit Enhancement</u>
1985 Series A	\$ 44,900,000	(Letter of Credit from State Street Bank and Trust Company.)
1992 Series A-2, A-3	\$ 61,270,000	(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)
2000 Series A-XI Note	\$ <u>8,380,000</u>	(no Credit Support)
Total	\$ 931,950,000	

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Tax-Exempt Bonds (consisting of the Senior Series 2001V Bonds, the Senior Series 2001W Bonds and the Senior Series 2001Z Bonds) is excluded from gross income for federal income tax purposes; however, interest on the Tax-Exempt 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 2001 Bonds. Failure to comply with such requirements could cause interest on the 2001 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2001 Bonds. The Corporation has covenanted to comply with such requirements.

Interest on the Taxable Bonds (consisting of the Senior Series 2001X Bonds, the Senior Series 2001Y Bonds and the Senior Series 2001AA Bonds) is includable in gross income for federal income tax purposes unless and until converted to tax-exempt obligations, as described herein. Bond Counsel's opinion does not address any potential exclusion of interest on the Taxable Bonds from gross income for federal income tax purposes upon such conversion, but such conversion requires a bond counsel opinion to that effect at the time of conversion as a condition precedent thereto.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2001 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 2001 Bonds.

Tax Matters Related to the Tax-Exempt Bonds

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

Tax Matters Related to the Taxable Bonds

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

Characterization of the Taxable Bonds as Indebtedness. The Corporation and the owners express in the Resolution their intent that, for applicable tax purposes, the Taxable Bonds will be indebtedness of the Corporation secured by the Financed Eligible Loans. The Corporation and the owners, by accepting the Taxable Bonds, have agreed to treat the Taxable Bonds as indebtedness of the Corporation for federal income tax purposes. The Corporation intends to treat this transaction as a financing reflecting the Taxable Bonds as its indebtedness for tax and financial accounting purposes. Bond Counsel is of the opinion that the Taxable Bonds should be treated as indebtedness of the Corporation and that interest on the Taxable Bonds is includable in gross income, each for federal income tax purposes.

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

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

Stated Interest. In general, all interest payments on Taxable Bonds that are payable at the Auction Rate will be includable in the owner's gross income as ordinary interest income in accordance with such owner's regular method

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

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

Backup withholding will not apply, however, with respect to payments made to certain owners of the Taxable Bonds. OWNERS OF THE TAXABLE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH AN EXEMPTION.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United State business. Assuming the interest received by the beneficial owner of the Taxable Bonds is not treated as effectively connected income within the meaning of Section 864 of the Code, such interest will be subject to 30% withholding, or any owner rate specified in an income tax treaty, unless such income is treated as portfolio interest. Assuming the Taxable Bonds are indebtedness of the Corporation; interest will be treated as portfolio interest if (a) the owner provides a statement to the Trustee certifying, under penalty of perjury, that such owner is not a United States person and providing the name and address of the owner, (b) such interest is treated as not effectively connected with the owner's United States trade or business, (c) interest payments are not made to a person within a foreign country which the Internal Revenue Service has included on a list of countries having provisions inadequate to prevent United States tax evasion, (d) interest payable with respect to the Taxable Bonds is not deemed contingent interest within the meaning of the portfolio debt provision, and (e) the owner claiming the portfolio interest exemption is not deemed to be a foreign bank that acquired the Taxable Bonds pursuant to an extension of credit entered into in the ordinary course of its banking business.

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

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

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

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

Changes in Federal Tax Law

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2001 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 2001 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 2001 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 2001 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 2001 Bonds or the due existence or powers of the Corporation.

APPROVAL OF LEGALITY

The legality of the authorization, issuance and sale of the 2001 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 2001 Bonds substantially in the form attached to this Official Statement as Appendix P.

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 2001 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 2001 Bonds) and such obligations (including the 2001 Bonds) are authorized security for any and all public deposits.

UNDERWRITING

The 2001 Bonds are to be purchased by UBS PaineWebber Inc. and Lehman Brothers Inc. (the "Underwriters") pursuant to a bond purchase contract with the Corporation. The Underwriters have agreed to purchase the 2001 Bonds at a price of par less a discount equal to \$556,350. The bond purchase contract provides that the Underwriters will not

be obligated to purchase any of the 2001 Bonds unless all such Bonds are available for purchase. The initial public offering prices of the 2001 Bonds may be changed by the Underwriters from time to time without notice.

The Underwriters may offer and sell the 2001 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 2001 Bonds may be changed from time to time by the Underwriters.

RATINGS

Standard & Poor's Ratings Service ("S&P") and Fitch, Inc. ("Fitch") are each expected to assign their municipal bond ratings of "AAA" to the 2001 Bonds based upon the delivery of the Financial Guaranty Insurance Policy. Such ratings reflect only the view of S&P and Fitch and an explanation of the significance of such ratings can only be obtained from S&P or Fitch, 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 S&P or Fitch 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 2001 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 2001 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 S.

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 2001 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 2001 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, 2000 were audited by KPMG Peat Marwick LLP, as set forth in their report dated September 1, 2000. Such financial statements and the report of said auditors are included as Appendix R hereto and represent the most current audited financial information available for the Corporation.

Because the 2001 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 2001 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 2001 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 2001 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., 63 Wall Street, 16th Floor, New York, New York 10005.

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 2001 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 2001 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 2001 Bonds.

Use of this Official Statement in connection with the sale of the 2001 Bonds has been authorized by the Corporation.

VERMONT STUDENT ASSISTANCE CORPORATION

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

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 -- "ARC 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 2001 Seventh 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.

"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 2001 Bonds while such are Outstanding as Auction Rate Certificates or Select Auction Variable Rate Securities: \$50,000 and any integral multiple thereof, or otherwise as provided in the Resolution.

"Authorized Officer" means each of the Chair, Executive Director 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 2001 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 2001 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;

(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 2001 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 by the Bond Insurer guaranteeing certain payments into the Debt Service Reserve Account, as provided in the 2001 Seventh Series Resolution, which shall constitute a Funding Instrument for purposes of the Resolution.

"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, collectively, UBS PaineWebber Inc. and Lehman Brothers Inc.

"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 2001V Bonds, the Senior Series 2001W Bonds, the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds, UBS PaineWebber Inc., (b) with respect

to the Senior Series 2001Z Bonds and the Senior Series 2001AA Bonds, Lehman Brothers Inc., 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, Title 16 §2821 et. seq., 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.

"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 face amount thereof, plus accrued interest; and

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

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

"Vermont Value 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 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. 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 than 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.

(C) 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.

(D) 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 2001 Bonds to a different interest mode or, if any of the 2001 Bonds bear interest at an Auction Rate or a SAVRS Rate, any change in the length of an Auction Period or SAVRS Rate 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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ARC AUCTION PROCEDURES RELATING TO TAX-EXEMPT ARCS

The Auction Procedures for the Tax-Exempt ARCs are as set forth below. **These procedures will apply separately to an Auction of Bonds of a Series of 2001 Bonds that are ARCs.** All of the terms used in this Appendix B are defined herein or in other parts of this Official Statement. *"Tax-Exempt ARCs"* means the Senior Series 2001V Bonds, the Senior Series 2001W Bonds and any of the Senior Series 2001X Bonds or the Senior Series 2001Y Bonds converted to bear interest at a Tax-Exempt Auction Rate. For purposes of this Appendix B, Tax-Exempt ARCs are also sometimes referred to herein as "ARCs."

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/histrates.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 the 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

<u>Standard & Poor's Rating Services</u>	<u>Fitch, Inc.</u>	<u>Applicable Percentage</u>
"AAA"	"AAA"	175%
"AA-" to "AA+"	"AA-" to "AA+"	175%
"A-" to "A+"	"A-" to "A+"	175%
"BBB-" to "BBB+"	"BBB-" to "BBB+"	200%
Below "BBB-"	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, Standard & Poor's Ratings Services' rating categories of "AAA," "AA," "A" and "BBB," and Fitch, Inc. rating categories of "AAA," "AA," "A" and "BBB," refer to and include the respective rating categories correlative thereto if any or all of such rating agencies have changed or modified their generic rating categories or if they no longer rate the ARCs and have been replaced.

"Auction Agency Agreement" means the Auction Agency Agreement dated as of June 1, 2001, 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 August 6, 2001 for the Senior Series 2001V Bonds, August 13, 2001 for the Senior Series 2001W Bonds, and for the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds, such initial date or dates as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation, 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. 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 (a) with respect to the Senior Series 2001V Bonds and the Senior Series 2001W Bonds, the Broker-Dealer Agreement dated as of June 1, 2001 between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented or (b) with respect to the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds, the Broker-Dealer Agreement

relating to the ARCs between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and the 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 2001V Bonds, Senior Series 2001W Bonds, Senior Series 2001X Bonds and Senior Series 2001Y Bonds determined pursuant to the Resolution.

"Fixed Rate Conversion Date" means (a) a date on which any of the Senior Series 2001V Bonds and Senior Series 2001W Bonds begin to bear interest at a Fixed Rate as provided in Exhibit A to the Seventh Supplemental Resolution or (b) a date on which any of the Senior Series 2001X Bonds and Senior Series 2001Y Bonds converted to bear interest at a Tax-Exempt Auction Rate begin to bear interest at a Fixed Rate pursuant to the Resolution.

"Initial Interest Period" means (a) the period from the date of delivery of the 2001 Bonds and ending on and including August 6, 2001 with respect to the Senior Series 2001V Bonds, and on and including August 13, 2001 with respect to the Senior Series 2001W Bonds and (b) with respect to the Senior Series 2001X Bonds and Senior Series 2001Y Bonds converted to bear interest at a Tax-Exempt Auction Rate, such initial date or dates as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation.

"Interest Payment Date" means, with respect to the Tax-Exempt ARCs, (a) while outstanding as ARCs, (i) each June 15 and December 15, commencing December 15, 2001 with respect to the Senior Series 2001V Bonds and the Senior Series 2001W Bonds and the June 15 or December 15 immediately following the Tax-Exempt Conversion Date with respect to the Senior Series 2001X Bonds and the Senior Series Y Bonds, 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 2001 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 2001 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, with respect to ARCs, (a) 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 Tuesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Monday) and ending on (and including) a Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if, 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 (a) the Market Agent Agreement dated as of June 1, 2001, 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 or (b) the Market Agent Agreement relating to the Senior Series 2001Y Bonds and the Senior Series 2001X Bonds converted to bear interest at a Tax-Exempt Auction Rate, between the Trustee and the Market Agent, 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 UBS PaineWebber Inc., or 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 2001V Bonds, Senior Series 2001W Bonds, Senior Series 2001X Bonds or Senior Series 2001Y Bonds determined pursuant to the provisions of the Resolution.

"Variable Rate Conversion Date" means a date on which any Senior Series 2001V Bonds, Senior Series 2001W Bonds, Senior Series 2001X Bonds or Senior Series 2001Y 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) *Order 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.

(iv) 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.

ARC SETTLEMENT PROCEDURES RELATING TO TAX-EXEMPT ARCS

Capitalized terms used herein 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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ARC AUCTION PROCEDURES RELATING TO TAXABLE ARCS

The Auction Procedures for the Senior Series 2001X Bonds and Senior Series 2001Y Bonds Outstanding as Taxable ARCs are as set forth below. All of the terms used in this Appendix D are defined herein or in other parts of this Official Statement. For purposes of this Appendix D, Taxable ARCs are also sometimes referred to herein as "ARCs".

Definitions

"*All-Hold Rate*", on any date of determination, shall mean the applicable LIBOR-Based Rate less .25%, provided that in no event shall the applicable All-Hold Rate be greater than the Maximum Rate.

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

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

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

"ARCs" shall mean the Senior Series 2001X and Senior Series 2001Y Bonds.

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

"*Auction Agency Agreement*" shall mean the Auction Agency Agreement dated as of June 1, 2001, among the Trustee, the Corporation and the Auction Agent, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

"*Auction Agent*" shall mean The Bank of New York, or any successor bank or trust company or other entity entering into a similar agreement with the Trustee.

"*Auction Date*" shall mean, for the Senior Series 2001X Bonds Outstanding as ARCs, July 31, 2001 and for the Senior Series 2001Y Bonds Outstanding as ARCs, August 7, 2001 and thereafter the Business Day immediately preceding the first day of each respective Interest Period, other than:

- (a) each Interest Period commencing after the ownership of the ARCs of such series is no longer maintained in book-entry form by the Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default, or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

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

"*Auction Period*" shall mean the Interest Period applicable to the ARCs as the same may be changed pursuant to the Resolution.

"*Authorized Denominations*" shall mean \$50,000 and any multiples thereof.

"*Broker-Dealer*" shall mean UBS PaineWebber Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a

Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (c) has entered into a Broker-Dealer Agreement that remains effective.

"*Broker-Dealer Agreement*" shall mean the Broker-Dealer Agreement dated as of June 1, 2001 between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

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

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

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

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

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

"*Initial Interest Period*" shall mean the period from the date of delivery of the Taxable ARCs and ending on and including July 31, 2001 with respect to the Senior Series 2001X Bonds and August 7, 2001 with respect to the Senior Series 2001Y Bonds.

"*Interest Amount*" shall mean the amount of interest distributable in respect of each \$50,000 in principal amount (taken, without rounding, to .0001 of one cent) of ARCs for any Interest Period or part thereof, as calculated in accordance with the Resolution.

"*Interest Payment Date*" shall mean the Business Day following the last day of each Interest Period, except as changed as provided herein; provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 15 and December 15 (or if any such date is not a Business Day, then the next succeeding Business Day) during such interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Bonds, or if such maturity date is not a Business Day, the next succeeding Business Day.

"*Interest Period*" shall mean (a) unless otherwise changed as described herein, with respect to the 2001 Bonds Outstanding as Taxable ARCs, the respective Initial Interest Periods, and each successive period of generally 28 days thereafter, respectively, commencing on a Wednesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on (and including) a Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if the Auction Periods are changed as provided herein, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

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

"*Market Agent Agreement*" shall mean the Market Agent Agreement dated as of June 1, 2001, between the Trustee and the Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

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

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

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

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

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

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

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

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

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

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

"*Registrar*" shall mean the Trustee or any separate registrar appointed under the Resolution with respect to the 2001 Bonds.

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

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

"*Submission Deadline*" shall mean 1:00 p.m. on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

"*Tax-Exempt Auction Rate*" shall mean "Auction Rate" as set forth in Appendix B to this Official Statement.

"*Tax-Exempt Conversion Date*" shall mean a date on which any Senior Series 2001X Bonds or Senior Series 2001Y Bonds begin to bear interest at a Tax-Exempt Auction Rate as provided in the Resolution.

"*Winning Bid Rate*" shall have the meaning set forth in the Resolution.

Introduction

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by a Securities Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner (such procedures to apply separately to the ARCs designated as Senior Series 2001X Bonds and Senior Series 2001Y Bonds):

(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 "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: (1) 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-Dealer to Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and 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 redeemed 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 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 an Authorized Denomination 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 any such Bid shall be considered as valid and shall be selected in the ascending order of the 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 Interest 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 Interest 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 (1) 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 have been made, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(a) each such Submitted Bid from Existing Owners specifying such lowest rate and (b) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (2)(a) each such Submitted Bid from Potential Owners specifying such lowest rate and (b) all other Submitted Bids from Potential Owners specifying lower rates were accepted, the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding 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 Auction Rate, the Maximum Interest Rate, the All-Hold Rate, One-Month LIBOR, and the Applicable LIBOR-Based Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

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

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding 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.

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

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of 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 (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 Owner's 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 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; and

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of 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 Agency 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-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be ARCs.

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ARC SETTLEMENT PROCEDURES RELATING TO TAXABLE ARCs

Capitalized terms used herein shall have the respective meanings specified in Appendix D 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 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 of 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 the Securities Depository 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 the Securities Depository the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

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

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

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

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any 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 Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

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

(ii) each Seller's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering 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 the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

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

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

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

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

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

(f) If an Existing Owner selling 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 from 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 Agent and the Broker-Dealer Agreement.

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MECHANISM FOR CONVERSION OF TAXABLE ARCS TO TAX-EXEMPT ARCS

Set forth below is a description of the procedures that relate to the conversion of the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds to bear interest at a Tax-Exempt Auction Rate. All of the terms used in this Appendix are defined herein, in Appendix D or in the Official Statement. For purposes of this Appendix, Taxable ARCs are also sometimes referred to herein as "ARCs".

Conversion at Option of Corporation

Subject to the Resolution, the Taxable ARCs may be converted to bear interest at a Tax-Exempt Auction Rate upon the delivery by the Corporation to the Trustee of a Favorable Opinion. The conversion shall, as determined by the Corporation, apply to the ARCs designated as Senior Series 2001X Bonds, the ARCs designated as Senior Series 2001Y Bonds or to any or all of either such series of ARCs and may occur on one or more different dates as provided herein. Upon such conversion to a Tax-Exempt Auction Rate, the provisions of Appendix B to this Official Statement shall apply to the Senior Series 2001X Bonds and the Senior Series 2001Y Bonds so converted, and the provisions of Appendix D shall no longer apply to the Senior Series 2001X Bonds or the Senior Series 2001Y Bonds so converted. Any such conversion shall be made as follows:

(a) The Corporation shall confirm the appointment of UBS PaineWebber Inc. as Broker-Dealer and Market Agent, or shall otherwise select and appoint a qualified Broker-Dealer and Market Agent.

(b) The Corporation shall give written notice of any such conversion specifying the proposed Tax-Exempt Conversion Date and the principal amount of any Senior Series 2001X Bonds or Senior Series 2001Y Bonds to be converted to the Trustee, the Auction Agent, the Broker-Dealer, the Market Agent, the Bond Insurer, Fitch (if the ARCs are then rated by Fitch) and S&P (if the ARCs are then rated by S&P) not fewer than 20 days prior to the proposed Tax-Exempt Conversion Date. The Tax-Exempt Conversion Date shall be the Business Day next succeeding the last day of an applicable Interest Period.

(c) Not later than the 15th day preceding the Tax-Exempt Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Owners of all such ARCs of a series for which any Bonds are being converted. Such notice shall inform the Owners of:

(i) the proposed Tax-Exempt Conversion Date;

(ii) the conditions to the conversion pursuant to the Resolution; and

(iii) the matters required to be stated pursuant to the Resolution with respect to mandatory tender and purchases of ARCs being converted.

(d) (i) Not later than one Business Day immediately preceding the Tax-Exempt Conversion Date, the Market Agent shall determine (A) the Initial Interest Rates (as defined in Appendix B of this Official Statement) for the series of ARCs or any portion thereof subject to the conversion and (B) the rate of interest for the immediately succeeding Interest Period for that portion of such series of ARCs, if any, which are not being converted to a Tax-Exempt Auction Rate on such Tax-Exempt Conversion Date; and the Market Agent shall, not later than 2:00 p.m. (New York City time), notify the Trustee and the Corporation of such rate or rates by telephone (promptly confirmed in writing), telegram, telecopy, telex or other similar means of communication. The Initial Interest Rate or Rates for the series of ARCs or any portion thereof subject to the conversion pursuant to (A) above and the rate of interest for that portion of such series of ARCs, if any, which is not being converted pursuant to (B) above shall be the minimum rate or rates of interest necessary to remarket such Bonds at a price of par for the Initial Interest Period (as defined in Appendix B of this Official Statement) in the case of (A) above or the immediately succeeding Interest Period in the case of (B) above and shall not exceed the then applicable Maximum Interest Rate for such Bonds being converted set forth in the Appendix B of this Official Statement or the Maximum Rate for such Bonds not being converted as set forth in Appendix D of this Official Statement. Promptly after the date of determination, the Trustee shall give notice of such rates to the Corporation and the Auction Agent.

(ii) As of the Tax-Exempt Conversion Date applicable to the ARCs, sufficient funds shall, not later than 12:00 Noon (New York City time), be available to purchase all ARCs which are then required to be purchased as described above. If (1) this condition is not met for any reason, or (2) if the Favorable Opinion is not received by the Corporation, the conversion shall not be effective, the ARCs so being converted shall continue to be outstanding as Taxable ARCs under Appendix D, and the Trustee shall, not later than 2:00 p.m. (New York City time), provide notice of the failed conversion to the Auction Agent, the Paying Agent and the Owners of such ARCs. The ARCs that were the subject of mandatory tender shall, notwithstanding (d)(i) above, bear interest for the Interest Period commencing on the failed Tax-Exempt Conversion Date at the Maximum Rate for Taxable ARCs, determined by the Auction Agent as provided in the Resolution, unless and until a new Auction Date is established prior to the end of said Interest Period as permitted in (f) below.

(e) The determination of the interest rates for the ARCs subject to mandatory tender as described above in connection with a conversion as described above shall be conclusive and binding upon the Corporation, the Trustee, the Paying Agent and the respective Owners of such ARCs. The Corporation, the Trustee, the Auction Agent and the Market Agent shall not be liable to any Owners for failure to give any notice required above or for failure of any Owners to receive any such notice.

(f) In the event that the conversion does not occur on a scheduled Tax-Exempt Conversion Date the Market Agent may schedule a new Auction Date for the Senior Series 2001X Bonds or the Senior Series 2001Y Bonds as provided in the Resolution.

Mandatory Tender Upon Conversion; Certain Notices

(a) ***Mandatory Tender Upon Conversion.*** If any Senior Series 2001X Bonds or Senior Series 2001Y Bonds are to be converted as described above, all Bonds of such series not converted on a prior Tax-Exempt Conversion Date shall be subject to mandatory tender for purchase on the Tax-Exempt Conversion Date at a price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date. The Corporation shall determine at least 20 days prior to the Tax-Exempt Conversion Date the principal amount of Senior Series 2001X Bonds or Senior Series 2001Y Bonds to be converted to a Tax-Exempt Auction Rate and shall give written notice of such amount in accordance with the Resolution. The Market Agent shall obtain new CUSIP numbers for the Bonds being converted. Upon delivery of all the tendered Bonds of such series to the Trustee on the Tax-Exempt Conversion Date, the Corporation shall cause a new Bond designated "Education Loan Revenue Bond, Senior Series 2001X-[1][2][etc.] (Auction Rate Certificates)" or "Education Loan Revenue Bond, Senior Series 2001Y-[1][2][etc.] (Auction Rate Certificates)," as the case may be, to be executed, authenticated and delivered in lieu of the converted Bonds and shall insert the new CUSIP numbers therein, and the Market Agent shall determine the Initial Interest Rate (as defined in Appendix B of this Official Statement) on such converted Bonds as provided herein. The remaining Bonds of any such series not converted to a Tax-Exempt Auction rate shall be remarketed as Taxable ARCs in accordance with the Resolution.

(b) ***Notice to Owners.*** Any notice of conversion given to Owners shall specify that all Outstanding Bonds of the applicable series not previously converted are subject to mandatory tender pursuant to the provisions of the Resolution and will be purchased on the Tax-Exempt Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date, unless the conversion fails as described above.

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

(d) ***Certain Notices by Trustee and Market Agent.*** Subject to the provisions of (c) above, the following notices shall be given in connection with a conversion as provided herein:

(i) ***Notices by Market Agent and Trustee of Remarketed Bonds.*** At or before 12:00 noon (New York City time) on the Business Day immediately preceding the Tax-Exempt Conversion Date, the Remarketing Agent shall give notice by telephone, telegram, teletype, telex or other similar communication

to the Trustee, of the names, addresses and taxpayer identification numbers of the purchasers, and the principal amounts and denominations, of Bonds to be sold on the Tax-Exempt Conversion Date, the purchase price at which the Bonds are to be sold and their date of sale and the principal amount of Bonds, if any, which have not been remarketed.

Upon receipt of any notice pursuant to the preceding paragraph, the Trustee shall on or prior to 2:30 p.m. (New York City time) on the date of receipt of such notice, give notice thereof by telephone, telegram, teletype, telex or other similar communication to the Paying Agent and the Registrar.

(ii) *Trustee's Notice of Insufficiency of Payments Required for Conversion.* If, by 12:00 noon (New York City time) on the Tax-Exempt Conversion Date the Trustee shall not have received sufficient moneys from the Market Agent which, together with any other available funds, would be sufficient to purchase all Bonds which are required to be purchased, the conversion shall not be effective and the Trustee and Auction Agent shall provide such notices and take such actions as are required pursuant to the Resolution.

(e) *Payments of Remarketing Proceeds.* The Market Agent shall cause to be paid to the Trustee by 12:00 noon (New York City time) on the Tax-Exempt Conversion Date all amounts then held by the Market Agent representing proceeds of the remarketing of such Bonds. All such remarketing proceeds received by the Trustee shall be deposited in the Remarketing Fund.

(f) *Payments of Purchase Price by Trustee.* On the Tax-Exempt Conversion Date, the Trustee shall pay the purchase price of the Bonds required to be tendered for purchase to the selling Owners thereof on or before 3:00 p.m. (New York City time). Such payments shall be made in immediately available funds, but solely from moneys in the Remarketing Fund representing proceeds of the remarketing of the Bonds, pursuant to sub paragraph (c) above, to any Person other than the Corporation, and neither the Corporation, the Trustee, the Paying Agent nor the Market Agent shall have any obligation to use funds from any other source.

(g) *Registration and Delivery of Tendered or Purchased Bonds.* Upon receipt of notice from the Trustee pursuant to (d)(i) above, the Registrar shall register and authenticate and as promptly thereafter as practicable the Registrar shall deliver Bonds remarketed by the Market Agent to the Market Agent or the purchasers thereof in accordance with the instructions of the Market Agent.

(h) *Delivery of Bonds; Effect of Failure to Surrender Bonds.* All Bonds to be purchased on the Tax-Exempt Conversion Date shall be required to be delivered to the designated office of the Trustee, or its designated agent for such purposes, at or before 12:00 noon (New York City time) on such date. If the Owner of any Bonds that is subject to purchase fails to deliver such Bonds to the Trustee, or its designated agent for such purposes, for purchase on the purchase date, and if the Trustee, or its designated agent for such purposes, is in receipt of the purchase price therefor, such Bonds shall nevertheless be deemed tendered and purchased on the Tax-Exempt Conversion Date and shall be Undelivered Bonds and registration of the ownership of such Bond shall be transferred to the purchaser thereof as provided in (g) above. The Trustee shall, as to any Undelivered Bonds, (i) promptly notify the Market Agent, the Auction Agent, the Paying Agent and the Registrar of such nondelivery and (ii) the Registrar shall place a stop transfer against an appropriate amount of Bonds registered in the name of the Owner(s) on the Bond Register. The Registrar shall place such stop transfer(s) commencing with the lowest serial number Bonds registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Bonds) until the appropriate tendered Bonds are delivered to the Trustee or its designated agent. Upon such delivery, the Registrar shall make any necessary adjustments to the Bond Register. Pending delivery of such tendered Bonds, the Trustee, or its designated agent, shall hold the purchase price therefor uninvested in a segregated subaccount for the benefit of such Owners.

Inadequate Funds for Tenders; Failed Conversion

If the funds available for purchases of Bonds are inadequate for the purchase of all Bonds tendered on the Tax-Exempt Conversion Date or if a proposed conversion otherwise fails as provided in this Appendix F, 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 Market Agent, the Broker-Dealer, the Bond Insurer 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 Tax-Exempt Conversion Date and interest payable thereon shall be determined and paid according to this Resolution.

No Tender Purchases on Redemption Date

Senior Series 2001X Bonds or Senior Series 2001Y Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

Undelivered Bonds

Any Bonds which are required to be tendered on a Tax-Exempt Conversion Date and that are not delivered on the Tax-Exempt Conversion Date and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the purchase price, including any accrued interest due to (but not after) such purchase date with respect to such Bonds, shall be deemed to have been purchased and shall be Undelivered Bonds. In the event of a failure by a Bondowner to tender its Bonds on or prior to the required date, said Owner of such Undelivered Bonds shall not be entitled to any payment other than the purchase price due on the purchase date and Undelivered Bonds in the hands of such nondelivering Bondowner shall no longer accrue interest or be entitled to the benefits of the Resolution, except for the payment of the purchase price due on the purchase date; provided, however, that the indebtedness represented by such Bonds shall not be extinguished, and the Paying Agent and Registrar shall transfer, authenticate and deliver such Bonds as provided below. The Paying Agent shall give telephonic notice to the Trustee and the Registrar, promptly confirmed by mail, of all Undelivered Bonds.

With the respect to any Undelivered Bond, the Paying Agent, acting hereunder and pursuant to the power of attorney granted by such Bondowner in the Bonds, shall do or cause the Registrar to do the following:

- (a) assign, endorse and register the transfer of such Bonds to the purchaser or purchasers thereof;
- (b) authenticate and deliver a new Bond or Bonds, as appropriate, to the purchaser or purchasers thereof;
- (c) execute an acknowledgment that the Owner of Undelivered Bonds holds such Undelivered Bond for the benefit of the new purchaser or purchasers thereof, who shall be identified in such acknowledgment;
- (d) promptly notify by first-class mail the Owner of such Undelivered Bond that:
 - (i) the Paying Agent has acted pursuant to such power of attorney to transfer the Undelivered Bond and to perform the other acts set forth in this Section;
 - (ii) the Undelivered Bond is no longer Outstanding; and
 - (iii) funds equal to the applicable purchase price for such Bond are being held on behalf of such Owner, without interest, in the segregated subaccount established for such purpose by and with the Trustee or Paying Agent.
- (e) enter on the Bond Register that the Undelivered Bond is no longer Outstanding; and
- (f) subject to the other provisions of the Resolution, hold the purchase price for such Bond in the subaccount established for such purpose, without interest, and pay such purchase price and any unpaid interest due on the purchase date to such Owner upon presentation of the certificate representing the Undelivered Bond. Bonds presented on or before 12:00 noon (New York City time) on any Business Day are to be paid on or before the close of business on that day.

Prior Owners of Bonds purchased or deemed purchased pursuant to the Resolution shall not be entitled to interest thereon which accrues on and after the related purchase date, provided moneys are on hand in the subaccount established therefor to pay the purchase price and any unpaid interest due on the purchase date.

AUCTIONS TO DETERMINE SAVRS RATE FOR TAX-EXEMPT SAVRS

Set forth below is a description of various auction provisions that relate to the Senior Series 2001Z Bonds that bear interest at the SAVRS Rate and the Senior Series 2001AA Bonds converted to bear interest at a tax-exempt SAVRS Rate. All of the terms used in this Appendix are defined herein, in Appendix H to the Official Statement or in the Official Statement.

General

SAVRS Auction Dates. Except as otherwise described herein, a SAVRS Auction to determine the SAVRS Rate for each Subsequent SAVRS Auction Period will be held on the Business Day immediately preceding the first day of such Subsequent SAVRS Auction Period (each a "SAVRS Auction Date"). The first SAVRS Auction with respect to the Senior Series 2001Z Bonds will be held on July 9, 2001 and, with respect to the Senior Series 2001AA Bonds will be held on such initial date as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation. Thereafter, SAVRS Auctions for the Tax-Exempt SAVRS will normally be held every Monday for the Senior Series 2001Z Bonds and every Tuesday for the Senior Series 2001AA Bonds, and each Subsequent SAVRS Auction Period will normally begin on the following Tuesday or Wednesday, respectively. The SAVRS Auction Date and the first day of the related SAVRS Auction Period (both of which must be Business Days) need not be consecutive days.

Change of SAVRS Auction Period. The Corporation, with the prior written consent of the Bond Insurer or other credit provider, if any, for the Tax-Exempt SAVRS that bear interest at the SAVRS Rate, and subject to certain other conditions set forth in the Resolution, may change the length of a single SAVRS Auction Period by means of a written notice delivered at least three days prior to the SAVRS Auction Date for such SAVRS Auction Period to the Trustee, the Market Agent, the Auction Agent and DTC. Any SAVRS Auction Period established by the Corporation may not exceed 365 days in duration and shall end on a Monday that is a Business Day. If such Auction Period will be of less than 7 days, then such notice shall be effective only if it is accompanied by a written statement of the Registrar and Paying Agent, the Trustee, the Market Agent and the Auction Agent to the effect that they are capable of performing their duties under the Resolution and under the Market Agent Agreement and the Auction Agency Agreement with respect to such Auction Period. The length of a SAVRS Auction Period may not be changed unless Sufficient Clearing Bids existed at both the SAVRS Auction immediately preceding the date the notice of such change was given and the SAVRS Auction immediately preceding such changed SAVRS Auction Period.

A change in the length of a SAVRS Auction Period shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the change in the SAVRS Auction Period, a certificate from the Corporation authorizing the change in the SAVRS Auction Period, which shall be specified in such certificate, and confirming that Bond Counsel expects to be able to give a Bond Counsel Opinion on the first day of such SAVRS Auction Period, (B) Sufficient Clearing Bids exist at the SAVRS Auction on the SAVRS Auction Date for such SAVRS Auction Period, and (C) the Trustee and the Auction Agent receive, by 9:30 a.m. (New York City time) on the first day of such SAVRS Auction Period, a Bond Counsel Opinion to the effect that the change in the SAVRS Auction Period is authorized by the Resolution, is permitted by the Act and will not have an adverse effect on the exclusion of interest on the Bonds of such series of Bonds from gross income for federal tax purposes. If the condition referred to in (A) above is not met, the SAVRS Rate for the next succeeding SAVRS Auction Period shall be determined pursuant to the Auction Procedures and the next succeeding SAVRS Auction Period shall be a Standard SAVRS Auction Period. If any of the conditions referred to in (B) or (C) above is not met, the SAVRS Rate for the next succeeding SAVRS Auction Period shall equal the Maximum SAVRS Rate as determined as of such SAVRS Auction Date.

Change in the Interest Rate Mode. The Corporation, with the prior written consent of the Bond Insurer or other credit provider, if any, for the Tax-Exempt SAVRS, may effect a change in the interest rate (a "Change in the Interest Rate Mode") of the Bonds of such series that do not bear interest at a Fixed Rate to a Money Market Municipal Rate, a SAVRS Rate, a Weekly Rate or an Annual Rate or may convert the Bonds of such series of Bonds to bear interest at a Fixed Rate to maturity. Such Change in the Interest Rate Mode or the establishment of a Fixed Rate shall be specified in a written notice delivered to the Trustee, the Bond Insurer or other credit provider, if any, with respect to such Bonds, the Remarketing Agent and the Registrar and Paying Agent (and to the Auction Agent,

the Market Agent and DTC if such Change in the Interest Rate Mode is to or from a SAVRS Rate) not less than 35 days nor more than 45 days prior to the proposed effective date of the Change in the Interest Rate Mode or the establishment of a Fixed Rate. A Change in the Interest Rate Mode from a SAVRS Rate or the conversion from a SAVRS Rate to a Fixed Rate may only be effected on the last day of a SAVRS Auction Period. The Trustee shall mail a notice of the Change in the Interest Rate Mode or the establishment of a Fixed Rate to all Bondowners of the Bonds of such series of Bonds within three (3) days of the receipt of such notice from the Corporation. Additionally, the Auction Agent shall mail a notice of the Change in the Interest Rate Mode or the establishment of a Fixed Rate to the beneficial Owners of the Bonds of such series of Bonds for which an address is known if such Bonds are registered in the name of DTC or its nominee.

THE TAX-EXEMPT SAVRS ARE SUBJECT TO MANDATORY TENDER FOR PURCHASE UPON A CHANGE IN THE INTEREST RATE MODE OR THE ESTABLISHMENT OF A FIXED RATE FOR SUCH BONDS AND THE OWNERS OF SUCH BONDS HAVE NO RIGHT TO RETAIN THE BONDS. All Tax-Exempt SAVRS will be purchased on the effective date for the Change in the Interest Rate Mode or the conversion to a Fixed Rate for such Bonds at a price equal to the principal amount thereof, and accrued interest thereon to the effective date of the Change in the Interest Rate Mode or the Fixed Rate Conversion Date, if any, as appropriate. Former Owners of such Bonds will not thereafter be entitled to interest and shall only be entitled to the Purchase Price of the Bonds as aforesaid.

A Change in the Interest Rate Mode or the establishment of a Fixed Rate with respect to the Tax-Exempt SAVRS will only be effective pursuant to the Resolution if:

(a) the Trustee and the Auction Agent receive a certificate of an Authorized Officer of the Corporation by no later than the third day prior to the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, stating that a written agreement between the Corporation and the Remarketing Agent to remarket such Bonds on such effective date at a price of 100% of the principal amount thereof has been entered into and that, in the case of a Change in the Interest Rate Mode (other than to a SAVRS Rate), a Liquidity Facility is in effect or has been obtained by the Corporation with respect to such Bonds and shall be in effect prior to such Change in the Interest Rate Mode and thereafter for a period of at least one year;

(b) the Trustee and the Auction Agent receive by 11:00 a.m. (New York City time) on the second Business Day prior to the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, by telex, telecopy or other similar means, a certificate from the Corporation (i) authorizing the establishment of the new Adjustable Rate or the Fixed Rate, as applicable, and (ii) confirming that Bond Counsel expects to be able to give the opinion on the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, to the effect that such Change in the Interest Rate Mode or the establishment of a Fixed Rate is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Bonds from gross income for federal income tax purposes;

(c) the Trustee and the Auction Agent (and the Market Agent in the case of any Change in the Interest Rate Mode to or from a SAVRS Rate) receive by 9:30 a.m. (New York City time) on the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, a Bond Counsel Opinion to the effect that such Change in the Interest Rate Mode or the establishment of a Fixed Rate is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Bonds from gross income for federal income tax purposes;

(d) the Trustee and the Auction Agent receive by 4:00 p.m. (New York City time) on the effective date of such Change in the Interest Rate Mode or the Fixed Rate Conversion Date, as appropriate, a certificate from the Corporation that all of such Bonds tendered or deemed tendered have been purchased at a price equal to the principal amount thereof with funds provided from the remarketing of such Bonds in accordance with the Remarketing Agreement or, in the case of a Change in the Interest Rate Mode (other than to a SAVRS Rate), from the proceeds of the Liquidity Facility; and

(e) with respect to any Change in the Interest Rate Mode to an Adjustable Rate (other than a SAVRS Rate) a Liquidity Facility meeting the requirements of the Resolution has been delivered to the

Trustee not less than one Business Day prior to the effective date of such Change in the Interest Rate Mode and is, by its terms, in effect prior to such effective date.

If any of the conditions referred to in (a) or (b) above is not met with respect to any Change in the Interest Rate Mode from a SAVRS Rate or the establishment of a Fixed Rate from a SAVRS Rate, the SAVRS Rate for the next succeeding SAVRS Auction Period shall be determined pursuant to SAVRS Auction Procedures. If any of the conditions referred to in (c), (d) or (e) above is not met with respect to any Change in the Interest Rate Mode from a SAVRS Rate or the establishment of a Fixed Rate from a SAVRS Rate, the SAVRS Rate for the next succeeding SAVRS Auction Period shall be equal to the Maximum SAVRS Rate as determined on such SAVRS Auction Date. If a Change in the Interest Rate Mode (other than from a SAVRS Rate) or the conversion to a Fixed Rate (other than from a SAVRS Rate) does not become effective, such Bonds will continue to bear interest at the then Current Adjustable Rate.

Auction Agency Agreement. The Trustee shall enter into an auction agency agreement with respect to the Tax-Exempt SAVRS (the "Auction Agency Agreement") with The Bank of New York (together with any successor bank or trust company or other entity approved by the Bond Insurer or other credit provider, if any, for the Tax-Exempt SAVRS that bear interest at the SAVRS Rate and entering into a similar agreement with the Trustee, the "Auction Agent") which provides, among other things, that the Auction Agent will follow the SAVRS Auction Procedures for the purposes of determining the SAVRS Rate so long as the SAVRS Rate is to be based on the results of a SAVRS Auction. See "SAVRS Auction Procedures--Concerning the Auction Agent" below.

Market Agent Agreement. The Trustee shall enter into a market agent agreement with respect to the Tax-Exempt SAVRS (the "Market Agent Agreement") with Lehman Brothers Inc. (together with any successor as market agent approved by the Bond Insurer or other credit provider, if any, for the Tax-Exempt SAVRS that bear interest at the SAVRS Rate and entering into a similar agreement with the Trustee, the "Market Agent") which sets forth the Market Agent's duties and responsibilities with respect to a change in the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate in the event of a Change of Preference Law.

Broker-Dealer Agreements. Each SAVRS Auction requires the participation of one or more broker-dealers. The Auction Agent shall enter into an agreement with Lehman Brothers Inc. ("Lehman"), William R. Hough & Co. ("Hough"), and Goldman, Sachs & Co. ("Goldman") and may enter into similar agreements (collectively, the "Broker-Dealer Agreements") with one or more additional broker-dealers (collectively, the "Broker-Dealers") with the prior approval of the Market Agent.

SAVRS Auction Procedures

The following summary of the SAVRS Auction Procedures to be used with respect to SAVRS Auctions is qualified by reference to the SAVRS Auction Procedures attached to the Official Statement as Appendix H and set forth in the Resolution.

As used herein, (i) "Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of Bonds of a series of Bonds bearing interest at the SAVRS Rate, (ii) "Existing Holder" means a Broker-Dealer who is listed as the Beneficial Owner of Bonds bearing interest at the SAVRS Rate in the records of the Auction Agent, (iii) "Potential Beneficial Owner" means a customer of a Broker-Dealer that is not a Beneficial Owner of Bonds bearing interest at the SAVRS Rate but that wishes to purchase Bonds bearing interest at the SAVRS Rate, or that is a Beneficial Owner of Bonds bearing interest at the SAVRS Rate that wishes to purchase an additional principal amount of Bonds bearing interest at the SAVRS Rate and (iv) "Potential Holder" means a Broker-Dealer that is not an Existing Holder or that is an Existing Holder that wishes to become the Existing Holder of an additional principal amount of Bonds bearing interest at the SAVRS Rate.

Orders by Existing Holders and Potential Holders. Prior to the Submission Deadline on each SAVRS Auction Date with respect to the Bonds of a series of Bonds that bear interest at the SAVRS Rate:

- (a) each Beneficial Owner may submit to a Broker-Dealer by telephone or otherwise a:

(i) Hold Order - indicating the principal amount of such Bonds, if any, that such Beneficial Owner desires to continue to hold without regard to the SAVRS Rate for the next SAVRS Auction Period;

(ii) Bid - indicating the principal amount of such Bonds, if any, that such Beneficial Owner offers to sell if the SAVRS Rate for the next SAVRS Auction Period shall be less than the rate per annum specified in such Bid by such Beneficial Owner; and/or

(iii) Sell Order - indicating the principal amount of such Bonds, if any, that such Beneficial Owner offers to sell without regard to the SAVRS Rate for the next SAVRS Auction Period; and

(b) Broker-Dealers may contact customers who are Potential Beneficial Owners to determine whether such customers desire to submit Bids, in which they will indicate the principal amount of such Bonds that they offer to purchase if the SAVRS Rate for the next Auction Period is not less than the rates per annum specified in such Bids.

The communication to a Broker-Dealer of the foregoing information is herein referred to as an "Order" and, collectively, as "Orders." A Beneficial Owner or a Potential Beneficial Owner placing an Order is herein referred to as a "Bidder" and, collectively, as "Bidders." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder" and collectively as "Bidders."

An Order may be submitted only in a principal amount of \$50,000 or any integral multiple thereof.

A Beneficial Owner may submit different types of Orders in a SAVRS Auction with respect to the Bonds that bear interest at the SAVRS Rate then held by such Beneficial Owner. A Bid placed by a Beneficial Owner specifying a rate higher than the Auction Rate determined in the Auction shall constitute an irrevocable offer to sell the Bonds subject thereto. A Beneficial Owner that submits a Bid to its Broker-Dealer having a rate higher than the Maximum SAVRS Rate on the Auction Date will be treated as having submitted a Sell Order to its Broker-Dealer. A Beneficial Owner that fails to submit to its Broker-Dealer prior to the Submission Deadline an Order or Orders covering the entire principal amount of Bonds that bear interest at the SAVRS Rate held by such Beneficial Owner will be deemed to have submitted a Hold Order to its Broker-Dealer covering the principal amount of Bonds held by such Beneficial Owner and not subject to Orders submitted to a Broker Dealer. A Sell Order shall constitute an irrevocable offer to sell the principal amount of Bonds that bear interest at the SAVRS Rate subject thereto. A Beneficial Owner that offers to purchase additional Bonds that bear interest at the SAVRS Rate is, for purposes of such offer, treated as a Potential Beneficial Owner. For information concerning the priority given to different types of Orders placed by Beneficial Owners, see "Submission of Orders by Broker-Dealers to Auction Agent" below.

The Maximum SAVRS Rate is the maximum rate per annum that can result from a SAVRS Auction as described below. Any Bid specifying a rate higher than the Maximum SAVRS Rate will (i) be treated as a Sell Order if submitted by a Beneficial Owner or an Existing Holder and (ii) not be accepted if submitted by a Potential Beneficial Owner or a Potential Holder. See "Determination of Sufficient Clearing Bids, Winning Bid Rate and SAVRS Rate" and "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds" in Appendix H to the Official Statement.

As used herein, "Maximum SAVRS Rate" means on any date of determination, the product of the Reference Rate multiplied by the Applicable Percentage, provided however, the Maximum SAVRS Rate will not exceed the lesser of 14% or the maximum rate permitted by Vermont law as the same may be modified by United States law of general applicability.

"Applicable Percentage" means, on any Auction Date, the percentage determined as set forth below based on the prevailing rating of such Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
"AAA" / "Aaa"	175%
"AA" / "Aa"	200%
"A" / "A"	250%
"BBB" / "Baa"	275%
Below "BBB" / "Baa"	300%

The above percentages may be adjusted by the Market Agent to reflect a Change in Preference Law. See "Changes in Percentages used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate" below.

For purposes of this definition, the "prevailing rating" of the Tax-Exempt SAVRS will be:

(a) "AAA" if the Bonds have a rating of "AAA" by S&P and Fitch, or the equivalent of such rating by a substitute rating agency or agencies selected as provided below;

(b) if not "AAA" then "AA" if such Bonds have a rating of "AA-" or better by S&P and Fitch, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below.

(c) if not "AAA," or "AA," then "A" if such Bonds have a rating of "A-" or better by S&P and Fitch, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below;

(d) if not "AAA," or "AA," then "A" then "BBB" if such Bonds have a rating of "BBB-" or better by S&P and Fitch, or equivalent of such ratings by a substitute rating agency or agencies selected as provided below; and

(e) if not "AAA," "AA," "A," or "BBB" then below "BBB," whether or not such Bonds are rated by any securities rating agency.

The Corporation shall take all reasonable action necessary to enable at least one nationally recognized statistical rating agency to provide ratings for the Senior Series 2001Z Bonds that bear interest at the SAVRS Rate. If (x) the Bonds that bear interest at the SAVRS Rate are rated by a nationally recognized statistical rating agency or agencies other than Fitch or S&P and (y) the Corporation has delivered to the Trustee and the Auction Agent an instrument designating one or two of such rating agencies to replace Fitch or S&P, or both, unless the replacement rating agency is Moody's, in which case no such instrument need be delivered, then for purposes of the definition of "prevailing rating," Fitch or S&P, or both, will be deemed to have been replaced in accordance with such instrument or by Moody's, as the case may be; provided, however, that such instrument must be accompanied by the consent of the Market Agent unless the other rating agency is Moody's. For purposes of this paragraph, S&P's and Fitch's rating categories of "AAA," "AA-," "A-," and "BBB-," refer to and include the respective rating categories correlative thereto in the event that either or both of such rating agencies have changed or modified their generic rating categories. If the prevailing ratings for the Bonds that bear interest at the SAVRS Rate are split between categories set forth above for a series of Bonds, the lower rating will determine the prevailing rating.

If all Bonds of a series of Bonds that bear interest at the SAVRS Rate are subject to Submitted Hold Orders, such Bonds shall bear interest at the Minimum SAVRS Rate. As used herein, "Minimum SAVRS Rate," on any date of determination, means the interest rate per annum equal to 45% of the Reference Rate. The percentage used to determine the Minimum SAVRS Rate may be adjusted by the Market Agent to reflect a Change in Preference Law. See the caption "Changes in Percentages used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate" below.

A Potential Beneficial Owner may submit to its Broker-Dealer a Bid in which it offers to purchase the principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate subject to such Bid if the

Auction Rate determined in the Auction is not less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner specifying a rate not higher than the Maximum SAVRS Rate shall constitute an irrevocable offer to purchase the principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate specified in such Bid if the rate determined in the Auction is equal to or greater than the rate specified in such Bid.

As described more fully below and in Appendix H to the Official Statement under "Submission of Orders by Broker-Dealers to Auction Agent," the Broker-Dealers will submit the Orders of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves as Existing Holders in respect of the Bonds subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of the Bonds subject to Orders submitted to them by Potential Beneficial Owners.

However, neither 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. Any Order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing Holder or a Potential Holder will be treated in the same manner as an Order placed with a Broker-Dealer by a Beneficial Owner or a Potential Beneficial Owner, as described above. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an Order in respect of any principal amount of Bonds held by it or its customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner's failure to submit to its Broker-Dealer an Order in respect of the principal amount of Bonds held by it, as described above. The principal amount of Bonds of a Series of Bonds purchased or sold may be subject to proration procedures. See "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds" in Appendix H to the Official Statement. Each purchase or sale of Bonds of a Series of Bonds that bear interest at the SAVRS Rate shall be made for settlement on the first Business Day following the SAVRS Auction Date at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to but excluding the Auction Settlement Date, except that if such Auction Settlement Date is also an Interest Payment Date, such price shall be equal to the principal amount of such SAVRS. See the caption "Notification of Results: Settlement" below. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

If an Order or Orders covering the entire outstanding principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate held by an existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, either because a Broker-Dealer failed to contact such Existing Holder or otherwise, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the outstanding principal amount of such Bonds held by such Existing Holder and not subject to Orders submitted to the Auction Agent.

Neither the Corporation nor any Affiliate thereof may submit an Order in any SAVRS Auction except as set forth in the following sentence. Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in a SAVRS Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds of a Series of Bonds that bear interest at the SAVRS Rate for its own account, it must submit a Sell Order on the next SAVRS Auction Date with respect to such Bonds.

Submission of Orders by Broker-Dealers to Auction Agent. Prior to 1:00 p.m., New York City time, on each SAVRS Auction Date, or such other time on the SAVRS Auction Date specified by the Auction Agent (the "Submission Deadline"), each Broker-Dealer will submit to the Auction Agent in writing all Orders obtained by it for the SAVRS Auction to be conducted on such SAVRS Auction Date designating itself as the Existing Holder or Potential Holder in respect of the principal amount of Bonds subject to such Orders.

Notification of Results; Settlement. The following summary of the SAVRS Settlement Procedures to be used with respect to SAVRS Auction is qualified by reference to the description of the SAVRS Settlement Procedures attached to the Official Statement as Appendix I.

The Auction Agent is required to advise each Broker-Dealer that submitted an Order of the SAVRS Rate for the next SAVRS Auction Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on each SAVRS Auction Date. Each Broker-Dealer that submitted an Order on behalf of a customer is required to then (i) advise such customer of the SAVRS Rate for the next SAVRS Auction Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected in whole or in part, (ii) confirm purchases and sales with each customer purchasing or selling Bonds of a Series of Bonds that bear interest at the SAVRS Rate as a result of the SAVRS Auction and (iii) advise each customer purchasing or selling Bonds of a Series of Bonds as a result

of the SAVRS Auction to give instructions to its Agent Member of DTC to pay the purchase price against payment thereof, as appropriate. The Auction Agent will record each transfer of Bonds on the registry of Existing Holders to be maintained by the Auction Agent. See "General--Auction Agency Agreement" above.

In accordance with DTC's normal procedures, on the Business Day after the SAVRS Auction Date, the transactions described above will be executed through DTC and the accounts of the respective Agent Members at DTC will be debited and credited and Bonds of a Series of Bonds delivered as necessary to effect the purchases and sales of such Bonds as determined in the SAVRS Auction. Purchasers are required to make payments through their Agent Member in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in same-day funds.

If any Existing Holder selling in a SAVRS Auction Bonds of a Series of Bonds that bear interest at the SAVRS Rate fails to deliver such Bonds, the Broker-Dealer of any person that was to have purchased such Bonds in such SAVRS Auction may deliver to such person a principal amount of such Bonds that is less than the principal amount of Bonds that otherwise was to be purchased by such person but in any event equal to \$50,000 or an integral multiple thereof. In such event, the principal amount of Bonds of a Series of Bonds that bear interest at the SAVRS Rate to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of Bonds shall constitute good delivery.

Concerning the Auction Agent. The Bank of New York is the initial Auction Agent with respect to the Bonds that are SAVRS under the Resolution.

The Auction Agent is acting as agent for the Trustee in connection with SAVRS 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 judgement 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 the pertinent factors.

The Auction Agent may terminate the Auction Agency Agreement upon notice to the Trustee and the Market Agent on a date no earlier than 90 days after such notice. If the Auction Agent should resign or be removed, the Trustee is obligated to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agency Agreement.

Broker-Dealers. The Auction Agent after each SAVRS Auction will pay each Broker-Dealer, from funds provided by the Trustee from amounts received from the Corporation, a service charge at a rate equivalent to a capitalized rate of .25% of the aggregate purchase prices of Bonds of a Series of Bonds that bear interest at the SAVRS Rate placed by such Broker-Dealer at the SAVRS Auction. For purposes of the preceding sentence, Bonds of a Series of Bonds will be deemed to have been placed by a Broker-Dealer if such Bonds were (i) the subject of Hold Orders deemed to have been submitted by such Broker-Dealer for its account or that were acquired by such Broker-Dealer for its customers who are Beneficial Owners or (ii) the subject of an Order submitted by such Broker-Dealer that is (A) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such Bonds as a result of the Auction, (B) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such Bonds as a result of the SAVRS Auction or (C) a valid Hold Order.

Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in SAVRS Auctions but only if such orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds of a Series of Bonds that bear interest at the SAVRS Rate for its own account it must submit a Sell Order in the next SAVRS Auction.

If a Broker-Dealer submits an Order for its own account in any SAVRS Auction, it might have an advantage over other Bidders because it would have knowledge of Orders placed through it in that SAVRS Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers in the SAVRS Auction.

Changes in Percentages used in Determining Maximum SAVRS Rate and Minimum SAVRS Rate. The Market Agent may adjust the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate if adjustment of such percentages is necessary, in the

judgment of the Market Agent, to reflect any Change in Preference Law such that the Maximum SAVRS Rate and Minimum SAVRS Rate shall have substantially equal market values before and after such Change in Preference Law. The Resolution specifies certain factors to be taken into account by the Market Agent in making any such adjustment. A "Change in Preference Law" means any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date hereof, which (a) changes or should change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or should impose or reduces or would reduce or increases or should 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.

An adjustment in the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate shall take effect on a SAVRS Auction Date only if (i) the Trustee and the Auction Agent receive by 11:00 a.m., New York City time, on the Business Day immediately preceding such SAVRS Auction Date a certificate from the Market Agent (A) authorizing the adjustment of the percentages which shall be specified in such authorization, and (B) confirming that Bond Counsel expects to be able to give an opinion on such SAVRS Auction Date, and (ii) the Trustee and the Auction Agent receive by 9:30 a.m., New York City time, on such SAVRS Auction Date written notice of any such change in percentages intended to take effect and an opinion of Bond Counsel. If a notice of adjustment in the percentages used to determine the Maximum SAVRS Rate and the Minimum SAVRS Rate applicable to the Bonds that bear interest at the SAVRS Rate is given by the Market Agent and such change does not occur because of a failure of either of the conditions contained in (ii) above, the SAVRS Rate for such Bonds for the next succeeding Subsequent SAVRS Auction Period will be equal to the Maximum SAVRS Rate on the SAVRS Auction Date for such SAVRS Auction Period.

The Market Agent is required to communicate its determination to adjust the Applicable Percentage used to determine the Maximum SAVRS Rate and the percentage used to determine the Minimum SAVRS Rate by means of a written notice delivered at least 3 days prior to the SAVRS Auction Date on which the Market Agent desires to effect such adjustment to the Trustee, the Auction Agent and certain other specified parties. Such notice is required to state the determination of the Market Agent to change such percentages and the date such adjustment is to take effect, which shall be a SAVRS Auction Date. Such notice shall be effective only if it is accompanied by the form of Bond Counsel Opinion that Bond Counsel expects to be able to give on such SAVRS Auction Date. The Auction Agent is required to mail notice thereof to the Existing Holders of Bonds of a Series of Bonds that bear interest at the SAVRS Rate for which the Auction Agent has mailing addresses within two Business Days of receipt thereof. Existing Holders to whom any of the foregoing notices have been delivered should contact their respective Broker-Dealers to be given information regarding any of the foregoing changes.

Lehman has advised the Corporation that it intends initially to make a market for the Senior Series 2001Z Bonds that bear interest at the SAVRS Rate between SAVRS Auctions; however, Lehman is not obligated to make such markets. Neither the Corporation nor Lehman can give any assurance that secondary markets therefore will develop.

SAVRS AUCTION PROCEDURES RELATING TO TAX-EXEMPT SAVRS

The Auction Procedures for the Tax-Exempt SAVRS, as the same are or will be defined in the applicable Series Resolution, will be substantially identical to the procedures summarized below. All of the terms used in this Appendix H are defined herein, in Appendix G to the Official Statement or in the Official Statement, except that for purposes of this Appendix H, "Bonds" shall also refer to the bonds of a Series of Bonds that bear interest at the SAVRS Rate.

The following terms, except where the context indicates otherwise, shall have the respective meanings set forth below:

"Adjustable Rate" means any of the following types of interest rates: an Annual Rate, a Money Market Municipal Rate, a SAVRS Rate and a Weekly Rate.

"Affiliate" means any person known to the Auction Agent to be controlled by, in control of or under common control with the Corporation, provided that no Broker-Dealer controlled by, in control of or under common control with the Corporation shall be an Affiliate nor shall any corporation or any person controlled by, in control of or in common control with such corporation be an Affiliate solely because such director or executive officer is also a director of the Corporation.

"Agent Member" means a member of, or participant in, the Securities Depository.

"Annual Period Record Date" means, with respect to each Interest Payment Date during an Annual Rate Period, the fifteenth day of the calendar month preceding such Interest Payment Date.

"Annual Rate" means with respect to the first day of each Calculation Period during an Annual Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of such day as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Bonds in a secondary market transaction at a price equal to the principal amount thereof.

"Annual Rate Period" means any period during which the Bonds bear interest at an Annual Rate, which period shall commence on the effective date of a Change in the Interest Rate Mode to an Annual Rate, and shall extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agency Agreement" means (a) with respect to the Senior Series 2001Z Bonds, the Auction Agency Agreement, dated as of June 1, 2001, between the Trustee and the Auction Agent and any similar agreement with a successor Auction Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented and (b) with respect to the Senior Series 2001AA Bonds, the Auction Agency Agreement between the Trustee and the Auction Agent and any similar agreement with a successor Auction Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented.

"Auction Date" means the Business Day immediately preceding the Auction Settlement Date for each Auction Period.

"Auction Period" means (a) the Initial Auction Period and, thereafter, after a Change in the Interest Rate Mode to a SAVRS Rate until the effective date of a Change in the Interest Rate Mode or the Stated Maturity Date, each period from and including the Auction Settlement Date for the immediately preceding Auction Period, or the last Interest Payment Date for the immediately preceding Calculation Period, as the case may be, to but excluding the next succeeding Auction Settlement Date or, in the event of a Change in the Interest Rate Mode, to but excluding the effective date of such change.

"Beneficial Owner" means a customer of a Broker-Dealer (other than the Corporation) who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of the Bonds bearing interest at a SAVRS Rate.

"Bond Counsel" means 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.

"Bonds" means for purposes of this Appendix I only, the Corporation's Senior Series 2001Z (Education Loan Revenue Bonds) or the Senior Series 2001AA (Education Loan Revenue Bonds) that bear interest at the SAVRS Rate.

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

"Broker-Dealer Agreement" means each 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 a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or as notified to the Auction Agent in writing, in any city in which is located the principal corporate trust office of the Trustee or the Liquidity Facility will be made and, during any SAVRS Rate Period, April 14, April 15, December 30 and December 31.

"Calculation Period" means (a) during any Money Market Municipal Rate Period, any period or periods from and including a Business Day to and including any day not more than 365 days thereafter which is a day immediately preceding a Business Day established by the Remarketing Agent pursuant to the Resolution; and (b) during any Weekly Rate Period, with respect to a Change in the Interest Rate Mode to a Weekly Rate, the period from and including the effective date of the Change in the Interest Rate Mode to and including the following Monday, and, thereafter, the period from and including Tuesday of each week to and including the following Monday; provided, however, if such Tuesday is not a Business Day, such next succeeding Calculation Period shall begin on the Business Day next succeeding such Tuesday and such Calculation Period shall end on the day before such next succeeding Calculation Period and (c) during any Annual Rate Period, with respect to a change in the Interest Rate Mode to an Annual Rate, the period from and including the effective date of the Change in the Interest Rate Mode to but excluding the second succeeding Interest Payment Date and thereafter, each period from and including the day following the end of the last Calculation Period to but excluding the second succeeding Interest Payment Date.

"Change in the Interest Rate Mode" means any change in the type of interest rate borne by the Bonds as described in Appendix G.

"Change of Preference Law" means any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date hereof, which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or would impose or removes or would remove 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.

"Commercial Paper Dealers" means Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch & Co. or, in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a commercial paper dealer.

"Computation Date" means each date which is one (1) Business Day prior to any Determination Date.

"Counsel" means an attorney or firm of attorneys.

"Counsel's Opinion" means an opinion signed by any Counsel.

"Current Adjustable Rate" means the interest rate borne by the Bonds immediately prior to a Change in the Interest Rate Mode or the establishment of a Fixed Rate.

"Date of Original Issuance" means (a) with respect to the Series 2001Z Bonds, June 27, 2001, the date on which the Corporation initially issued the Bonds or (b) with respect to the Series 2001AA Bonds, the date on which the Bonds are converted to bear interest at a Tax-Exempt SAVRS Rate.

"Determination Date" means, for any Calculation Period, the first Business Day occurring during such Calculation Period.

"Existing Holder" means a Broker-Dealer who is listed as the beneficial owner of Bonds during a SAVRS Rate period in the records of the Auction Agent.

"Fixed Rate" means, with respect to the Fixed Rate Period, the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the Fixed Rate Conversion Date as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such date to remarket the bonds of a series of Bonds that bear interest at a Fixed Rate in a secondary market transaction (i) at a price not to exceed 102% of the Outstanding principal amount thereof, provided that there shall be delivered to the Trustee a Bond Counsel Opinion to the effect that the determination of the Fixed Rate in accordance with this clause (i) would not have an adverse effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes, or if such Bond Counsel Opinion is not delivered to the Trustee, then (ii) at a price equal to 100% of the Outstanding principal amount thereof.

"Fixed Rate Period" means the period, if any, during which all or a portion of the Bonds bear interest at a Fixed Rate, which period shall commence on the Fixed Rate Conversion Date and extend through the Stated Maturity Date.

"Fixed Rate Record Date" means, with respect to each Interest Payment Date during the Fixed Rate Period, the last day of the month next preceding such Interest Payment Date, or, if such day shall not be a Business Day, the next preceding Business Day.

"Initial Auction Date" means (a) with respect to the Senior Series 2001Z Bonds, July 9, 2001 and (b) with respect to the Senior Series 2001AA Bonds, such initial date as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation, which shall be a Tuesday.

"Initial Auction Settlement Date" means (a) with respect to the Senior Series 2001Z Bonds, July 10, 2001 and (b) with respect to the Senior Series 2001AA Bonds, such initial date as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation, which shall be the Wednesday following the Initial Auction Date.

"Interest Payment Date" means:

(a) during each Money Market Municipal Rate Period, the Business Day immediately succeeding any Calculation Period;

(b) during a SAVRS Rate Period, (i) initially, each June 15 and December 15, commencing December 15, 2001 or the date of conversion to a Tax-Exempt SAVRS Rate, as the case may be, and (ii) after a Change in the Interest Rate Mode to a SAVRS Rate; the June 15 or December 15 next succeeding such Change in Interest Rate Mode; provided, however, that if the June 15 or December 15 next succeeding such Change in Interest Rate Mode occurs less than 21 days after such Change in Interest Rate Mode, the first Interest Payment Date shall be the second such date following such Change in Interest Rate Mode;

(c) during each Weekly Rate Period, the first Tuesday of each month thereof;

(d) during each Annual Rate Period, (i) the first Business Day of the sixth and twelfth calendar months following the month in which the first day of such Annual Rate Period occurred and (ii) each anniversary of the date so determined in (i);

(e) the June 15 or December 15 next succeeding the Fixed Rate Conversion Date and each June 15 and December 15 thereafter; provided, however, that if the June 15 or December 15 next succeeding the Fixed Rate Conversion Date occurs less than twenty-one (21) days after the Fixed Rate Conversion Date, the first Interest Payment Date shall be the second such date following the Fixed Rate Conversion Date;

(f) the Fixed Rate Conversion Date;

(g) any day on which Bonds are subject to mandatory tender for purchase pursuant to or redemption in whole pursuant to; and

(h) the Stated Maturity Date;

provided, however, that if any such date determined in any of the foregoing clauses (other than (e)) is not a Business Day, the Interest Payment Date shall be the next succeeding day which is a Business Day, and during the Fixed Rate Period, if the Interest Payment Date is not on a Business Day, interest shall be paid for the Fixed Rate Period on the next succeeding Business Day but for interest accrued to but not including the Interest Payment Date.

"LIBOR" on any date of determination for any Auction Period, means:

(a) (i) for any Auction Period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market (the "calculation date") and (ii) for any Auction Period of (A) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period, (B) 70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two and three-month periods, (C) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period, (D) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three and six-month periods, (E) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period, (F) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six and nine-month periods, (G) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period, (H) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods and (I) 325 or more but fewer than 365 days, such rate for deposits in U.S. dollars for a one-year period.

"Market Agent Agreement" means (a) with respect to the Senior Series 2001Z Bonds, the Market Agent Agreement, dated as of June 1, 2001, between the Trustee and the Market Agent, and any similar agreement with a successor Market Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented or (b) with respect to the Senior Series 2001AA Bonds, the Market Agent Agreement related to the Bonds, between the Trustee and the Market Agent Agreement, and any similar agreement with a successor Market Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented.

"Maximum SAVRS Rate" means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage, provided, however, that in no event shall the Maximum SAVRS Rate exceed the lesser of 14% per annum or the per annum rate permitted by Vermont law as the same may be modified by United States law of general applicability.

"Minimum SAVRS Rate" means, on any date of determination, the rate per annum equal to 45% of the Reference Rate in effect on such date of determination.

"Money Market Municipal Period Record Date" means, with respect to each Interest Payment Date during a Money Market Municipal Rate Period, the Business Day next preceding such Interest Payment Date.

"Money Market Municipal Rate" means with respect to each Calculation Period during a Money Market Municipal Rate Period, a rate or rates of interest equal to the rate or rates of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the first day of such Calculation Period as the minimum rate or rates of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Bonds in a secondary market transaction at a price equal to the principal amount thereof.

"Money Market Municipal Rate Period" means any period during which all or a portion of the Bonds bear interest at a Money Market Municipal Rate or Rates, which period shall commence on the effective date of a Change in the Interest Rate Mode to a Money Market Municipal Rate or Rates, as the case may be, and extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Option to Convert" means the Corporation's right and option to convert the rate of interest payable on the Bonds from an Adjustable Rate to the Fixed Rate as provided in the Resolution.

"Outstanding" means, as of any particular time, all Bonds which have been duly authenticated and delivered by the Trustee under the Resolution, except: Bonds in lieu of which other Bonds have been authenticated provided, however, that for the purposes of the SAVRS Auction Procedures on any SAVRS Auction Date, Bonds as to which the Corporation or any Person known to the Auction Agent to be an Affiliate of the Corporation shall be the Existing Holder thereof shall be disregarded and deemed not to be Outstanding, and further provided that the Bonds in respect of which the Bond Insurer has paid principal and/or interest pursuant to the Financial Guaranty Insurance Policy shall be deemed to be "Outstanding" until such time at the Bond Insurer has been reimbursed in full thereunder.

"Payment Default" means (a) a default by the Corporation in the due and punctual payment of any installment of interest of any Bonds or (b) a default by the Corporation in the due and punctual payment of the principal of any Bonds whether at maturity or upon redemption or acceleration, which, in either such case, is followed by a default by the Bond Insurer in the due and punctual payments of the amounts due under the Financial Guaranty Insurance Policy if amounts are then due under said Policy.

"Potential Beneficial Owner" shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of the Bonds bearing interest at a SAVRS Rate but that wishes to purchase Bonds bearing interest at a SAVRS Rate, or that is a Beneficial Owner of Bonds bearing interest at a SAVRS Rate that wishes to purchase an additional principal amount of Bonds bearing interest at a SAVRS Rate.

"Potential Holder" means a Broker-Dealer that is not an Existing Holder or that is an Existing Holder that wishes to become the Existing Holder of an additional principal amount of Bonds bearing interest at a SAVRS Rate.

"Rating Agency" means Fitch or S & P.

"Rating Category" means one of the generic rating categories of a Rating Agency, without regard to any refinement or graduation of such rating category by a numerical modifier, plus or minus sign, or otherwise.

"Record Date" at any time, means each Annual Period Record Date during an Annual Rate Period, Money Market Municipal Period Record Date during a Money Market Municipal Rate Period, each SAVRS Period Record Date during a SAVRS Rate Period, each Weekly Period Record Date during a Weekly Rate Period and each Fixed Rate Record Date during the Fixed Rate Period.

"Reference Rate" means, on any Auction Date with respect to Bonds in any Auction Period of less than 180 days shall be the greater of LIBOR or the Thirty-Day "AA" Composite Commercial Paper Rate on such date. The Reference Rate with respect to Bonds in any Auction Period of 180 days or more shall be the greater of LIBOR or the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Wall Street Journal*. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Corporation.

"Registrar and Paying Agent" means, the Trustee or, if the Trustee is unable to perform such services as its principal office, shall mean a bank or trust company with its principal office located in New York, New York and

which meets the requirements of Section 5.02 of Schedule B to the Resolution and agrees to be bound by the provisions hereof relating to the Registrar and Paying Agent or their respective successors or assigns in its separate capacity as Registrar and Paying Agent for the Bonds.

"Remarketing Agreement" means the remarketing agreement between the Corporation and the Remarketing Agent in a form satisfactory to the Trustee, the Bond Insurer, the Corporation and the Liquidity Facility Issuer.

"SAVRS Period Record Date" means, with respect to each Interest Payment Date during a SAVRS Rate Period, the Business Day next preceding such Interest Payment Date.

"SAVRS Rate" means, with respect to each Auction Period during a SAVRS Rate Period (other than the Initial Auction Period or an Initial Auction Period after a Change in the Interest Rate Mode to a SAVRS Rate), the rate of interest per annum determined for the Bonds that bear interest at a SAVRS Rate pursuant to the implementation of the Auction Procedures or, if such Auction is not held or is canceled hereunder, the rate determined pursuant to this Resolution.

"SAVRS Rate Period" means any period during which all or a portion of the Bonds bear interest at a SAVRS Rate, which period shall commence on the Date of Original Issuance or on the effective date of the Change in the Interest Rate Mode to a SAVRS Rate, as the case may be, and shall extend through the day immediately preceding the earlier of (a) the effective date of a Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Securities Depository" means The Depository Trust Company and its successors and assigns or if, (i) the then Securities Depository resigns from its functions as depository of the Bonds or (ii) the Corporation discontinues use of the Securities Depository pursuant to Section 2.7 of the Resolution, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Corporation with the consent of the Bond Insurer, the Trustee, the Auction Agent and the Market Agent.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Standard Auction Period" means an Auction period of 7 days.

"Stated Maturity Date" shall mean December 15, 2035.

"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.

"Substitute Commercial Paper Dealer" means Credit Suisse First Boston or Morgan Stanley & Co. Incorporated, or their respective affiliates or successors, if such person is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"Substitute U.S. Government Securities Dealers" means Credit Suisse First Boston or Merrill Lynch & Co., or their respective affiliates or successors, if such person is a dealer in U.S. Government securities, provided that neither such person nor any of its affiliates or successors is a U.S. Government Securities Dealer.

"Sufficient Clearing Bids" shall have the meaning set forth in "Determination of Sufficient Clearing Bids, Winning Bid Rate and SAVRS Rate" in this Appendix H.

"Thirty-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the Thirty-Day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by (A) the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent before the close of

business on the Business Day immediately preceding such date of determination. For purposes of the definition of Thirty-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Thirty-Day "AA" Composite Commercial Paper Rate, the Thirty-Day "AA" Composite Commercial Paper Rate will be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley Dean Witter or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee (who will be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

"Treasury Rate," on any date of determination for any Auction Period, means:

(i) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or

(ii) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealers.

"U.S. Government Securities Dealers" means Lehman Government Securities Inc., Goldman, Sachs & Co., Salomon Smith Barney Inc. and J.P. Morgan Chase & Co. or in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a U.S. Government securities dealer.

"Weekly Period Record Date" means, with respect to each Interest Payment Date during a Weekly Rate Period, the Business Day next preceding such Interest Payment Date.

"Weekly Rate" means with respect to each Calculation Period during a Weekly Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Registrar and Paying Agent and the Corporation) by the Remarketing Agent no later than 12:00 noon (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the bonds of a series of Bonds that bear interest at the Weekly Rate in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

"Weekly Rate Period" means any period during which all or a portion of the Bonds bear interest at a Weekly Rate which period shall commence with the effective date of a Change in the Interest Rate Mode to the Weekly Rate and shall extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date or (c) the Stated Maturity Date.

"Winning Bid Rate" shall have the meaning set forth in "Determination of Sufficient Clearing Bids, Winning Bid Rate and SAVRS Rate" in this Appendix H.

SAVRS Auction Procedures

Subject to the provisions of each applicable Series Resolution, Auctions for Bonds shall be conducted on each Auction Date in the following manner;

Orders by Existing Holders and Potential Holders

- (a) (i) Prior to the Submission Deadline on each Auction Date:
- (A) each Beneficial Owner of Bonds may submit to a Broker-Dealer information as to:
- (1) the principal amount of Outstanding Bonds, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold without regard to the SAVRS Rate for the next succeeding Auction Period;
- (2) the principal amount of Outstanding Bonds, if any, which such Beneficial Owner offers to sell if the SAVRS Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Beneficial Owner; and/or
- (3) the principal amount of Outstanding Bonds, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell without regard to the SAVRS Rate for the next succeeding Auction Period; and
- (B) one or more Broker-Dealers may contact Potential Beneficial Owners to determine the principal amount of Bonds which each such Potential Beneficial Owner offers to purchase if the SAVRS Rate for the next succeeding Auction Period shall not be less than the rate per annum specified by such Potential Beneficial Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3), or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders," and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in (x) clause (A)(1) of this paragraph (i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders," (y) clause (A)(2) or (B) of this paragraph (i) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(3) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder" and collectively as "Bidders."

- (ii) (A) Subject to the provisions of subsection (b) of this Section, a Bid by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding Bonds specified in such Bid if the SAVRS Rate determined as provided in this Section shall be less than the rate specified therein; or

(2) such principal amount or a lesser principal amount of Outstanding Bonds to be determined as set forth in clause (D) of paragraph (i) of subsection (d) of this Section if the SAVRS Rate determined as provided in this Section shall be equal to the rate specified therein; or

(3) such principal amount of Outstanding Bonds if the rate specified therein shall be higher than the Maximum SAVRS Rate, or such principal amount or a lesser principal amount of Bonds to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section if the rate specified therein shall be higher than the Maximum SAVRS Rate and Sufficient Clearing Bids do not exist.

- (B) Subject to the provisions of subsection (b) of this Section, a Sell Order by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

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

(2) such principal amount or a lesser principal amount of Outstanding Bonds as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section if Sufficient Clearing Bids do not exist.

(C) Subject to the provisions of subsection (b) of this Section, a Bid by a Potential Beneficial Owner or a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding Bonds specified in such Bid if the SAVRS Rate determined as provided in this Section shall be higher than the rate specified therein; or

(2) such principal amount or a lesser principal amount of Outstanding Bonds as set forth in clause (E) of paragraph (i) of subsection (d) of this Section if the SAVRS Rate determined as provided in this Section shall be equal to the rate specified therein.

Submission of Orders by Broker-Dealers to Auction Agent

(b) (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 Order, designating itself as an Existing Holder in respect of the principal amount of Bonds subject to Orders submitted or deemed submitted to it by Potential Beneficial Owners, and shall specify with respect to each Order:

(A) the name of the Bidder placing such Order (which shall be the Broker-Dealer);

(B) the aggregate principal amount of Bonds that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder;

(1) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(2) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(3) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder'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 Bonds held by any Existing Holder 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 Holder covering the principal amount of Bonds held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) Neither 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 Holder, Beneficial Owner, Potential Holder or Potential Beneficial Owner.

(v) If any Existing Holder submits to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Bonds held by such Existing Holder, 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 Bonds held by such Existing Holder, and, if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Holder, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Bonds held by such Existing Holder;

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Bonds held by such Existing Holder over the aggregate principal amount of Bonds 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 Holder and the aggregate principal amount of Bonds 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 principal amount of Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Bonds equal to such excess;

(3) subject to subclause (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, 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 Bonds, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder 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 Bonds held by such Existing Holder over the aggregate principal amount of Bonds subject to 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 Bonds is submitted on behalf of any Potential Holder, 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 Holder covering an aggregate principal amount of Bonds not equal to \$50,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Bonds not equal to \$50,000 or an integral multiple thereof shall be rejected.

Determination of Sufficient Clearing Bid, Winning Bid Rate and SAVRS Rate

(c) (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 Bonds over the sum of the aggregate principal amount of Bonds subject to Submitted Hold Orders (such excess hereinafter referred to as the "Available Bonds"); and

(B) from the Submitted Orders whether the aggregate principal amount of Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum SAVRS Rate exceeds or is equal to the sum of:

(1) the aggregate principal amount of Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum SAVRS Rate; and

(2) the aggregate principal amount of Bonds subject to Submitted Sell Orders (in the event such excess or such equality exists (other than because the sum of the principal amounts of Bonds in subclauses (1) and (2) above is zero because all of the Bonds are the subject of Submitted Hold Orders), such Submitted Bids in subclause (B) 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 (the "Winning Bid Rate") which if:

(1) (x) each such Submitted Bid from Existing Holders specifying such lowest rate and (y) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Bonds subject to such Submitted Bids; and

(2) (x) each such Submitted Bid from Potential Holders specifying such lowest rate and (y) all other Submitted Bids from Potential Holders specifying lower rates were accepted, would result in such Existing Holders described in subclause (1) above continuing to hold an aggregate principal amount of Bonds which, then added to the aggregate principal amount of Bonds to be purchased by such Potential Holders described in subclause (2) above, would equal not less than the Available Bonds.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall, by telecopy confirmed in writing, advise the Corporation and the Trustee of the Maximum SAVRS Rate and the Minimum SAVRS Rate and the components thereof on the Auction Date and, based on such determinations, the SAVRS Rate for the next succeeding Auction Period as follows:

(A) if Sufficient Clearing Bids exist, the SAVRS Rate for the next succeeding Auction Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Bonds are subject to Submitted Hold Orders), that the SAVRS Rate for the next succeeding Auction Period shall be equal to the Maximum SAVRS Rate; or

(C) if all Bonds are subject to Submitted Hold Orders, that the SAVRS Rate for the next succeeding Auction Period shall be equal to the Minimum SAVRS Rate.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds

(d) Existing Holders shall continue to hold the principal amount of Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of subsection (c) of this Section, 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 paragraphs (iv) and (v) 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 Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell aggregate principal amount of Bonds subject to such Submitted Bids;

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

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

(D) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bid, unless the aggregate principal amount of Bonds subject to all such Submitted Bids shall be greater than the principal amount of Bonds (the "remaining principal amount") equal to the excess of the Available Bonds over the aggregate principal amount of Bonds subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of Bonds subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Bonds obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Bonds subject to such Submitted Bids made by all Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Bonds obtained by multiplying the excess of the aggregate principal amount of Available Bonds over the aggregate principal amount of Bonds 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 Bonds subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amounts of Bonds subject to Submitted Bids made by all such Potential Holders 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 Bonds 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 Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum SAVRS Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bid; and

(B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum SAVRS Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bid; and

(C) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum SAVRS Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Bonds obtained by multiplying the aggregate principal amount of Bonds 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 Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of

which shall be the aggregate principal amount of Bonds subject to all such Submitted Bids and Submitted Sell Orders.

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

(iv) If, as a result of the procedures described in paragraphs (i) or (ii) of this subsection (d), any Existing Holder would be entitled or requiring to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Bonds that is not equal to \$50,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Bonds purchased or sold by each Existing Holder or Potential Holder shall be equal to \$50,000 or any integral multiple thereof.

(v) If, as a result of the procedures described in paragraph (ii) of this subsection (d), any Potential Holder would be entitled or required to purchase less than \$50,000 principal amount of Bonds, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Bonds for purchase among Potential Holders so that only Bonds in principal amounts of \$50,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more such Potential Holders not purchasing any Bonds.

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

(f) Potential Holders shall purchase Bonds to be purchased by such Potential Holders as a result of each Auction, and Existing Holders shall sell Bonds to be sold by such Existing Holders as a result of such Auction, at a purchase price on the Auction Settlement Date thereof equal to the principal amount thereof plus accrued interest to such Auction Settlement Date, except that if such Auction Settlement Date is also an Interest Payment Date, such price shall be equal to the principal amount of such Bonds.

MISCELLANEOUS

Neither the Corporation nor any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such Bonds.

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SAVRS SETTLEMENT PROCEDURES RELATING TO TAX-EXEMPT SAVRS

Capitalized terms used herein have the respective meanings specified in Appendices G and H to the Official Statement and in the Official Statement, except that for purposes of this Appendix I, "Bonds" shall refer to the Senior Series 2001Z Bonds that bear interest at the SAVRS Rate and the Senior Series 2001AA Bonds converted to bear interest at a tax-exempt SAVRS Rate.

(a) 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 Holder or Potential Holder of:

- (i) the SAVRS Rate fixed for the next Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the interest rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different than the aggregate principal amount of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (x) purchased from one or more Existing Holders on whose behalf such other Broker-Dealers submitted Bids or Sell Orders, or (y) sold to one or more Potential Holders on whose behalf such other Broker-Dealers submitted Bids; and
- (vi) the Auction Date of the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder is required to:

- (i) advise each Existing Holder and Potential Holder (and each Beneficial Owner and Potential Beneficial Owner) on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;
- (ii) instruct each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through DTC the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid against receipt of such principal amount of Bonds;
- (iii) instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, or a Sell Order that was accepted, in whole or in part, to instruct such Bidder's Agent Member to deliver to such Broker-Dealer (or its Agent Members) through DTC the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor;
- (iv) advise each Existing Holder (and each Beneficial Owner) on whose behalf such Broker-Dealer submitted an Order and each Potential Holder (and each Potential Beneficial

Owner) on whose behalf such Broker-Dealer submitted a Bid of the interest rate for the next succeeding Auction Period;

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

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

(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 is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any Bonds received by it pursuant to paragraph (b)(iii) above, among the Potential Holders and Potential Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders and Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealers identified to it by the Auction Agent pursuant to paragraph (a)(v) above.

(d) On the Business Day after the Auction Date, DTC shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchases and sales of Bonds as determined in the Auction.

AUCTIONS TO DETERMINE SAVRS RATE FOR TAXABLE SAVRS

Set forth below is a description of various auction provisions that relate to the Senior Series 2001AA Bonds. All of the terms used in this Appendix are defined herein, in Appendix K to the Official Statement or in the Official Statement. For purposes of this Appendix J, Taxable SAVRS are also referred to herein as "SAVRS."

Interest on the SAVRS

General. Interest on the SAVRS will accrue from the Date of Original Issuance and will be payable in arrears, commencing on the Initial Interest Payment Date, July 11, 2001, and on each succeeding Wednesday with respect to SAVRS in a Standard Auction Rate Period thereafter, provided, that if the Corporation designates, as described -under "Auctions -Special Auction Rate Periods," any Subsequent Auction Rate Period as a Special Auction Rate Period that consists of:

- (a) fewer than 92 Rate Period Days, interest shall be payable on the Wednesday after the last day of such Special Auction Rate Period;
- (b) 92 or more but fewer than 183 Rate Period Days, interest shall be payable on the thirteenth Wednesday after the first day of such Special Auction Rate Period and on the day after the last day of such Special Auction Rate Period; or
- (c) 183 or more Rate Period Days, interest shall be payable on each succeeding thirteenth Wednesday after the first day of such Special Auction Rate Period and on the day after the last day of such Special Auction Rate Period;

(each date referred to above, a "Regular Interest Payment Date"); provided further that if:

(i) (A) the Securities Depository shall make available to its participants and members, in next-day funds in New York City on Interest Payment Dates, the amount then due as interest or shall make available to its participants and members, in funds immediately available in New York City on Interest Payment Dates, such amount but shall not have so advised the Auction Agent (as defined herein) and the Trustee of such availability and (B) (x) such Wednesday is not a Business Day (as defined below) or (y) the Thursday following such Wednesday is not a Business Day, then the Regular Interest Payment Date shall be the first Business Day that is immediately preceded by a Business Day that falls after such Wednesday and is immediately followed by a Business Day; or

(ii) (A) the Securities Depository shall make available to its participants and members, in funds immediately available in New York City on Interest Payment Dates, the amount then due as interest and shall have so advised the Auction Agent and the Trustee of such availability and (B) such Wednesday is not a Business Day, then the Regular Interest Payment Date shall be the first Business Day (which need not be consecutive) that is immediately preceded by a Business Day that falls after such Wednesday; and

at maturity, whether the Stated Maturity Date, prior to redemption or otherwise and whether or not a "Regular Interest Payment Date") (each date of payment of interest being herein referred to as a "SAVRS Interest Payment Date"). For purposes of calculating the number of days in an Auction Rate Period as set forth above, such calculation shall be made without giving effect to the last foregoing proviso.

The regular record date for each Regular Interest Payment Date will be the second Business Day immediately preceding such Regular Interest Payment Date.

As used in this Section, "Business Day" means any day other than (a) a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or in any city in which is located the principal corporate trust office of the Trustee, and (b) during the SAVRS Rate Period, April 14, April 15, December 30 and December 31.

The SAVRS Rate. The interest rate on the SAVRS (the "SAVRS Rate") for the period from and including the Date of Interest Accrual to but excluding the Initial Interest Payment Date (the "Initial Auction Rate Period") will be determined prior to the date of issuance of the SAVRS. The SAVRS Rate for each Subsequent Auction Rate Period, shall, subject to certain exceptions described below, be equal to the rate (the "Auction Rate") that the Auction Agent advises has resulted on the Auction Date from the implementation of auction procedures set forth in the Resolution and attached hereto as Appendix K (the "Auction Procedures"), in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell SAVRS. Each periodic implementation of the Auction Procedures is hereinafter referred to as an "Auction."

The SAVRS Rate for any Subsequent Auction Rate Period may not exceed the lesser of 14% per annum and the maximum rate permitted by applicable law.

If an Auction for any Subsequent Auction Rate Period is not held for any reason (other than the occurrence and continuance of a Payment Default (as defined below)), including, without limitation, because there is no Auction Agent, the SAVRS Rate for the next succeeding Subsequent Auction Rate Period will be equal to the SAVRS Maximum Rate (as defined herein) on the Auction Date for such Auction Rate Period. There could be no Auction Agent if the Auction Agent has resigned and the Corporation has not appointed a successor.

Determination of the SAVRS Rate pursuant to the Auction Procedures will be terminated on the effective date of a Change to Weekly Rate Mode or a conversion to a Fixed Rate. If a notice of a Change to Weekly Rate Mode or a conversion to a Fixed Rate is given by the Corporation and because of a failure to satisfy certain of the conditions to the effectiveness of such change on the proposed effective date thereof such change does not take effect, the SAVRS Rate for the next succeeding Subsequent Auction Rate Period will be equal to the SAVRS Maximum Rate on the proposed effective date of such change. See "Alternative Interest Rates" below.

If the SAVRS are no longer represented by a global bond registered in the name of the Securities Depository or its nominee, no further Auctions will be held and the SAVRS Rate for each Subsequent Auction Rate Period commencing after certificates representing the SAVRS are made available will equal the SAVRS Maximum Rate on the Business Day immediately preceding the first day of such Subsequent Auction Rate Period.

If a Payment Default occurs (other than during an Auction Rate Period consisting of more than 364 Rate Period Days), the rate of interest for each Subsequent Auction Rate Period commencing thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, all such Payment Defaults are cured, will equal the Overdue Rate for a Standard Auction Rate Period on the first day of each such Subsequent Auction Rate Period.

If a Payment Default occurs during a Special Auction Rate Period consisting of more than 364 days, (a) the rate of interest for the portion of such Special Auction Rate Period during which such Payment Default shall not have been cured shall equal the Overdue Rate for such Special Auction Rate Period on the date of the occurrence of such Payment Default and (b) if such Payment Default shall not have been cured at least two Business Days prior to the next succeeding Subsequent Auction Rate Period, the rate of interest for such Subsequent Auction Rate Period and for each Subsequent Auction Rate Period commencing thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured, shall equal the Overdue Rate for such Special Auction Rate Period on the first day of each such Subsequent Auction Rate Period.

The "SAVRS Rate" shall mean the rate per annum at which interest is payable on the SAVRS for any Auction Rate Period.

The "Overdue Rate" shall mean on any date of determination, for any Standard Auction Rate Period, the interest rate per annum equal to 265% of the Reference Rate equal in length to the then-ending Standard Auction Rate Period, and for any Special Auction Rate Period, the interest rate per annum equal to 265% of LIBOR equal in length to the then-ending Special Auction Rate Period; provided that in no event shall the Overdue Rate exceed the lowest of (a) 18% per annum, (b) the maximum rate on such date permitted by Vermont law, as the same may be modified by United States law of general application and (c) the SAVRS Maximum Rate.

"Payment Default" means the default by the Corporation in the due and punctual payment of (a) any installment of interest on the SAVRS or (b) any principal of, premium, if any, or interest on, the SAVRS at their

maturity (whether on the Stated Maturity Date, prior redemption or otherwise), which default shall continue for a period of two Business Days and which, in either case, is followed by the failure of the Bond Insurer to make, in accordance with the Financial Guaranty Insurance Policy, due and punctual payments to or on behalf of the registered owners of the SAVRS of such installments or payments described in clause (a) or (b), if so required under such Financial Guaranty Insurance Policy.

"LIBOR," on any date of determination for any Auction Rate Period, means: (a) subject to clause (b) below, (i) for any Standard Auction Rate Period or any Special Auction Rate Period of fewer than 49 Rate Period Days, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market (the "calculation date") and (ii) for any Special Auction Rate Period of (A) 49 or more but fewer than 70 Rate Period Days, such rates for deposits in U.S. dollars for a two-month period, (B) 70 or more but fewer than 85 Rate Period Days, the arithmetic average of such rates for deposits in U.S. dollars for two and three-month periods, (C) 85 or more but fewer than 120 Rate Period Days, such rate for deposits in U.S. dollars for a three-month period, (D) 120 or more but fewer than 148 Rate Period Days, the arithmetic average of such rates for deposits in U.S. dollars for three and six-month periods, (E) 148 or more but fewer than 180 Rate Period Days, such rate for deposits in U.S. dollars for a six-month period, (F) 180 or more but fewer than 225 Rate Period Days, the arithmetic average of such rates for deposits in U.S. dollars for six and nine-month periods, (G) 225 or more but fewer than 290 Rate Period Days, such rate for deposits in U.S. dollars for a nine-month period, (H) 290 or more but fewer than 325 Rate Period Days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods and (I) 325 or more but fewer than 365 Rate Period Days, such rate for deposits in U.S. dollars for a one-year period; or

(b) If on any calculation date (i) no rate appears on the Telerate Page 3750 as specified in clause (a) above, the arithmetic average of the offered quotations of four major banks in the London interbank market, selected by the Market Agent, for deposits in U.S. dollars for the respective periods specified in clause (a) above to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time, unless fewer than two such quotations are provided, in which case the arithmetic average of the rates quoted at approximately 11:00 A.M., New York City time, on the date next preceding such calculation date by three major banks in The City of New York selected by the Market Agent for loans in U.S. dollars to leading European banks in a principal amount equal to an amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time.

Interest on the SAVRS for each Auction Rate Period shall be computed on the basis of the actual number of days in such Auction Rate Period and a 365 or 366-day year, as applicable.

Auctions

Auction Dates. Except as otherwise described herein, an Auction to determine the SAVRS Rate for each Subsequent Auction Rate Period will be held on the Business Day immediately preceding the first day of such Subsequent Auction Rate Period (each an "Auction Date"). The first Auction will be held on July 10, 2001. Thereafter, Auctions will be held every Tuesday, and each Subsequent Auction Rate Period will normally begin on the following Wednesday, unless the Corporation changes the length of a Subsequent Auction Rate Period by designating it as a Special Auction Rate Period of between 28 and 1,092 days (approximately 3 years) and evenly divisible by seven, as described under "Auctions - Special Rate Periods." In that event, the Subsequent Auction Rate Period after such Special Auction Rate Period will normally begin on the Wednesday after the end of such Special Auction Rate Period and the Auction therefor will normally be held on the preceding Tuesday. See "Interest--General" above for information concerning the circumstances under which the Auction Date or the first day of an Auction Rate Period, or both, may be moved to a date other than such day.

Auction Agency Agreement. The Trustee will enter into an agreement (the "Auction Agency Agreement") with The Bank of New York (together with any successor bank or trust company or other entity entering into a similar agreement with the Trustee, the "Auction Agent") which provides, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the SAVRS Rate so long as the SAVRS Rate is to be based on the results of an Auction. See "Concerning the Auction Agent" below.

Market Agent Agreement. The Trustee will enter into a market agent agreement (the "Market Agent Agreement") with Lehman Brothers Inc. ("Lehman Brothers") (Lehman Brothers, together with any successor as market agent under the Agreement, the "Market Agent") which sets forth the Market Agent's duties and responsibilities. The Corporation may remove the Market Agent. Any successor Market Agent shall be satisfactory to the Bond Insurer.

Broker-Dealer Agreement. Each Auction requires the participation of one or more broker-dealers. The Auction Agent will enter into an agreement with Lehman Brothers, William R. Hough & Co. and Goldman, Sachs & Co. and may enter into similar agreements (collectively, the "Broker-Dealer Agreements") with one or more additional broker-dealers (collectively, the "Broker-Dealers") selected by the Corporation with the approval of Lehman Brothers Inc. which provide for the participation of Broker-Dealers in Auctions. See "Broker-Dealers" below.

Auction Procedures. The following summary of the Auction Procedures to be used with respect to Auctions is qualified by reference to the Auction Procedures attached hereto as Appendix K.

Orders by Existing Holders and Potential Holders

Prior to the Submission Deadline (as defined herein under "Submission of Orders by Broker-Dealers to Auction Agent" below) on each Auction Date:

- (a) each Beneficial Owner may submit to a Broker-Dealer by telephone or otherwise a:
 - (i) Hold Order - indicating the principal amount of SAVRS, if any, that such Beneficial Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Rate Period;
 - (ii) Bid - indicating the principal amount of SAVRS, if any, that such Beneficial Owner offers to sell if the Auction Rate for the next succeeding Auction Rate Period shall be less than the rate per annum specified in such Bid by such Beneficial Owner; and/or
 - (iii) Sell Order - indicating the principal amount of SAVRS, if any, that such Beneficial Owner offers to sell without regard to the Auction Rate for the next succeeding Auction Rate Period; and
- (b) One or more Broker-Dealers may contact customers who are Potential Beneficial Owners by telephone or otherwise to determine whether such customers desire to submit Bids, in which case they will indicate the principal amount of SAVRS that they offer to purchase if the Auction Rate for the next succeeding Auction Rate Period is not less than the rates per annum specified in such Bids.

The communication to a Broker-Dealer of the foregoing information is herein referred to as an "Order" and, collectively, as "Orders." A Beneficial Owner or a Potential Beneficial Owner placing an Order is herein referred to as a "Bidder" and, collectively, as "Bidders." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder" and collectively as "Bidders."

An Order may be submitted only in a principal amount of \$50,000 or any integral multiple thereof.

A Beneficial Owner may submit different types of Orders to its Broker-Dealer with respect to SAVRS then held by such Beneficial Owner. A Bid placed by a Beneficial Owner specifying a rate higher than the Auction Rate determined in the Auction shall constitute an irrevocable offer to sell the SAVRS subject thereto. A Beneficial Owner that submits a Bid to its Broker-Dealer having a rate higher than the SAVRS Maximum Rate on the Auction Date will be treated as having submitted a Sell Order to its Broker-Dealer. A Beneficial Owner that fails to submit to its Broker-Dealer prior to the Submission Deadline an Order or Orders covering the entire principal amount of SAVRS held by such Beneficial Owner will be deemed to have submitted a Hold Order to its Broker-Dealer covering the principal amount of SAVRS held by such Beneficial Owner and not subject to Orders submitted to a Broker-Dealer. A Sell Order shall constitute an irrevocable offer to sell the principal amount of SAVRS subject thereto.

A Beneficial Owner that offers to purchase additional SAVRS is, for purposes of such offer, treated as a Potential Beneficial Owner.

A Potential Beneficial Owner may submit to its Broker-Dealer a Bid in which it offers to purchase the principal amount of SAVRS subject to such Bid if the Auction Rate determined in the Auction is not less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner specifying a rate not higher than the SAVRS Maximum Rate shall constitute an irrevocable offer to purchase the principal amount of SAVRS specified in such Bid if the rate determined in the Auction is equal to or greater than the rate specified in such Bid.

As described more fully below under "Submission of Orders by Broker-Dealers to Auction Agent," the Broker-Dealers will submit the Orders of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves (unless otherwise permitted by the Corporation) as Existing Holders in respect of the SAVRS subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of the SAVRS subject to Orders submitted to them by Potential Beneficial Owners. However, none of the Corporation, the Trustee or the Auction Agent will be responsible for a Broker-Dealer's failure to comply with the foregoing. Any Order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing Holder or a Potential Holder will be treated in the same manner as an Order placed with a Broker-Dealer by a Beneficial Owner or a Potential Beneficial Owner, as described in the preceding paragraph. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an Order in respect of any principal amount of SAVRS held by it or its customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner's failure to submit to its Broker-Dealer an Order in respect of the principal amount of SAVRS held by it, as described in the second preceding paragraph. For information concerning the priority given to different types of Orders placed by Existing Holders, see "Submission of Orders by Broker-Dealers to Auction Agent" below.

None of the Corporation or any affiliate thereof may submit an Order in any Auction except as set forth in the following sentence. Any Broker-Dealer that is an affiliate of the Corporation may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds SAVRS for its own account, it must submit a Sell Order on the next Auction Date with respect to such SAVRS.

The Auction Procedures include pro rata allocation of SAVRS for purchase and sale, which may result in an Existing Holder's continuing to hold or selling, or a Potential Holder's purchasing, a principal amount of SAVRS that is smaller than the principal amount of SAVRS specified in its Order. See "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of SAVRS" below. To the extent the allocation procedures have that result, Broker-Dealers that have designated themselves as Existing Holders or Potential Holders in respect of customer Orders will be required to make the appropriate pro rata allocations among their respective customers. Each purchase or sale of SAVRS shall be made for settlement on the first Business Day following the Auction Date at a price equal to 100% of the principal amount thereof. See "Notification of Results; Settlement" below.

As described above, any Bid specifying a rate higher than the SAVRS Maximum Rate will (a) be treated as a Sell Order if submitted by a Beneficial Owner or an Existing Holder and (b) not be accepted if submitted by a Potential Beneficial Owner or a Potential Holder. Accordingly, the Auction Procedures establish the SAVRS Maximum Rate as a maximum rate per annum that can result from an Auction. See "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate" and "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of SAVRS" below.

As used herein, "SAVRS Maximum Rate," on any date of determination for any Auction Rate Period, means the interest rate per annum equal to the lowest of:

(a) the Applicable Percentage (as defined below) of the higher of (i) the Reference Rate for a Standard Auction Rate Period on such date and (ii) LIBOR, if any, for a Standard Auction Rate Period on such date, unless:

(A) such Auction Rate Period is proposed to be a Special Auction Rate Period, in which case, the Applicable Percentage of the highest of:

(1) the higher of (x) the Reference Rate for an Auction Rate Period equal in length to the then-ending Auction Rate Period on such date and (y) LIBOR,

if any, for an Auction Rate Period equal in length to the then-ending Auction Rate Period on such date;

(2) the higher of (x) the Reference Rate for such Special Auction Rate Period on such date and (y) LIBOR, if any, for such Special Auction Rate Period on such date; and

(3) the higher of (x) the Reference Rate for a Standard Auction Rate Period on such date and (y) LIBOR for a Standard Auction Rate Period on such date; or

(B) such Auction Rate Period succeeds a Special Auction Rate Period (other than a Special Auction Rate Period of 28 days) and an Auction for a Standard Auction Rate Period at which Sufficient Clearing Bids existed, has not yet occurred since such Special Auction Rate Period, in which case, the higher of

(1) the interest rate on the SAVRS for the then-ending Auction Rate Period; and

(2) the Applicable Percentage of the higher of (x) the higher of (I) the Reference Rate for an Auction Rate Period equal in length to the then-ending Auction Rate Period on such date and (II) LIBOR, if any, for an Auction Rate Period equal in length to the then-ending Auction Rate Period on such date and (y) the higher of (I) the Reference Rate for an Auction Rate Period equal in length to such Special Auction Rate Period and (II) LIBOR, if any, for an Auction Rate Period equal in length to such Special Auction Rate Period on such date;

(b) 18% per annum; and

(c) the maximum rate, if any, permitted by Vermont law, as the same may be modified by United States law of general application.

"Applicable Percentage," on any date of determination, means the percentage determined as set forth below based on the prevailing rating of the SAVRS in effect at the close of business on the Business Day immediately preceding such date:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
"AAA"	175%
"AA"	200%
"A"	250%
"BBB"	275%
Below "BBB"	300%

For purposes of this definition, the "prevailing rating" of the SAVRS will be:

(a) "AAA", if the SAVRS have a rating of "AAA" by Standard & Poor's Ratings Group ("S&P") and Fitch, Inc. ("Fitch"), or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below;

(b) if not "AAA", then "AA" if the SAVRS have a rating of "AA-" or better by S&P and Fitch, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below;

(c) if not "AAA" or "AA", then "A" if the SAVRS have a rating of "A-" or better by S&P and Fitch, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below;

(d) if not "AAA", "AA" or "A", then "BBB" if the SAVRS have a rating, of "BBB-" or better by S&P and Fitch, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below; and

(e) if not "AAA", "AA", "A" or "BBB", then below "BBB", whether or not the SAVRS are rated by any securities rating agency.

If (a) the SAVRS are rated by a nationally recognized statistical rating agency or agencies other than Moody's or S&P and (b) the Corporation has delivered to the Trustee and the Auction Agent an instrument designating one or two of such rating agencies to replace Moody's or S&P, or both, then for purposes of the definition of "prevailing rating" Moody's or S&P, or both, will be deemed to have been replaced in accordance with such instrument; provided, however, that such instrument must be accompanied by the consent of the Market Agent. For purposes of this paragraph, S&P's rating categories of "AAA," "AA-," "A-" and "BBB," and Moody's rating categories of "Aaa", "Aa", "A" and "Baa", refer to and include the respective rating categories correlative thereto in the event that either or both of such rating agencies have changed or modified their generic rating categories.

As used herein, (a) "AA" Composite Commercial Paper Rate," on any date of determination for any Auction Rate Period, means (i) (A) for any Standard Auction Rate Period or any Special Auction Rate Period of fewer than 49 Rate Period Days, the interest equivalent of the 30-day rate, and (B) for any Special Auction Rate Period of (1) 49 or more but fewer than 70 Rate Period Days, the interest equivalent of the 60-day rate; (2) 70 or more but fewer than 85 Rate Period Days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates; (3) 85 or more but fewer than 99 Rate Period Days, the interest equivalent of the 90-day rate; (4) 99 or more but fewer than 120 Rate Period Days, the arithmetic average of the interest equivalent of the 90-day and 120-day rates; (5) 120 or more but fewer than 141 Rate Period Days, the interest equivalent of the 120-day rate; (6) 141 or more but fewer than 162 Rate Period Days, the arithmetic average of the 120-day and 180-day rates; and (7) 162 or more but fewer than 183 Rate Period Days, the interest equivalent of the 180-day rate, in each case on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P or another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch & Co., Inc. or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination; provided that if any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, the "AA" Composite Commercial Paper Rate shall be determined on the basis of such quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be Credit Suisse First Boston or Morgan Stanley & Co. Incorporated, or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security;

(b) "Treasury Rate," on any date of determination for any Auction Rate Period, shall mean (i) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Rate Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date, or (ii) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Rate Period, based on bid price quotations on such date obtained by the Auction Agent from Lehman Brothers Inc.,

Goldman, Sachs & Co., Salomon Smith Barney Inc and J.P. Morgan Chase & Co. or their respective affiliates or successors, if such entity is a dealer of U.S. Government securities (the "U.S. Government Securities Dealers"); and

(iii) "Treasury Note Rate," on any date of determination for any Auction Rate Period, shall mean (A) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a remaining maturity closest to the length of such Auction Rate Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or (B) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Rate Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealers (the "U.S. Government Securities Dealers").

Submission of Orders by Brokers-Dealers to Auction Agent

Prior to 1:00 p.m., New York City time, on each Auction Date, or such other time on the Auction Date specified by the Auction Agent (the "Submission Deadline"), each Broker-Dealer will submit to the Auction Agent in writing all Orders obtained by it for the Auction to be conducted on such Auction Date, designating itself (unless otherwise permitted by the Corporation) as the Existing Holder or Potential Holder in respect of the principal amount of SAVRS subject to such Orders. Any Order submitted by a Beneficial Owner or a Potential Beneficial Owner to its Broker-Dealer, or by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable.

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%.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of SAVRS held by such Existing Holder, such Orders shall be considered valid in the following Order of priority:

(a) all Hold Orders shall be considered valid, but only up to and including the aggregate principal amount of SAVRS held by such Existing Holder;

(b) (i) any Bid shall be considered valid up to and including the excess of the aggregate principal amount of SAVRS held by such Existing Holder over the aggregate principal amount of SAVRS subject to any Hold Order referred to in clause (a) above;

(ii) subject to subclause (i), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of SAVRS subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess;

(iii) subject to subclauses (i) and (ii), if more than one Bid with different rates is submitted on behalf of such Existing Holder such Bids shall be considered valid 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

(iv) in any such event, the aggregate principal amounts of SAVRS, if any, subject to Bids not valid under this clause (b) shall be treated as the subject of a Bid by a Potential Holder at the rate specified therein; and

(c) all Sell Orders shall be considered valid but only up to and including the excess of the aggregate principal amount of SAVRS held by such Existing Holder over the aggregate principal amount of SAVRS subject to valid Hold Orders referred to in clause (a) and valid Bids referred to in clause (ii) above.

If more than one Bid is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the Tate and principal amount of SAVRS therein specified.

Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of SAVRS not equal to \$50,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of SAVRS not equal to \$50,000 or any integral multiple thereof shall be immediately rejected.

Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent will assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Hold Order, Bid or Sell Order as submitted or deemed submitted by a Broker-Dealer being herein referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and will determine the excess of the outstanding principal amount of SAVRS over the principal amount of SAVRS subject to Submitted Hold Orders (such excess being herein referred to as the "Available SAVRS") and whether Sufficient Clearing Bids have been made in the Auction on such Auction Date. Sufficient Clearing Bids will have been made if the principal amount of SAVRS that is the subject of Submitted Bids by Potential Holders specifying rates equal to or lower than the SAVRS Maximum Rate equals or exceeds the principal amount of SAVRS that is the subject of Submitted Sell Orders (including the principal amount of SAVRS subject to Submitted Bids by Existing Holders specifying rates higher than the SAVRS Maximum Rate).

If Sufficient Clearing Bids have been made, the Auction Agent will determine the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which, taking into account the rates in all Submitted Bids of Existing Holders, would result in Existing Holders continuing to hold an aggregate principal amount of SAVRS which, when added to the principal amount of SAVRS to be purchased by Potential Holders, based on the rates in their Submitted Bids, would equal not less than the Available SAVRS. In such event, the Winning Bid Rate will be the Auction Rate for the next Auction Rate Period.

If Sufficient Clearing Bids have not been made (other than because all SAVRS are subject to Submitted Hold Orders), the Auction Rate for the next Auction Rate Period will be the SAVRS Maximum Rate. If Sufficient Clearing Bids have not been made, Beneficial Owners that have submitted Sell Orders or that are deemed to have submitted Sell Orders may not be able to sell in the Auction all SAVRS subject to such Submitted Sell Orders. See "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of SAVRS" below. None of the Corporation, the Trustee, any Broker-Dealer or any other person is required to provide money to purchase SAVRS if Sufficient Clearing Bids do not exist.

If all of the SAVRS are subject to Submitted Hold Orders, the Auction Rate for the next Auction Rate Period will be equal to the "AA" Composite Commercial Paper Rate on such Auction Date.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of SAVRS

Based on the determinations made under "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate" above and, subject to the discretion of the Auction Agent to round off fractional amounts as described below, Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the Order of priority set forth in the Auction Procedures with the result that Existing Holders and Potential Holders of SAVRS shall sell, continue to hold and/or purchase SAVRS as set forth below. Existing Holders that submitted or were deemed to have submitted Hold Orders (or on whose behalf Hold Orders were submitted or deemed to have been submitted) shall continue to hold SAVRS subject to such Hold Orders.

If Sufficient Clearing Bids have been made:

- (a) each Existing Holder that placed or on whose behalf was placed a Submitted Sell Order or Submitted Bid specifying a rate higher than the Winning Bid Rate shall sell the principal amount of SAVRS subject to such Submitted Sell Order or Submitted Bid;

(b) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate lower than the Winning Bid Rate shall continue to hold the principal amount of SAVRS subject to such Submitted Bid;

(c) each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate lower than the Winning Bid Rate shall purchase the principal amount of SAVRS subject to such Submitted Bid;

(d) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to the Winning Bid Rate shall continue to hold the principal amount of SAVRS subject to such Submitted Bid unless the aggregate principal amount of SAVRS subject to all such Submitted Bids is greater than the aggregate principal amount of Available SAVRS less the SAVRS accounted for in clauses (b) and (c) above, in which event each Existing Holder with such a Submitted Bid shall continue to hold a principal amount of outstanding SAVRS subject to such Submitted Bid determined on a pro rata basis based on the aggregate principal amount of outstanding SAVRS subject to all such Submitted Bids by Existing Holders,- and

(e) each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to the Winning Bid Rate shall purchase any Available SAVRS not accounted for in clause (b), (c) or (d) above on a pro rata basis based on the aggregate principal amount of outstanding SAVRS subject to all such Submitted Bids.

If Sufficient Clearing Bids have not been made (unless all of the outstanding SAVRS are subject to Submitted Hold Orders):

(a) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to or lower than the SAVRS Maximum Rate shall continue to hold the principal amount of SAVRS subject to such Submitted Bid;

(b) each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to or lower than the SAVRS Maximum Rate shall purchase the principal amount of SAVRS subject to such Submitted Bid; and

(c) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate higher than the SAVRS Maximum Rate or a Submitted Sell Order shall sell a principal amount of SAVRS determined on a pro rata basis based on the aggregate principal amount of SAVRS subject to all such Submitted Bids and Submitted Sell Orders.

If, as a result of the Auction Procedures, (i) any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of SAVRS that is not equal to \$50,000 or any integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of SAVRS being sold or purchased on such Auction Date so that the principal amount of SAVRS sold or purchased by each Existing Holder or Potential Holder shall be equal to \$50,000 or an integral multiple thereof or (ii) any Potential Holder would be entitled or required to purchase less than \$50,000 principal amount of SAVRS, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate principal amounts of SAVRS for purchase among Potential Holders so that only principal amounts of SAVRS equal to \$50,000 or an integral multiple thereof are purchased by any such Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing SAVRS.

Notification of Results, Settlement

The following summary of the Settlement Procedures to be used with respect to Auctions is qualified by reference to the Settlement Procedures attached hereto as Appendix L.

The Auction Agent is required to advise each Broker-Dealer that submitted an Order of the Auction Rate for the next Auction Rate Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on each Auction Date. Each Broker-Dealer that submitted an Order for the account of a customer will be required to then advise such customer of the Auction Rate for the next Auction Rate Period and, if such Order was a Bid or a Sell

Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, will be required to confirm purchases and sales with each customer purchasing or selling SAVRS as a result of the Auction and advise each customer purchasing or selling SAVRS as a result of the Auction to give instructions to its Depository Participant to pay the purchase price against delivery of such SAVRS or to deliver such SAVRS against payment therefor, as appropriate. The Auction Agent will record each transfer of SAVRS on the registry of Existing Holders to be maintained by the Auction Agent.

In accordance with the Securities Depository's normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through the Securities Depository and the accounts of the respective Depository Participants at the Securities Depository will be debited and credited and SAVRS delivered as necessary to effect the purchases and sales of SAVRS as determined in the Auction. Purchasers are required to make payment through their Depository Participants in same-day funds to the Securities Depository against delivery through their Depository Participants. The Securities Depository will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Depository Participants in same-day funds.

If any Existing Holder selling SAVRS in an Auction fails to deliver such SAVRS, the Broker-Dealer of any person that was to have purchased SAVRS in such Auction may deliver to such person a principal amount of SAVRS that is less than the principal amount of SAVRS that otherwise was to be purchased by such person but in any event equal to \$50,000 or an integral multiple thereof. In such event, the principal amount of SAVRS to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of SAVRS shall constitute good delivery.

Concerning the Auction Agent. The Bank of New York is the initial Auction Agent under the Agreement.

The Auction Agent is acting as agent for the Trustee 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 the pertinent facts.

The Auction Agent may terminate the Auction Agency Agreement upon notice to the Corporation, the Trustee, the Paying Agent and the Market Agent on a date no earlier than 90 days after such notice. If the Auction Agent should resign or be removed, the Corporation is obligated to use its best efforts to appoint a successor Auction Agent and cause the Trustee to enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agency Agreement. The Corporation may remove the Auction Agent.

Broker-Dealers. On the Interest Payment Date for each interest period for each Auction Rate Period immediately following an Auction Date, each Broker-Dealer will be entitled to receive a service charge with respect to the Auction held on such Auction Date in an amount specified in each Broker-Dealer Agreement.

Special Auction Rate Periods. The Corporation may designate any succeeding Subsequent Auction Rate Period as a "Special Auction Rate Period" that consists of a specified number of days not fewer than 28 and not more than 1,092 and evenly divisible by seven, subject to adjustment as provided below. A designation of a Special Auction Rate Period shall be effective only if (a) notice thereof shall have been given as described below, (b) an Auction shall have been held on the Auction Date for such proposed Special Auction Rate Period and Sufficient Clearing Bids shall have existed in such Auction, and (c) if any notice of redemption shall have been mailed by Trustee, the related redemption price shall be on deposit with the Trustee.

In the event the Corporation wishes to designate a Subsequent Auction Rate Period as a Special Auction Period, but the day following what would otherwise be the last day of such Special Auction Rate Period is not a Wednesday that is a Business Day, then the Corporation shall designate such Subsequent Auction Rate Period as a Special Auction Rate Period consisting of the period commencing on the first day following the end of the immediately preceding Auction Rate Period and ending on the first Tuesday that is followed by a Wednesday that is a Business Day preceding what would otherwise be such last day.

If the Corporation proposes to designate any succeeding Subsequent Auction Rate Period as a Special Auction Rate Period, not less than 20 (or such lesser number of days as may be agreed to from time to time by the Auction Agent) nor more than 30 days prior to the date the Corporation proposes to designate as the first day of such Special

Auction Rate Period (which shall be the day that would otherwise be the first day of the next succeeding Auction Rate Period), the Corporation shall give written notice to the Trustee, the Bond Insurer, the Auction Agent, the Market Agent and the Securities Depository.

No later than 11:00 A.M., New York City time, on the second Business Day next preceding the first day of any proposed Special Auction Rate Period (or such later time or date, or both, as may be agreed to by the Auction Agent), the Corporation shall deliver to the Auction Agent either:

(a) a notice stating (i) that the Corporation has determined to designate the next succeeding Auction Rate Period as a Special Auction Rate Period, specifying the same and the first day thereof, (ii) the Auction Date immediately prior to the first day of such Special Auction Rate Period, (iii) that such Special Auction Rate Period shall not commence if (A) an Auction shall not be held on such Auction Date for any reason or (B) an Auction shall be held on such Auction Date but Sufficient Clearing Bids shall not exist in such Auction, (iv) the Regular Interest Payment Dates during such Special Auction Rate Period; or

(b) a notice stating that the Corporation has determined not to exercise its option to designate a Special Auction Rate Period and that the next succeeding Auction Rate Period shall be a Standard Auction Rate Period.

Investors who purchase SAVRS having an extended Initial Auction Rate Period or who purchase SAVRS in an Auction for a Special Auction Rate Period should note that because the interest rate on the SAVRS will be fixed for the length of such Auction Rate Period, the value of the SAVRS may fluctuate in response to changes in interest rates, and may be more or less than their original cost if sold on the open market in advance of the next Auction, depending on market conditions.

Changes in Standard Auction Rate Period. While any SAVRS are Outstanding, the Corporation, at its option, may from time to time on any Interest Payment Date change the length of the Standard Auction Rate Period on all or a portion of the SAVRS from one period to another in order to accommodate economic and financial factors that may affect or be relevant to the length of the Standard Auction Rate Period and the interest rate home by such SAVRS. The Corporation shall initiate the change in the length of a Standard Auction Rate Period by giving written notice to the Trustee, the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Standard Auction Rate Period will change if the conditions described below are satisfied and the proposed effective date of the change, at least three Business Days prior to the Auction Date for such Standard Auction Rate Period and that SAVRS are subject to mandatory tender for purchase on the Interest Payment Date immediately following the Auction Date on which there has been a successful Auction of such SAVRS for the first Standard Auction Rate Period.

The change in the length of a Standard Auction Rate Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date which the notice of the proposed change was given as provided above and the Auction immediately preceding the proposed change.

The change in length of a Standard Auction Rate Period shall take effect only if (a) the Trustee, the Bond Insurer and the Auction Agent receive by 11:00 a.m., Eastern Time, on the Business Day before the Auction Date for the first such Standard Auction Rate Period, a certificate from the Corporation, authorizing the change in the length of the Standard Auction Rate Period specified in such certificate, and (b) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Standard Auction Rate Period, If the condition referred to in (a) above is not met, the Auction Rate for the next Auction Rate Period shall be determined pursuant to the Auction Procedures and the Auction Rate Period shall be the Auction Rate Period determined without reference to the proposed change. If the condition referred to in (b) above is not met, the Auction Rate for the next Auction Rate Period shall be the SAVRS Maximum Rate, and the Standard Auction Rate Period shall be seven days.

Any SAVRS for which the Standard Auction Rate Period is changed shall be subject to mandatory tender for purchase on the Interest Payment Date immediately following the Auction Date on which there has been a successful Auction of such SAVRS at a price equal to the principal amount being tendered and accrued interest thereon.

**SAVRS AUCTION PROCEDURES RELATING TO
SENIOR SERIES 2001AA BONDS OUTSTANDING AS TAXABLE SAVRS**

The Auction Procedures for the Taxable SAVRS, as the same are or will be defined in the applicable Series Resolution, will be substantially identical to the procedures summarized below. All of the defined terms used in this Appendix K are defined herein, in Appendix J to the Official Statement or in the Official Statement, except that for purposes of this Appendix K, "Bonds" shall refer to the Senior Series 2001AA Bonds. If the Senior Series 2001AA Bonds are converted to a Tax-Exempt SAVRS Rate, this Appendix K will no longer apply to the Senior Series 2001AA Bonds, and Appendix H will apply to the Senior Series 2001AA Bonds so converted.

The following terms, except where the context indicates otherwise, shall have the respective meanings set forth below:

"Affiliate" means any person controlled by, in control of or under common control with the Corporation, provided that no Broker-Dealer controlled by, in control of or under common control with the Corporation shall be an Affiliate nor shall any corporation or any person controlled by, in control of or in common control with such corporation be an Affiliate solely because such director or executive officer is also a director of the Corporation.

"Agent Member" means a member of, or participant in, the Securities Depository.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agency Agreement" means the Auction Agency Agreement, dated as of June 1, 2001, between the Trustee and the Auction Agent and any similar agreement with a successor Auction Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented.

"Auction Date" means July 10, 2001 and thereafter the Business Day immediately preceding the first Business Day of each Auction Rate Period, other than: (a) each Auction Rate Period commencing after the ownership of the SAVRS is no longer maintained in book-entry form by the Securities Depository; (b) each Auction Rate Period commencing after the occurrence and during the continuance of a Payment Default; (c) any Auction Rate Period commencing less than two Business Days after the cure of a Payment Default; or (d) any Auction Rate Period commencing on a proposed effective date of a Change to Weekly Rate Mode or a proposed Fixed Rate Conversion Date.

"Auction Rate Period" means the Initial Auction Period and any Subsequent Auction Rate Period, including any Special Auction Rate Period.

"Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of the Bonds bearing interest at a SAVRS Rate.

"Broker-Dealer" means Lehman Brothers Inc., Goldman, Sachs & Co. and William R. Hough & Co., or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures (a) that is an Agent Member (or an affiliate of an Agent Member), (b) that 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 each 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 a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or as notified to the Auction Agent in writing, in any city in which is located the principal corporate trust office of the Trustee or the Liquidity Facility will be made and, during any SAVRS Rate Period, April 14, April 15, December 30 and December 31.

“Change to Weekly Rate Mode” means a change in the type of interest rate borne by the Taxable SAVRS to a Weekly Rate pursuant to this Appendix K.

"Commercial Paper Dealers" means Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch & Co. or, in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a commercial paper dealer.

"Conversion Date" means the earlier of the Fixed Rate Conversion Date or the effective date of a Change to Weekly Rate Mode.

"Counsel" means an attorney or firm of attorneys.

"Counsel's Opinion" means an opinion signed by any Counsel.

"Current Adjustable Rate" means the interest rate borne by the Bonds immediately prior to Fixed Rate Conversion Date.

"Determination Date" means, for any Weekly Period, the first Business Day occurring prior to such Weekly Period.

"Existing Holder" means a Broker-Dealer who is listed as the beneficial owner of Bonds during a SAVRS Rate period in the records of the Auction Agent.

“Failure to Deposit” means any failure to during the SAVRS Rate Period to make the deposit with the Trustee as required by the Resolution.

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

"Fixed Rate" means the rate at which the Bonds bear interest through the Stated Maturity Date during the Fixed Rate Period, as established under the Resolution.

"Fixed Rate Period" means the period, if any, during which all or a portion of the Bonds bear interest at a Fixed Rate, which period shall commence on the Fixed Rate Conversion Date and extend through the Stated Maturity Date.

"Fixed Rate Record Date" means, with respect to each Interest Payment Date during the Fixed Rate Period, the fifteenth day of the month next preceding such Interest Payment Date, or, if such day shall not be a Business Day, the next succeeding Business Day.

"Initial Auction Rate Period" means the period from and including the date of issuance of the Bonds to but excluding the Initial Interest Payment Date for the Bonds.

“Initial Interest Payment Date” means July 11, 2001.

"Interest Payment Date" means:

- (a) prior to the Conversion Date, each SAVRS Interest Payment Date;
- (b) during the Weekly Rate Period, the first Business Day of the first calendar month after the effective date of the Change to Weekly Rate Mode and the first Business Day of each month thereafter;
- (c) the Fixed Rate Conversion Date;
- (d) the June 15 or December 15 next succeeding the Fixed Rate Conversion Date and each June 15 and December 15 thereafter; provided, however, that if the June 15 or December 15 next succeeding the Fixed Rate Conversion Date occurs less than twenty-one (21) days after the Fixed Rate Conversion Date, the

first Interest Payment Date shall be the second such date following the Fixed Rate Conversion Date and provided, further that if any such date is not a Business Day with the same effect as if such interest payment was made on the original interest payment date;

- (e) the Fixed Rate Conversion Date; and
- (f) the Stated Maturity Date;

"Market Agent Agreement" means the Market Agent Agreement, dated as of June 1, 2001, between the Trustee and the Market Agent, and any similar agreement with a successor Market Agent approved by the Bond Insurer, in each case as from time to time amended or supplemented.

"Potential Beneficial Owner" shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of the Bonds but that wishes to purchase Bonds, or that is a Beneficial Owner of Bonds that wishes to purchase an additional principal amount of Bonds.

"Potential Holder" means a Broker-Dealer (or any such other person as may be permitted by the Corporation) that is not an Existing Holder or that is an Existing Holder that wishes to become the Existing Holder of an additional principal amount of Bonds.

"Rate Period Days" for any Auction Rate Period or Interest Period, shall mean the number of days that would constitute such Auction Rate Period or Interest Period but for the application of Section 1.07 of the Resolution.

"Record Date" means (a) during the SAVRS Rate Period, any Regular Record Date, (b) during the Weekly Rate Period, any Weekly Period Record Date, (c) during the Fixed Rate Period, any Fixed Rate Record Date and (d) at any time, any Special Record Date.

"Reference Rate" means (a) for a Standard Auction Rate Period or any Special Auction Rate Period of fewer than 180 Rate Period Days, the "AA" Composite Commercial Paper Rate for such Auction Rate Period, (b) for an Auction Rate Period of more than 182 Rate Period Days but fewer than 365 Rate Period Days, the Treasury Rate for such Auction Rate Period and (c) for an Auction Rate Period of more than 364 Rate Period Days, the Treasury Note Rate for such Auction Rate Period.

"Regular Record Date" with respect to each Regular Interest Payment Date, shall mean the second Business Day next preceding such Regular Interest Payment Date.

"Remarketing Agreement" means the remarketing agreement between the Corporation and the Remarketing Agent in a form satisfactory to the Trustee, the Bond Insurer, the Corporation and the Liquidity Facility Issuer.

"SAVRS" means the Vermont Student Assistance Corporation Education Loan Revenue Bonds, Senior Series 2001AA.

"SAVRS Rate Period" means any period during which the SAVRS bear interest at a SAVRS Rate, which period shall commence on the Date of Interest Accrual and shall extend through the day immediately preceding the earlier of (a) the Conversion Date, or (b) the Stated Maturity Date.

"Securities Depository" means The Depository Trust Company and its successors and assigns or if, (a) the then Securities Depository resigns from its functions as depository of the Bonds or (b) the Corporation discontinues use of the Securities Depository pursuant to Section 1.03 of the Resolution, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the SAVRS and which is selected by the Corporation with the consent of the Corporation, and during the SAVRS Rate Period, the Auction Agent and the Market Agent.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Special Auction Rate Period" means a Subsequent Auction Rate Period, other than a Standard Auction Rate Period that consists of a specified number of Rate Period Days not fewer than 28 and not more than 1,092 and evenly divisible by seven, subject to adjustment as provided in subsection (b) of Section 1.07 of the Resolution.

"Standard Auction Rate Period" means any Auction Rate Period consisting of 7 Rate Period Days.

"Stated Maturity Date" shall mean December 15, 2036.

"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.

"Subsequent Auction Rate Period" means the period from and including the Initial Interest Payment Date to but excluding the next Regular Interest Payment Date and each period thereafter from and including one Regular Interest Payment Date to but excluding the next succeeding Regular Interest Payment date; provided that any Subsequent Auction Rate Period is also a Special Auction Rate Period consisting of more than 91 Rate Period Days, such term shall mean the period commencing on the first day of such Special Auction Rate Period and ending on the last day of the last Interest Period thereof.

"Substitute Commercial Paper Dealer" means Credit Suisse First Boston or Morgan Stanley & Co. Incorporated, or their respective affiliates or successors, if such person is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"Substitute U.S. Government Securities Dealers" means Credit Suisse First Boston or Merrill Lynch & Co., or their respective affiliates or successors, if such person is a dealer in U.S. Government securities, provided that neither such person nor any of its affiliates or successors is a U.S. Government Securities Dealer.

"Sufficient Clearing Bids" shall have the meaning set forth in "Determination of Sufficient Clearing Bids, Winning Bid Rate and SAVRS Rate" herein.

"Tax-Exempt Conversion Date" means a date on which any Senior Series 2001AA Bonds begin to bear interest at a Tax-Exempt SAVRS Rate as provided in Appendix M of this Official Statement.

"Treasury Rate," on any date of determination for any Auction Period, means:

(i) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or

(ii) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealers.

"U.S. Government Securities Dealers" means Lehman Brothers Inc., Goldman, Sachs & Co., Salomon Smith Barney Inc. and J.P. Morgan Chase & Co. or in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a U.S. Government securities dealer.

"Weekly Maximum Rate" means on any Determination Date and on the first Business Day prior to the effective date of the Change to Weekly Rate Mode, shall mean the interest rate per annum equal to the lower of: (a) 18% per annum; and (b) the maximum rate on such date permitted by Vermont law, as the same may be modified by United States law of general application.

"Weekly Period" means (a) with respect to the Change to Weekly Rate Mode, the period from and including the effective date of such Change to Weekly Rate Mode to and including the following Tuesday; and (b) thereafter, the period from and including the Wednesday of each week to and including the following Tuesday; provided, however, if any such Wednesday is not a Business day, the next succeeding Weekly Period shall begin on the Business Day next succeeding such Wednesday and such Weekly Period shall end on the day before such next succeeding Weekly Period.

"Weekly Period Record Date" means, with respect to each Interest Payment Date during a Weekly Rate Period, the Business Day next preceding such Interest Payment Date.

"Weekly Rate" means with respect to (a) the initial Weekly Period after the Change to Weekly Rate Mode, a rate of interest equal to the rate of interest per annum established pursuant to the Remarketing Commitment and equal to the minimum rate of interest per annum which would be necessary on and as of the effective date of the Change to Weekly Rate Mode to remarket the Bonds at the Weekly Rate in a secondary market transaction at a price equal to the principal amount thereof and subject to the Resolution, each other Weekly Period during a Weekly Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee by the Remarketing Agent no later than 12:00 Noon, New York City time, on and as of the Determination Date as the minimum rate of interest per annum, which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Bonds at the Weekly Rate in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

"Weekly Rate Period" means any period during which the Bonds bear interest at a Weekly Rate which period shall commence with the effective date of a Change to the Weekly Rate Mode and shall extend through the earlier of (a) the day immediately preceding the Fixed Rate Conversion Date and (b) the Stated Maturity Date.

"Winning Bid Rate" shall have the meaning set forth in "Determination of Sufficient Clearing Bids, Winning Bid Rate and SAVRS Rate" herein.

SAVRS Auction Procedures

Subject to the provisions of each applicable Series Resolution, Auctions for Bonds shall be conducted on each Auction Date in the following manner:

Orders by Existing Holders and Potential Holders

- (a) (i) Prior to the Submission Deadline on each Auction Date:
 - (A) each Beneficial Owner of SAVRS may submit to a Broker-Dealer information as to:
 - (1) the principal amount of Outstanding SAVRS, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Rate Period;
 - (2) the principal amount of Outstanding SAVRS, if any, which such Beneficial Owner offers to sell if the Auction Rate for the next succeeding Auction Rate Period shall be less than the rate per annum specified by such Beneficial Owner; and/or
 - (3) the principal amount of Outstanding SAVRS, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell without regard to the Auction Rate for the next succeeding Auction Rate Period; and
 - (B) one or more Broker-Dealers may contact Potential Beneficial Owners to determine the principal amount of SAVRS which each such Potential Beneficial Owner offers to purchase if the Auction Rate for the next succeeding Auction Rate Period shall not be less than the rate per annum specified by such Potential Beneficial Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(I), (A)(II), (A)(III) or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders" and each Beneficial Owner and each Potential Beneficial Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in (x) clause (A)(I) of this paragraph (i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders."

(y) clause (A)(II) or (B) of this paragraph (i) is hereinafter referred to as a “Bid” and collectively as “Bids” and (z) clause (A)(III) of this paragraph (i) is hereinafter referred to as a “Sell Order” and collectively as “Sell Orders.” The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an “Order” and collectively as “Orders,” and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a “Bidder” and collectively as “Bidders.”

(ii) (A) Subject to the provisions of subsection (b) of this Section 1.09, a Bid by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding SAVRS specified in such Bid if the Auction Rate determined as provided in this Section 1.09 shall be less than the rate specified therein; or

(2) such principal amount or a lesser principal amount of Outstanding SAVRS to be determined as set forth in clause (D) of paragraph (i) of subsection (d) of this Section 1.09 if the Auction Rate determined as provided in this Section 1.09 shall be equal to the rate specified therein; or

(3) such principal amount of Outstanding SAVRS if the rate specified therein shall be higher than the SAVRS Maximum Rate, or such principal amount or a lesser principal amount of Outstanding SAVRS to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section 1.09 if the rate specified therein shall be higher than the SAVRS Maximum Rate and Sufficient Clearing Bids do not exist.

(B) Subject to the provisions of subsection (b) of this Section 1.09, a Sell Order by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding SAVRS specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of Outstanding SAVRS as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section 1.09 if Sufficient Clearing Bids do not exist.

(C) Subject to the provisions of subsection (b) of this Section 1.09, a Bid by a Potential Beneficial Owner or a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding SAVRS specified in such Bid if the Auction Rate determined as provided in this Section 1.09 shall be higher than the rate specified therein; or

(2) such principal amount or a lesser principal amount of Outstanding SAVRS as set forth in clause (E) of paragraph (i) of subsection (d) of this Section 1.09 if the Auction Rate determined as provided in this Section 1.09 shall be equal to the rate specified therein.

Submission of Orders by Broker-Dealers to Auction Agent

(b) (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, designating itself (unless otherwise permitted by the Corporation) as an Existing Holder in respect of the principal amount of SAVRS subject to Orders submitted or deemed submitted to it by Potential Beneficial Owners, and shall specify with respect to each such Order:

- (A) the name of the Bidder placing such Order (which shall be the Broker-Dealer unless otherwise permitted by the Corporation);
- (B) the aggregate principal amount of SAVRS that are the subject of such Order;
- (C) to the extent that such Bidder is an Existing Holder:
 - (1) the principal amount of SAVRS, if any, subject to any Hold Order placed by such Existing Holder;
 - (2) the principal amount of SAVRS, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and
 - (3) the principal amount of SAVRS, if any, subject to any Sell Order placed by such Existing Holder; and
- (D) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder'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 SAVRS held by any Existing Holder 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 Holder covering the principal amount of Outstanding SAVRS held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee or 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 Holder, Beneficial Owner, Potential Holder or Potential Beneficial Owner.

(v) If any Existing Holder submits to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding SAVRS held by such Existing Holder, 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 SAVRS held by such Existing Holder, and if the aggregate principal amount of SAVRS subject to such Hold Orders exceeds the aggregate principal amount of Outstanding SAVRS held by such Existing Holder, the aggregate principal amount of SAVRS subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding SAVRS held by such Existing Holder;

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding SAVRS held by such Existing Holder over the aggregate principal amount of SAVRS subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(1) subject to subclause (I) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding SAVRS 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 principal amount of SAVRS subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of SAVRS equal to such excess;

(2) subject to subclause (I) and (II) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(3) in any such event, the aggregate principal amount of Outstanding SAVRS, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder 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 SAVRS held by such Existing Holder over the aggregate principal amount of SAVRS subject to 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 SAVRS is submitted by or on behalf of any Potential Holder, 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 Holder covering an aggregate principal amount of SAVRS not equal to \$50,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of SAVRS not equal to \$50,000 or an integral multiple thereof shall be rejected.

Determination of Sufficient Clearing Bid, Winning Bid Rate and SAVRS Rate

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

(B) from the Submitted Orders whether:

(1) the aggregate principal amount of Outstanding SAVRS subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the SAVRS Maximum Rate;

exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding SAVRS subject to Submitted Bids by Existing Holders specifying one or more rates higher than the SAVRS Maximum Rate; and

(3) the aggregate principal amount of Outstanding SAVRS subject to Submitted Sell Orders (in the event such excess or such equality exists (other than because the sum of the principal amounts of SAVRS in subclauses (II) and (III) above is zero because all of the Outstanding SAVRS are subject to Submitted Hold Orders), such Submitted Bids in subclause (I) 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 (the "Winning Bid Rate") which if:

(1) (aa) each such Submitted Bid from Existing Holders specifying such lowest rate and (bb) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of SAVRS subject to such Submitted Bids; and

(2) (aa) each such Submitted Bid from Potential Holders specifying such lowest rate and (bb) all other Submitted Bids from Potential Holders specifying lower rates were accepted, would result in such Existing Holders described in subclause (I) above continuing to hold an aggregate principal amount of Outstanding SAVRS which, when added to the aggregate principal amount of Outstanding SAVRS to be purchased by such Potential Holders described in subclause (II) above, would equal not less than the Available SAVRS.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent, by telecopy confirmed in writing, shall advise the Corporation and the Trustee of the SAVRS Maximum Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Rate Period as follows:

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

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

(C) if all Outstanding SAVRS are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the "AA" Composite Commercial Paper Rate on such Auction Date.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Bonds

(d) Existing Holders shall continue to hold the principal amount of SAVRS that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (c)(i), 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 paragraphs (iv) and (v) 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 Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of SAVRS subject to such Submitted Bids;

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

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

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

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

(E) each Potential Holder’s Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of SAVRS obtained by multiplying the excess of the aggregate principal amount of Available SAVRS over the aggregate principal amount of SAVRS 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 SAVRS subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding SAVRS subject to Submitted Bids made by all such Potential Holders 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 SAVRS 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 Holders’ Submitted Bids specifying any rate that is equal to or lower than the SAVRS Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of SAVRS subject to such Submitted Bids;

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

(C) each Existing Holder’s Submitted Bid specifying any rate that is higher than the SAVRS Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the SAVRS subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of SAVRS obtained by multiplying the aggregate principal amount of SAVRS 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 SAVRS held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding SAVRS subject to all such Submitted Bids and Submitted Sell Orders.

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

(iv) If, as a result of the procedures described in paragraphs (i) or (ii) of this subsection (d), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of SAVRS that is not equal to \$50,000 or an integral multiple thereof the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of SAVRS to be purchased or sold by any Existing

Holder or Potential Holder so that the principal amount of SAVRS purchased or sold by each Existing Holder or Potential Holder shall be equal to \$50,000 or an integral multiple thereof.

(v) If, as a result of the procedures described in paragraph (i) of this subsection (d), any Potential Holder would be entitled or required to purchase less than \$50,000 principal amount of SAVRS, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate SAVRS for purchase among Potential Holders so that only SAVRS in principal amounts of \$50,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any SAVRS.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of SAVRS to be purchased and the aggregate principal amount of SAVRS to be sold by Potential Holders and Existing Holders and, with respect to each Potential Holder and Existing Holder, to the extent that such aggregate principal amount of SAVRS to be sold differs from such aggregate principal amount of SAVRS to be purchased, determine to which other Potential Holder(s) or Existing Holder(s) they shall deliver, or from which other Potential Holder(s) or Existing Holder(s) they shall receive, as the case may be, SAVRS.

MISCELLANEOUS

Neither the Corporation or any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Corporation may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such Bonds.

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**SAVRS SETTLEMENT PROCEDURES RELATING TO
SENIOR SERIES 2001AA BONDS OUTSTANDING AS TAXABLE SAVRS**

Capitalized terms used herein have the respective meanings specified in Appendices J and K to the Official Statement and in the Official Statement.

(a) 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 Holder or Potential Holder of:

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

(ii) whether Sufficient Clearing Bids existed for the determination of the interest rate;

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

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

(v) if the aggregate principal amount of SAVRS to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different than the aggregate principal amount of SAVRS to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of SAVRS to be (x) purchased from one or more Existing Holders on whose behalf such other Broker-Dealers submitted Bids or Sell Orders, or (y) sold to one or more Potential Holders on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the Auction Date of the next succeeding Auction.

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

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

(ii) instruct each Potential Holder (and each Potential Beneficial Owner) on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of SAVRS to be purchased pursuant to such Bid against receipt of such principal amount of SAVRS;

(iii) instruct each Existing Holder (and each Beneficial Owner) on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, or a Sell Order that was accepted, in whole or in part, to instruct such Bidder's Agent Member to deliver to such Broker-Dealer (or its Agent Members) through DTC the principal amount of SAVRS to be sold pursuant to such Bid or Sell Order against payment therefor;

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

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

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

(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 is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any SAVRS received by it pursuant to paragraph (b)(iii) above, among the Potential Holders and Potential Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders and Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealers identified to it by the Auction Agent pursuant to paragraph (a)(v) above.

(d) On the Business Day after the Auction Date, the Securities Depository shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchases and sales of SAVRS as determined in the Auction.

MECHANISM FOR CONVERSION OF TAXABLE SAVRS TO TAX-EXEMPT SAVRS**Conversion at Option of Corporation.**

Subject to the Resolution, the SAVRS may be converted to bear interest at a Tax-Exempt SAVRS Rate upon the delivery by the Corporation to the Trustee of a Favorable Opinion. The conversion shall, as determined by the Corporation, apply to the SAVRS designated as Senior Series 2001AA Bonds or to any or all of such series of SAVRS. Upon such conversion to a Tax-Exempt SAVRS Rate, the provisions of Appendix H to this Official Statement shall apply to the Senior Series 2001AA Bonds so converted, and the provisions of Appendix K of this Official Statement shall no longer apply to the Senior Series 2001AA Bonds so converted. Any such conversion shall be made as follows:

(a) The Corporation shall confirm the appointment of each of Lehman Brothers, Inc., Goldman Sachs & Co. and William R. Hough & Co., as Broker-Dealers and Lehman Brothers, Inc. as Market Agent, or shall otherwise select and appoint qualified Broker-Dealers and a Market Agent.

(b) The Corporation shall give written notice of any such conversion specifying the proposed Tax-Exempt Conversion Date and the principal amount of any Senior Series 2001AA Bonds to be converted to the Trustee, the Auction Agent, the Broker-Dealer, the Market Agent, the Bond Insurer, Fitch (if the SAVRS are then rated by Fitch) and S&P (if the SAVRS are then rated by S&P) not fewer than 20 days prior to the proposed Tax-Exempt Conversion Date. The Tax-Exempt Conversion Date shall be the Business Day next succeeding the last day of an applicable Interest Period.

(c) Not later than the 15th day preceding the Tax-Exempt Conversion Date, notice of the conversion shall be given by first class mail by the Trustee to the Owners of all such SAVRS of a series for which any Bonds being converted. Such notice shall inform the Owners of:

(i) the proposed Tax-Exempt Conversion Date;

(ii) the conditions to the conversion pursuant to the Resolution; and

(iii) the matters required to be stated pursuant to the Resolution with respect to mandatory tender and purchases of SAVRS being converted governed by such Section.

(d) (i) Not later than one Business Day immediately preceding the Tax-Exempt Conversion Date, the Market Agent shall determine (A) the Initial Interest Rate (as defined in Appendix H) for the series of SAVRS or any portion thereof subject to the conversion and (B) the rate of interest for the immediately succeeding Interest Period for that portion of the SAVRS, if any, which are not being converted to a Tax-Exempt SAVRS Rate on such Tax-Exempt Conversion Date; and the Market Agent shall, not later than 2:00 p.m. (New York City time), notify the Trustee and the Corporation of such rate or rates by telephone (promptly confirmed in writing), telegram, teletype, telex or other similar means of communication. The Initial Interest Rate for the SAVRS or any portion thereof subject to the conversion pursuant to (A) above and the rate of interest for that portion of the SAVRS, if any, which is not being converted pursuant to (B) above shall be the minimum rate or rates of interest necessary to remarket such Bonds at a price of par for the Initial Auction Period (as defined in Appendix H) in the case of (A) above or the immediately succeeding Interest Period in the case of (B) above and shall not exceed the SAVRS Maximum Rate for such Bonds being converted set forth in Appendix H or the SAVRS Maximum Rate for such SAVRS not being converted as set forth herein. Promptly after the date of determination, the Trustee shall give notice of said rates to the Corporation and the Auction Agent.

(ii) As of the Tax-Exempt Conversion Date applicable to the SAVRS, sufficient funds shall, not later than 12:00 Noon (New York City time), be available to purchase all SAVRS which are then required to be purchased as described above. If (1) this condition is not met for any reason, or (2) if the Favorable Opinion is not received by the Corporation, the conversion shall not be effective, the SAVRS so being converted shall continue to be outstanding as SAVRS under Appendix K, the Trustee shall, not later than 4:00 p.m. (New York City time), provide notice of the failed conversion

to the Auction Agent, the Paying Agent and the Owners of such SAVRS. The SAVRS that were the subject of the mandatory tender shall, notwithstanding (d)(i) above, bear interest for the Interest Period commencing on the failed Tax-Exempt Conversion Date at the SAVRS Maximum Rate, determined by the Auction Agent as provided in the Resolution unless and until a new Auction Date is established prior to the end of said Interest Period as permitted in (f) below..

(e) The determination of the interest rates for the SAVRS subject to mandatory tender as described below in connection with a conversion as described above shall be conclusive and binding upon the Corporation, the Trustee, the Paying Agent and the respective Owners of such SAVRS. The Corporation, the Trustee, the Auction Agent and the Market Agent shall not be liable to any Owners for failure to give any notice required above or for failure of any Owners to receive any such notice.

(f) In the event that the conversion will not occur on a scheduled Tax-Exempt Conversion Date the Market Agent may schedule a new Auction Date for the SAVRS.

Mandatory Tender Upon Conversion; Certain Notices.

(a) ***Mandatory Tender Upon Conversion.*** If any Senior Series 2001AA Bonds are to be converted as described above, all Senior Series 2001AA Bonds not converted on a prior Tax-Exempt Conversion Date shall be subject to mandatory tender for purchase on the Tax-Exempt Conversion Date at a price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date. The Corporation shall determine at least 20 days prior to the Tax-Exempt Conversion Date the principal amount of Senior Series 2001AA Bonds to be converted to a Tax-Exempt SAVRS Rate and shall give written notice of such amount in accordance with the Resolution. The Market Agent shall obtain new CUSIP numbers for the Senior Series 2001AA Bonds being converted. Upon delivery of all the tendered Senior Series 2001AA Bonds to the Trustee on the Tax-Exempt Conversion Date, the Corporation shall cause a new Bond designated “Education Loan Revenue Bond, Senior Series 2001AA-[1][2][etc.] (Select Auction Variable Rate Securities)” to be executed, authenticated and delivered in lieu of the converted Bonds and shall insert the new CUSIP numbers therein, and the Market Agent shall determine the Initial Interest Rate (as defined in Appendix H) on such converted Senior Series 2001AA Bonds. The remaining Senior Series 2001AA Bonds not converted to a Tax-Exempt Auction Rate shall be remarketed as SAVRS in accordance with the Resolution.

(b) ***Notice to Owners.*** Any notice of conversion given to Owners shall specify that all Outstanding Senior Series 2001AA Bonds not previously converted are subject to mandatory tender pursuant to the provisions of the Resolution and will be purchased on the Tax-Exempt Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date unless the conversion fails as described above.

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

(d) ***Certain Notices by Trustee and Market Agent.*** Subject to the provisions of subsection (c) above, the following notices shall be given in connection with a conversion as described herein:

(i) ***Notices by Market Agent and Trustee of Remarketed Bonds.*** At or before 12:00 noon (New York City time) on the Business Day immediately preceding the Tax-Exempt Conversion Date, the Remarketing Agent shall give notice by telephone, telegram, telecopy, telex or other similar communication to the Trustee, of the names, addresses and taxpayer identification numbers of the purchasers, and the principal amounts and denominations, of Bonds to be sold on the Tax-Exempt Conversion Date, the purchase price at which the Bonds are to be sold and their date of sale and the principal amount of Bonds, if any, which have not been remarketed.

Upon receipt of any notice pursuant to the preceding paragraph, the Trustee shall on or prior to 2:30 p.m. (New York City time) on the date of receipt of such notice, give notice thereof by

telephone, telegram, telecopy, telex or other similar communication to the Paying Agent and the Registrar.

(ii) *Trustee's Notice of Insufficiency of Payments Required for Conversion.* If, by 12:00 noon (New York City time) on the Tax-Exempt Conversion Date the Trustee shall not have received sufficient moneys from the Market Agent which, together with any other available funds, would be sufficient to purchase all Bonds which are required to be purchased pursuant to subsection (f) below, the conversion shall not be effective and the Trustee and Auction Agent shall provide such notices and take such actions as are required under the Resolution.

(e) *Payments of Remarketing Proceeds.* The Market Agent shall cause to be paid to the Trustee by 12:00 noon (New York City time) on the Tax-Exempt Conversion Date all amounts then held by the Market Agent representing proceeds of the remarketing of such Bonds. All such remarketing proceeds received by the Trustee shall be deposited in the Remarketing Fund.

(f) *Payments of Purchase Price by Trustee.* On the Tax-Exempt Conversion Date, the Trustee shall pay the purchase price of the Bonds required to be tendered for purchase to the selling Owners thereof on or before 3:00 p.m. (New York City time). Such payments shall be made in immediately available funds, but solely from moneys in the Remarketing Fund representing proceeds of the remarketing of the Bonds, pursuant to subsection (c) above, to any Person other than the Corporation, and neither the Corporation, the Trustee, the Paying Agent nor the Market Agent shall have any obligation to use funds from any other source.

(g) *Registration and Delivery of Tendered or Purchased Bonds.* Upon receipt of notice from the Trustee pursuant to subsection (d)(iii) above, the Registrar shall register and authenticate and as promptly thereafter as practicable the Registrar shall deliver Bonds remarketed by the Market Agent to the Market Agent or the purchasers thereof in accordance with the instructions of the Market Agent.

(h) *Delivery of Bonds; Effect of Failure to Surrender Bonds.* All Bonds to be purchased on the Tax-Exempt Conversion Date shall be required to be delivered to the designated office of the Trustee, or its designated agent for such purposes, at or before 12:00 noon (New York City time) on such date. If the Owner of any Bonds that is subject to purchase fails to deliver such Bonds to the Trustee, or its designated agent for such purposes, for purchase on the purchase date, and if the Trustee, or its designated agent for such purposes, is in receipt of the purchase price therefor, such Bonds shall nevertheless be deemed tendered and purchased on the Tax-Exempt Conversion Date and shall be Undelivered Bonds and registration of the ownership of such Bond shall be transferred to the purchaser thereof as provided in subsection (g) above. The Trustee shall, as to any Undelivered Bonds, (i) promptly notify the Market Agent, the Auction Agent, the Paying Agent and the Registrar of such nondelivery and (ii) the Registrar shall place a stop transfer against an appropriate amount of Bonds registered in the name of the Owner(s) on the Bond Register. The Registrar shall place such stop transfer(s) commencing with the lowest serial number Bonds registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Bonds) until the appropriate tendered Bonds are delivered to the Trustee or its designated agent. Upon such delivery, the Registrar shall make any necessary adjustments to the Bond Register. Pending delivery of such tendered Bonds, the Trustee, or its designated agent, shall hold the purchase price therefor uninvested in a segregated subaccount for the benefit of such Owners.

Inadequate Funds for Tenders; Failed Conversion.

If the funds available for purchases of Bonds are inadequate for the purchase of all Bonds tendered on the Tax-Exempt Conversion Date or if a proposed conversion otherwise fails as provided in this Appendix M, 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 Market Agent, each Broker-Dealer, the Bond Insurer 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 SAVRS, Auctions shall be conducted beginning on the first Auction Date occurring more than two Business Days after the failed Tax-Exempt Conversion Date and interest payable thereon shall be determined and paid according to this Resolution.

No Tender Purchases on Redemption Date.

Senior Series 2001AA Bonds called for redemption shall not be subject to tender and purchase on the redemption date thereof.

Undelivered Bonds.

Any Bonds which are required to be tendered on an Tax-Exempt Conversion Date and that are not delivered on the Tax-Exempt Conversion Date and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the purchase price, including any accrued interest due to (but not after) such purchase date with respect to such Bonds, shall be deemed to have been purchased, and shall be Undelivered Bonds. In the event of a failure by a Bondowner to tender its Bonds on or prior to the required date, said Owner of such Undelivered Bonds shall not be entitled to any payment other than the purchase price due on the purchase date and Undelivered Bonds in the hands of such nondelivering Bondowner shall no longer accrue interest or be entitled to the benefits of the Resolution, except for the payment of the purchase price due on the purchase date; provided, however, that the indebtedness represented by such Bonds shall not be extinguished, and the Paying Agent and Registrar shall transfer, authenticate and deliver such Bonds as provided below. The Paying Agent shall give telephonic notice to the Trustee and the Registrar, promptly confirmed by mail, of all Undelivered Bonds.

With the respect to any Undelivered Bond, the Paying Agent, acting hereunder and pursuant to the power of attorney granted by such Bondowner in the Bonds, shall do or cause the Registrar to do the following:

- (a) assign, endorse and register the transfer of such Bonds to the purchaser or purchasers thereof;
- (b) authenticate and deliver a new Bond or Bonds, as appropriate, to the purchaser or purchasers thereof;
- (c) execute an acknowledgment that the Owner of Undelivered Bonds holds such Undelivered Bond for the benefit of the new purchaser or purchasers thereof, who shall be identified in such acknowledgment;
- (d) promptly notify by first-class mail the Owner of such Undelivered Bond that:
 - (i) the Paying Agent has acted pursuant to such power of attorney to transfer the Undelivered Bond and to perform the other acts set forth in this Section;
 - (ii) the Undelivered Bond is no longer Outstanding; and
 - (iii) funds equal to the applicable purchase price for such Bond are being held on behalf of such Owner, without interest, in the segregated subaccount established for such purpose by and with the Trustee or Paying Agent.
- (e) enter on the Bond Register that the Undelivered Bond is no longer Outstanding; and
- (f) subject to the other provisions of the Resolution, hold the purchase price for such Bond in the subaccount established for such purpose, without interest, and pay such purchase price and any unpaid interest due on the purchase date to such Owner upon presentation of the certificate representing the Undelivered Bond. Bonds presented on or before 12:00 noon (New York City time) on any Business Day are to be paid on or before the close of business on that day.

Prior Owners of Bonds purchased or deemed purchased to the Resolution shall not be entitled to interest thereon which accrues on and after the related purchase date, provided moneys are on hand in the subaccount established therefor to pay the purchase price and any unpaid interest due on the purchase date.

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 \$4,568,000,000 (unaudited) and statutory capital of approximately \$2,787,000,000 (unaudited) as of March 31, 2001. 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 Senior 2001 Bonds.

Ambac Assurance makes no representation regarding the Senior 2001 Bonds or the advisability of investing in the Senior 2001 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 SENIOR 2001 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 "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

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, 17th 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 Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- (1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;
- (2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- (3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001; and

- (4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;

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*”.

**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 several times, including by the Higher Education Amendments of 1986, 1990, 1992, 1993, 1994, 1997 and 1998. 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 1, 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 1, 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 1, 1998.

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

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

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

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

(k) The Federal Consolidation Loan interest rate calculation was revised to reflect the rate for Federal Consolidation Loans, and will be effective for loans on which applications are received on or after February 1, 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 1, 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 ("FDSLPL"). 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 FDSLPL and the FFELP. Loans made under the FDSLPL accounted for approximately 7% of the total volume under both the FDSLPL 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 FDSLPL, which is approximately 25% of all schools participating in the FDSLPL 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 FDSLPL and meet the eligibility requirements. Generally, student loans made under the FDSLPL have parallel terms and conditions, benefits and amounts as the Stafford Loans, PLUS Loans and Unsubsidized Stafford Loans described below. The FDSLPL 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 FDSLPL loans with FFELP loans.

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

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

Guaranty Agency and Lender Provisions. In addition to the changes discussed under "Risk Sharing Provisions" above, the 1993 Amendments and the 1998 Reauthorization Bill include certain other amendments affecting Guaranty Agencies and lenders. Most notably, the Secretary was granted authority to recover and restrict the use of reserve funds of any Guaranty Agency as well as any assets purchased with such reserve funds if the Secretary determines that it is in the best interests of the FFELP or an orderly transition to complete reliance on the FDSLPL to do so. These and other amendments could adversely affect the ability of a Guaranty Agency to remain solvent. Such other amendments include reducing the Guaranty Agency default collection retention rate from 30% to 27% (and reduced further to 24% under the 1998 Reauthorization Bill, or 23% beginning October 1, 2003), reducing the maximum insurance premium charged by a Guaranty Agency from 3% to 1% and authorizing the Secretary to terminate a Guaranty Agency's reinsurance agreement if the Secretary determines such action is necessary to protect federal fiscal interests. The Administrative Cost Allowance ("ACA") was eliminated and the Department was given discretion to reduce such payments below the level previously mandated. In the 1998 Reauthorization Bill, the ACA was replaced by two new payments, a Guaranteed Student Loan processing fee of 65 basis points for loans originated on or after October 1, 1998 and before October 1, 2003 (40 basis points for loans made on or after October 1, 2003) paid on a quarterly basis, and an account maintenance fee of 12 basis points (10

basis points for fiscal years 2001-2003) paid annually on outstanding Guaranteed Student Loans. For Stafford Loans disbursed on or after July 1, 1995 and prior to July 1, 1998, the Lender yield on Guaranteed Student Loans during in-school, grace and deferment periods was reduced from the 91-day Treasury Bill rate plus 3.1% to 91-day Treasury Bill rate plus 2.5% (not to exceed 8.25%). Stafford Loans disbursed on or after July 1, 1998 bear interest at a variable rate equal to the bond equivalent of 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 1, 1993. However, the 1998 Amendments and the 1998 Reauthorization Bill established a reduction in the 1.05% per annum fee to .62% per annum for loans on which applications are received between October 1, 1998 and January 31, 1999. On February 1, 1999, the annual rebate fee returned to 1.05% per annum. Interest rates on Consolidation Loans disbursed on or after July 1, 1998 are equal to the weighted average of the loans consolidated rounded up to the nearest one-eighth of 1%, capped at 8.25%. Also effective for Guaranteed Student Loans (including Consolidation Loans) first disbursed on or after October 1, 1993, Lenders are assessed an up-front, user/origination fee equal to .5% of the principal amount of the Guaranteed Student Loan.

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

Servicer Provisions. The 1992 Reauthorization Bill authorized the Secretary to regulate servicers, including the regulation of their financial responsibility. On April 29, 1994, the Secretary of the Department of Education published interim final regulations regarding the Student Assistance General Provisions and FFELP regulations. These regulations (which were published in final form on November 29, 1994), among other things, establish requirements governing contracts between institutions and third-party servicers, strengthen sanctions against institutions for violations of the program requirements of the 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 1, 1981 or, subsequent to such date, if made to a borrower who, upon entering into a note for a loan, has outstanding Guaranteed Student Loans under the FFELP for which the interest rate does not exceed 7%. Stafford Loans made between January 1, 1981 and September 13, 1983 bear interest at a rate of 9% per annum and, for Stafford Loans made beginning on or after September 13, 1983, the rate is 8% per annum. Further, loans to first time borrowers made on or after July 1, 1988, bear interest at the rate of 8% per annum from disbursement through four years after repayment commences and at a variable rate reset each July 1 equal to the 91-day Treasury Bill rate plus 3.25%, or for loans made after July 23, 1992, 3.10%, not to exceed 10% per annum thereafter. However, pursuant to the Higher Education Technical Amendments of 1993, which was signed into law by the President on December 20, 1993, lenders converted all loans subject to this provision to a variable rate equal to the 91-day Treasury Bill rate plus 3.25% or, in the case of a loan made to a borrower with outstanding Guaranteed Student Loans under the FFELP after October 1, 1993, the 91-day Treasury Bill rate plus 3.1%, such conversion having taken place on or about January 1, 1995.

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

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

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

Interest Subsidy Payments

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

The Secretary makes Interest Subsidy Payments quarterly on behalf of the borrower to the holder of the loan in an amount equal to the interest accruing on the unpaid principal amount of the loan during the applicable period. The 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 1, 1992, except that under the 1993 Amendments, Stafford Loans made on or after July 1, 1995 qualify for Special Allowance Payments based on the 91-day Treasury Bill rate plus 2.5% while the borrower is in-school, grace or deferment status. In the case of certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations originally issued prior to October 1, 1993, the Special Allowance Payments are reduced by approximately one-half, but not less than certain minimums provided in the 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 1, 1998, but prior to January 1, 2000, Special Allowance Payments were based on the bond equivalent yield of 91-day Treasury Bills auctioned for such quarter plus 2.2% while borrowers are in-school, grace or deferment status, or 2.8% while borrowers are in repayment periods. For Stafford Loans first disbursed on or after January 1, 2000, Special Allowance Payments will be based on the bond equivalent yield of the 3-month commercial paper rate reported by the Federal Reserve for such quarter plus 1.74% while borrowers are in-school, grace or deferment status, or 2.34% while borrowers are in repayment periods.

The 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 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest is either 12% or 14% per annum. A variable interest rate applies to PLUS and SLS Loans made and disbursed on or after July 1, 1987 or made to refinance PLUS Loans pursuant to the 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 1 preceding the applicable 12-month period, plus 3.25% (3.10% for loans first disbursed on and after October 1, 1992 but prior to July 1, 1994), with a maximum rate of 12% per annum (11% for SLS Loans first disbursed on or after October 1, 1992 and 10% for Plus Loans first disbursed on or after October 1, 1992). Special Allowance Payments are available on variable rate PLUS and SLS Loans only if the rate determined by the formula above exceeds the applicable maximum borrower interest rate. For PLUS Loans first disbursed on or after July 1, 1994, the cap has been further reduced to 9%. For PLUS Loans disbursed on or after July 1, 1998, the interest rate will be based on 91-day Treasury Bills plus 3.1% not to exceed 9%. Special Allowance Payments are available if the interest rate calculated under the new formula would exceed the applicable cap. Commencing July 1, 1994, however, the SLS Loan program was merged into the unsubsidized Stafford Loan program with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger.

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

Whereas federal Interest Subsidy Payments are not available for such deferments, the 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 1, 1987 in order to permit the borrower to obtain the variable interest rate available on PLUS Loans on and after July 1, 1987. If a lender is unwilling to reissue the original PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate. Substantially identical combined repayment and refinancing options are also available for SLS Loans.

Consolidation Loans

Under the 1986 amendments to the 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 1, 1994, such rate may not be less than 9% per annum. However, Consolidation Loans made on or after November 13, 1997 through September 30, 1998 bear interest at the annual variable rate applicable to Stafford Loans. Consolidation Loans for which the application is received on or after October 1, 1998 and before July 1, 2003 bear interest at a rate equal to the weighted average interest rate of the loans consolidated, rounded up to the nearest one-eighth percent and capped at 8.25%. Lenders of Consolidation Loans made on or after July 1, 1994 are required to offer borrowers income-sensitive repayment schedules. Effective July 1, 1994, Consolidation Loans for less than \$7,500 have a repayment schedule of not more than ten years. Repayment must commence within 60 days after all holders have discharged the liability of the borrower on the loans selected for consolidation. Effective for Consolidation Loan applications received by lenders on or after August 10, 1993, the Secretary will not make federal Interest Subsidy Payments on Consolidation Loans other than those loans which consolidate only subsidized Stafford Loans. Special Allowance Payments are made on Consolidation Loans whenever the rate charged the borrower is limited by the 9/8.25% cap. However, for applications received on or after October 1, 1998, and before January 1, 2000, Special Allowance Payments are paid in order to afford the lender a yield equal to the 91-day Treasury Bill plus 3.1% whenever the formula exceeds the borrower's interest rate, and for applications received on or after January 1, 2000, and before July 1, 2003, Special Allowance Payments are paid in order to afford the lender a yield equal to the 3-month commercial paper rate reported by the Federal Reserve plus 2.64% whenever the formula exceeds the borrower's interest rate.

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

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

General

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 2001 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 2001 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 Statutory 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. Set forth below are brief summaries of these three programs and the Statutory Loans made thereunder. 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 and may not be available to pay debt service on the 2001 Bonds.

The Statutory Loan Program may include other types of Statutory Loans from time to time.

VSAC EXTRA Loan Program (Classic)	Program Features
DETERMINATION OF LOAN AMOUNT	1. Cost minus Aid after maximum Title IV loans have been approved; or 2. Past due balance at school for Stafford borrowers who are currently enrolled or need to pay balance in order to reenroll.
ELIGIBILITY	Student borrowers at school in VT or VT residents attending Title IV-eligible school out of state. Credit and Income standards apply.
COSIGNERS	If student is unable to meet income standards alone, creditworthy cosigner may be required. Cosigner should be member of student's immediate family or a Vermont resident.
INTEREST CALCULATION METHOD	Index: 91-day US Treasury Bill + 2.50% to 2.75% margin for the life of the loan. Quarterly variable. No maximum rate.
CURRENT INTEREST RATE	7.75% (For the period 4/1/01 -- 6/30/01)
GUARANTEE FEE	4% of the loan amount
COMMENCEMENT OF REPAYMENT	Repayment begins within 45 days of disbursement.
REPAYMENT TERM	Maximum of 180 months.
INTEREST	Interest accrues from the date of first disbursement until the loan is paid in full.
INTEREST CAPITALIZATION	Upon conversion to repayment and after periods of forbearance.
DEFERMENT TYPES	None
FORBEARANCE	At option of lender. Interest payments encouraged.
MINIMUM PAYMENT REQUIRED	\$50 minimum, negotiable.

PREPAYMENT PENALTY	None
LATE CHARGES	VSAC does not assess late fees.
DEFAULT	<ol style="list-style-type: none"> 1. Failure to make a payment within 270 days of its due date or to keep promises made in promissory note. 2. Failure to notify Lender of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignation of assets. 4. Any false written statement pertaining to loan.
NOTICES	<ol style="list-style-type: none"> 1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to the borrower from VSAC will be effective when mailed to the most recent address VSAC has for borrower. 3. VSAC may report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	Borrower fills in requested amount on application/promissory notes. When credit and income requirements are approved, VSAC asks school financial aid office to provide enrollment confirmation and cost-minus-aid figures, or balance due school. VSAC will approve the cost-minus aid amount, or the borrower's requested amount, whichever is less. Borrower/School may request multiple disbursements of funds. VSAC prepares and sends proper disclosure statements, at disbursement and commencement of repayment.
INCOME STANDARDS	Cosigner must meet VSAC income standards. Applicant must have verifiable job history of at least 2 years with same employer or in same profession. Applicant must show sufficient income to demonstrate a debt to income ratio of not more than 40%.
CREDIT STANDARDS	<p>VSAC will consider making a loan if the credit report shows no credit history or shows:</p> <ol style="list-style-type: none"> 1. No undischarged bankruptcy. 2. No unsatisfied court judgment or federal or state tax lien or government claim over \$100. 3. No education loan default with more than a \$0 balance. If prior default is now showing current, get written explanation from borrower. 4. No real estate foreclosure or deed in lieu thereof. 5. No record of a collection account, profit and loss write-off, charge-off, or repossession for more than \$200 which has not been satisfied. Accounts with less than \$200 balance or medical collection accounts may be subject to credit committee judgment.
CREDIT COMMITTEE	Loan Officer in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

VSAC EXTRA Law Loan	Program Features
<p>LOAN AMOUNTS</p> <p>1. ANNUAL MAXIMUM</p> <p>2. CUMULATIVE</p> <p>3. BAR EXAM LOAN</p>	<p>1. Cost Minus Aid after maximum Title IV loans have been borrowed from VSAC.</p> <p>2. Cost Minus Aid for Number of Academic Years. <i>(Exceptions considered with Financial Aid Officer recommendation.)</i></p> <ul style="list-style-type: none"> • Borrowers may pay off existing private education loans up to cumulative amount, provided all loans are in good standing. <p>3. Up to \$10,000.</p> <ul style="list-style-type: none"> • Non Cost-Minus-Aid Loan available to pay legitimate education-related expenses connected with the preparation for and expenses of, but not limited to, the Bar Exam. Borrower's VSAC loans must be in good standing. Additional credit review required.
<p>ELIGIBILITY</p>	<p>1. Must be enrolled at least half-time in a professional degree program at a VSAC-approved Law School.</p> <p>2. Must borrow maximum eligibility under FFELP and other Federal Loan Programs before applying for EXTRA Law.</p> <p>3. Borrower must meet VSAC's credit standards, including all education debt in good standing. <i>(see "Credit Standards" below)</i></p> <p>4. EXTRA Law proceeds may be used only for education expenses, except as noted for Bar Exam borrowing (# 3 above).</p>
<p>COSIGNERS</p>	<p>Yes, if creditworthy and financially qualified. For certain purposes.</p>
<p>INTEREST CALCULATION METHOD</p>	<p>Index: 91-day T-BILL + 2.50% to 2.75% Margin for the life of the loan. Quarterly variable; no maximum rate.</p>
<p>CURRENT INTEREST RATE</p>	<p>7.75% (For the period 4/1/01 - 6/30/01)</p>
<p>FEES</p> <p>1. INSURANCE</p> <p>2. REPAYMENT</p>	<p>1. 6% of the loan amount.</p> <p>2. None</p>
<p>COMMENCEMENT OF REPAYMENT</p>	<p>Repayment begins 9 months after graduation or drop to less than one half-time enrollment.</p>
<p>INTEREST</p>	<p>Interest accrues from the date of first disbursement until the loan is paid in full.</p>
<p>INTEREST CAPITALIZATION</p>	<p>Upon conversion to repayment and after periods of forbearance.</p>
<p>FORBEARANCE</p>	<p>1. At VSAC's discretion.</p> <p>2. Match borrower's FFELP or other Federal Loan deferment eligibility.</p>
<p>REPAYMENT TERM</p>	<p>Tied to Federal Loan terms; maximum of 30 years.</p>

MINIMUM PAYMENT REQUIRED	\$50/month, or monthly interest amount, whichever is less.
PREPAYMENT PENALTY	None
LATE CHARGES	VSAC does not assess late fees.
DEFAULT	<ol style="list-style-type: none"> 1. Failure to make a payment within 270 days of its due date or to keep promises made in promissory note. 2. Failure to notify VSAC of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignation of assets. 4. Any false written statement pertaining to loan.
NOTICES	<ol style="list-style-type: none"> 1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to borrower from VSAC will be effective when mailed to the most recent address VSAC has for borrower. 3. VSAC may report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	Borrower completes and signs Multi-Year Promissory Note (MYPN), including consent to credit review. VSAC processes the application using electronic means wherever possible. Non Cost-Minus-Aid Loans do not require school certification. Subsequent disbursements and loan requests do not require a new promissory note and are subject to current credit review.
CREDIT STANDARDS	<p>VSAC will consider making a loan if the credit report shows no credit history or shows:</p> <ul style="list-style-type: none"> • No undischarged bankruptcy. • No unsatisfied court judgment or federal or state tax lien or government claim over \$100. • No education loan default with more than a \$0 balance. If prior default is now showing current, get written explanation from borrower. • No real estate foreclosure or deed in lieu thereof. • No record of a collection account, profit and loss write-off, charge-off, or repossession for more than \$200 which has not been satisfied. Accounts with less than \$200 balance or medical collection accounts may be subject to credit committee judgment.
CREDIT COMMITTEE	Loan Officer in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

VSAC EXTRA Medical Loan	Program Features
<p>LOAN AMOUNTS</p> <p>1. ANNUAL MAXIMUM</p> <p>2. CUMULATIVE</p> <p>3. MEDICAL RESIDENCY LOAN</p>	<p>1. Cost Minus Aid after maximum Title IV loans have been borrowed from VSAC.</p> <p>2. Cost Minus Aid for Number of Academic Years. <i>(Exceptions considered with Financial Aid Officer recommendation.)</i></p> <ul style="list-style-type: none"> • Borrowers may pay off existing private education loans up to cumulative amount, provided all loans are in good standing. <p>3. Up to \$10,000.</p> <ul style="list-style-type: none"> • Non Cost-Minus-Aid Loan available to pay legitimate education-related expenses connected with the preparation for and expenses of medical residency. Borrower's VSAC loans must be in good standing. Additional credit review required.
<p>ELIGIBILITY</p>	<p>1. Must be enrolled at least halftime in a professional degree program at a VSAC-approved Medical School.</p> <p>2. Must borrow maximum eligibility under FFELP and other Federal Loan Programs before applying for EXTRA Medical.</p> <p>3. Borrower must meet VSAC's credit standards, including all education debt in good standing. <i>(see "Credit Standards" below)</i></p> <p>4. EXTRA Medical proceeds may be used only for education expenses, except as noted for medical residency borrowing (# 3 above).</p>
<p>COSIGNERS</p>	<p>Yes, if creditworthy and financially qualified. For certain purposes.</p>
<p>INTEREST CALCULATION METHOD</p>	<p>Index: 91-day T-BILL + 2.5% to 2.75% Margin for the life of the loan. Quarterly variable; no maximum rate.</p>
<p>CURRENT INTEREST RATE</p>	<p>7.5% (For the period 4/1/01 -- 6/30/01)</p>
<p>FEES</p> <p>1. INSURANCE</p> <p>2. REPAYMENT</p>	<p>1. 6% of the loan amount.</p> <p>2. None</p>
<p>COMMENCEMENT OF REPAYMENT</p>	<p>Repayment begins 9 months after graduation or drop to less than half-time enrollment or 9 months after ending internship/residency program.</p>
<p>INTEREST CAPITALIZATION</p>	<p>When repayment begins and after periods of forbearance.</p>
<p>FORBEARANCE</p>	<p>1. At VSAC's discretion.</p> <p>2. Match borrower's FFELP or other Federal Loan deferment eligibility.</p>
<p>REPAYMENT TERM</p>	<p>Tied to Federal Loan terms; maximum of 30 years.</p>
<p>MINIMUM PAYMENT REQUIRED</p>	<p>\$50/month, or monthly interest amount, whichever is less.</p>
<p>PREPAYMENT PENALTY</p>	<p>None</p>

LATE CHARGES	VSAC does not assess late fees.
DEFAULT	<ol style="list-style-type: none"> 1. Failure to make a payment within 270 days of its due date or to keep promises made in promissory note. 2. Failure to notify VSAC of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignment of assets. 4. Any false written statement pertaining to loan.
NOTICES	<ol style="list-style-type: none"> 1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to borrower from VSAC will be effective when mailed to the most recent address VSAC has for borrower. 3. VSAC may report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	Borrower completes and signs Application/Promissory Note, including consent to credit review. VSAC processes the application using electronic means wherever possible. Non Cost-Minus-Aid Loans do not require school certification. Subsequent loan requests do not require a new Application/Promissory Note and are subject to current credit review.
CREDIT STANDARDS	<p>VSAC will consider making a loan if the credit report shows no credit history or shows:</p> <ul style="list-style-type: none"> • No undischarged bankruptcy. • No unsatisfied court judgment or federal or state tax lien or government claim over \$100. • No education loan default with more than a \$0 balance. If prior default is now showing current, get written explanation from borrower. • No real estate foreclosure or deed in lieu thereof. • No record of a collection account, profit and loss write-off, charge-off, or repossession for more than \$200 which has not been satisfied. Accounts with less than \$200 balance or medical collection accounts may be subject to credit committee judgment.
CREDIT COMMITTEE	Loan Officer in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

VSAC EXTRA Institutional Loan	Program Features
DETERMINATION OF LOAN AMOUNT	<ol style="list-style-type: none"> 1. Cost minus Aid or borrower requested amount, whichever is less; or 2. Past due balance as certified by the school.
ELIGIBILITY	Student borrowers attending a Title IV eligible College or University in Vermont or a Vermont resident attending a Title IV eligible College or University outside Vermont.
INTEREST CALCULATION METHOD	Index: 91-day US Treasury Bill (or equivalent) + 2.50% to 2.75% margin for the life of the loan. Quarterly variable. No maximum rate.
CURRENT INTEREST RATE	7.75% (For the period 4/1/01 -- 6/30/01)
GUARANTEE FEE	None
COMMENCEMENT OF REPAYMENT	No payments are required while the borrower maintains full-time enrollment. A Grace Period of six months begins when enrollment ends. Repayment begins within 45 days of the end of the Grace Period.
REPAYMENT TERM	Maximum of 360 months.
INTEREST	Interest accrues from date of disbursement through the date the loan is paid in full.
INTEREST CAPITALIZATION	Upon conversion to repayment and after periods of forbearance.
DEFERMENT TYPES	None
FORBEARANCE	At option of lender. Interest payments encouraged.
MINIMUM PAYMENT REQUIRED	\$50 minimum, negotiable.
PREPAYMENT PENALTY	None
LATE CHARGES	VSAC reserves the right to assess late fees.
DEFAULT	<ol style="list-style-type: none"> 1. Failure to make a payment within 270 days of its due date or to keep promises made in promissory note. 2. Failure to notify Lender of changes within 10 business days. 3. Any bankruptcy proceeding begun for or by borrower, or assignment of assets. 4. Any false information, electronic statement, or written statement pertaining to the loan.
DEFAULT REIMBURSEMENT	<p>The College or University guarantees each loan for principal and accrued interest at default.</p> <p>Default claims paid for:</p> <ol style="list-style-type: none"> 1. Borrower's failure to make payments when due. This failure persists for 270 days. 2. Borrower's death, total and permanent disability, and bankruptcy filing.

NOTICES	<ol style="list-style-type: none"> 1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to the borrower from VSAC will be effective when mailed to the most recent address VSAC has for borrower. 3. VSAC will report the status of the loan to a credit bureau regularly.
APPROVAL PROCESS	<p>Borrower fills in requested amount on Application/Promissory Notes. When credit requirements are approved, VSAC asks school financial aid office to provide enrollment confirmation and cost-minus-aid figures. The school will approve the cost-minus-aid amount, certified amount, or the borrower's requested amount, whichever is less. The School may request multiple disbursements of funds. VSAC prepares and sends proper disclosure statements at disbursement and commencement of repayment.</p>
CREDIT STANDARDS	None.
CREDIT COMMITTEE	N/A

VSAC HEAL Loan Program	Program Features
DETERMINATION OF LOAN AMOUNT	<p>1. Maximum for medical students: \$20,000 annually, \$80,000 cumulative, set by HEAL Program regulations.</p> <p>2. School financial aid officer determines approved amount based on student's eligibility for all aid. VSAC approves lesser of borrower requested amount or school approved amount.</p>
ELIGIBILITY	VSAC offers HEAL loans only to eligible students at the University of Vermont College of Medicine. Eligibility is certified by financial aid officer on application. Applicants must meet credit criteria as established by HEAL Program.
COSIGNERS	If creditworthy cosigner signs promissory note, the 6% insurance premium fee will be reduced to 3%.(per HEAL program regulations) Cosigner must submit application and meet income and credit criteria.
INTEREST CALCULATION METHOD	Index: 91-day T-Bill (provided by HHS) + 1.5% margin for the life of the loan. Quarterly variable; no maximum rate.
INTEREST RATE	6.69% for the period 4/1/98 -- 6/30/00
INSURANCE PREMIUM FEE	Statutory fee: 8%, reduced to 6% by HHS because of low default rate at subject school. Insurance premium fee is withheld by VSAC from each disbursement and sent to the US Dept of HHS.
COMMENCEMENT OF REPAYMENT	Repayment begins 9 months after the expiration of the interim period. The interim period applies during school and for up to 4 years of internship/residency.
INTEREST CAPITALIZATION.	When repayment begins, and no more than annually thereafter during periods of deferment or forbearance.
REPAYMENT OPTIONS	Borrower may choose level payments, graduated payments or income contingent repayment*. HEAL borrowers may apply for HEAL to HEAL consolidation.
DEFERMENT TYPES	Internship/residency, fellowship, National Health Service Corps, Peace Corps, military, volunteer service, education, or primary care.
FORBEARANCE	At discretion of lender. Maximum 24 months by regulation.
MINIMUM PAYMENT REQUIRED	None
PREPAYMENT PENALTY	None
LATE CHARGES	VSAC waives right to assess late charges on HEAL loans.
DEFAULT	The persistent failure of the borrower to make payment when due or to comply with other terms of the promissory note, and this failure has persisted for 120 days.
NOTICES	<ol style="list-style-type: none"> 1. Borrower must notify of any change within 10 business days of occurrence. 2. Any notice to borrower from lender will be effective when mailed to the latest address they have for borrower. 3. Lender must report existence of loan to credit bureau and delinquent status of the loan when 60 days past due.

APPROVAL PROCESS	Borrower completes and signs application and submits to financial aid officer at University of Vermont College of Medicine. Financial aid officer completes school section, certifies application, and forwards application to VSAC. VSAC approves credit annually, produces promissory note for the lesser of approved amount or borrower requested amount. Borrower signs promissory note. VSAC disburses funds copayable to student and school. VSAC sends borrower <u>Notice of Disbursement and Disclosure</u> statement showing amount of loan, Insurance premium fee, APR and total finance costs. Borrower must receive multiple disbursements if loan is for more than one-half academic year.
CREDIT STANDARDS	<ul style="list-style-type: none"> • HEAL Program credit standards state specifically that there will be a zero dollar tolerance for past due amounts at the time the credit report is received. • No bankruptcy within the past 5 years. • No education loan default with more than a \$0 balance. <p>Any prior default must be accompanied by written statement from lender stating loan is now in good standing.</p>
INCOME STANDARDS	Cosigner must meet VSAC income standards. Applicant must have verifiable job history of at least 2 years with same employer or in same profession. Applicant must show sufficient income to demonstrate a debt to income ratio of not more than 40%.
CREDIT COMMITTEE	Staff member in charge of program makes initial credit decisions. In case of questions or unclear decision, report is referred to credit committee, made up of staff members appointed by Director.

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PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

\$164,750,000

**VERMONT STUDENT ASSISTANCE CORPORATION
EDUCATION LOAN REVENUE BONDS
SERIES 2001**

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 \$164,750,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2001V (the "2001V Bonds"), Senior Series 2001W (the "2001W Bonds"), Senior Series 2001X (the "2001X Bonds"), Senior Series 2001Y (the "2001Y Bonds"), Senior Series 2001Z (the "2001Z Bonds") and Senior Series 2001AA (the "2001AA Bonds") (collectively, the "2001 Bonds").

The 2001 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 2001 Seventh Series Resolution of the Corporation adopted by the Corporation's Board of Directors on May 14, 2001 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2001 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 2001 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 2001 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 2001 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 2001 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 2001 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 2001 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 2001 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 2001 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 2001 Bonds.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 2001V Bonds, the 2001W Bonds and the 2001Z Bonds is excludable from gross income of the recipients thereof for federal income tax purposes; however, interest on the 2001V Bonds, the 2001W Bonds and the 2001Z 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 2001V Bonds, the 2001W Bonds and the 2001Z Bonds will not become includable in gross income. Failure to comply with these covenants may result in interest on the 2001V Bonds, the 2001W Bonds and the 2001Z Bonds being included in gross income from the date of issuance of the Tax-Exempt Bonds. Our opinion assumes continuing compliance with such covenants.

Interest on the 2001X Bonds, the 2001Y Bonds and the 2001AA Bonds is includable in gross income for federal income tax purposes, unless and until converted to tax-exempt obligations as provided in the Resolution. We offer no opinion with respect to any potential exclusion of interest on the 2001X Bonds, the 2001Y Bonds and the 2001AA Bonds from gross income for federal income tax purposes upon such conversion.

The accrual or receipt of interest on the 2001 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 2001 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 2001 Bonds and the Resolution and the rights of the registered owners of the 2001 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,

SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY



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.

[Signature of Robert J. Luada]

President



[Signature of Anne G. Gill]

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.

[Signature of Noraida Lauro]

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FINANCIAL STATEMENTS

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Financial Statements

June 30, 2000

(With Comparative Information for 1999)

(With Independent Auditors' Report Thereon)

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

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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, 2000, 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, 2000, 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 1, 2000 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 1, 2000

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Balance Sheet

June 30, 2000

(With Comparative Totals for June 30, 1999)

Assets	2000				1999	
	General Fund	Loan Finance Fund	Federal Loan Reserve Fund	VT Higher Education Savings Plan	(Memorandum Only)	
					Total	Total
Cash and cash equivalents (note 3)	\$ 2,318,067	239,528,353	6,289,013	9,581	248,145,014	146,907,889
Investments (note 3)	—	25,663,445	—	1,222,698	26,886,143	37,556,703
Receivables:						
Investment interest	6,904	1,225,888	62,013	57	1,294,862	623,077
Student loans (notes 4 and 5)	—	760,469,981	—	103,588	760,573,569	675,506,082
Student loan interest and special allowance (note 7)	—	22,958,763	—	804	22,959,567	19,203,252
Federal administrative and program fees	321,995	—	—	—	321,995	850,394
Grants and other	415,220	60,471	225,746	103	701,540	421,604
Due from other funds	4,748,274	4,056,792	—	—	8,805,066	9,364,711
Federal reinsurance receivable (note 5)	—	—	1,626,305	—	1,626,305	1,641,135
Property and equipment (note 9)	2,639,376	1,882,175	—	—	4,521,551	3,448,072
Deferred bond issuance costs, less accumulated amortization of \$3,668,617	—	5,173,193	—	—	5,173,193	4,645,553
Other assets	<u>241,171</u>	<u>890,784</u>	<u>—</u>	<u>—</u>	<u>1,131,955</u>	<u>945,672</u>
Total assets	\$ <u>10,691,007</u>	<u>1,061,909,845</u>	<u>8,203,077</u>	<u>1,336,831</u>	<u>1,082,140,760</u>	<u>901,114,144</u>

See accompanying notes to financial statements.

Liabilities and Fund Balances	2000				1999	
	General Fund	Loan Finance Fund	Federal Loan Reserve Fund	VT Higher Education Savings Plan	(Memorandum Only)	
					Total	Total
Bonds and notes payable (note 12)	\$ —	984,055,576	—	—	984,055,576	811,598,072
Accounts payable and other liabilities	1,558,108	287,213	34,632	4,369	1,884,322	2,776,844
Grants and scholarships payable	1,127,126	—	—	—	1,127,126	677,872
Accrued interest on bonds payable	—	2,852,309	—	—	2,852,309	1,794,291
U.S. Treasury rebates payable (note 13)	—	17,270,413	—	—	17,270,413	17,189,687
Federal advances (note 8)	—	—	538,194	—	538,194	538,194
Due to other funds	4,056,792	4,748,274	—	—	8,805,066	9,364,711
Due to U.S. Department of Education	—	—	213,442	—	213,442	265,127
Federal Fund liability (note 14)	—	—	5,270,504	—	5,270,504	4,437,521
Assets managed on behalf of others (note 16)	—	—	—	1,332,462	1,332,462	—
Return of reserve due to U.S.D.E. (note 6)	—	—	2,146,305	—	2,146,305	2,146,305
Total liabilities	6,742,026	1,009,213,785	8,203,077	1,336,831	1,025,495,719	850,788,624
Fund balances:						
Restricted:						
Bond resolution	—	42,948,185	—	—	42,948,185	36,473,534
Loan guarantees	919,628	—	—	—	919,628	—
Grants and scholarships	69,511	—	—	—	69,511	59,106
Unrestricted	320,466	—	—	—	320,466	2,097,322
Unrestricted - designated for future bond issuances (note 11)	—	7,865,700	—	—	7,865,700	8,247,486
Net investment in property and equipment	2,639,376	1,882,175	—	—	4,521,551	3,448,072
Total fund balances	3,948,981	52,696,060	—	—	56,645,041	50,325,520
Commitments and contingencies (notes 17 and 18)						
Total liabilities and fund balances	\$ 10,691,007	1,061,909,845	8,203,077	1,336,831	1,082,140,760	901,114,144

See accompanying notes to financial statements.

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, 2000
(With Comparative Totals for June 30, 1999)

	<u>2000</u>		<u>1999</u>	
	<u>General</u>	<u>Loan</u>	<u>(Memorandum Only)</u>	
	<u>Fund</u>	<u>Finance</u>	<u>Total</u>	<u>Total</u>
Revenues:				
U.S. Department of Education:				
Interest (note 7)	\$ —	10,825,545	10,825,545	11,066,923
Special allowance (note 7)	—	9,794,870	9,794,870	4,404,137
Interest on investments	214,993	7,712,147	7,927,140	11,178,054
Interest and other charges on student loans, net	—	44,026,440	44,026,440	39,821,166
State appropriations	13,831,839	—	13,831,839	12,926,951
Loan administrative fees	—	—	—	362,085
Federal reinsurance	—	—	—	2,012,042
Consolidation fees	316,531	—	316,531	47,893
Default aversion fee	593,705	—	593,705	723,961
Federal administrative and program fees	1,603,167	—	1,603,167	1,587,545
Collections on defaulted loans, net	1,662,427	—	1,662,427	1,702,818
Loan rehabilitation and repurchase revenue	1,474,213	—	1,474,213	1,027,301
Federal grants	1,725,800	—	1,725,800	1,327,050
Scholarship income	1,926,962	—	1,926,962	2,097,166
Software sales and maintenance	490,500	—	490,500	—
Other income	560,730	743	561,473	491,303
	<u>24,400,867</u>	<u>72,359,745</u>	<u>96,760,612</u>	<u>90,776,395</u>
Expenses:				
Salaries and benefits	3,837,630	9,406,688	13,244,318	11,324,904
Other general and administrative	1,328,766	3,135,585	4,464,351	3,384,997
State grants and scholarships	15,985,681	—	15,985,681	15,269,901
Purchases of defaulted loans	—	—	—	2,032,691
Reimbursement of collections to U.S.D.E.	1,566,572	—	1,566,572	1,460,618
Loan rehabilitation and repurchases to U.S.D.E.	1,166,974	—	1,166,974	817,984
Interest rebated to borrowers (note 13)	—	9,347,263	9,347,263	8,333,476
Interest subject to U.S. Treasury rebate (note 13)	—	84,189	84,189	5,911,841
Interest, net of amortization of discount/premium	—	35,862,726	35,862,726	32,394,689
Credit enhancement and remarketing fees	—	3,105,251	3,105,251	3,077,988
Consolidation and lender paid fees	—	3,100,787	3,100,787	2,476,242
Other loan financing expense	—	201,166	201,166	86,105
Depreciation and amortization	1,125,353	720,000	1,845,353	1,799,566
Amortization of bond issuance costs	—	466,460	466,460	473,236
	<u>25,010,976</u>	<u>65,430,115</u>	<u>90,441,091</u>	<u>88,844,238</u>
Excess (deficiency) of revenues over expenses	(610,109)	6,929,630	6,319,521	1,932,157
Transfers (to) from other funds	<u>507,972</u>	<u>(507,972)</u>	<u>—</u>	<u>—</u>
Net increase (decrease) in fund balance before extraordinary item	(102,137)	6,421,658	6,319,521	1,932,157
Extraordinary item:				
Reauthorization adjustment (note 14)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,796,353)</u>
Net increase (decrease) in fund balance	(102,137)	6,421,658	6,319,521	(864,196)
Fund balances at beginning of year	<u>4,051,118</u>	<u>46,274,402</u>	<u>50,325,520</u>	<u>51,189,716</u>
Fund balances at end of year	<u>\$ 3,948,981</u>	<u>52,696,060</u>	<u>56,645,041</u>	<u>50,325,520</u>

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, 2000

(With Comparative Totals for June 30, 1999)

	<u>2000</u>		<u>1999</u>	
	<u>General</u>	<u>Loan</u>	<u>(Memorandum Only)</u>	
	<u>Fund</u>	<u>Finance</u>	<u>Total</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$ 11,751,717	151,537,095	163,288,812	149,429,470
Cash paid to suppliers for goods and services	(18,901,110)	(56,514,294)	(75,415,404)	(65,918,943)
Loans made	—	(218,117,041)	(218,117,041)	(230,756,143)
Cash paid to employees for services	(3,837,631)	(9,406,687)	(13,244,318)	(13,506,488)
Interest received	—	41,928,855	41,928,855	35,021,373
VT State appropriation received	13,831,839	—	13,831,839	12,926,951
	<u>2,844,815</u>	<u>(90,572,072)</u>	<u>(87,727,257)</u>	<u>(112,803,780)</u>
Net cash provided by (used in) operating activities				
	<u>2,844,815</u>	<u>(90,572,072)</u>	<u>(87,727,257)</u>	<u>(112,803,780)</u>
Cash flows from noncapital financing activities:				
Proceeds from sale of notes/bonds payable	—	216,035,000	216,035,000	17,560,000
Payments on notes/bonds	—	(43,485,000)	(43,485,000)	(17,727,460)
	<u>—</u>	<u>172,550,000</u>	<u>172,550,000</u>	<u>(167,460)</u>
Net cash provided by (used in) financing activities				
	<u>—</u>	<u>172,550,000</u>	<u>172,550,000</u>	<u>(167,460)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of fixed assets	(1,870,038)	(1,048,795)	(2,918,833)	(2,181,733)
	<u>(1,870,038)</u>	<u>(1,048,795)</u>	<u>(2,918,833)</u>	<u>(2,181,733)</u>
Net cash used in capital and related financing activities				
	<u>(1,870,038)</u>	<u>(1,048,795)</u>	<u>(2,918,833)</u>	<u>(2,181,733)</u>
Cash flows from investing activities:				
Interest received on investments	211,745	7,066,564	7,278,309	10,602,711
Redemption of investments (NET)	—	10,900,000	10,900,000	—
	<u>211,745</u>	<u>17,966,564</u>	<u>18,178,309</u>	<u>10,602,711</u>
Net cash provided by investing activities				
	<u>211,745</u>	<u>17,966,564</u>	<u>18,178,309</u>	<u>10,602,711</u>
Net increase (decrease) in cash and cash equivalents	1,186,522	98,895,697	100,082,219	(104,550,262)
Cash and cash equivalents at June 30, 1999	<u>1,131,545</u>	<u>140,632,656</u>	<u>141,764,201</u>	<u>246,314,463</u>
Cash and cash equivalents at June 30, 2000	<u>\$ 2,318,067</u>	<u>239,528,353</u>	<u>241,846,420</u>	<u>141,764,201</u>

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

	<u>2000</u>		<u>1999</u>	
	<u>General Fund</u>	<u>Loan Finance Fund</u>	<u>(Memorandum Only)</u>	
			<u>Total</u>	<u>Total</u>
Reconciliation of operating income to net cash by operating activities:				
Excess (deficiency) of revenues over expenses	\$ (610,109)	6,929,630	6,319,521	832,363
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:				
Transfers (to) from other funds	507,972	(507,972)	—	745,450
Depreciation and amortization	1,125,353	720,000	1,845,353	1,799,565
Amortization of bond issuance costs	—	466,460	466,460	473,236
Amortization of bond discount/premium	—	(92,496)	(92,496)	(120,750)
Investment interest received	(211,745)	(7,066,564)	(7,278,309)	(10,602,711)
Changes in assets and liabilities:				
Increase in investment interest receivable	(3,248)	(645,583)	(648,831)	(512,787)
Increase in student loans receivable	—	(84,963,899)	(84,963,899)	(104,461,211)
Increase in student loan interest and special allowance receivables	—	(3,755,511)	(3,755,511)	(1,562,966)
Decrease (increase) in federal administrative and program fees	528,399	—	528,399	(850,394)
Decrease (increase) in grants and other receivables	(162,270)	79,617	(82,653)	65,630
Decrease (increase) in due from other funds	1,154,122	(595,185)	558,937	(5,127,571)
Increase in deferred bond issuance costs	—	(994,100)	(994,100)	—
Decrease (increase) in other assets	(122,570)	(63,713)	(186,283)	33,010
Increase (decrease) in accounts payable and other liabilities	(139,673)	(67,398)	(207,071)	782,257
Increase in grants and scholarships payable	449,254	—	449,254	447,746
Increase (decrease) in accrued interest on bonds payable	—	1,058,018	1,058,018	(158,388)
Decrease in borrower rebates payable	—	—	—	(4,492,504)
Increase in U.S. Treasury rebates payable	—	80,726	80,726	4,837,839
Increase (decrease) in due to other funds	594,457	(1,154,102)	(559,645)	4,803,279
Increase (decrease) in due to U.S. Department of Education	(265,127)	—	(265,127)	265,127
Total adjustments	<u>3,454,924</u>	<u>(97,501,702)</u>	<u>(94,046,778)</u>	<u>(113,636,143)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,844,815</u>	<u>(90,572,072)</u>	<u>(87,727,257)</u>	<u>(112,803,780)</u>

See accompanying notes to financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2000

(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 Higher Education Amendments of 1998 (1998 Amendments) were enacted on October 6, 1998, with an effective date of October 1, 1998 and changed the manner in which the FFEL program is administered. In accordance with the 1998 Amendments VSAC established a Federal Loan Reserve Fund (Federal Fund) and a Guaranty Agency Operating Fund as required to account for FFEL program activities. The Federal Fund assets and earnings on those assets are the property of the Federal government. The Operating Fund is considered the property of VSAC and may be used generally for all guaranty agency and other student financial aid related activities. The accounting for fees and expenditures under the FFEL program changed as described in notes 2(e), 5, 6, and 14. The balances as of June 30, 2000 reflect FFEL program results under the new requirements. Federal Fund assets are restricted in use and a VSAC liability is established to the U.S. Department of Education for the Federal Fund balance at year end.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2000

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, 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 or expenses for this fund.

Vermont Higher Education Savings 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 or expenses 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.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2000

(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) *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.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Notes to Financial Statements
June 30, 2000

(j) *Reclassifications*

Certain items in the 1999 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 \$248,145,014 at June 30, 2000. The bank balance of cash and cash equivalents totaled \$249,156,060 at June 30, 2000, of which \$100,946 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 \$26,886,143 at June 30, 2000 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 \$840,149 as of June 30, 2000.

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2000

Student loans receivable, before allowance for loan losses, are summarized as follows as of June 30, 2000:

Status:

Interim status	\$ 172,397,098
Deferral status	104,980,596
Repayment status	<u>484,036,024</u>
	<u>\$ 761,413,718</u>

Guarantee Type:

Department of Education	\$ 722,862,048
Department of Health and Human Services	19,709,508
Other	<u>18,842,162</u>
	<u>\$ 761,413,718</u>

(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 2000.

(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 2000, 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.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2000

(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.

(8) Federal Advances

The liability for Federal advances of \$538,194 includes advances received under Section 422(A), \$101,968, and Section 422(C), \$436,226. 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, 2000 is as follows:

	<u>Estimated Lives</u>	<u>General Fund</u>	<u>Loan Finance Fund</u>
Furniture and equipment	5-10 years	\$ 3,520,969	—
Leasehold improvements	5 years	763,651	—
Software	3- 5 years	<u>331,900</u>	<u>3,802,175</u>
		4,616,520	3,802,175
Less accumulated depreciation and amortization		<u>1,977,144</u>	<u>1,920,000</u>
Net property and equipment		<u>\$ 2,639,376</u>	<u>1,882,175</u>

VERMONT STUDENT ASSISTANCE CORPORATION

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(10) Bank Line of Credit

VSAC has a line of credit agreement with a commercial bank, which provides for maximum borrowings of up to \$3,000,000. 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, 2000.

(11) Designated Fund Balances

Designated fund balances of \$7,865,700 represents amounts designated to provide funding of cost of issuance fees, remarketing and line of credit fees as well as equity contributions pertaining to future bond issuances.

(12) Bonds and Notes Payable - Loan Finance Fund

VSAC has issued the following bonds and notes outstanding at June 30, 2000, which were issued to finance student loans:

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 3.4% to 4.55% in 2000.	\$ 49,000,000
1991 Series A, dated May 15, 1991; comprised of serial bonds maturing in increments between December 15, 1998 and December 15, 2000; interest is payable semi-annually at fixed rates ranging from 6.35% to 6.50%.	3,115,000
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 3.47% to 4.40% during 2000; 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 \$65,515,000 and \$69,938 of unamortized discount has been netted against the liability.	65,445,062
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 3.52% to 4.97% during 2000. The face amount of the bonds payable is \$50,000,000 and \$405,754 of unamortized premium has been added to the liability.	50,405,754

VERMONT STUDENT ASSISTANCE CORPORATION
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<p>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 3.45% to 5.00% during 2000. The face amount of the bonds payable is \$80,000,000 and \$554,760 of unamortized premium has been added to the liability.</p>	<p>\$ 80,554,760</p>
<p>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 3.20% to 4.60% during 2000.</p>	<p>122,500,000</p>
<p>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 3.25% to 5.07% during 2000.</p>	<p>96,000,000</p>
<p>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 3.18% to 4.55% during 2000.</p>	<p>19,300,000</p>
<p>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 3.35% to 4.60% during 2000.</p>	<p>100,000,000</p>
<p>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 3.35% to 4.90% during 2000.</p>	<p>12,850,000</p>
<p>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 3.25% to 5.05% during 2000.</p>	<p>165,000,000</p>
<p>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 4.35% to 4.5%</p>	<p>22,950,000</p>

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2000 Series R, S, T and U, dated May 31, 2000; comprises of auction variable rate bonds maturing December 15, 2034. Interest is reset every 35 days and payable semi-annually; initial rates ranged from 4.47% to 4.50%. \$ 172,550,000

VSAC has the following notes outstanding at June 30, 2000:

1997 Series A-V, dated December 15, 1997; principal and interest at 4.55%, due December 15, 2000. 8,430,000

1998 Series A-VII, dated December 15, 1998, principal and interest at 4.1%, due December 15, 2000. 7,155,000

1999 Series A-IX, dated June 15, 1999, principal and interest at 4.50%, due December 15, 2000. 5,785,000

2000 Series A-X, dated June 15, 2000, principal and interest at 4.80%, due December 15, 2000 3,015,000

Bonds and notes payable \$ 984,055,576

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 1991 Series A, 1995 Series A, B, C, D and E, 1996 Series F, G, H, I and J, and 1998 Series K-O, Series P-Q and 2000 Series R-U 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, 2000 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:

Year ending June 30:

2001	\$ 40,225,000
2002	12,620,000
2003	52,670,000
2004	15,050,000
2005	14,860,000
Thereafter	<u>847,740,000</u>
	<u>\$ 983,165,000</u>

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During the year ended June 30, 2000, VSAC issued the 1999 Series A-IX note totaling \$17,520,000 and the 2000 Series A-X note totaling \$3,015,000 to refund the scheduled principal maturities of the 1985 Series A bonds, the 1991 Series A bonds, the 1992 Series A bonds and the 1998 Series A-VIII note of \$3,900,000, \$5,935,000, \$3,995,000 and \$6,705,000, respectively. On May 31, 2000, \$11,735,000 of the 1999 A-IX note, \$3,400,000 of the 1997 A-V note, \$3,700,000 of the 1998 A-VII note, and \$4,115,000 of the Series 1992 A bonds were refunded into the 2000 Series P-Q bond. Based on the terms of the old and new debt, these refundings are estimated to result in additional interest payments in fiscal year 2001 of \$4,233,214. All notes mature in December 2000.

(13) Rebates Payable

The Vermont Value Program began in 1995. This program allows for an annual student rebate of interest equal to 1% of the outstanding principal on student loans. During 1997, VSAC extended the Vermont Value Program to include an interest rebate on all unsubsidized Stafford and PLUS loans. In fiscal years 1999 and 2000, the Vermont Value Program rebates were applied to the borrower's accounts in June 2000; therefore, there is no payable at June 30th for either fiscal year.

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, 2000 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 ED. The following shows the activity in the Federal Fund from July 1, 1999 to June 30, 2000. The amount payable to ED for the federal recall and the federal advance were transferred separately and are not included in the following information.

Federal Reserve Fund Liability at June 30, 1999	\$ 4,437,521
Reimbursement from ED on default loan purchases	7,478,222
Default loan collections	14,388
Loan administrative fees	1,113,447
Investment income	437,141
Purchases of default loans from lenders	(7,559,140)
Default Aversion Fee	(593,705)
Other expenses	(57,370)
	<hr/>
Federal revenue fund liabilities of June 30, 2000	\$ <u>5,270,504</u>

VERMONT STUDENT ASSISTANCE CORPORATION

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(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, 2000 amounted to \$7,110,060; VSAC's total payroll was \$10,332,291. Total contributions by VSAC amounted to \$711,006 in 2000, which represented 10% of the covered payroll.

(16) Assets Managed on the Behalf of Others

The Vermont Higher Education Savings Plan (VHESP) was established by the Vermont Legislature in April 1998. VHESP 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 VHESP participant deposits and earnings as of June 30, 2000.

(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, 2000 amounted to \$400,596. The following is a summary of future minimum rental commitments under these noncancellable operating leases:

Year ending June 30:

2001	\$	561,244
2002		319,612
2003		203,196
2004		159,012
	\$	<u>1,243,064</u>

VERMONT STUDENT ASSISTANCE CORPORATION

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June 30, 2000

(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 \$130,806 at June 30, 2000.

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 \$164,750,000 Education Loan Revenue Bonds, Senior Series 2001V, 2001W, 2001X, 2001Y, 2001Z and 2001AA (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 Service
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 June 15, 2001, 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 Lehman Brothers Inc.

3. Provision of Annual Financial Information. The Corporation shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of each fiscal year of the Corporation (currently the twelve months ended June 30), commencing with the report for the 2001 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.

(III) 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 K of the Official Statement.

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

5. Reporting of Significant Events

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

- 1. Principal and interest payment delinquencies;
- 2. Non-payment related defaults;
- 3. Unscheduled draws on debt service reserves reflecting financial difficulties;
- 4. Unscheduled draws on credit enhancements reflecting financial difficulties;
- 5. Substitution of credit or liquidity providers, or their failure to perform;
- 6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- 7. Modifications to rights of owners of the Bonds;
- 8. Bond calls;
- 9. Defeasances;
- 10. Release, substitution or sale of property securing repayment of the Bonds;
- 11. Rating changes.

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

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

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

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

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

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

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

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

9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation hereunder to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Agreement, any owner or Beneficial Owner of Bonds may seek, and may only seek, specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Agreement, it being agreed by the parties that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy

hereunder in the event of any failure of the Corporation to comply with this Disclosure Agreement shall be an action to compel specific performance. If the Corporation fails to provide the Annual Financial Information to each Repository by the date required by and in accordance with Section 3 of this Disclosure Agreement, the Corporation shall promptly provide notice of such failure to (a) either the MSRB or each National Repository and (b) the State Repository.

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 June, 2001, 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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