

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 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds is excluded from gross income for federal income tax purposes; however, interest on the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds is a specific item of tax preference for purposes of the federal alternative minimum tax. Interest on the Senior Series 2004OO Bonds is includable in gross income for federal income tax purposes. Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2004 Bonds (as defined below) and interest thereon are exempt from all taxation, franchise taxes, fees or special assessments of whatever kind imposed by the State of Vermont, except for transfer, inheritance and estate taxes. For a more complete description of the opinion of Bond Counsel, see "Tax Matters" herein.

NEW ISSUE - Book-Entry Only

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



\$275,000,000

Vermont Student Assistance Corporation

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

Education Loan Revenue Bonds

\$74,700,000 Senior Series 2004MM
(Auction Rate Certificates)

\$65,800,000 Senior Series 2004OO
(Taxable Auction Rate Certificates)

\$79,500,000 Senior Series 2004NN
(Auction Rate Certificates)

\$55,000,000 Senior Series 2004PP
(Auction Rate Certificates)

Dated: Date of Delivery

Price: 100%

Due: December 15, 2038

The Senior Series 2004MM Bonds, Senior Series 2004NN Bonds, Senior Series 2004OO Bonds and Senior Series 2004PP Bonds (collectively, the "2004 Bonds") will be issued as Auction Rate Certificates - ARCs™ ("ARCs"). The 2004 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 2004 Tenth Series Resolution as adopted on May 19, 2004 (collectively with the General Resolution and all other supplements and amendments thereto, the "Resolution"). The 2004 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 2004 Bonds. Purchasers of the 2004 Bonds will not receive certificates representing their beneficial ownership interests in the 2004 Bonds. Purchases and sales by the beneficial owners of the 2004 Bonds outstanding as ARCs shall be made in book-entry form in the principal amount of \$50,000 or any integral multiple thereof. See "THE SERIES 2004 BONDS - Book-Entry-Only System."

Payments of principal, redemption price and interest with respect to the 2004 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 2004 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 2004 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 2004 Bonds are subject to redemption, acceleration and mandatory tender as described herein. The Senior Series 2004OO Bonds may be converted, at the option of the Corporation, to bear interest at a Tax-Exempt Auction Rate under the circumstances described herein and are subject to mandatory tender upon such conversion.

Payment of the principal of and interest on the 2004 Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the 2004 Bonds.

Ambac

The 2004 Bonds are to be issued for the purpose of (a) financing the origination or purchase of: (i) loans which are guaranteed by the Corporation acting pursuant to Vermont law as State Guarantor to the extent required by applicable federal law and reinsured by the Secretary of the United States Department of Education, pursuant to, and to the extent authorized by, the United States Higher Education Act of 1965, as amended, (ii) loans insured by the Secretary of the United States Department of Health and Human Services, and (iii) other loans permitted under the State Act; (b) refunding certain outstanding obligations of the Corporation; and (c) paying the costs associated with the issuance of the 2004 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 2004 Bonds.

THE CORPORATION HAS NO TAXING POWER. THE 2004 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION AND THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2004 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 2004 BONDS. THE 2004 BONDS ARE PAYABLE, BOTH AS TO PRINCIPAL AND INTEREST, SOLELY AS PROVIDED IN THE RESOLUTION.

The 2004 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality by Kutak Rock LLP, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its in-house General Counsel and for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. Government Finance Associates, Inc. serves as Financial Advisor to the Corporation. The 2004 Bonds are expected to be available for delivery in New York, New York, through the facilities of DTC on or about June 3, 2004.

UBS Financial Services Inc.

RBC Dain Rauscher Inc.

Dated: May 25, 2004

™ ARCs is a trademark of UBS Financial Services Inc.

<u>Bonds</u>	<u>Initial Auction Dates</u>	<u>Broker-Dealer</u>
Senior Series 2004MM Bonds	July 12, 2004	UBS Financial Services Inc.
Senior Series 2004NN Bonds	July 15, 2004	UBS Financial Services Inc.
Senior Series 2004OO Bonds	July 7, 2004	UBS Financial Services Inc.
Senior Series 2004PP Bonds	July 15, 2004	RBC Dain Rauscher Inc.

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

No dealer, broker, salesman or other person has been authorized by the Corporation, the Bond Insurer or the Underwriters to give any information or to make any representations, other than the information and representations contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any 2004 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. All other information set forth herein has been obtained from the Corporation, the Bond Insurer and other sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the Bond Insurer subsequent to the date of this Official Statement.

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

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE BOND INSURER CONTAINED HEREIN UNDER THE CAPTION "INSURANCE ON THE 2004 BONDS" OR IN APPENDIX G 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 2004 BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE 2004 BONDS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004 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 2004 Bonds to potential investors is made only by means of this Official Statement. No person is authorized to detach or otherwise deliver or use this Summary Statement without the entire Official Statement. Terms used in this summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Issuer

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

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

Broker-Dealers

UBS Financial Services Inc. will serve as the initial Broker-Dealer with respect to the Senior Series 2004MM Bonds, Senior Series 2004NN Bonds and Senior Series 2004OO Bonds. RBC Dain Rauscher Inc. will serve as the initial Broker-Dealer with respect to the Senior Series 2004PP Bonds.

The Offering

The Corporation is offering hereby its Education Loan Revenue Bonds consisting of \$74,700,000 aggregate principal amount of Senior Series 2004MM Bonds (the “Senior Series 2004MM Bonds”), \$79,500,000 aggregate principal amount of Senior Series 2004NN Bonds (the “Senior Series 2004NN Bonds”), \$65,800,000 aggregate principal amount of Senior Series 2004OO Bonds (the “Senior Series 2004OO Bonds”) and \$55,000,000 aggregate principal amount of Senior Series 2004PP Bonds (the “Senior Series 2004PP Bonds” and collectively with the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004OO Bonds, the “2004 Bonds”).

Bond Insurance

The scheduled payment of the principal of and interest on the 2004 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 2004 Bonds.

Redemption

The 2004 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2004 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 \$1,183,650,000, being comprised of Senior Series 1995 A, B, C and D Bonds (collectively, the “1995 Bonds”), Senior Series 1996 F, G, H and I Bonds (collectively, the “1996 Bonds”), Senior Series 1998 K, L, M and N Bonds (the “Senior 1998 Bonds”), Subordinate Series 1998O Bonds (the “Subordinate 1998O Bonds” and collectively with the Senior 1998 Bonds, the “1998 Bonds”), Senior

Series 2000 Q, R, S, T and U Bonds (the “2000 Bonds”), Senior Series 2001 V, W, X, Y, Z and AA Bonds (the “2001 Bonds”), Senior Series 2002 BB, CC and DD Bonds (the “2002 Bonds”) and Senior Series 2003 EE, FF, GG, HH, II, JJ, KK and LL (the “2003 Bonds”). The 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the Senior 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any bonds issued on a parity therewith and outstanding under the Resolution in the future (collectively, the “Senior Bonds”) are secured equally and ratably by the security provided thereunder and are secured on a superior basis to the Subordinate 1998O Bonds. Failure of the Corporation to pay principal or interest on the Subordinate 1998O Bonds or any other Subordinate Bonds shall not be an Event of Default under the Resolution if any Senior Bonds are outstanding on which no payment default has occurred and is continuing. Additional Bonds may be issued under the Resolution if (a) each Rating Agency confirms that the issuance of the Additional Bonds will not cause such Rating Agency to withdraw or downgrade the rating on any Bonds and (b) the Bond Insurer consents to the issuance of the Additional Bonds.

**Global Bond;
Securities Depository**

The 2004 Bonds shall be issued for each Series as one fully registered bond in the aggregate principal amounts and with the maturities set forth on the cover page hereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, the Securities Depository.

Purpose of Issuance

The 2004 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”), (ii) refunding certain outstanding obligations of the Corporation and (iii) paying the costs associated with the issuance of the 2004 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 2004 Bonds.

The 2004 Bonds

While outstanding as Auction Rate Certificates (“ARCs”), the 2004 Bonds will be issued in denominations of \$50,000 or any integral multiple thereof and will mature as indicated on the cover page hereof. The 2004 Bonds will bear interest at the rates established from time to time as set forth herein.

The Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds will be issued as Tax-Exempt ARCs. The Senior Series 2004OO Bonds will be issued as Taxable ARCs and are subject to conversion to bear interest at a Tax-Exempt Auction Rate as described herein. Interest on the 2004 Bonds is payable as described herein. Each of the Applicable ARCs Rates and ARCs Auction Periods shall be established from time to time as described herein.

Fixed Rate Conversion

The Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds, the Senior Series 2004PP Bonds and the Senior Series 2004OO Bonds

converted to bear interest at a Tax-Exempt Auction Rate (collectively, the “2004 Tax-Exempt Bonds”) may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation (with the consent of the Bond Insurer) under the circumstances described herein.

Variable Rate Conversion

The 2004 Tax-Exempt Bonds may be converted to bear interest at a Variable Rate at the option of the Corporation (with the consent of the Bond Insurer) under the circumstances described herein.

Mandatory Tender Upon Conversion to Fixed Rate or Variable Rate

Bonds of any Series of the 2004 Tax-Exempt 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 2004OO Bonds may be converted to bear interest at a Tax-Exempt Auction Rate under the circumstances described herein and are subject to mandatory tender for purchase as described herein.

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

Initial Collateralization

Upon the issuance of the 2004 Bonds and completion of the application of proceeds, it is anticipated that the value of the assets pledged under the Resolution to secure the Outstanding Bonds will equal (i) approximately 101.82% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 101.12% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding.

**Changes to the Federal Family
Education Loan Program**

The programs effected by the Higher Education Act have been the subject of numerous statutory and regulatory changes and requirements for reauthorization that have resulted in material modifications to such programs. No assurance can be given that relevant laws, including the Higher Education Act, will be reauthorized or will not be changed in the future in a manner which might adversely affect the availability and flow of funds of the Corporation. See “CERTAIN INVESTMENT CONSIDERATIONS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program – *Future Changes in Relevant Law*” and Appendix H - “SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS.”

Certain Investment Considerations

Investment in the 2004 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading “CERTAIN INVESTMENT CONSIDERATIONS.”

THE 2004 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

\$275,000,000

Education Loan Revenue Bonds

\$74,700,000 Senior Series 2004MM
(Auction Rate Certificates)

\$65,800,000 Senior Series 2004OO
(Taxable Auction Rate Certificates)

\$79,500,000 Senior Series 2004NN
(Auction Rate Certificates)

\$55,000,000 Senior Series 2004PP
(Auction Rate Certificates)

This Official Statement, which includes the cover page, the Summary Statement and the Appendices hereto, provides information in connection with the issuance by the Vermont Student Assistance Corporation (the "Corporation") of its \$275,000,000 Education Loan Revenue Bonds, consisting of the following series of Bonds, initially issued as Auction Rate Certificates -- ARCsTM ("ARCs"): Senior Series 2004MM in the principal amount of \$74,700,000, Senior Series 2004NN in the principal amount of \$79,500,000, Senior Series 2004OO in the principal amount of \$65,800,000 and Senior Series 2004PP in the principal amount of \$55,000,000 (collectively, the "2004 Bonds"). The 2004 Bonds are being issued pursuant to the 1995 Education Loan Revenue Bond Resolution of the Corporation adopted on June 16, 1995 (the "General Resolution") and the 2004 Tenth Series Resolution adopted on May 19, 2004 (collectively, together with all other supplements and amendments thereto, the "Resolution"). There are issued and outstanding under the Resolution the Corporation's Education Loan Revenue Bonds in the aggregate principal amount of \$1,183,650,000, being comprised of Senior Series 1995 A, B, C and D Bonds (collectively, the "1995 Bonds"), Senior Series 1996 F, G, H and I Bonds (collectively, the "1996 Bonds"), Senior Series 1998 K, L, M and N Bonds (collectively, the "Senior 1998 Bonds"), Subordinate Series 1998O Bonds (the "Subordinate 1998 Bonds" and collectively with the Senior 1998 Bonds, the "1998 Bonds"), Senior Series 2000 Q, R, S, T and U Bonds (the "2000 Bonds"), Senior Series 2001 V, W, X, Y, Z and AA Bonds (the "2001 Bonds"), Senior Series 2002 BB, CC and DD Bonds (the "2002 Bonds") and Senior Series 2003 EE, FF, GG, HH, II, JJ, KK and LL Bonds (the "2003 Bonds"). The term "Bonds" as used herein shall refer to the 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the 1998 Bonds, the 1996 Bonds, the 1995 Bonds and any Additional Bonds issued under the Resolution in the future.

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

INTRODUCTION

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

TM ARCs is a trademark of UBS Financial Services Inc.

The 2004 Bonds will be issued for the purposes of (a) financing (i) loans qualifying under the Higher Education Act of 1965, as amended (the “Act” or the “Higher Education Act”), which are guaranteed by a permitted guarantor such as the Corporation to the extent required by the Act and reinsured by the Secretary of the United States Department of Education (the “Secretary”) pursuant to, and to the extent authorized by, the Act (“Federal Act Loans”), (ii) loans permitted under the State Act and insured by the Secretary of the United States Department of Health and Human Services (referred to herein as “HEAL Loans”), and (iii) other loans permitted under the State Act and the Resolution (referred to herein as “Statutory Loans”), (b) refunding certain outstanding obligations of the Corporation, and (c) paying the costs associated with the issuance of the 2004 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 2004 Bonds.

The 2004 Bonds will bear interest at the rates established from time to time as set forth herein. Initially, (a) the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds will be issued as Tax-Exempt ARCs, and (b) the Senior Series 2004OO Bonds will be issued as Taxable ARCs. Interest on each Series of 2004 Bonds will be payable as described herein.

The Senior Series 2004OO Bonds may be converted, at the option of the Corporation, to bear interest at a Tax-Exempt Auction Rate under the circumstances described herein. See Appendix F – “MECHANISM FOR CONVERSION OF TAXABLE ARCS TO TAX-EXEMPT ARCS” hereto. The exercise of the Corporation’s option to convert the Senior Series 2004OO Bonds to bear interest at a Tax-Exempt Auction Rate will depend on various factors, including the allocation or reallocation of the State of Vermont volume cap for tax-exempt private activity bonds. The Corporation is not required under any circumstances to convert the Senior Series 2004OO Bonds to bear interest at a Tax-Exempt Auction Rate and may choose to issue other tax-exempt bonds in the future without converting the Senior Series 2004OO Bonds to a Tax-Exempt Auction Rate. There can therefore be no assurances that the Corporation will elect to convert the Senior Series 2004OO Bonds. If the Series 2004OO Bonds are converted to bear interest at a Tax-Exempt Auction Rate, then all Senior Series 2004OO Bonds are subject to mandatory tender for purchase as described herein without right of retention.

All or a portion of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds, the Senior Series 2004PP Bonds and the Senior Series 2004OO Bonds converted to bear interest at a Tax-Exempt Auction Rate under the circumstances described herein (collectively, the “2004 Tax-Exempt 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 2004 Tax-Exempt 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 2004 Bonds while outstanding as ARCs but does not address any terms or conditions which would be applicable to any Series of the 2004 Tax-Exempt 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 2004 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 2004 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 2004 Bonds contained herein do not purport to be definitive or comprehensive. All descriptions of such documents, statutes and any legislative bills contained herein are qualified in their entirety by reference to such documents, statutes and legislative bills. Copies of the Resolution may be obtained upon written request during the initial

offering period of the 2004 Bonds from UBS Financial Services Inc., 1285 Avenue of the Americas, 15th Floor, New York, New York 10019, Attention: Education Loan Group, and thereafter from the Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404-2601, Attention: President or to the Corporation's financial advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022.

THE SERIES 2004 BONDS

General

The 2004 Bonds will bear interest from their date of issue and will mature as indicated on the cover page hereof. The initial Auction Dates for the 2004 Bonds are as set forth on the inside cover page hereof. The 2004 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 2004 Bond is payable to the Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2004 Bonds at the principal corporate trust office of the Trustee, Chittenden Trust Company, Burlington, Vermont. Interest on the 2004 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 2004 Bonds is payable to beneficial owners of the 2004 Bonds according to the procedures described under "THE SERIES 2004 BONDS -- Book-Entry-Only System." Should the Corporation discontinue the book-entry-only system for any Series of 2004 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 2004 Bonds, which request may provide that it will remain in effect unless and until changed or revoked in writing.

Book-Entry-Only System

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

DTC, New York, New York, will act as securities depository for the 2004 Bonds. The 2004 Bonds are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as requested by an authorized representative of DTC. One fully registered bond certificate is to be issued for each maturity of each series of the 2004 Bonds, as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2004 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each offered Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004 Bonds, except in the event that use of the book-entry system for the 2004 Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 2004 Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2004 Bonds such as redemptions, tenders, defaults, and proposed amendments to the 2004 Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the 2004 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC, nor Cede & Co. (nor any other DTC nominee), will consent or vote with respect to the 2004 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2004 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2004 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 2004 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2004 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2004 Bonds in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the 2004 Bonds are transferred by Direct Participants on DTC's records and followed by book-entry credit of tendered 2004 Bonds to Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2004 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 2004 Bonds, the Beneficial Owners of such 2004 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 2004 Bonds during a period beginning on the date 2004 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2004 Bonds selected for redemption; (b) register the transfer of or exchange any such 2004 Bonds selected for redemption in whole or in part, except the unredeemed portion of a 2004 Bond being redeemed in part; or (c) make any exchange or transfer of any 2004 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 2004 Bonds, (b) the delivery to any beneficial owner of the 2004 Bonds or other person, other than DTC, of any notice with respect to the 2004 Bonds, or (c) the payment to any beneficial owner of the 2004 Bonds or other person, other than DTC, of any amount with respect to the principal of or interest on the 2004 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 2004 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 2004 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the 2004 Bonds.

TAX-EXEMPT AUCTION RATE CERTIFICATES

General

The Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds will be issued as Tax-Exempt Auction Rate Certificates, shall be dated the date of initial delivery thereof and shall mature on the date set forth on the cover page of this Official Statement. Initially, the Senior Series 2004OO 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 2004MM Bonds, the Senior Series 2004NN Bonds, the Senior Series 2004PP Bonds and the Senior Series 2004OO 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 2004 Bonds 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 Tax-Exempt ARCs means each June 15 and December 15, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding June 14 and December 14), commencing December 15, 2004 (with respect to the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds) and the June 15 or December 15 immediately following

the Tax-Exempt Conversion Date (with respect to the Senior Series 2004OO Bonds), 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" with respect to the Tax-Exempt ARCs means, (a) with respect to each series of 2004 Tax-Exempt Bonds, so long as interest is payable on June 15 and December 15 with respect thereto and unless otherwise changed as described below under "Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date -- Changes in Tax-Exempt ARC Auction Period or Periods," the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on (i) 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) for the Senior Series 2004MM Bonds, (ii) a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day) for the Senior Series 2004OO Bonds outstanding as Tax-Exempt ARCs, and (iii) a Friday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day in which case on the next succeeding day that is followed by a Business Day) for the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds, 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 Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date -- Changes in Tax-Exempt 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, truncating the resultant figure and rounding up 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 2004 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"), unless the Auction Rate exceeds the Maximum Rate, in which case the rate of interest on the Tax-Exempt 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 Tax-Exempt ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall be equal to the Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be, with respect to each series of Tax-Exempt ARCs, 35 days in duration beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than, with respect to each series of Tax-Exempt ARCs, generally 35 days in duration, the Auction Rate for the

deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period. Notwithstanding the foregoing, (a) if the ownership of the 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 2004 Tax-Exempt 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 2004 Tax-Exempt 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 2004 Tax-Exempt Bonds Outstanding as Tax-Exempt ARCs. The Trustee is directed in the Resolution to enter into the initial Auction Agency Agreement with The Bank of New York for each such Series of 2004 Tax-Exempt 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 Resolution and 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 2004 Tax-Exempt 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 willful misconduct or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction 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 Financial Services Inc. as the initial Broker-Dealer with respect to the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004OO Bonds (if converted to Tax-Exempt ARCs), RBC Dain Rauscher Inc. as the initial Broker-Dealer with respect to the Senior Series 2004PP Bonds, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (*i.e.*, a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (c) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent. The "Market Agent," initially UBS Financial Services 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 2004 Tax-Exempt Bonds Outstanding as Tax-Exempt ARCs are to be held on each Auction Date, except as described above under "Interest -- Applicable ARCs Rate," by application of the Auction Procedures described in Appendix B hereto. "Auction Date" shall mean initially, for the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds, the Auction Dates set forth on the inside cover page hereof, for the Senior Series 2004OO Bonds outstanding as Tax-Exempt ARCs such initial date as shall be determined by the Market Agent in a certificate delivered to the Trustee and the Corporation, and thereafter the Business Day immediately preceding the first day of each Interest Period, other than in all cases (a) each Interest Period commencing after the date when ownership of the Tax-Exempt ARCs of the applicable Series of Tax-Exempt ARCs is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less

than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one of more Auction Periods may be changed as described below under “Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date -- Changes in Tax-Exempt 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 Fixed Rate Conversion Date or Variable 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 the Applicable Number of 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 or mandatory tenders, 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 2004 Tax-Exempt 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 2004 Tax-Exempt 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 upon receipt of a favorable opinion 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 2004 Tax-Exempt 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 2004 Tax-Exempt 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 2004 Tax-Exempt 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 2004 Tax-Exempt 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 2004 Tax-exempt 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 2004 Tax-Exempt 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 2004 Tax-Exempt Bond that is subject to purchase as described herein fails to deliver such 2004 Tax-Exempt 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 2004 Tax-Exempt 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 2004 Tax-Exempt Bond shall be transferred to the purchaser thereof as described below under “Undelivered Tax-Exempt ARCs.”

Inadequate Funds for Tenders of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs

If the funds available for purchase of 2004 Tax-Exempt Bonds are inadequate for the purchase of all 2004 Tax-Exempt 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, the Trustee shall return all tendered 2004 Tax-Exempt Bonds to the Owners thereof. After any such failed conversion, the 2004 Tax-Exempt 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

2004 Tax-Exempt 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.

TAXABLE AUCTION RATE CERTIFICATES

General

The Senior Series 2004OO Bonds will 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 date set forth on the cover page of this Official Statement. If the Senior Series 2004OO Bonds are converted to a Tax-Exempt Auction Rate as described in Appendix F, the terms described in this section relating to Taxable ARCs shall not apply to the Senior Series 2004OO Bonds. Certain capitalized terms used herein with respect to the Taxable ARCs are defined in Appendix D to 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 July 8, 2004 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; 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 (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date). Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods or in certain other events. See “Changes in Auction Periods or Auction Date -- Changes in Auction Period or Periods” below. An Interest Period means (a) the period commencing on the date of delivery of the Taxable ARCs through and including July 7, 2004, and each successive period of generally 28 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business

Day, in which case on the next succeeding day that is followed by a Business Day), and (b) 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 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; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be 28 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than generally 28 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period. Notwithstanding the foregoing, (a) if the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC, Auctions will be suspended and 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; (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 Non-Payment 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, and the next succeeding Auction Date shall be two or fewer Business Days after (or on) any such failed Tax-Exempt Conversion Date, then an Auction shall not be held on such Auction Date and the rate of interest on the Taxable 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.” Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate unless the Applicable ARCs Rate is the Non-Payment Rate, in which case the Non-Payment Rate may exceed the Maximum Auction Rate but cannot exceed the Maximum Interest Rate.

Notwithstanding anything herein to the contrary, if any Taxable 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. Any payment in respect of any Carry-over Amount shall be applied, first, to any accrued interest payable thereon and thereafter in reduction of such Carry-over Amount. As used in the Resolution, the terms “principal” and “interest” do not include within the meanings of such terms the Carry-over Amount or any interest accrued on any Carry-over Amount. The Carry-over Amount will be calculated for each Taxable 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), (i) the Carry-over Amount (and interest accrued thereon, calculated at a rate equal to One-Month LIBOR) will be paid by the Trustee in part or in whole, on the first occurring Interest Payment Date for such Taxable 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 in the Resolution to enter into the initial Auction Agency Agreement with the Bank of New York. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least \$40,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$40,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Resolution by giving at least 90 days’ written notice to the Corporation, the Trustee and the Market Agent (30 days’ written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Taxable 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 Financial Services Inc. as the sole initial Broker-Dealer for the Taxable ARCs 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 Financial Services 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 7, 2004 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 Taxable ARC Auction Periods or Auction Date -- *Changes in the Taxable ARC Auction Date*".

The Auction Agent shall determine the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate on each Auction Date. The determination by the Auction Agent of the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the Taxable 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 Non-Payment Rate on the first day of (a) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (b) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

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

So long as ownership of the Taxable 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 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 Taxable ARC 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 he or she shall have received from the Market Agent not less than 3 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the Auction Date by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date for such Auction Period to the Trustee, the Auction Agent, the Corporation and DTC.

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

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.

REDEMPTION OF THE 2004 BONDS

Optional Redemption

Bonds of any Series of 2004 Bonds that are outstanding as ARCs are subject to redemption in whole or in part in Authorized Denominations, at any time, at the option of the Corporation, at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon to the Redemption Date, unless the Redemption Date is an Interest Payment Date, in which case interest will be paid in the ordinary fashion. Optional redemptions of the 2004 Bonds may be made from (i) amounts held in the Loan Account, the Debt Service Reserve Account, the Extraordinary Reserve Account or, after providing for the payment of certain amounts required under the Resolution, the Revenue Account, or (ii) other moneys that prior to the determination to use such moneys for redemption were not subject to the pledge set forth in the Resolution; provided, however, that in the case of the 2004 Bonds, such moneys may be used to redeem 2004 Bonds only if such moneys constitute Available Moneys.

Extraordinary Mandatory Redemption

Each Series of 2004 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 2004 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 2004 Bonds.

The Resolution further provides that there shall be deposited in the Loan Account the proceeds of the sale of the 2004 Bonds and all Principal Receipts and any amounts which are required to be deposited therein pursuant to the Resolution or any Supplemental Resolution and any other amounts available therefor and determined by the Corporation to be deposited therein. Amounts on deposit in the Loan Account representing proceeds of the sale of 2004 Bonds or any other Bonds may be used to finance Eligible Education Loans until July 1, 2005 and, except upon the occurrence and continuation of a Recycling Suspension Event, amounts on deposit in the Loan Account representing Principal Receipts and amounts on deposit in the Extraordinary Reserve Account consisting of cash and investments may be used to finance Eligible Education Loans until July 1, 2006; 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 2004 Bonds. Notwithstanding the foregoing, no Eligible Education Loans will be financed upon the notice to the Corporation and the Trustee by the Bond Insurer of the occurrence of a Recycling Suspension Event. In the event that a Recycling Suspension Event is cured (such cure to be evidenced by the written approval of the Bond Insurer), the financing of Eligible Education Loans may resume. Upon the expiration of the ninety (90) day period following the date on which financing of Eligible Education Loans is no longer permitted in accordance with this provision (or such longer period as may be approved in writing by the Bond Insurer), the Corporation shall direct the Trustee to use amounts in the Loan Account representing proceeds of sale of the Bonds and Principal Receipts to redeem or purchase for cancellation Bonds (including 2004 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 2004 Bonds.

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

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

Selection of 2004 Bonds to be Redeemed

The 2004 Bonds or portions of the 2004 Bonds to be redeemed shall be selected by the Corporation. If less than an entire Series of the 2004 Bonds is to be redeemed, the 2004 Bonds of such Series to be redeemed shall be selected by lot by the Trustee or in such other manner as the Trustee in its discretion may deem appropriate.

Notice of Redemption

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

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

Bonds Due and Payable on Redemption Date

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

Partial Redemption of Bonds

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

SECURITY FOR THE BONDS

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

The Corporation has Outstanding under the Resolution \$1,173,650,000 aggregate principal amount of its Bonds which will rank on a parity with the 2004 Bonds, and which, together with the 2004 Bonds, will be secured on a basis superior to the Subordinate Series 1998 Bonds. The security for the Bonds under the Resolution is pledged equally and ratably first, to the payment of the principal of and interest on all Senior Bonds (including the 2004 Bonds), and second, to the payment of the principal of and interest on the Subordinate Bonds. In addition, the Resolution permits the authorization of additional Senior Bonds and additional Subordinate Bonds. Failure to pay principal of or interest on the Subordinate Bonds will not constitute an Event of Default so long as Senior Bonds are Outstanding, and no Event of Default shall have occurred with respect thereto.

Upon the issuance of the 2004 Bonds and completion of the application of proceeds, it is anticipated that the value of the assets pledged under the Resolution to secure the Outstanding Bonds will equal (i) approximately 101.82% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 101.12% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding.

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

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

The Bond Insurer has issued a surety bond (the "2001 Surety Bond") for the purpose of funding the Debt Service Reserve Requirement with respect to the 2001 Bonds. The Bond Insurer has issued a surety bond (the "2002 Surety Bond") for the purpose of funding the Debt Service Reserve Requirement with respect to the 2002 Bonds. The Bond Insurer has also issued a surety bond (the "2003 Surety Bond") for the purpose of funding the Debt Service Reserve Requirement with respect to the 2003 Bonds. The Bond Insurer has made a commitment to

issue a surety bond (the “2004 Surety Bond” and together with the 2001 Surety Bond, the 2002 Surety Bond and the 2003 Surety Bond, the “Surety Bond”) for the purpose of funding the Debt Service Reserve Requirement with respect to the 2004 Bonds, and the 2004 Surety Bond shall constitute a Funding Instrument. The 2004 Bonds will only be delivered upon the issuance of such 2004 Surety Bond. The entire premium on the 2004 Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2004 Bonds. The 2004 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 2004 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 2004 Bonds, but in no event exceeding the Surety Bond Coverage. The Surety Bond coverage is \$5,500,000 or such lesser amount as is equal to 2% of the principal of the 2001 Bonds, the 2002 Bonds, the 2003 Bonds and the 2004 Bonds then outstanding. If the amount on deposit in, or credited to, the Debt Service Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a Funding Instrument other than the Surety Bond (an “Additional Funding Instrument”), draws on the Surety Bond and any Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Bond Insurer under the terms of such Surety Bond and the Corporation is required to reimburse the Bond Insurer for any draws under such Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Corporation is a limited obligation of the Corporation, is subordinate to the Corporation’s obligations with respect to the 2004 Bonds and payable only from amounts on deposit under the Resolution as described in Appendix A hereto under the caption “Pledge of Resolution; Accounts -- Revenue Account.” Under certain circumstances the Surety Bond Coverage will automatically terminate and the Corporation must fund the Debt Service Reserve Requirement.

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

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

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

THE 2004 BONDS SHALL BE LIMITED OBLIGATIONS OF THE CORPORATION. THE CORPORATION SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2004 BONDS EXCEPT FROM THE REVENUES AND ASSETS PLEDGED UNDER THE RESOLUTION. THE BONDS, INCLUDING THE 2004 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 2004 BONDS.

INSURANCE ON THE 2004 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 G 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 2004 Bonds effective as of the date of issuance of the 2004 Bonds. A specimen copy of the Financial Guaranty Insurance Policy is attached hereto as Appendix J. Under the terms of the Financial Guaranty Insurance Policy, the Bond Insurer will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2004 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the 2004 Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2004 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2004 Bonds, the Bond Insurer will remain obligated to pay principal of and interest on outstanding 2004 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2004 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 2004 Bond which has become Due for Payment and which is made to a 2004 Bondholder by or on behalf of the Corporation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

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

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

4. loss relating to payments made in connection with the sale of 2004 Bonds at Auctions or losses suffered as a result of a Bondholder's inability to sell.
5. loss relating to payments of the purchase price of 2004 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of 2004 Bonds upon tender by a registered owner thereof.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the 2004 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2004 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 2004 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2004 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 2004 Bonds, the 2003 Bonds, the 2002 Bonds, the 2001 Bonds, the 2000 Bonds, the Senior 1998 Bonds, the 1996 Bonds and the 1995 Bonds, or superior to or equal to or subordinated to the Subordinate Series 1998 Bonds if (a) each Rating Agency requested by the Corporation to rate any Series of Bonds then Outstanding that has issued a current rating thereon confirms that it will not downgrade or withdraw such rating on account of the issuance of the Additional Bonds and (b) so long as any Bonds are insured by the Bond Insurer, the Bond Insurer consents to the issuance of the Additional Bonds.

EXPECTED APPLICATION OF THE 2004 BOND PROCEEDS

The Corporation expects to apply the proceeds of the 2004 Bonds as set forth below for the purposes of (i) financing the origination or acquisition of Eligible Education Loans (approximately \$196,677,982), 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; (ii) refunding certain outstanding obligations of the Corporation (approximately \$76,700,000); and (iii) paying the costs of issuance of the Corporation incidental to the issuance of the 2004 Bonds and related expenses (approximately \$1,622,018), including the Underwriters' discount. A portion of such amount will be used to purchase the 2004 Surety Bond from the Bond Insurer to satisfy the Debt Service Reserve Requirement for the 2004 Bonds and to pay the insurance premium for the Financial Guaranty Insurance Policy. The Corporation expects that, upon the refunding of certain of its obligations as described herein, the assets received in exchange for such 2004 Bond proceeds will be comprised of Education Loans (approximately 66.5%) and cash (approximately 33.5%). Amounts received in exchange for the proceeds of the 2004 Bonds will be deposited in the Loan Account and used for the purposes and in the manner authorized for moneys on deposit in the Loan Account in the Resolution. Education Loans received in exchange for the proceeds of the 2004 Bonds will be accounted for in the Loan Account.

CHARACTERISTICS OF EDUCATION LOANS

As of March 31, 2004, Education Loans in an aggregate principal amount of approximately \$1,114,477,306 were financed under the Resolution. Set forth are selected characteristics of such Education Loans as of March 31, 2004.

LOAN TYPE

	Education Loans Held Under Resolution as of March 31, 2004	
	Outstanding Principal	
Consolidation	\$528,285,658	47.40%
VSAC Advantage	\$18,233,889	1.64%
VSAC Extra	\$12,425,045	1.11%
VSAC Extra Law	\$41,502,182	3.72%
VSAC Extra Medical	\$3,111,260	0.28%
HEAL	\$18,794,358	1.69%
PLUS	\$123,136,140	11.05%
SLS	\$2,247,072	0.20%
Stafford Subsidized	\$233,724,965	20.97%
Stafford Unsubsidized	\$133,016,737	11.94%
Total	\$1,114,477,306	100%

BORROWER PAYMENT STATUS

	Education Loans Held Under Resolution as of March 31, 2004	
Deferred	\$183,921,524	16.50%
Grace	\$27,411,932	2.46%
Repay	\$629,994,421	56.53%
School	\$273,149,429	24.51%
Total	\$1,114,477,306	100%

The characteristics of Education Loans held under the Resolution as of March 31, 2004 will change over time. No assurance can be given that such changes will not be significant or that they will not be adverse.

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

CERTAIN INVESTMENT CONSIDERATIONS

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

The Bond Insurer

In the event there are insufficient funds available under the Resolution to make payments of interest on any 2004 Bond on any Interest Payment Date and the payment of principal on any 2004 Bond on the stated maturity date thereof, the Trustee shall have a claim under the Financial Guaranty Insurance Policy on behalf of the Bondowners for the timely payment of such amounts. There can be no assurance that the Bond Insurer will have sufficient revenues to enable it to make timely payments under the Financial Guaranty Insurance Policy. Moreover, the

Financial Guaranty Insurance Policy does not insure the payment of the principal of or interest on the 2004 Bonds coming due by reason of acceleration, optional redemption or mandatory redemption or the payment of Carry-over amounts. See “INSURANCE ON THE 2004 BONDS,” APPENDIX G – “AMBAC ASSURANCE CORPORATION” and APPENDIX J – “SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY” for further information concerning the Bond Insurer and the Financial Guaranty Insurance Policy.

Factors Affecting Sufficiency and Timing of Receipt of Revenues

The Corporation expects that the Revenues to be received by it pursuant to the Resolution will be sufficient to allow the Corporation to make all payments of principal of and interest on the Bonds when due and also to pay the annual cost of all Trustee fees, servicing costs and other administrative costs and expenses related thereto and to the Education Loans until the final maturity or earlier redemption of such Bonds. This expectation is based upon an analysis of cash flow assumptions, which the Corporation believes are reasonable, regarding the timing of the financing of such Education Loans to be held pursuant to the Resolution, the future composition of and yield on the Education Loan portfolio, rates of default and delinquency on Education Loans, the rate of return on moneys to be invested in various Accounts under the Resolution, and the occurrence of future events and conditions. For a brief description of selected characteristics of the Education Loans held under the Resolution as of March 31, 2004, see “CHARACTERISTICS OF EDUCATION LOANS” above. There can be no assurance, however, that the Education Loans will be acquired or originated as anticipated, that interest and principal payments from the Education Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Accounts will be realized, or that special allowance payments and other payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Corporation has no control may adversely affect the Corporation’s actual receipt of Revenues and Principal Receipts pursuant to the Resolution. This, in turn, may affect the Corporation’s ability to make payments of principal of and interest on the 2004 Bonds when due.

Receipt of principal of and interest on Education Loans may be accelerated due to various factors, including, without limitation: (a) default claims or claims due to the disability, death or bankruptcy of the borrowers greater than those assumed; (b) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Education Loans held under the Resolution and the Eligible Education Loans expected to be financed with proceeds of the 2004 Bonds; (c) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon such analysis; (d) economic conditions that induce borrowers to refinance or repay their loans prior to maturity; and (e) changes in applicable law that may affect the timing of the receipt of funds by the Corporation. Lenders, including the Federal Direct Student Loan Program, may make consolidation loans to borrowers for the purpose of retiring certain borrowers’ existing loans under various federal higher education loan programs. To the extent that Education Loans are repaid with consolidation loans, the Corporation will realize payment of such Education Loans earlier than projected.

Delay in the receipt of principal of and interest on Education Loans may adversely affect payment of the principal of and interest on the Bonds when due. Principal of and interest on Education Loans may be delayed due to numerous factors, including, without limitation: (a) borrowers entering deferment periods due to a return to school or other eligible purposes; (b) forbearance being granted to borrowers; (c) Education Loans becoming delinquent for periods longer than assumed; (d) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Corporation’s student loan portfolio expected to be held pursuant to the Resolution; and (e) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the student loan portfolio expected to be held pursuant to the Resolution.

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

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

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

Future Changes in Relevant Law. Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times and Congress is currently engaged in the reauthorization process. Certain of these amendments have significantly affected the federal student loan programs under the Higher Education Act. In addition, the United States Department of Education (the “Department”) continues to engage in the rulemaking process to revise the regulations promulgated by the Department under the Higher Education Act. The Department’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act Amendments of 1998 extended the authorization for the Federal Family Education Loan Program (the “FFEL Program”) to loans made on or before September 30, 2004.

During the reauthorization process, proposed amendments to the Higher Education Act are more commonplace and more than 50 such bills have been introduced in Congress relating to the current reauthorization process. These bills propose myriad changes to the Higher Education Act, including changing loan limits, decreasing origination fees, changing interest rate provisions, and eliminating the 9.5% floor return on certain loans which previously might have qualified for such floor. These changes could affect the loans expected to be held under the Resolution following the issuance of the 2004 Bonds. It is not possible to predict whether or when any of such proposals may be adopted, in what form they may be adopted, or the final content of any such proposals and their effect upon the Corporation’s education loan program.

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

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

Federal Direct Student Loan Program. The Student Loan Reform Act of 1993 established the William D. Ford Federal Direct Student Loan Program (the “FDSL Program”). Under the FDSL Program, approved institutions of higher education, or alternative loan originators approved by the Department, make loans to students or parents

without application to or funding from outside lenders or guarantors. The Department provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including extended, graduated and income-contingent repayment plans, forbearance of payments during periods of national service and consolidation under the FDSL Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the FDSL Program. The FDSL Program also provides certain programs under which principal may be forgiven or interest rates may be reduced. The FDSL Program involved reduction over time in the volume of loans made under the FFEL Program, and may continue to do so unless the FDSL Program is limited or eliminated legislatively.

Federal Budgetary Legislation. The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. No representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department, or the effect, if any, of any future legislation or regulations upon the Corporation's education loan finance program or other factors that could potentially affect timely payment of the 2004 Bonds.

Interest Rate Risk

The interest rates on the 2004 Bonds initially outstanding as Auction Rate Certificates (sometimes referred to herein as "Auction Rate Certificates" or "ARCs") will be based on auctions of those 2004 Bonds and will fluctuate from one interest period to another in response to changes in benchmark interest rates or general market conditions. The Corporation can make no representation as to what such rates may be in the future. The Education Loans, however, generally bear interest at an effective rate (taking into account any Special Allowance Payments, the "Loan Rates") equal to the average bond equivalent rates of weekly auctions of certain United States Treasury Bills or rates of interest on 3-month commercial paper plus margins specified for such Education Loans. See APPENDIX H -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS" hereto. As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on the 2004 Bonds, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds, including the 2004 Bonds, and amounts owing under certain other obligations. Further, if there is a decline in the Loan Rates, the amount of funds representing interest deposited in the Trust Estate may be reduced and, even if there is a similar reduction in the variable interest rates applicable to any of the 2004 Bonds, there may not necessarily be a similar reduction in the other amounts required to be funded out of such funds (such as certain Program Expenses).

Financial Status of the Guarantors

A deterioration in the financial status of a Guarantor could result in the inability of such Guarantor to make guaranty claim payments to the Corporation. Among the possible causes of deterioration in a Guarantor's financial status are: (a) the amount and percentage of defaulting Federal Act Loans guaranteed by such Guarantor; (b) an increase in the costs incurred by such Guarantor in connection with Federal Act Loans it has guaranteed; and (c) a reduction in revenues received in connection with Federal Act Loans it has guaranteed. The Higher Education Act grants the Department broad powers over Guarantors and their reserves. These provisions create a risk that the resources available to the Guarantors to meet their guaranty obligations may be reduced and no assurance can be given that exercise of such powers by the Department will not affect the overall financial condition of the Guarantors. Under Section 432(o) of the Higher Education Act, if the Department has determined that a Guarantor is unable to meet its guaranty obligations, the loan holder may submit claims directly to the Department and the Department is required to pay the full guaranty claim amount due with respect thereto in accordance with guaranty claim processing standards no more stringent than those of the Guarantor. However, the Department's obligation to pay guaranty claims directly in this fashion is contingent upon the Department making the determination referred to above. There can be no assurance that the Department would ever make such a determination with respect to any specific Guarantor or, if such a determination was made, whether such determination or the ultimate payment of such guaranty claims would be made in a timely manner. Virtually all of the Education Loans are, and will be,

guaranteed by the Corporation. See Appendix H -- "SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS."

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Federal Act Loans by any lender, any Guarantor, any Servicer or the Corporation may adversely affect payment of principal of and interest on the Bonds, including the 2004 Bonds, when due. The Higher Education Act, and the applicable regulations thereunder, require the lenders making Federal Act Loans, guarantors guaranteeing Federal Act Loans and parties servicing Education Loans to follow certain due diligence procedures in an effort to ensure that Federal Act Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a student loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Federal Act Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to completely describe those procedures. Failure to follow such procedures may result in the refusal by the Department to make reinsurance payments to a guarantor on such loans or may result in the guarantor's refusal to honor its guarantee on such loans to the Corporation. Such action by the Department could adversely affect a guarantor's ability to honor guarantee claims made by the Corporation, and loss of guarantee payments to the Corporation by a guarantor could adversely affect payment of principal of and interest on the 2004 Bonds.

If the Department or the Guarantor determines that the Corporation owes a liability to the Department or the Guarantor on any Federal Act Loan for which the Corporation is legal titleholder, the Department or the Guarantor might seek to collect that liability by offsetting against payments due to the Corporation on Federal Act Loans that are part of the Trust Estate. Such offsetting or shortfall of payments could adversely affect the amount of Revenues and the Corporation's ability to pay principal of and interest on the Bonds, including the 2004 Bonds.

Uncertainty as to Available Remedies

The remedies available to Owners of the 2004 Bonds upon an Event of Default under the Resolution or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies specified by the Resolution and other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2004 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by limitations on the availability of equitable remedies. In addition, the Higher Education Act provides that a security interest in student loans made pursuant to the FFEL Program may be perfected either through the taking of possession of the promissory notes evidencing such loans (or copies thereof) or by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law. If, through fraud, inadvertence or otherwise, a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Education Loans (or copies thereto), any security interest of the Trustee in the related Education Loans could be defeated.

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

The Resolution provides that the Corporation and the Trustee may undertake certain various actions based upon receipt by the Trustee of the written consent of the Bond Insurer and/or confirmation from each of the Rating Agencies that the outstanding respective ratings assigned by such Rating Agencies to the Bonds are not thereby impaired. Such actions include, among others, the issuance of Additional Bonds, restrictions on the optional redemption of the Subordinate Bonds, the inclusion in the Accounts held under the Resolution of a larger percentage of Eligible Education Loans which are not Federal Act Loans or which are not guaranteed at least as to the maximum percentage of the principal amount thereof permitted by the Act at the time of origination, the extension of certain dates for the acquisition or origination of Eligible Education Loans, amendments to the Resolution, removal of the Trustee and appointment of a successor, the acquisition of certain investments and the addition of loan servicers or liquidity providers. To the extent such actions are taken after issuance of the 2004 Bonds, investors in the 2004 Bonds will be subject to such actions and their impact on credit quality. Currently, the Rating Agencies

rating the 2004 Bonds are Moody's Investors Service ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). Information on the ratings assigned to the 2004 Bonds can be obtained from Moody's at 99 Church Street, New York, New York 10007-2796 and from S&P at 55 Water, New York, New York 10041.

General Economic Conditions

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

Servicemembers Civil Relief Act. The Servicemembers Civil Relief Act (the "Relief Act"), signed into law by the President on December 19, 2003 updates and replaces the Soldiers' and Sailors' Civil Relief Act of 1940. The Relief Act provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loan. The Relief Act limits the ability of a lender of student loans to take legal action against a borrower during the borrower's period of active duty and, in some cases, during an additional three month period thereafter. In addition, the Relief Act provides generally that a borrower who is covered by the Relief Act may not be charged interest on a student loan that is not a Federal Act Loan or a HEAL Loan in excess of 6% per annum during the period of the borrower's active duty. As a result, there may be delays in payment and increased losses on the Education Loans.

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

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

Higher Education Relief Opportunities for Students Act of 2003. The Higher Education Relief Opportunities for Students Act of 2003 ("HEROES Act of 2003"), authorizes the Secretary of Education, during the period ending September 30, 2005, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: are serving on active military duty during a war or other military operation or national emergency, reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency, or suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, to ensure that such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance, to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable. The Secretary was given this same authority under Public Law 107-122, signed by the President on January 15, 2001 but the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty.

The number and aggregate principal balance of Education Loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, payments received by the Corporation on Education Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a

substantial number of borrowers of the Education Loans become eligible for the relief provided under the HEROES Act of 2003, there could be an adverse effect on the total collections on the Education Loans and the ability of the Corporation to pay interest on the 2004 Bonds.

Carry-over Amount

The Auction Rates on the Senior Series 2004OO Bonds while Outstanding as Taxable ARCs will be limited to the Maximum Rate. See Appendix D – “AUCTION PROCEDURES RELATING TO TAXABLE ARCS – Definitions” hereto. For an Interest Payment Date on which the Maximum Rate applies to the Senior Series 2004OO 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 Corporation may or may not elect to convert all or any part of these Taxable ARCs. See the discussion of the conversion under “INTRODUCTION” herein.

THE CORPORATION

General

The Corporation, a public nonprofit corporation, was created as an instrumentality of the State in 1965 and exists under the State Act for the purpose of ensuring that Vermont students and parents have the necessary information and financial resources to pursue their education goals beyond high school. The Corporation carries out its mandate by guaranteeing, making, acquiring, financing and servicing loans to borrowers qualifying under the State Act and, where applicable, the Federal Act and the Public Health Service Act, as amended (the “Health Act”). The Corporation also administers financial aid services, a program of grants and scholarships, a Section 529 savings plan (designated as the Vermont Higher Education Investment Plan) and work study, informational and career counseling services to students seeking further education, and related services to parents of such students.

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

To finance the conduct of certain of its affairs, the Corporation receives appropriations from the Vermont General Assembly and is authorized to incur liabilities, to borrow money, and to issue and have outstanding its notes, bonds or other obligations having such maturities, bearing such rate or rates of interest and secured by such lawful means as may in each case be determined by the Corporation. Obligations issued to finance the Corporation’s loan programs, including the Bonds, are not effective until approved in writing by the Governor of the State.

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

DIRECTORS

Chris Robbins
Chair

PRINCIPAL OCCUPATIONS OR AFFILIATIONS

President, Weidmann Industries, Inc.
St. Johnsbury, Vermont

Representative Martha P. Heath Vice-Chair	Vermont House of Representatives Westford, Vermont
Jon F. Ratti Secretary	Director of Guidance Bellows Falls Union High School Bellows Falls, Vermont
Joseph L. Boutin	President, The Merchants Bank South Burlington, Vermont
Senator Ann E. Cummings	Vermont State Senator Montpelier, Vermont
Jeb Spaulding <i>ex officio</i>	Treasurer, State of Vermont Montpelier, Vermont
David Ginevan	Executive Vice President for Facilities Planning Middlebury College Middlebury, Vermont
Pamela A. Chisolm	Director of Financial Aid Community College of Vermont Waterbury, Vermont
Dorothy R. Mitchell	Higher Education and Community Volunteer Worcester, Vermont
David Larsen	Middle School Educator Wilmington, Vermont
Joan Loring Wing	Attorney Rutland, Vermont

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

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

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

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

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

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

Management

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

Mr. Donald R. Vickers, President of the Corporation, has served the Corporation since 1971. Mr. Vickers was appointed President and C.E.O. of the Corporation in 1990. Mr. Vickers previously served as Director of

Financial Aid and Placement at Johnson State College, Johnson, Vermont. Mr. Vickers is a member of a number of regional and national higher education organizations, including the Vermont Higher Education Council, the Vermont Commission on Higher Education Funding, the Education Finance Council (EFC) - Board member 2000-2003, and the National Council of Higher Education Loan Programs (NCHELP) - Chairman 2003 - 2004. From 1999 to 2002, Mr. Vickers served on the Advisory Committee on Student Financial Assistance, which makes recommendations to Congress on federal student aid programs.

Mr. Steven Karcher, Vice President of Finance and Administration and Assistant Secretary of the Corporation, joined the Corporation in 1999. Mr. Karcher was previously the Vice President of Business Affairs at Marywood University, Scranton, Pennsylvania. He is a licensed Certified Public Accountant.

Mr. Scott A. Giles, Vice President of Policy, Research and Planning, joined the Corporation in 2003. Mr. Giles was previously Deputy Chief of Staff of the Committee on Science of the U.S. House of Representatives.

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

Mr. Thomas A. Little, Vice President – General Counsel and Assistant Secretary, joined the Corporation in January 2003. Mr. Little served as the Corporation's outside legal counsel from 1983 to 2003 as a member of the law firm Little, Cicchetti & Conard, P.C., Burlington, Vermont. Mr. Little was a member of the Vermont House of Representatives from 1992 to 2002.

Origination and Acquisition of Loans

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

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

Certain Education Loans are eligible for the Corporation's Vermont Value Program. Under the Vermont Value Program, a program that was established by the Corporation on July 1, 1994, students or parents with qualified loans held by the Corporation are eligible for certain reductions in interest rate or interest rate rebates on any such loan. The Vermont Value Program is subject to the availability of funds and modification by the Corporation in its discretion. Currently the Program provides for (a) a rebate of interest equivalent to one percent of the principal balance of the loan annually for qualified Federal Act Loans, (b) an interest-free period for July 1, 2003 through June 30, 2004 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 Program may be modified or terminated by the Corporation in its discretion.

Servicing of Education Loans

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

The State Guarantor

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

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

In accordance with the provisions of Section 2864 of Title 16 of the Vermont Statutes Annotated and with the terms of its agreements with lenders (including with itself in its capacity as an originator of Eligible Education Loans) for the guarantee of loans, the Corporation has established a fund (the “Guarantee Reserve Fund”) for the purpose of providing for the payment of any defaulted notes under the FFEL Program. The Guarantee Reserve Fund also serves as the Corporation’s Federal Loan Reserve Fund under the Act. The Corporation is obligated to make payments with respect to such guaranteed loans solely from the revenues or other funds of the Guarantee Reserve Fund, and neither the State nor any political subdivision thereof is obligated to make such payments. Neither the faith and credit nor the taxing power of the State or of any of its political subdivisions is pledged to any such payments required to be made. The amount on deposit in the Guarantee Reserve Fund at any time (including federal funds) is required by the State Act to be an amount equal to the amount required by the Act but not less than 8% of the total loans outstanding as of such date not covered by federal reinsurance. As of March 31, 2004, 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, 2004, federally-reinsured education loans in the outstanding aggregate principal amount of approximately \$1,372,149,648.74 were guaranteed by the Corporation.

Reserve Ratio. As of March 31, 2004, the Corporation’s reserve ratio was .63%. 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, 2003 was .84%. See Appendix H -- “SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS.”

Loan by School Type. The following table sets forth, by school type, the percentage of loans (based upon actual loan balances) guaranteed by the Corporation as of March 31, 2004.

School Type	CPB	Percentage of Guaranteed Loans Outstanding (as of March 31, 2004)
Four-Year	\$646,301,418	63%
Two-Year	\$ 59,082,254	6%

Proprietary	\$ 54,507,681	5%
Other ¹	\$260,702,729	26%
Total	\$1,020,594,082	100%

¹This 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, 2004, the Corporation had outstanding the following bonds and notes. Except for the 1995 Bonds, the 1996 Bonds, the 1998 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 Bonds, and the 2003 Bonds (which were issued and are secured under the Resolution), all such debt obligations were issued and are secured under resolutions that are separate and distinct from the Resolution.

Designation	Amount Outstanding	Credit Enhancement
1985 Series A	\$ 40,900,000	Letter of Credit from State Street Bank
1992 Series A-3*	\$ 12,650,000	Insured by Financial Security Assurance
1992 Series B*	\$ 23,145,000	Insured by Financial Security Assurance
1993 Series D*	\$ 37,490,000	Insured by Financial Security Assurance
1995 Series A,B,C,D	\$ 96,000,000	Insured by AMBAC Assurance
1996 Series F,G,H,I	\$ 100,000,000	Insured by AMBAC Assurance
1998 Series K,L,M,N	\$ 155,000,000	Insured by AMBAC Assurance
1998 Series O	\$ 10,000,000	No Credit Support
2000 Series Q,R,S,T,U	\$ 184,500,000	Insured by AMBAC Assurance
2001 Series V,W,X,Y,Z,AA	\$ 164,750,000	Insured by AMBAC Assurance
2002 Series BB, CC, DD	\$ 112,500,000	Insured by AMBAC Assurance
2003 Series EE,FF,GG,HH,II,JJ,KK,LL	\$ 360,900,000	Insured by AMBAC Assurance
2003 Series A-XVII Note	\$ 30,400,000	No Credit Support
2003 Series A-XVIII Note**	\$ 3,450,000	No Credit Support
Series 2003 General Obligation Bonds	\$ 22,155,000	No Credit Support
Total	\$ 1,353,840,000	

*Proceeds of the Senior Series 2004MM Bonds and a portion of the proceeds of the Senior Series 2004OO Bonds to be applied to the optional redemption, payment at maturity or defeasance of the entire amount of such Series of Bonds as described in the Resolution.

**Proceeds of the Senior Series 2004MM Bonds to be applied on June 15, 2004 to the payment in full of the 2003 Series A-XVIII Note which matures on such date.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds is excluded from gross income for federal income tax purposes; however, interest on the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds is a specific preference item for purposes of the federal 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 Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds. Failure to comply with such requirements could cause interest on the Senior Series 2004MM Bonds, the

Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds. The Corporation has covenanted to comply with such requirements.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Senior Series 2004OO Bonds is fully includable in the gross income of the recipients thereof for federal income tax purposes.

Bond Counsel is also of the opinion that, under existing laws of the State of Vermont, the 2004 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 2004 Bonds.

Tax Matters Related to the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds

The accrual or receipt of interest on the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds may otherwise affect the federal income tax liability of the owners of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds.

Changes in Federal Tax Law. From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation.

Tax Matters Related to the Senior Series 2004OO Bonds

The following summary of certain United States federal income tax consequences with respect to the Senior Series 2004OO Bonds is based on current law and is for general information only. This summary is generally limited to owners who have acquired the Senior Series 2004OO Bonds in the original offering as "capital assets" (generally, property held for investment). The tax treatment of an owner of Senior Series 2004OO Bonds may vary depending upon such owner's particular situation. Certain owners of Senior Series 2004OO Bonds (including insurance companies, tax-exempt organizations, financial institutions, brokers, dealers, foreign corporations or other entities and persons who are not citizens or residents of the United States) may be subject to special rules not discussed below. Prospective owners should consult their tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of the Senior Series 2004OO Bonds.

Characterization of the Senior Series 2004OO Bonds as Indebtedness. The Corporation intends for applicable tax purposes, that the Senior Series 2004OO Bonds will be indebtedness of the Corporation secured by the Education Loans. The Owners, by accepting the Senior Series 2004OO Bonds, have agreed to treat the Senior Series 2004OO Bonds as indebtedness of the Corporation for federal income tax purposes. The Corporation intends to treat this transaction as a financing reflecting the Senior Series 2004OO Bonds as its indebtedness for tax and financial accounting purposes. Bond Counsel is of the opinion that the Senior Series 2004OO Bonds should be treated as indebtedness of the Corporation and that interest on the Senior Series 2004OO 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 Education Loans. Therefore, the Corporation believes that it should be treated as the owner of the Education Loans for federal income tax purposes, and the Senior Series 2004OO Bonds should be treated as its indebtedness for federal income tax purposes. If, however, the Service were to successfully assert that this transaction should not be treated as a loan secured by the Education Loans, the Service could further assert that the Resolution created a separate entity for federal income tax purposes which would be the owner of the Education Loans and would be deemed engaged in a business. Such entity, the Service could assert, should be characterized as an association or publicly traded partnership taxable as a corporation. In such event, the separate entity would be subject to corporate tax on income from the Education Loans, reduced by interest on the Senior Series 2004OO Bonds. Any such tax could materially reduce cash available to make payment on the Senior Series 2004OO Bonds.

Stated Interest. In general, all interest payments on Senior Series 2004OO Bonds that are payable at the Auction Rate will be includable in the owner's gross income as ordinary interest income in accordance with such owner's regular method of accounting for tax purposes. For cash basis owners, such payments will be includable in income when received (or when made available for receipt, if earlier). For accrual basis owners, such payments will be includable in income when all events necessary to establish the right to receive such payments have occurred. In the event that the Auction Rate exceeds the Maximum Rate, the Carry-over Amount may also be includable in gross income in the year in which the Carry-over Amount begins to accrue. In such event, an owner should consult its own tax advisor to determine the proper treatment of such Carry-over Amount. The interest on the Carry-over Amount will be includable in an owner's gross income as ordinary interest income in the same manner as its interest at the Auction Rate.

Backup Withholding. Under Section 3406 of the Code, an owner of the Senior Series 2004OO Bonds may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Senior Series 2004OO Bonds. This withholding applies if the owner of the Senior Series 2004OO Bond: (a) fails to furnish to the appropriate party such owner's social security number or other taxpayer identification number ("TIN"); (b) furnishes the Trustee an incorrect TIN; (c) fails to properly report interest or dividends; or (d) under certain circumstances, fails to provide such owner's securities broker with a certified statement, signed under penalty of perjury that the TIN provided is correct and that such owner is not subject to backup withholding. The withholding rate expressed as a percentage of the reportable payments, which include interest payments, is 28% for tax years through 2010 and 31% for tax years 2011 and thereafter.

Backup withholding will not apply, however, with respect to payments made to certain owners of the Senior Series 2004OO Bonds. Owners of the Senior Series 2004OO Bonds should consult their tax advisors regarding their qualification for such exemption from withholding and the procedure for obtaining such an exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United State business. Assuming the interest received by the beneficial owner of the Senior Series 2004OO 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 Senior Series 2004OO Bonds are indebtedness of the Corporation; interest will be treated as portfolio interest if (a) the owner provides a statement to the Trustee certifying, under penalty of perjury, that such owner is not a United States person and providing the name and address of the owner; (b) such interest is treated as not effectively connected with the owner's United States trade or business; (c) interest payments are not made to a person within a foreign country which the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion; (d) interest payable with respect to the Senior Series 2004OO Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; and (e) the owner claiming the portfolio interest exemption is not deemed to be a foreign bank that acquired the Senior Series 2004OO Bonds pursuant to an extension of credit entered into in the ordinary course of its banking business.

Assuming payments on the Senior Series 2004OO Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no backup withholding is required with respect to owners who have furnished Form W-8BEN (or a substitute form), provided neither the Corporation nor the Trustee has actual knowledge that such person is a United States person.

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

Unrelated Business Taxable Income. Entities otherwise exempt from federal income tax under Section 501 of the Code will be subject to tax on their income derived from an unrelated trade or business. Under Section 512(d) of the Code, in general, interest may be excluded from the calculation of unrelated business taxable income. Based upon the foregoing and assuming that an owner does not incur acquisition indebtedness within the meaning of Section 514(c) of the Code in connection with its purchase of the Senior Series 2004OO Bonds, the interest on such Senior Series 2004OO Bonds may be excluded from the calculation of unrelated business taxable income by tax-exempt owners.

ERISA. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Senior Series 2004OO Bonds.

Changes in Federal Tax Law. From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Senior Series 2004OO Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Senior Series 2004OO Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Senior Series 2004OO Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

The foregoing discussion of certain federal income tax consequences is for general information only and is not tax advice. Accordingly, each prospective owner of Senior Series 2004OO Bonds should consult such

prospective owner's own tax advisor with respect to the tax consequences to such prospective owners, including the tax consequences under the state, local, foreign and other tax laws, of the acquisition, ownership and disposition of Senior Series 2004OO Bonds.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes substantially similar prohibited transaction restrictions on certain employee benefit plans, including tax-qualified retirement plans described in Section 401(a) of the Code ("Qualified Retirement Plans") and on individual retirement accounts and annuities described in Sections 408 (a) and (b) of the Code ("IRAs," collectively, with Qualified Retirement Plans, "Tax-Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) ("Non-ERISA Plans"), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. Accordingly, the assets of such Non-ERISA Plans may be invested in the 2004 Bonds without regard to the ERISA or Code considerations described below, provided that such investment is not otherwise subject to the provisions of other applicable federal and state law ("Similar Laws"). Any governmental plan or church plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code.

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

The investment in a security by a Plan may, in certain circumstances, be deemed to include an investment in the assets of the entity issuing such security, such as the Corporation. Certain transactions involving the purchase, holding or transfer of 2004 Bonds may be deemed to constitute prohibited transactions if assets of the Corporation are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

Plan Assets Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3-101 (the "Plan Assets Regulation") concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the Corporation) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an "equity interest" (such as a 2004 Bond) in such entity. Depending upon a number of factors set forth in the Plan Assets Regulation, "plan assets" may be deemed to include either a Plan's interest in the assets of an entity (such as the Corporation) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest (such as a 2004 Bond). For purposes of this section, the terms "plan assets" ("Plan Assets") and the "assets of a Plan" have the meaning specified in the Plan Asset Regulation and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan's investment therein (a "Plan Asset Entity").

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

If the 2004 Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases 2004 Bonds could be treated as having acquired a direct interest in the Corporation. In that event, the purchase, holding, transfer or resale of the 2004 Bonds could result in a transaction that is prohibited under ERISA or the Code.

The Plan Assets Regulation provides an exemption from “plan asset” treatment for securities issued by an entity if such securities are debt securities under applicable state law with no “substantial equity features.” While not free from doubt, on the basis of the 2004 Bonds as described herein, it appears that the 2004 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

In the event that the 2004 Bonds cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Assets Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Assets Regulation. Because the availability of this exception depends upon the identity of the holders of the 2004 Bonds at any time, there can be no assurance that the 2004 Bonds will qualify for this exception and that the Corporation’s assets will not constitute a Plan Asset subject to ERISA’s fiduciary obligations and responsibilities. Therefore, neither a Plan nor a Plan Asset Entity should acquire or hold 2004 Bonds in reliance upon the availability of any exception under the Plan Assets Regulation.

Prohibited Transactions

The acquisition or holding of 2004 Bonds by or on behalf of a Plan could give rise to a prohibited transaction if the Corporation or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a 2004 Bond is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the Corporation or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires 2004 Bonds. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the 2004 Bonds were acquired pursuant to and in accordance with one or more statutory exemptions, individual exemptions or “class exemptions” issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption (“PTCE”) 75-1 (an exemption for certain transactions involving employee benefit plans and broker dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company’s general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in-house asset manager) or pursuant to an individual prohibited transaction exemption issued by the DOL.

The Underwriter, the Trustee, the Servicer, the Auction Agent or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding of 2004 Bonds, the purchase of 2004 Bonds using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision of Title I of ERISA or Section 4975 of the Code. Accordingly, 2004 Bonds may not be purchased using the assets of any Plan if any of the Underwriters, the Trustee, the Servicer, the Auction Agent or their affiliates has investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available to cover such purchase.

Purchaser's/Transferee's Representations and Warranties

Each purchaser and each transferee of a 2004 Bond shall be deemed to represent and warrant that (1)(a) it is not a Plan and is not acquiring the 2004 Bond directly or indirectly for, or on behalf of, a Plan or with Plan Assets, Plan Asset Entity or any entity whose underlying assets are deemed to be plan assets of such Plan or (b) the acquisition and holding of the 2004 Bonds by or on behalf of, or with Plan Assets of, any Plan, Plan Asset Entity or any entity whose underlying assets are deemed to be Plan Assets of such Plan is permissible under applicable law, will not result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Law, and will not subject the Corporation to any obligation not affirmatively undertaken in writing thereby.

Consultation with Counsel

Any Plan fiduciary or other investor of Plan Assets considering whether to acquire or hold 2004 Bonds on behalf of or with Plan Assets of any Plan or Plan Asset Entity, and any insurance company that proposes to acquire or hold 2004 Bonds, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption. A fiduciary with respect to a Non-ERISA Plan which is a Qualified Retirement Plan or a Tax Favored Plan that proposes to acquire or hold 2004 Bonds should consult with counsel with respect to the applicable federal, state and local laws.

ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the 2004 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 2004 Bonds or the due existence or powers of the Corporation.

APPROVAL OF LEGALITY

The legality of the authorization, issuance and sale of the 2004 Bonds is subject to the approving legal opinion of Kutak Rock LLP, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its in-house General Counsel and for the 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 2004 Bonds substantially in the form attached to this Official Statement as Appendix I.

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 2004 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 2004 Bonds) and such obligations (including the 2004 Bonds) are authorized security for any and all public deposits.

UNDERWRITING

The 2004 Bonds are to be purchased by UBS Financial Services Inc., as representative of the underwriters (the "Underwriters") pursuant to a bond purchase contract with the Corporation. The Underwriters have agreed to purchase the 2004 Bonds at a price of par less a discount equal to \$850,775. The obligation of the Underwriters to purchase the 2004 Bonds is subject to certain terms and conditions set forth in the bond purchase contract. The bond purchase contract provides that the Underwriters will not be obligated to purchase any of the 2004 Bonds unless all such Bonds are available for purchase. The initial public offering prices of the 2004 Bonds may be changed by the Underwriters from time to time without notice.

The Underwriters may offer and sell the 2004 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 2004 Bonds may be changed from time to time by the Underwriters.

RATINGS

Moody's Investors Service ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), are each expected to assign their municipal bond ratings of "Aaa" and "AAA" respectively to the 2004 Bonds based upon the delivery of the Financial Guaranty Insurance Policy. Such ratings reflect only the view of Moody's and S&P and an explanation of the significance of such ratings can only be obtained from Moody's or S&P, as applicable. There is no assurance that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's or S&P if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the 2004 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 2004 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 L.

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 2004 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 2004 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 2004 Bonds and has reviewed and commented on certain legal documentation, including this Official Statement. The advice on the plan of financing and the structuring of the 2004 Bonds was based on

materials provided by the Corporation and other sources of information believed to be reliable. The Financial Advisor has not audited, authenticated or otherwise verified the information provided by the Corporation or the information set forth in this Official Statement or any other information available to the Corporation with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement.

FINANCIAL STATEMENTS

The financial statements of the Corporation as of and for the year ended June 30, 2003, were audited by Baker Newman & Noyes LLC, independent auditors, as stated in their report thereon dated September 26, 2003. Such financial statements and the report of said auditors are included as Appendix K hereto and represent the most current audited financial statements available for the Corporation. Comparative financial statements as of and for the year ended June 30, 2002, were audited by KPMG LLP, independent auditors, and are also presented in Appendix K.

Because the 2004 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 2004 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 2004 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 2004 Bonds from UBS Financial Services Inc., 1285 Avenue of the Americas, New York, New York 10019, Attention: Education Loan Group, and thereafter from Vermont Student Assistance Corporation, P.O. Box 2000, Champlain Mill, Winooski, Vermont 05404, Attention: President or the Financial Advisor, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022.

MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any of the 2004 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 2004 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 2004 Bonds.

Use of this Official Statement in connection with the sale of the 2004 Bonds has been authorized by the Corporation.

VERMONT STUDENT ASSISTANCE CORPORATION

By: /S/ DONALD R. VICKERS

Donald R. Vickers, President

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

ARTICLE I

SHORT TITLE, DEFINITIONS, INTERPRETATIONS

Section 1.1. Definitions. In the Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings. Certain terms used in the Resolution and defined therein are summarized in this Official Statement in Appendix B—“AUCTION PROCEDURES RELATING TO TAX-EXEMPT ARCS” and in Appendix D—“AUCTION PROCEDURES RELATING TO TAXABLE ARCS.”

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

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

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

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

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

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

“Additional Bonds” means any issue of Bonds issued subsequent to the date of issuance of the 2004 Bonds.

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

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

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

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

“Authorized Denominations” means with respect to the 2004 Bonds while such are Outstanding as Auction Rate Certificates, \$50,000 and any integral multiple thereof, or otherwise as provided in the Resolution.

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

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

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

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

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

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

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

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

“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, and with respect to the ARCs, has the meaning set forth in Appendix B and Appendix D hereto.

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

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

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

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

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

“Certificate and Agreement” means the Certificate and Agreement by and between the Corporation and the Bond Insurer to be entered into as of the date of initial delivery of the 2004 Bonds to the Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

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

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

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

“Debt Service Reserve Account” means the Debt Service Reserve Account established pursuant to the Resolution.

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

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

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

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

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

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

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

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

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

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

“Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by Ambac Assurance on the date of issuance and delivery of the 2004 Bonds, insuring the payment when due of the principal of and interest on such 2004 Bonds as provided therein.

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

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

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

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

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

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

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

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

- (a) direct obligations of the Treasury Department of the United States of America;
- (b) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation
 - Farmers Home Administration
 - General Service Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - Government National Mortgage Association (GNMA)
 - U.S. Department of Housing & Urban Development (PHA’s)
 - Federal Housing Administration;
- (c) senior debt obligations rated “AAA” by S&P and “Aaa” by Moody’s issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Senior debt obligations of any other entity constituting a Government Sponsored Agency approved by the Bond Insurer;
- (d) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (e) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase;
- (f) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P;
- (g) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice;
 - (A) which are rated, based on an irrevocable escrow account or fund (the “Escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or
 - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations in clause (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any,

on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate:

- (h) any other investment or financial arrangement permitted in a particular Supplemental Resolution or Series Resolution, including but not limited to investment agreements;
- (i) any auction rate securities or similar instruments rated “AAA” and/or “Aaa,” as the case may be, by at least two of S&P, Fitch or Moody’s; and
- (j) any other instrument approved by the Bond Insurer.

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

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

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

“Material Adverse Change in the Loan Program” means, with respect to all Series of Bonds, any change enacted by the United States Congress or implemented by the Secretary or the Department or, if applicable, the legislature of the State, or any change resulting from the actions of the Corporation after the initial delivery date of the 2004 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 1995 First Series Resolution authorizing the Senior Series 1995A-D Bonds.

“1995 Second Series Resolution” means the 1995 Second Series Resolution authorizing the Senior Series 1995E Bonds.

“1996 Third Series Resolution” means the 1996 Third Series Resolution authorizing the Senior Series 1996A-I Bonds.

“1996 Fourth Series Resolution” means the 1996 Fourth Series Resolution authorizing the Senior Series 1996J Bonds.

“1998 Fifth Series Resolution” means the 1998 Fifth Series Resolution authorizing the Senior Series 1998 K-N Bonds and the Subordinate Series 1998O Bonds.

“2000 Sixth Series Resolution” means the 2000 Sixth Series Resolution authorizing the Senior Series 2000 Q-U Bonds.

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

“2001 Seventh Series Resolution” means the 2001 Seventh Series Resolution authorizing the 2001 Bonds.

“2001 Surety Bond” means the Surety Bond issued in an amount equal to the Debt Service Reserve Requirement with respect to the 2001 Bonds.

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

“2002 Eighth Series Resolution” means the 2002 Eighth Series Resolution authorizing the 2002 Bonds.

“2002 Surety Bond” means the Surety Bond issued in an amount equal to the Debt Service Reserve Requirement with respect to the 2002 Bonds.

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

“2003 Ninth Series Resolution” means the 2003 Ninth Series Resolution authorizing the 2003 Bonds.

“2003 Surety Bond” means the Surety Bond issued in an amount equal to the Debt Service Reserve Requirement with respect to the 2003 Bonds.

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

“2004 Surety Bond” means Surety Bond issued in an amount equal to the Debt Service Reserve Requirement with respect to the 2004 Bonds.

“2004 Tax-Exempt Bonds” means the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds.

“2004 Tenth Series Resolution” means the 2004 Tenth Series Resolution authorizing the 2004 Bonds.

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

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

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

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

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

(b) Investment Securities, as described under “DEFEASANCE; MISCELLANEOUS PROVISIONS—Defeasance” below, in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable redemption price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

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

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

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

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

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

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

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

“Purchaser” means UBS Financial Services Inc., as representative of the underwriters.

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

“Rebate Account” means the Rebate Account established pursuant to 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 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 and the applicable Series Resolution.

“Remarketing Agent” means (a) with respect to the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004OO Bonds, UBS Financial Services Inc., (b) with respect to the Senior Series 2004PP Bonds, RBC Dain Rauscher 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 the Resolution.

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

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

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

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

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

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

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

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

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

“State” means the State of Vermont.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Vermont Value Program” means any program under which Education Loans are originated, purchased, acquired, financed or refinanced and under which the Corporation has specifically reserved the right 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 or Liquidity Facility Issuer, as their interests may appear.

GENERAL TERMS AND PROVISIONS OF BONDS

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

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

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

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

Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, upon stipulation of the conditions set forth in the Resolution, the Corporation shall execute and the

Trustee shall authenticate a new Bond of like series, interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost.

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

PLEDGE OF RESOLUTION; ACCOUNTS

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

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

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

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

Loan Account.

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

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

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

Education Loans as of the date of such Certificate. Upon receipt of such Certificate, the Trustee shall transfer the amount so stated for the Bonds to the Revenue Account.

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding the first paragraph under this caption "Revenue Account," no payments shall be required to be made into the Revenue Account so long as the amount on deposit therein together with amounts on deposit in

the Accounts held under the Resolution by the Trustee shall be sufficient to pay all Outstanding Bonds in accordance with their terms and to pay all amounts due any Bond Insurer or Liquidity Facility Issuer and any other unpaid Program Expenses and provision is made to defease such Bonds as described under “DEFEASANCE; MISCELLANEOUS PROVISIONS” below, and any Revenues thereafter received by the Corporation may be applied to any purpose of the Corporation in conformity with the State Act free and clear of the lien of the pledge of the Resolution.

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

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

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

Extraordinary Reserve Account. There shall be deposited in the Extraordinary Reserve Account such amounts representing cash and/or Eligible Education Loans as shall be specified in an order of the Corporation. Such Eligible Education Loans and cash shall be accounted for in the Extraordinary Reserve Account. Amounts on deposit in the Extraordinary Reserve Account not being used to acquire Eligible Education Loans shall be invested only in Investment Securities. Amounts on deposit in the Extraordinary Reserve Account shall be valued as part of the Accrued Assets for all purposes under the Resolution; provided, however, that (i) to the extent the Corporation is authorized to withdraw amounts or assets from the Revenue Account as described in the Resolution and from the Extraordinary Reserve Account, the Corporation shall first withdraw amounts pursuant to the Extraordinary Reserve Account and (ii) if the Corporation intends to withdraw amounts from the Revenue Account, the requirements relating to such withdrawal from the Revenue Account set forth in the Resolution must be met without regard to amounts on deposit in the Extraordinary Reserve Account. Principal receipts on Education Loans in the Extraordinary Reserve Account shall be used to make or acquire additional Eligible Education Loans, or otherwise shall remain on deposit in the Extraordinary Reserve Account, except to the extent released as provided under the Resolution. Interest received on the Education Loans in the Extraordinary Reserve Account shall be deposited in the Revenue Account. If on any date on which the payment of principal of or interest on the Bonds is due, there are insufficient moneys to pay the same after giving effect to all other assets held under the Resolution, then the Trustee shall transfer from the Extraordinary Reserve Account an amount first from cash or Investment Securities and then

from the sale of Eligible Education Loans up to the amount of any such deficiency; provided, however, that (i) the Corporation shall have a right of first refusal to purchase such Eligible Education Loans at a price equal to the par amount thereof plus accrued interest or (ii) if the Corporation shall not so purchase such Eligible Education Loans such Eligible Education Loans shall be sold subject to the Corporation maintaining the servicing of such Eligible Education Loans; provided, however, if the Trustee is not able to sell such Eligible Education Loans to a third party at a price equal to the par amount thereof plus accrued interest, the provisions of clause (ii) of this paragraph shall no longer apply to a sale of such Eligible Education Loans. Upon written order of the Corporation the Trustee shall transfer from the Extraordinary Reserve Account any or all assets as directed by the Corporation in such order, but (a) if such transfer shall be made before July 1, 2005, or such other date as shall be agreed upon by the Corporation and the Bond Insurer, only with the consent of the Bond Insurer, or (b) if such transfer is on or after such date, only if the Corporation certifies that (i) after such transfer, and exclusive of amounts held in the Extraordinary Reserve Account, the Senior Parity Percentage is equal to or greater than 103% and the Parity Percentage is equal to or greater than 101% (or, with the consent of the Bond Insurer, lesser percentages, but in any event the Parity Percentage must equal or exceed 101%), (ii) there is no Event of Default, and (iii) no Recycling Suspension Event shall have occurred and be continuing.

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

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

REDEMPTION OF BONDS

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

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

PARTICULAR COVENANTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTAL RESOLUTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AMENDMENTS

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

DEFAULTS AND REMEDIES

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

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

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

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

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

Remedies. Subject in all events to the provisions described under the caption “GENERAL PROVISIONS RELATING TO THE BOND INSURER—Default of The Bond Insurer” below, upon the happening and continuance of any Event of Default, the Trustee, with the written consent of the Bond Insurer, may proceed and,

upon the written request of the Owners of not less than fifty percent (50%) in principal amount of the Outstanding Bonds with the consent of the Bond Insurer, or upon the written request of the Bond Insurer alone, shall proceed, in its own name, subject to the provisions described under “Bond Insurer to Control Remedies; Acceleration of Bonds; Waiver of Defenses” below and certain requirements of the Banking Entities, to protect and enforce the rights of the Bondowners or the Bond Insurer by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, including the right to require the Corporation to receive and collect Principal Receipts and Revenues adequate to carry out the covenants and agreements as to, and the assignment of, the Education Loans and to require the Corporation to carry out any other covenants or agreements with Bondowners and the Bond Insurer and to perform its duties under the Act and the State Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Owners of the Bonds;
- (4) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds or the Bond Insurer;
- (5) by declaring the Bonds due and payable (subject to limits on such declaration for other than payment defaults); and if all defaults shall be cured, the Trustee, with the written consent of the Bond Insurer and not less than 25% of the Owners of the Bonds or at the direction of the Bond Insurer alone if a Bond Insurance Policy is then in effect, may annul such declaration and its consequences; or
- (6) in the event that all the Bonds are declared due and payable, and the Bond Insurance Policy is in effect, if the Bond Insurer shall so direct, the Trustee shall make a claim under the Bond Insurance Policy to pay the principal of and interest on the Bonds which are covered by such Bond Insurance Policy. If no Bond Insurance Policy is in effect, the Trustee shall proceed by selling Education Loans and Investment Securities.

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

Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondowners and the Bond Insurer under the Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Principal Receipts and Revenues and of the assets of the Corporation relating to the education loan finance program, pending such proceedings, with such powers as the court making such appointment shall confer.

Except upon the occurrence and during the continuance of an Event of Default under the Resolution, the Corporation expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Education Loans and the proceeds and collections therefrom, and the Trustee, the Bond Insurer

and any Bondowner shall not in any manner, be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

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

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

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

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

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

CONCERNING THE BANKING ENTITIES AND OTHERS

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

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

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

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

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

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

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

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

Replacement of Liquidity Facility. If, at any time, the Corporation shall receive notice (i) that the short-term ratings on the Bonds as to which a Liquidity Facility is in effect have been either withdrawn or reduced below VMIG 1 or A-1 by Moody's or S&P, respectively, as a consequence of the withdrawal or reduction in the ratings of the issuer of the Liquidity Facility, or (ii) that the Liquidity Facility relating to a Series of Bonds will not be extended, then the Corporation may replace the Liquidity Facility with an Alternate Liquidity Facility so that the Bonds as to which such Liquidity Facility is in effect will be assigned higher ratings by the Rating Agencies than rating the Bonds if the replacement is due to a downgrade (otherwise the rating may be the same).

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

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

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

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

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

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

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

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

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

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

DEFEASANCE; MISCELLANEOUS PROVISIONS

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

to be paid, or there shall otherwise be paid, to the Owners of the Outstanding Bonds, the redemption price and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the Corporation to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

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

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

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

GENERAL PROVISIONS RELATING TO THE BOND INSURER

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

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

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

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

- (1) receipt of an opinion or opinions of counsel stating that (i) such Replacement Bond Insurance Policy meets the requirements and complies with the conditions described under this caption "Replacement or Supplementation of the Bond Insurance Policy," (ii) the Replacement Bond Insurance Policy constitutes a legal, valid, and binding obligation of the obligor thereon and is enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws for the relief of debtors and by general principles of equity which permit the exercise of judicial discretion) and (iii) the use of the Replacement Bond Insurance Policy will not adversely affect any exclusion of the interest on any Bond from the gross income, as defined in the Code, of the Owner thereof for federal income tax purposes;
- (2) such Replacement Bond Insurance Policy must provide for the payment of principal of and interest on the Outstanding Bonds of the Series of Bonds that were secured by the Bond Insurance Policy as is being replaced in form and substance at least as favorable as the provisions of such Bond Insurance Policy;
- (3) the payment in full of all amounts owing to the Bond Insurer under the Bond Insurance Policy, if any, unless the Bond Insurer is in default on its obligations under the Bond Insurance Policy or such payment is waived by the Bond Insurer; provided, however that such amounts shall not be paid by or with funds received from the provider of the Replacement Bond Insurance Policy unless the Bond Insurer expressly agrees to be paid by or with such funds;
- (4) The Rating Agencies then rating the Bonds shall have confirmed in writing prior to the effective date of the Replacement Bond Insurance Policy that the provision of the

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

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

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

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

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

- (i) the adoption and delivery to the Trustee of any Supplemental Resolution, including a Series Resolution providing for the issuance of Additional Bonds;
- (ii) removal of the Trustee and the appointment of a successor thereto;
- (iii) the addition or replacement of a Liquidity Provider, Servicer or Guarantor;
- (iv) any conversion of any Series of the 2004 Bonds to a different interest mode (other than the conversion of the Senior Series 2004OO Bonds to a Tax-Exempt Auction Rate) or any change in the length of an Auction Period (A) from a period of 90 days or less to a period of greater than 90 days, (B) from a period of greater than 90 days to a period of 90 days or less, or (C) which results in the length of that period being 90 or more days different than the preceding period;
- (v) investment of moneys from any Account in Investment Securities not specifically listed in the Resolution or a Series Resolution;
- (vi) the extension of the recycling period for Principal Receipts pertaining to any Bonds;
- (vii) an increase in the maximum percentage of Vermont EXTRA Loans, VSAC EXTRA Medical Loans, PLUS Loans, VSAC Law Loans, ERA Loans, HEAL Loans and Consolidation Loans allowed under the Resolution;
- (viii) any change in economic characteristics of Statutory Loans, such as guarantee fee, repayment term, credit criteria, underwriting criteria or interest rate formula;
- (ix) an increase in the amount of Program Expenses that may be transferred to the Operating Account;
- (x) any loan forgiveness program other than the Vermont Value Program (as described and limited in the Certificate and Agreement); provided that prior written consent of the Bond Insurer shall not be necessary if such loan forgiveness program is necessary to preserve the

exclusion of interest on any Bonds from gross income for federal income tax purposes, as determined by a Bond Counsel's Opinion; and

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

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

APPENDIX B

AUCTION PROCEDURES RELATING TO TAX-EXEMPT ARCS

The Auction Procedures for the ARCs are as set forth below. **These procedures will apply separately to an Auction of Bonds of a Series of 2004 Bonds that are ARCs.** All of the terms used in this Appendix B are defined herein or in other parts of this Official Statement. “ARCs” means the Senior Series 2004MM Bonds, Senior Series 2004NN Bonds, Senior Series 2004PP Bonds and Senior Series 2004OO Bonds after the Tax-Exempt Conversion Date.

Definitions

“AA Financial Commercial Paper Rate,” on any date of determination, shall mean (a) for Auction Periods of 35 days or less, the interest equivalent of commercial paper having a maturity of 30 days, (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper having a maturity of 90 days; as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/hisrates.txt>, or any successor publication (“H.15(519)”) under the caption “AA financial.” In the event that such publication has not been published in a timely manner, the “AA” Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include UBS Financial Services 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 as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Adjustment in Percentages Pertaining to Tax-Exempt ARCs” in the body of this Official Statement) of the lesser on such date of:

- (a) the After Tax Equivalent Rate on such date; and
- (b) the Kenny Index on such date;

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

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

“*Applicable Percentage*,” on any date of determination, means the percentage determined (as such percentage may be adjusted as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Adjustment in Percentages Pertaining to Tax-Exempt ARCs” in the body of this Official Statement) 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:

<u>Credit Ratings</u>		
<u>Moody’s</u>	<u>Fitch, Inc. and S&P</u>	<u>Applicable Percentage</u>
“Aaa”	“AAA”	175%
“Aa3” to “Aa1”	“AA-” to “AA+”	175%
“A3” to “A1”	“A-” to “A+”	175%
“Baa3” to “Baa1”	“BBB-” to “BBB+”	200%
Below “Baa3”	Below “BBB-”	265%

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

“*Auction Agency Agreement*” means the Auction Agency Agreement dated as of June 1, 2004, between the Trustee and the Auction Agent, for the ARCs, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

“*Auction Agent*” means any person appointed as such pursuant to the Resolution.

“*Auction Date*” means, for the Senior Series 2004MM Bonds outstanding as ARCs, July 12, 2004, for the Senior Series 2004NN Bonds outstanding as ARCs, July 15, 2004, for the Senior Series 2004PP Bonds outstanding as ARCs, July 15, 2004, for the Senior Series 2004OO Bonds outstanding as ARCs such initial date 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 as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Dates” in the body of this Official Statement.

“*Auction Period*” means, with respect to any ARCs, the Interest Period applicable thereto as the same may be changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Dates” in the body of this Official Statement.

“*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 Financial Services Inc. with respect to the Senior Series 2004MM Bonds, Senior Series 2004NN Bonds and Senior Series 2004OO Bonds outstanding as ARCs and RBC Dain Rauscher Inc. with respect to the Senior Series 2004PP Bonds or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (c) has entered into a Broker-Dealer Agreement that remains effective.

“*Broker-Dealer Agreement*” means with respect to the Senior Series 2004MM Bonds and Senior Series 2004NN Bonds, the Broker-Dealer Agreement dated as of June 1, 2004 between the Auction Agent and UBS Financial Services Inc., with respect to the Senior Series 2004PP Bonds, the Broker-Dealer Agreement dated as of June 1, 2004 between the Auction Agent and RBC Dain Rauscher Inc., with respect to the Senior Series 2004OO Bonds outstanding as ARCs, the Broker-Dealer Agreement entered into with respect thereto, and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

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

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

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

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

“*Fitch*” means Fitch, Inc., New York, New York, and its successors and assigns.

“*Fixed Rate*” means the fixed rate or rates of interest on any series of 2004 Tax-Exempt Bonds determined pursuant to the Resolution.

“*Fixed Rate Conversion Date*” means a date on which any series of 2004 Tax-Exempt Bonds begin to bear interest at a Fixed Rate.

“*Initial Interest Period*” means, with respect to the Senior Series 2004MM Bonds, the period from the date of delivery of the Senior Series 2004MM Bonds and ending on and including July 12, 2004, with respect to the Senior Series 2004NN Bonds, the period from the date of delivery of the Senior Series 2004NN Bonds and ending on and including July 15, 2004, with respect to the Senior Series 2004PP Bonds, the period from the date of delivery of the Senior Series 2004PP Bonds and ending on and including July 15, 2004, and with respect to the Senior Series

2004OO Bonds, such initial date 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 2004 Tax-Exempt Bonds, (a) while outstanding as ARCs, (i) each June 15 and December 15, commencing December 15, 2004 (with respect to the Senior Series 2004MM Bonds, the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds) and the June 15 or December 15 immediately following the Tax-Exempt Conversion Date (with respect to the Senior Series 2004OO Bonds), except as changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax Exempt ARC Auction Date” in the body of this Official Statement (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, as applicable)), (ii) any day on which the 2004 Tax-Exempt 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 2004 Tax-Exempt Bonds are subject to mandatory tender for purchase pursuant to the Resolution, or redemption pursuant to the Resolution and (c) after the Fixed Rate Conversion Date, each June 15 and December 15 commencing with the June 15 or December 15 that occurs no sooner than three months after the Fixed Rate Conversion Date.

“Interest Period” means, (a) with respect to each series of 2004 Tax-Exempt Bonds, so long as interest is payable on June 15 and December 15 with respect thereto and unless otherwise changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date” in the body of this Official Statement, the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on (i) 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) for the Senior Series 2004MM Bonds, (ii) a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), for the Senior Series 2004OO Bonds outstanding as ARCs, and (iii) a Friday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), for the Senior Series 2004NN Bonds and the Senior Series 2004PP Bonds, and (b) with respect to the 2004 Tax-Exempt Bonds outstanding as ARCs, if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period as described in the Resolution, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

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

“Market Agent Agreement” means the Market Agent Agreement dated as of June 1, 2004, between the Trustee and the Market Agent for the ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

“*Maximum Interest Rate*” means with respect to ARCs the lesser of (a) 14% per annum or such higher amount as may be established by the Corporation following receipt by the Trustee of (i) a Rating Confirmation and a Favorable Opinion and (ii) written consent of the Bond Insurer or (b) the maximum rate of interest permitted under Vermont law.

“*Maximum Rate*,” on any date of determination, means the interest rate per annum equal to the lesser of:

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

(b) the Maximum Interest Rate;

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

“*Owner*” means the beneficial owner of any offered Bond.

“*Participant*” means a member of or participant in DTC.

“*Payment Default*” means failure by the Corporation to make payment of interest on, premium, if any, and principal of the ARCs when due, followed 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 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 ARCS, (a) so long as interest is payable with respect thereto on each June 15 and December 15, one Business Day prior to each Interest Payment Date and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as provided in the Resolution, the Applicable Number of Business Days immediately preceding each Interest Payment Date.

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

“*Remarketing Agent*” means (a) with respect to the Senior Series 2004MM Bonds, Senior Series 2004NN Bonds and Senior Series 2004OO Bonds outstanding as ARCs, UBS Financial Services Inc., (b) with respect to the Senior Series 2004PP Bonds, RBC Dain Rauscher Inc. or (c) such other remarketing agent appointed by the Corporation pursuant to the Resolution.

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

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

“*Variable Rate*” means the variable rate or rates of interest, or manner of determining the same, on any series of 2004 Tax-Exempt Bonds determined pursuant to the provisions of the Resolution.

“*Variable Rate Conversion Date*” means a date on which any series of 2004 Tax-Exempt Bonds begin to bear interest at a Variable Rate as provided in the Resolution.

“*Winning Bid Rate*” is used as defined below under paragraph (c)(i)(C).

Auction Procedures

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

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

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

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

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

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

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined

as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

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

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

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

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

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

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

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

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

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

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

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

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

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

ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX C

SETTLEMENT PROCEDURES RELATING TO TAX-EXEMPT ARCS

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

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

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

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

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

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

(v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds 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 Participant, 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 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 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 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 Agency Agreement and the Broker-Dealer Agreement.

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APPENDIX D

AUCTION PROCEDURES RELATING TO TAXABLE ARCS

The Auction Procedures for the Taxable ARCs are as set forth below; provided, however, if the Senior Series 2004OO Bonds are converted to a Tax-Exempt Auction Rate, this Appendix D shall not apply to the Senior Series 2004OO Bonds. All of the terms used in this Appendix D are defined herein or in other parts of this Official Statement. “ARCs” or “Taxable ARCs” means the Senior Series 2004OO Bonds prior to the Tax-Exempt Conversion Date.

Definitions

“All-Hold Rate”, on any date of determination, shall mean the Applicable LIBOR-Based Rate less 0.25%, 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.

“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, 2004, between the Trustee and the Auction Agent, relating to the Taxable 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 with respect to the Taxable ARCs pursuant to the Resolution.

“Auction Date” shall mean July 7, 2004 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 which initially shall consist generally of 28 days, 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 Financial Services 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, 2004 between the Auction Agent and the Broker-Dealer, relating to the Taxable ARCs, and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

“*Business Day*” shall mean any day other than 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 Senior Series 2004OO Bond that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on such Senior Series 2004OO Bond actually accrued with respect to such Senior Series 2004OO Bond, 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 Senior Series 2004OO Bonds shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

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

“*Favorable Opinion*” shall mean, with respect to conversion of the Taxable 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.

“*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 (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date).

“*Interest Period*” shall mean (a) unless otherwise changed as described herein, with respect to the Senior Series 2004OO Bonds, the Initial Interest Period, and each successive period of generally 28 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) 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, 2004, between the Trustee and the Market Agent, relating to the Taxable ARCs, 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 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 is less than “Aa3” or “AA-” but both are at least any category of “A”), or (c), not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.75% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the 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 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 Agency Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of clauses (a), (b) or (c) above may be increased by delivery to the Auction Agent and the Trustee of a certificate signed by an Authorized Officer of the Corporation directing such increase, together with a Rating Confirmation.

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

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

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

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

“*One-Month LIBOR*” “*Three-Month LIBOR*,” “*Six-Month LIBOR*” or “*One-Year LIBOR*” means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, of the Applicable LIBOR Based Rate for United States dollar deposits which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m. London time, on the LIBOR Determination Date; provided, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, the Auction Agent or the Trustee, as applicable, shall determine the arithmetic mean of the offered quotations for four major banks in the London

interbank market, for deposits in U.S. dollars for the respective period specified above for the banks in the London interbank market as of approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less 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 Series 2004OO 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 the Senior Series 2004OO Bonds begin to bear interest at a Tax-Exempt Auction Rate as provided in Appendix F of this Official Statement.

“*Undelivered Bonds*” shall mean the Senior Series 2004OO Bonds described in Appendix F of this Official Statement.

“*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:

- (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 Rate, the Maximum Auction Rate, the Maximum Interest Rate, the All-Hold Rate, One-Month LIBOR, and the Applicable LIBOR-Based Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

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

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

(v) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of ARCs, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate ARCs for purchase among Potential Owners so that only ARCs in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any 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-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be ARCs.

(f) Any calculation by the Auction Agent, the Corporation or the Trustee, as applicable, of the Applicable ARCs Rate, the Applicable LIBOR-Based Rate, the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all other parties.

APPENDIX E

SETTLEMENT PROCEDURES RELATING TO TAXABLE ARCS

Capitalized terms used in this Appendix E shall have the respective meanings specified in Appendix A or 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 Participant, 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 Agency Agreement shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent and the Broker-Dealer Agreement.

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APPENDIX F

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 2004OO 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. Upon such conversion to a Tax-Exempt Auction Rate, the provisions of Appendix B to this Official Statement shall apply to the Senior Series 2004OO Bonds so converted, and the provisions of Appendix D shall no longer apply to the Senior Series 2004OO Bonds so converted. Any such conversion shall be made as follows:

(a) The Corporation shall confirm the appointment of UBS Financial Services 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 to the Trustee, the Auction Agent, the Broker-Dealer, the Market Agent, the Bond Insurer, Fitch (if the ARCs are then rated by Fitch), Moody's (if the ARCs are then rated by Moody's) 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 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 being converted. Such notice shall inform the Owners of:

- (i) the proposed Tax-Exempt Conversion Date;
- (ii) the conditions to the conversion as described under this caption "Conversion at the Option of the Corporation"; and
- (iii) the matters required to be stated as provided under the caption "Mandatory Tender Upon Conversion; Certain Notices" below with respect to mandatory tender and purchases of ARCs being converted.

(d) (i) Not later than one Business Day immediately preceding the Tax-Exempt Conversion Date, the Market Agent shall determine the Initial Interest Rates (as defined in Appendix B of this Official Statement) for the Senior Series 2004OO Bonds subject to the conversion; and the Market Agent shall, not later than 2:00 p.m. (New York City time), notify the Trustee and the Corporation of such rate by telephone (promptly confirmed in writing), telegram, telecopy, telex or other similar means of communication. The Initial Interest Rate for the Senior Series 2004OO Bonds subject to the conversion shall be the minimum rate of interest necessary to remarket such Bonds at a price of par for the Initial Interest Period (as defined in Appendix B of this Official Statement) 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. 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 2004OO Bonds as provided in the Resolution.

Mandatory Tender Upon Conversion; Certain Notices

(a) ***Mandatory Tender Upon Conversion.*** If the Senior Series 2004OO Bonds are to be converted as described above, all Senior Series 2004OO Bonds shall be subject to mandatory tender for purchase on the Tax-Exempt Conversion Date at a price equal to the principal amount thereof plus accrued interest, if any, to the Tax-Exempt Conversion Date. The Market Agent shall obtain new CUSIP numbers for the Senior Series 2004OO Bonds being converted. Upon delivery of all the tendered Senior Series 2004OO Bonds to the Trustee on the Tax-Exempt Conversion Date, the Corporation shall cause a new Bond designated "Education Loan Revenue Bond, Senior Series 2004OO (Auction Rate Certificates)" to be executed, authenticated and delivered in lieu of the converted Senior Series 2004OO 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 Senior Series 2004OO Bonds as provided herein.

(b) ***Notice to Owners.*** Any notice of conversion given to Owners shall specify that all Outstanding Senior Series 2004OO Bonds 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 Senior Series 2004OO 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 Senior Series 2004OO 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 Senior Series 2004OO 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 Senior Series 2004OO 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 Senior Series 2004OO 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 Senior Series 2004OO Bonds, such payment to be made as described in (c) above. All such remarketing proceeds received by the Trustee shall be deposited in the Remarketing Fund.

(f) ***Payments of Purchase Price by Trustee.*** On the Tax-Exempt Conversion Date, the Trustee shall pay the purchase price of the Senior Series 2004OO 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 Senior Series 2004OO 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 Senior Series 2004OO 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 Senior Series 2004OO Bonds that is subject to purchase fails to deliver such Senior Series 2004OO Bonds to the Trustee, or its designated agent for such purposes, for purchase on the purchase date, and if the Trustee, or its designated agent for such purposes, is in receipt of the purchase price therefor, such Senior Series 2004OO 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 Senior Series 2004OO Bonds shall be transferred to the purchaser thereof as provided in (g) above. The Trustee shall, as to any Undelivered Bonds, (i) promptly notify the Market Agent, the Auction Agent, the Paying Agent and the Registrar of such nondelivery and (ii) the Registrar shall place a stop transfer against an appropriate amount of Senior Series 2004OO Bonds registered in the name of the Owner(s) on the Bond Register. The Registrar shall place such stop transfer(s) commencing with the lowest serial number Senior Series 2004OO Bonds registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Senior Series 2004OO Bonds) until the appropriate tendered Senior Series 2004OO Bonds are delivered to the Trustee or its designated agent. Upon such delivery, the Registrar shall make any necessary adjustments to the Bond Register. Pending delivery of such tendered Senior Series 2004OO Bonds, the Trustee, or its designated agent, shall hold the purchase price therefor uninvested in a segregated subaccount for the benefit of such Owners.

Inadequate Funds for Tenders; Failed Conversion

If the funds available for purchases of Senior Series 2004OO Bonds are inadequate for the purchase of all Senior Series 2004OO 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 Senior Series 2004OO Bonds to the Owners thereof; (b) return all moneys received for the purchase of such Senior Series 2004OO 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 Senior Series 2004OO Bonds and moneys and the failure to make payment for tendered Senior Series 2004OO Bonds. After any such failed conversion the Senior Series 2004OO Bonds subject to the failed conversion shall remain outstanding as Taxable 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 the Resolution.

No Tender Purchases on Redemption Date

Senior Series 2004OO Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

Undelivered Bonds

Any Senior Series 2004OO Bonds which are required to be tendered on a Tax-Exempt Conversion Date and that are not delivered on the Tax-Exempt Conversion Date and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the purchase price, including any accrued interest due to (but not after) such purchase date with respect to such Senior Series 2004OO Bonds, shall be deemed to have been purchased and shall be Undelivered Bonds. In the event of a failure by a Bondowner to tender its Senior Series 2004OO Bonds on or prior to the required date, said Owner of such Undelivered Bonds shall not be entitled to any payment other than the purchase price due on the purchase date and Undelivered Bonds in the hands of such nondelivering Bondowner shall no longer accrue interest or be entitled to the benefits of the Resolution, except for the payment of the purchase price due on the purchase date; provided, however, that the indebtedness represented by such Undelivered Bonds shall not be extinguished, and the Paying Agent and Registrar shall transfer, authenticate and deliver such Senior Series 2004OO Bonds as provided below. The Paying Agent shall give telephonic notice to the Trustee and the Registrar, promptly confirmed by mail, of all Undelivered Bonds.

With respect to any Undelivered Bond, the Paying Agent, acting hereunder and pursuant to the power of attorney granted by such Bondowner in the Senior Series 2004OO Bonds, shall do or cause the Registrar to do the following:

- (a) assign, endorse and register the transfer of such Undelivered Bonds to the purchaser or purchasers thereof;
- (b) authenticate and deliver a new Senior Series 2004OO Bond or Bonds, as appropriate, to the purchaser or purchasers thereof;
- (c) execute an acknowledgment that the Owner of Undelivered Bonds holds such Undelivered Bond for the benefit of the new purchaser or purchasers thereof, who shall be identified in such acknowledgment;
- (d) promptly notify by first-class mail the Owner of such Undelivered Bond that:
 - (i) the Paying Agent has acted pursuant to such power of attorney to transfer the Undelivered Bond and to perform the other acts set forth under this caption "Undelivered Bonds";
 - (ii) the Undelivered Bond is no longer Outstanding; and
 - (iii) funds equal to the applicable purchase price for such Undelivered Bond are being held on behalf of such Owner, without interest, in the segregated subaccount established for such purpose by and with the Trustee or Paying Agent.
- (e) enter on the Bond Register that the Undelivered Bond is no longer Outstanding; and
- (f) subject to the other provisions of the Resolution, hold the purchase price for such Undelivered Bond in the subaccount established for such purpose, without interest, and pay such purchase price and any unpaid

interest due on the purchase date to such Owner upon presentation of the certificate representing the Undelivered Bond. Senior Series 2004OO Bonds presented on or before 12:00 noon (New York City time) on any Business Day are to be paid on or before the close of business on that day.

Prior Owners of Senior Series 2004OO Bonds purchased or deemed purchased pursuant to the Resolution shall not be entitled to interest thereon which accrues on and after the related purchase date, provided moneys are on hand in the subaccount established therefor to pay the purchase price and any unpaid interest due on the purchase date.

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APPENDIX G

AMBAC ASSURANCE CORPORATION

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

Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$7,670,000,000 (audited) and statutory capital of \$4,683,000,000 (audited) as of March 31, 2004. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Issuer of the 2004 Bonds.

Ambac Assurance makes no representation regarding the 2004 Bonds or the advisability of investing in the 2004 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading “INSURANCE ON THE 2004 BONDS”.

Available Information

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

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

Incorporation of Certain Documents by Reference

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

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004.
2. The Company’s Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004.

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

APPENDIX H

SUMMARY OF CERTAIN PROVISIONS OF THE FFEL, HEAL AND STATUTORY LOAN PROGRAMS

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

The Higher Education Act provides for several different educational loan programs (collectively, “Federal Act Loans” and, the program with respect thereto, the “Federal Family Education Loan Program” or the “FFEL Program”). Under these programs, state agencies or private nonprofit corporations administering student loan insurance programs (“Guarantee Agencies” or “Guarantors”) are reimbursed for portions of losses sustained in connection with Federal Act Loans, and holders of certain loans made under such programs are paid subsidies for owning such loans. Certain provisions of the Federal Family Education Loan Program are summarized below.

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the Federal Act Loans. Generally, this Official Statement describes only the provisions of the Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation’s education loan finance program. See “CERTAIN INVESTMENT CONSIDERATIONS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program – *Future Changes in Relevant Law*” in the body of this Official Statement. The following summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

FEDERAL FAMILY EDUCATION LOANS

General

Several types of loans are currently authorized as Federal Family Education Loans pursuant to the Federal Family Education Loan Program. These include: (i) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment (“Subsidized Stafford Loans”); (ii) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments (“Unsubsidized Stafford Loans” and, collectively with Subsidized Stafford Loans, “Stafford Loans”); (iii) loans to parents of dependent students (“PLUS Loans”); and (iv) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans (“Consolidation Loans”).

Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (iii) has agreed to notify promptly the holder of the loan of any address change, and (iv) meets the applicable “need” requirements. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. With certain exceptions, an institution with a cohort (composite) default rate that is higher than certain specified thresholds in the Higher Education Act is not an eligible institution.

Subsidized Stafford Loans

The Higher Education Act provides for federal (i) insurance or reinsurance of eligible Subsidized Stafford Loans, (ii) interest subsidy payments to eligible lenders with respect to certain eligible Subsidized Stafford Loans,

and (iii) special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education (the “Secretary”) to such holders of eligible Subsidized Stafford Loans.

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

Subject to these limits, Subsidized Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan Program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

Unsubsidized Stafford Loans

Unsubsidized Stafford Loans are available for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income or assets in excess of permitted amounts. In other respects, the general requirements for Unsubsidized Stafford Loans are essentially the same as those for Subsidized Stafford Loans. The interest rate, the annual loan limits, the loan fee requirements and the special allowance payment provisions of the Unsubsidized Stafford Loans are the same as the Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the Secretary does not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins.

PLUS Loan Program

The Higher Education Act authorizes PLUS Loans to be made to parents of eligible dependent students. Only parents who do not have an adverse credit history are eligible for PLUS Loans. The basic provisions applicable to PLUS Loans are similar to those of Stafford Loans with respect to the involvement of Guarantee Agencies and the Secretary in providing federal reinsurance on the loans. However, PLUS Loans differ significantly from Subsidized Stafford Loans, particularly because federal interest subsidy payments are not available under the PLUS Program and special allowance payments are more restricted.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Subsidized Stafford Loans. Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than PLUS Loans made to “parent borrowers”) selected by the borrower, as well as loans made pursuant to the Perkins (formally “National Direct Student Loan”) Loan Program, the Health Professional Student Loan Programs and the William D. Ford Federal Direct Loan Program (the “FDSL Program”). The borrowers may be either in repayment status or in a grace period preceding repayment. Delinquent or defaulted borrowers are eligible to obtain Consolidation Loans if they agree to re-enter repayment through loan consolidation. Borrowers may add additional loans to a Consolidation Loan during the 180-day period following origination of the Consolidation Loan. Further, a married couple who agrees to be jointly and severally liable is to be treated as one borrower for purposes of loan consolidation eligibility. A Consolidation Loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

In the event that a borrower is unable to obtain a Consolidation Loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding loans (that are selected for consolidation), or from any other eligible lender, the Higher Education Act authorizes the Secretary to offer the borrower a Direct Consolidation Loan with income contingent terms under the FDSL Program. Such direct Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provision under the authorizing section of the Higher Education Act.

Interest Rates

Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.7 percent, with a maximum rate of 8.25 percent. The Higher Education Act currently provides that for Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, the interest rate will be equal to 6.8 percent per annum and for PLUS Loans made on or after July 1, 2006, the interest rate will be equal to 7.9% per annum. Subsidized Stafford Loans and Unsubsidized Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.3 percent, with a maximum rate of 8.25 percent. The rate is adjusted annually on July 1. PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.1 percent, with a maximum rate of 9 percent. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 bear interest at a rate equal to the weighted average of the loans consolidated, rounded upward to the nearest one-eighth of one percent, with a maximum rate of 8.25 percent.

Loan Limits

The Higher Education Act requires that Subsidized and Unsubsidized Stafford Loans made to cover multiple enrollment periods, such as a semester, trimester or quarter be disbursed by eligible lenders in at least two separate disbursements. A Stafford Loan borrower may receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of a Stafford Loan for an academic year cannot exceed \$2,625 for the first year of undergraduate study, \$3,500 for the second year of undergraduate study and \$5,500 for the remainder of undergraduate study. The aggregate limit for undergraduate study is \$23,000 (excluding PLUS Loans). Independent undergraduate students may receive an additional Unsubsidized Stafford Loan of up to \$4,000 per academic year, with an aggregate maximum of \$46,000. The maximum amount of the loans for an academic year for graduate students is \$8,500, and independent students may borrow an additional Unsubsidized Stafford Loan up to \$10,000 per academic year. The Secretary has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study. For example, certain medical students may now borrow up to \$46,000 per academic year, with a maximum aggregate limit of \$189,125.

The total amount of all PLUS Loans that parents may borrow on behalf of each dependent student for any academic year may not exceed the student's cost of attendance minus other estimated financial assistance for that student.

Repayment

General. Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins not more than six months after the borrower ceases to pursue at least a half-time course of study (the six month period is the "Grace Period"). Grace Periods may be waived by borrowers. Repayment of interest on an Unsubsidized Stafford Loan begins immediately upon disbursement of the loan, however the lender may capitalize the interest until repayment of principal is scheduled to begin. Except for certain borrowers as described below, each loan generally must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of \$600, including principal and interest, unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total combined payments for such a couple may not be less than \$600 per year. Regulations of the Secretary require lenders to offer standard, graduated or income-sensitive repayment schedules to borrowers. Use of income sensitive repayment plans may extend the ten-year maximum term for up to three years.

PLUS Loans enter repayment on the date the last disbursement is made on the loan. Interest accrues and is due and payable from the date of the first disbursement of the loan. The first payment is due within 60 days after the loan is fully disbursed. Repayment plans are the same as in the Subsidized and Unsubsidized Stafford Loan Program.

Consolidation Loans enter repayment on the date the loan is disbursed. The first payment is due within 60 days after that date. Consolidation Loans must be repaid during a period agreed to by the borrower and lender, subject to maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans (but no longer than 30 years).

FFEL Program borrowers who accumulate outstanding Federal Acts totaling more than \$30,000 may receive an extended repayment plan, with a fixed or graduated payment amount paid over a longer period of time, not to exceed 25 years. A borrower may accelerate principal payments at any time without penalty. Once a repayment plan is established, the borrower may annually change the selection of the plan.

Deferment and Forbearance Periods. No principal repayments need to be made during certain periods prescribed by the Higher Education Act ("Deferment Periods") but interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or rehabilitation training program, (b) not exceeding three years while the borrower is seeking and unable to find full-time employment, and (c) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance ("Forbearance") during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which Forbearance is mandatory. Mandatory Forbearance periods exist when the borrower is impacted by a national emergency, military mobilization, or when the geographical area in which the borrower resides or works is declared a disaster area by certain officials. Other mandatory periods include periods during which the borrower is (a) participating in a medical or dental residency and is not eligible for deferment; (b) serving in a qualified medical or dental internship program or certain national service programs; or (c) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, Forbearance may be granted at the lender's option. Forbearance also extends the maximum repayment periods.

Master Promissory Note

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

Interest Subsidy Payments

The Secretary is to pay interest on Subsidized Stafford Loans while the student is a qualified student, during a Grace Period or during certain Deferment Periods. In addition, those portions of Consolidation Loans that repay Subsidized Stafford Loans or similar subsidized loans made under the FDSL Program are eligible for Interest Subsidy Payments. The Secretary is required to make interest subsidy payments to the holder of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the holder of an eligible Subsidized Stafford Loan, or the eligible portions of Consolidation Loans, shall be deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders. The rates for Special Allowance Payments are based on formulae that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loan (tax-exempt or taxable). Loans made or purchased with funds obtained by the holder from the issuance of tax exempt obligations issued prior to October 1, 1993 have an effective minimum rate of return of 9.5%. The Special Allowance Payments payable with respect to eligible loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are equal to those paid to other lenders.

Subject to the foregoing, the formulae for special allowance payment rates for Stafford and Unsubsidized Stafford Loans are summarized in the following chart. The term "T-Bill" as used in this table and the following table, means the average 91-day Treasury bill rate calculated as a "bond equivalent rate" in the manner applied by the Secretary as referred to in Section 438 of the Higher Education Act. The term "3 Month Commercial Paper Rate" means the 90-day commercial paper index calculated quarterly and based on an average of the daily 90-day commercial paper rates reported in the Federal Reserve's Statistical Release H-15.

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

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

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

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

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

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

Special Allowance Payments are generally payable, with respect to variable rate Federal Act Loans to which a maximum borrower interest rate applies, only when the maximum borrower interest rate is in effect. The Secretary offsets Interest Subsidy Payments and Special Allowance Payments by the amount of Origination Fees and Lender Loan Fees described in the following section.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States to receive those payments during the life of the loan. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of federal regulations or Guarantee Agency requirements.

Loan Fees

Insurance Premium. A Guarantee Agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, Guarantee Agencies have waived this fee since 1999.

Origination Fee. The lender is required to pay to the Secretary an origination fee equal to 3% of the principal amount of each Subsidized and Unsubsidized Stafford and PLUS Loan. The lender may charge these fees to the borrower by deducting them proportionately from each disbursement of the loan proceeds.

Lender Loan Fee. The lender of any Federal Act is required to pay to the Secretary an additional origination fee equal to 0.5% of the principal amount of the loan.

The Secretary collects from the lender or subsequent holder the maximum origination fee authorized (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in Interest Subsidy or Special Allowance Payments or directly from the lender or holder.

Rebate Fee on Consolidation Loans. The holder of any Consolidation Loan is required to pay to the Secretary a monthly fee equal to .0875% (1.05% per annum) of the principal amount plus accrued interest on the loan.

Education Loans Generally Not Subject to Discharge in Bankruptcy

Under the U.S. Bankruptcy Code, educational loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides as follows:

A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt:

(8) for an educational benefit overpayment or loan made, insured, or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or a nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

INSURANCE AND GUARANTEES

Default

A Federal Act Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days in the case of a loan repayable in monthly installments or for 330 days in the case of a loan repayable in less frequent installments. If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the guarantor is to pay the holder a percentage of such amount of the loss subject to reduction as described in the following paragraphs within 90 days of notification of such default.

Federal Insurance

The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and ensures that such reimbursements are not subject to reduction. In addition, the Higher Education Act provides that if a guarantor is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guarantor capable of meeting such obligations or until a successor guarantor assumes such obligations. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

Guarantees

General. If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the guarantor for a statutorily-set percentage (98%) of the unpaid

principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary enters into a guarantee agreement and a reinsurance agreement (the “Guarantee Agreements”) with each guarantor which provides for federal reimbursement for amounts paid to eligible lenders by the guarantor with respect to defaulted loans.

Guarantee Agreements. Pursuant to the Guarantee Agreements, the Secretary is to reimburse a guarantor for the amounts expended in connection with a claim resulting from the death, bankruptcy or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure, borrowers whose borrowing eligibility was falsely certified by the eligible institution, or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a guarantor’s claims rate experience for federal reimbursement purposes. Generally, education loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower’s dependents. Further, the Secretary is to reimburse a guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below.

The Secretary may terminate Guarantee Agreements if the Secretary determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. Upon termination of such agreements, the Secretary is authorized to provide the guarantor with additional advance funds with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to meet the immediate cash needs of the guarantor, ensure the uninterrupted payment of claims, or ensure that the guarantor will make loans as the lender-of-last-resort.

If the Secretary has terminated or is seeking to terminate Guarantee Agreements, or has assumed a guarantor’s functions, notwithstanding any other provision of law: (i) no state court may issue an order affecting the Secretary’s actions with respect to that guarantor; (ii) any contract entered into by the guarantor with respect to the administration of the guarantor’s reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of the Higher Education Act; and (iii) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the guarantor. Finally, notwithstanding any other provision of law, the Secretary’s liability for any outstanding liabilities of a guarantor (other than outstanding student loan guarantees under the Higher Education Act), the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guarantor, minus any necessary liquidation or other administrative costs.

Reimbursement. The amount of a reimbursement payment on defaulted loans made by the Secretary to a guarantor is subject to reduction based upon the annual claims rate of the guarantor calculated to equal the amount of federal reimbursement as a percentage of the original principal amount of originated or guaranteed loans in repayment on the last day of the prior fiscal year. The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year. The formula for reimbursement amounts is summarized below:

CLAIMS RATE	GUARANTOR REINSURANCE RATE FOR LOANS MADE PRIOR TO OCTOBER 1, 1993	GUARANTOR REINSURANCE RATE FOR LOANS MADE BETWEEN OCTOBER 1, 1993 AND SEPTEMBER 30, 1998 ⁽¹⁾	GUARANTOR REINSURANCE RATE FOR LOANS MADE ON OR AFTER OCTOBER 1, 1998 ⁽¹⁾
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

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

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

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

Under the Guarantee Agreements, if a payment on a Federal Family Education Loan guaranteed by a guarantor is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the payment. Guarantor retentions remaining after payment of the Secretary's equitable share on such collections on consolidations of defaulted loans were reduced to 18.5% from 27% effective July 1, 1997 and for other loans were reduced from 27% to 24% (23% effective October 1, 2003).

Lender Agreements. Pursuant to most typical agreements for guarantee between a guarantor and the originator of the loan, any eligible holder of a loan insured by such a guarantor is entitled to reimbursement from such guarantor of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower at the rate of 100% of such loss (or, subject to certain limitations, 98% for loans in default made on or after October 1, 1993). Guarantors generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 270 days in the case of a loan payable in monthly installments or for 330 days in the case of a loan payable in less frequent installments. When a loan becomes at least 60 days past due, the holder is required to request default aversion assistance from the applicable guarantor in order to attempt to cure the delinquency. When a loan becomes 240 days past due, the holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guarantor all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guarantor from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

Any holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guarantor has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guarantor may take reasonable action including withholding payments or requiring reimbursement of funds. The guarantor may also terminate the agreement for cause upon notice and hearing.

Guarantor Reserves

Each guarantor is required to establish a Federal Student Loan Reserve Fund (the "Federal Fund") which, together with any earnings thereon, are deemed to be property of the United States. Each guarantor is required to deposit into the Federal Fund any reserve funds plus reinsurance payments received from the Secretary, default collections, insurance premiums, 70% of payments received as administrative cost allowance and other receipts as specified in regulations. A guarantor is authorized to transfer up to 180 days' cash expenses for normal operating expenses (other than claim payments) from the Federal Fund to the Operating Fund (described below) at any time during the first three years after establishment of the fund. The Federal Fund may be used to pay lender claims and to pay default aversion fees into the Operating Fund. A guarantor is also required to establish an operating fund (the "Operating Fund") which, except for funds transferred from the Federal Fund to meet operating expenses during the first three years after fund establishment, is the property of the guarantor. A guarantor may deposit into the Operating Fund loan processing and issuance fees equal to 0.65% of the total principal amount of loans insured during the fiscal year, 30% of payments received after October 7, 1998 for the administrative cost allowance for loans insured prior to that date and the 24% retention of collections on defaulted loans and other receipts as specified

in regulations. An Operating Fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, compliance monitoring, and other student financial aid related activities.

The Higher Education Act required the Secretary to recall \$1 billion in federal reserve funds from guarantors on September 1, 2002. Each guarantor was required to transfer its equitable share of the \$1 billion to a restricted account in equal annual installments for each of the five federal fiscal years 1998 through 2002 (or in certain cases over four federal fiscal years beginning in 1999). The guarantor's required reserve ratio has been reduced from 1.1% to .25%.

The Higher Education Act provides for an additional recall of reserves from each Federal Fund, but also provides for certain minimum reserve levels which are protected from recall. The Secretary is authorized to enter into voluntary, flexible agreements with guarantors under which various statutory and regulatory provisions can be waived. In addition, under the Higher Education Act, the Secretary is prohibited from requiring the return of all of a guarantor's reserve funds unless the Secretary determines that the return of these funds is in the best interest of the operation of the FFEL program, or to ensure the proper maintenance of such guarantor's funds or assets or the orderly termination of the guarantor's operations and the liquidation of its assets. The Higher Education Act also authorizes the Secretary to direct a guarantor to: (i) return to the Secretary all or a portion of its reserve fund that the Secretary determines is not needed to pay for the guarantor's program expenses and contingent liabilities; and (ii) cease any activities involving the expenditure, use or transfer of the guarantor's reserve funds or assets which the Secretary determines is a misapplication, misuse or improper expenditure. Under current law, the Secretary is also authorized to direct a guarantor to return to the Secretary all or a portion of its reserve fund which the Secretary determines is not needed to pay for the guarantor's program expenses and contingent liabilities.

THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

General

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

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

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

Federal Reimbursement Pursuant to the Public Health Service Act

The Corporation receives reimbursement under the HEAL Loan program in accordance with certain Insurance Contracts for Secondary Markets. Under these annual Insurance Contracts, the Secretary of HHS has agreed to reimburse the Corporation for 98 percent of the Corporation's losses on HEAL Loans held by the Corporation during such period resulting from the default, bankruptcy, death or total and permanent disability of a borrower, subject to certain terms and conditions as further described below. The Insurance Contracts are annual agreements. The Corporation also receives reimbursement with respect to HEAL consolidation loans under a Consolidation Lender Insurance Contract with the Secretary of HHS which insures Consolidation Loans issued

during the period ending September 30, 2004. The Corporation anticipates a renewal of this contract with respect to HEAL consolidation loans.

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

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

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

Eligibility for Federal Insurance

A HEAL Loan is federally insurable provided:

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

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

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

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

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

Interest Provisions

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

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

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

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

HEAL Consolidation Loans

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

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

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

Due Diligence Obligations Under the Public Health Service Act

Under the Public Health Service Act, pursuant to regulations promulgated by the Secretary of HHS, a lender must exercise due diligence in the collection of HEAL Loans. In order to exercise due diligence, certain procedures must be implemented. These procedures include notification to the borrower at specified intervals of a

delinquency, that the continued delinquent status will be reported to consumer credit reporting agencies if payment is not made, and if required, skip tracing procedures. Records must be made of compliance with such collection procedures. When a borrower is 90 days delinquent in making a payment, a lender must request pre-claim assistance from the Public Health Service.

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

STATUTORY LOAN PROGRAM

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

THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM HAVE BEEN ESTABLISHED TO SERVE THE GOALS OF THE CORPORATION IN INCREASING THE AVAILABILITY OF CREDIT FOR EDUCATION, CONSISTENT WITH PROVIDING FOR PAYMENT OF DEBT SERVICE ON THE CORPORATION'S OBLIGATIONS. THE TERMS AND FEATURES OF THE STATUTORY LOAN PROGRAM ARE, HOWEVER, SUBJECT TO CHANGE AT ANY TIME WITHOUT NOTICE TO OR CONSENT OF THE OWNERS OF THE 2004 BONDS, BUT NO SUCH CHANGE MAY BE MADE WITH RESPECT TO STATUTORY LOANS TO BE FINANCED WITH THE PROCEEDS OF THE 2004 BONDS WITHOUT THE CONSENT OF THE BOND INSURER.

Under the Statutory Loan Program, the Corporation finances Statutory Loans to eligible persons (each an "Eligible Borrower") from the proceeds of bonds or other obligations, from repayments or prepayments of the Education Loans and from other moneys available therefor under the Statutory Loan Program. The Corporation services or contracts for the servicing of the Statutory Loans.

Presently, the Statutory Loan Program consists of three types of loan programs: the VSAC EXTRA Loan Program, the VSAC EXTRA Medical Loan Program and the VSAC EXTRA Law Loan Program. These Statutory Loans are not insured, subsidized or guaranteed. These loans are intended to supplement other available sources of credit for student borrowers. The security for a VSAC EXTRA Loan, a VSAC EXTRA Medical Loan and a VSAC EXTRA Law Loan will be exclusively derived from the creditworthiness of the borrower and any co-signer. The Statutory Loan borrowers may be required to pay a borrowing or origination fee which may be held by the Corporation outside the Resolution and may not be available to pay debt service on the 2004 Bonds.

APPENDIX I

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

\$275,000,000

**VERMONT STUDENT ASSISTANCE CORPORATION
EDUCATION LOAN REVENUE BONDS
SERIES 2004**

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 \$275,000,000 aggregate principal amount of its Education Loan Revenue Bonds, Senior Series 2004MM (the "2004MM Bonds"), Senior Series 2004NN (the "2004NN Bonds"), Senior Series 2004OO (the "2004OO Bonds") and Senior Series 2004PP (the "2004PP Bonds") (collectively, the "2004 Bonds").

The 2004 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 2004 Tenth Series Resolution of the Corporation adopted by the Corporation's Board of Directors on May 19, 2004 (collectively, together with all other supplements and amendments, the "Resolution"). The Resolution provides that the 2004 Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Education Loans, to refund certain obligations of the Corporation and to pay certain costs and other expenses of the Corporation associated with the issuance of the 2004 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 2004 Bonds are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and mandatory tender prior to maturity, as provided in the Resolution.

In our capacity as Bond Counsel, we have examined the Resolution, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2004 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 2004 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 2004 Bonds, of the Revenues, Principal Receipts and any other amounts (including proceeds of the sale of the 2004 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 2004 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding limited obligations of the Corporation, payable solely from the amounts pledged therefor as described in (2) above, and entitled to the protections, benefits and security of the Resolution.

4. The 2004 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 2004 Bonds.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 2004MM Bonds, the 2004NN Bonds and the 2004PP Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income of the recipients thereof for federal income tax purposes; however, interest on the Tax-Exempt Bonds is a specific preference item for purposes of the federal alternative minimum tax for individuals and corporations. The Corporation has covenanted in the Resolution and the Tax Certificate and Agreement to comply with certain guidelines designed to assure that interest on the Tax-Exempt Bonds will not become includable in gross income. Failure to comply with these covenants may result in interest on the Tax-Exempt Bonds being included in gross income from the date of issuance of the 2004 Bonds. Our opinion assumes continuing compliance with such covenants.

Interest on the 2004OO Bonds is includable in gross income for federal income tax purposes.

The accrual or receipt of interest on the 2004 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 2004 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 2004 Bonds and the Resolution and the rights of the registered owners of the 2004 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally heretofore or hereafter enacted, (b) the enforceability thereof may be limited by the application of general principles of equity and (c) the enforcement of such rights may also be subject to the exercise of judicial discretion in appropriate cases.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. The opinions expressed herein are based on existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation or as to any other matters.

Very truly yours,

APPENDIX J

SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY

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Certificate Guaranty Insurance Policy

Insured Obligations:

Policy Number:

COPY

COPY

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 unconditionally and irrevocably to pay to the Trustee for the benefit of the Holders of the Insured Obligations, that portion of the Insured Amounts which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Ambac will make such payments to the Trustee from its own funds on the later of (a) one (1) Business Day following notification to Ambac of Nonpayment or (b) the Business Day on which the Insured Amounts are Due for Payment. Such payments of principal or interest shall be made only upon presentation of an instrument of assignment in form and substance satisfactory to Ambac, transferring to Ambac all rights under such Insured Obligations to receive the principal of and interest on the Insured Obligation. Ambac shall be subrogated to all the Holders' rights to payment on the Insured Obligations to the extent of the insurance disbursements so made. Once payments of the Insured Amounts have been made to the Trustee, Ambac shall have no further obligation hereunder in respect of such Insured Amounts.

In the event the Trustee for the Insured Obligations has notice that any payment of principal or interest on an Insured Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Trustee has been deemed a preferential transfer and theretofore recovered from its 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.

This Policy is noncancelable by Ambac for any reason, including failure to receive payment of any premium due hereunder. The premium on this Policy is not refundable for any reason. 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 Insured Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment, including failure of the Trustee to make any payment due Holders of Insured Amounts.

To the fullest extent permitted by applicable law, Ambac hereby waives and agrees not to assert any and all rights and defenses, to the extent such rights and defenses may be available to Ambac, to avoid payment of its obligations under this Policy in accordance with the express provisions hereof.

Any capitalized terms not defined herein shall have the meaning given such terms in the endorsement attached hereto or in the Agreement.

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

[Handwritten Signature]



[Handwritten Signature]

President

Secretary

COPY

Effective Date:

Authorized Representative

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APPENDIX K
FINANCIAL STATEMENTS

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Vermont Student Assistance Corporation
(A Component Unit of the State of Vermont)

Basic Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2003 and 2002



BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

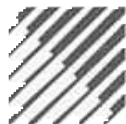
VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

FINANCIAL STATEMENTS

Years Ended June 30, 2003 and 2002

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BAKER NEWMAN & NOYES

LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Vermont Student Assistance Corporation

We have audited the accompanying basic financial statements of the Vermont Student Assistance Corporation, a component unit of the State of Vermont, as of and for the year ended June 30, 2003, as listed in the accompanying table of contents. These financial statements are the responsibility of the Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Vermont Student Assistance Corporation for the year ended June 30, 2002, were audited by other auditors whose report, dated September 20, 2002, expressed an unqualified opinion on those statements.

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 *Governmental 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 2003 basic financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation, as of June 30, 2003, and the changes in its financial position 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 *Governmental Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of Vermont Student Assistance Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2003 information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Limited Liability Company

Portland, Maine
September 26, 2003

VERMONT STUDENT ASSISTANCE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2003

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

VSAC administers the Vermont State grant program, funded by State appropriations, at no cost to the State. VSAC also administers and awards over 100 scholarship funds, including both scholarship funds held and managed by VSAC, and outside scholarships.

VSAC's education loan programs are financed through issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and reinsured by the U.S. Department of Education through the Federal Family Education Loan Program (FFELP). VSAC also provides certain loan programs that are not guaranteed by the federal government. VSAC education loans are available to Vermont students attending both in-state and out-of-state institutions, and to students of Vermont institutions.

VSAC's outreach services are funded through a variety of Federal grants, including GEAR UP and Talent Search, as well as through State grants, fund-raising and general corporate support.

Fiscal 2003 Highlights and Overall Financial Position

- During the year ended June 30, 2003, VSAC provided over \$20.6 million in grants and scholarships to Vermont students.
- VSAC originated over \$407.0 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds \$1.12 billion in education loans receivable at June 30, 2003.
- VSAC returned over \$14.7 million in interest and principal rebates to students in its loan programs during fiscal 2003.
- VSAC expanded its services and offerings to students and families through its Resource Center, outreach counselors, website and through the Vermont Higher Education Investment Plan.
- VSAC's total net assets increased \$8.2 million to \$79.7 million, primarily strengthening the Corporation's equity position in its student loan bond trust estates. VSAC's net revenue base continued to grow as loan originations, including traditional Stafford and PLUS loans, consolidation loans and alternative loans, increased. While interest rates decreased both gross interest revenues and gross interest expenses, the increase in student loan volume generated consistent net revenues from loans.

The Financial Statements

VSAC's financial statements are a series of reports that detail financial information using accounting methods similar to those used by private businesses, especially financial institutions.

The statement of revenues, expenses and changes in net assets presents the results of VSAC's operations. The statement reports all revenues and expenses, and reconciles the beginning and end of year net asset balances.

The statement of net assets includes all the Corporation's assets and liabilities. The statement also presents the balance of assets in excess of liabilities, or net assets.

The statement of cash flows supplements these statements providing relevant information about cash receipts and payments for the Corporation.

The statement of fiduciary net assets displays the funds where VSAC has custodial responsibilities for others.

The notes to the financial statements are an integral part of the financial statements and contain information necessary to get a complete view of VSAC's financial position.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF REVENUES AND EXPENSES

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Revenues:		
Interest earned from student loan financing	\$ 70,530	\$ 71,493
Other loan and guarantee program revenues	4,973	4,254
Investment interest	2,568	5,234
Vermont state appropriations	16,582	15,446
Federal grants	2,550	2,367
Scholarship revenue	3,651	2,503
Other revenue	<u>1,189</u>	<u>1,234</u>
Total operating revenues	102,043	102,531
Expenses:		
Student aid	20,603	18,634
Interest rebated to borrowers	14,664	15,354
Interest on debt	20,043	25,412
Other loan financing costs	12,174	15,576
Corporate operating expenses and depreciation	<u>26,345</u>	<u>24,758</u>
Total operating expenses	<u>93,829</u>	<u>99,734</u>
Excess of revenues over expenses	8,214	2,797
Total net assets, at the beginning of the year	<u>71,475</u>	<u>68,678</u>
Total net assets, at the end of the year	<u>\$ 79,689</u>	<u>\$ 71,475</u>

Revenues

VSAC's fiscal 2003 operations resulted in an increase in net assets of \$8.2 million. All revenues for 2003 are considered operating revenues. VSAC earned \$102.0 million in revenues versus incurring \$93.8 million in total expenses in 2003. VSAC's revenues include interest income on student loans, as well as various Federal interest subsidies and special allowance payments.

Overall loan revenue to VSAC is closely related to the general interest rate environment. Most student loans held by VSAC have variable interest rates. During 2003, interest revenues and subsidies declined from \$71.5 to \$70.5 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented \$9.0 million in 2003. VSAC also receives special allowance payments when variable interest rates fall below certain levels. Low interest rates accounted for an increase in these special allowance payments from \$10.0 to \$16.1 million in 2003.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$5.0 million in 2003, compared to \$4.2 million in 2002.

Lower interest rates also resulted in declining interest revenue on investments. Investments include student loan funds temporarily invested in cash and short term investments, and scholarship funds invested for long-term growth and income. Interest on all investments declined from \$5.2 million to \$2.6 million in 2003, as interest rates declined and the amount invested in cash and cash equivalents on average declined as well. These investments are related to the timing of student loan bond issues.

VSAC has worked closely with the University of Vermont and the Vermont State Colleges to enhance the State's financial support of higher education. The result has been significant increases in State appropriations for each party. VSAC's appropriation increased from \$15.4 to \$16.6 million. As in prior years, the State's appropriation for the grant program is used entirely to provide grant funds directly to students. VSAC receives no administrative allowance for administering the State grant program.

Federal grants also increased by nearly 13%, to \$2.6 million in fiscal 2003.

Scholarship revenues climbed from \$2.5 to \$3.7 million in fiscal 2003, as more scholarship funds were secured, awarded and invested for the benefit of Vermont students.

Expenses

VSAC has four main types of expenses: student aid; interest costs; other loan financing costs; and costs of operations.

Student Aid – VSAC provided Vermont students with \$20.6 million in student aid during fiscal 2003; \$16.4 million was provided from State appropriations. An additional \$4.2 million was made available through various scholarship programs managed by VSAC. The total aid in 2003 represents an 11% increase over grants and scholarships provided by VSAC in fiscal 2002. Direct aid in the form of grants and scholarships represented 22% of VSAC's operating expenses.

While not strictly a student aid expense, interest rebated to borrowers is an item that helps current and former students and parents manage their education debt. VSAC provided \$14.6 million in rebates of interest to borrowers in fiscal 2003, down slightly from 2002, due to the overall decline in interest rates on these loans. These rebates represent 15.6% of VSAC's fiscal 2003 operating expenses.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the \$407 million of loans VSAC made available to students and parents in fiscal 2003.

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

With the dramatic decrease in interest rates from fiscal 2002 to 2003, VSAC interest costs fell from \$25.4 to \$20.0 million, even as overall indebtedness increased from \$1.1 to \$1.33 billion. Interest costs represented 21.4% of VSAC operating expenses in fiscal 2003.

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the Federal government, and provisions for or recovery of the arbitrage earnings liability to the U.S. Treasury, as well as a variety of other costs incurred in issuing and managing over \$1.3 billion in outstanding bonds and notes. These costs totaled \$10.7 million in fiscal 2003, representing approximately 11.4% of total operating expenses. Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness, and by changes in the arbitrage liability. Arbitrage liability represents earnings on bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle. VSAC actually experienced a recapture of excess arbitrage in fiscal 2003.

Costs of Operations – The costs of operating VSAC’s programs, as well as facilities and overhead costs totaled \$26.3 million in fiscal 2003, an increase of approximately 6.4% from fiscal 2002. Salaries and benefits were \$18.5 million in fiscal 2003, approximately 70% of costs of operations. Overall costs of operations represent 28% of total operating expenses.

Total expenses for 2003 were \$93.8 million. Revenues totaled \$102.0 million. The excess of revenues over expenses was \$8.2 million. The change in total net assets for 2003 was an increase of \$8.2 million. The ending balance of net assets was \$79.7 million at June 30, 2003, as compared to \$71.5 million at June 30, 2002.

Other operating expenses including the provision for loan losses and other general and administrative expenses totaled \$1.5 million in 2003.

CONDENSED FINANCIAL INFORMATION

SUMMARY OF NET ASSETS

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 272,538	\$ 167,528
Student loans receivable (plus interest)	1,147,143	1,012,003
Other assets	<u>12,265</u>	<u>10,321</u>
Total assets	<u>\$ 1,431,946</u>	<u>\$ 1,189,852</u>
Liabilities:		
Bonds & notes payable (plus interest)	\$ 1,333,404	\$ 1,098,456
U.S. Treasury arbitrage payable	13,007	14,499
Other liabilities	<u>5,846</u>	<u>5,422</u>
Total liabilities	1,352,257	1,118,377
Net assets:		
Restricted	48,681	41,707
Unrestricted	28,144	26,978
Net investment in capital assets	<u>2,864</u>	<u>2,790</u>
Total net assets	<u>79,689</u>	<u>71,475</u>
Total liabilities and net assets	<u>\$ 1,431,946</u>	<u>\$ 1,189,852</u>

Net Assets

Cash balances increased significantly from June 30, 2002 to 2003, from \$143.5 to \$261.7 million as a result of fiscal 2003 bond proceeds not fully utilized for loan originations at June 30, 2003. VSAC issued \$112.5 million in new bonds in October 2002 and \$310.9 million in new bonds in May 2003. Combined cash and investments were \$272.5 million at June 30, 2003 an increase of \$105 million from June 30, 2002. Refer to the Statement of Cash Flows for further details of changes in cash and investments in 2003.

Student loans and interest receivable totaled \$1.15 billion at June 30, 2003, up from \$1.01 billion in 2002. The 2003 bond proceeds were used to originate student loans in 2003.

U.S. Treasury arbitrage payable was described in the expense discussion. This liability decreased as of June 30, 2003, to \$13.0 million from \$14.5 million at June 30, 2002.

Net assets restricted by bond indenture increased \$7.0 million. These represent VSAC equity positions in trusts established to provide security for bondholders. Upon maturity of the various bond series, or with permission of bond insurers, these equity positions will be released to VSAC as unrestricted net assets. In the past, these unrestricted net assets have been reinvested in student loans receivable, providing VSAC with continued revenue on these funds, and reducing the need for new borrowings.

Unrestricted net assets include those assets released from bond trusts and used to finance student loans, funds used for corporate working capital and investments in capital assets. Unrestricted net assets invested in student loans totaled \$18.6 million at June 30, 2003.

Capital assets increased during the fiscal year, as new acquisitions of \$1.4 million exceeded depreciation expense of \$1.3 million. The result was an increase in both capital assets, and the corresponding net asset figure to \$2.9 million at June 30, 2003.

Changes in Long-Term Debt

Bonds, notes and interest payable increased by \$234.9 million to \$1.33 billion. The increase resulted from new borrowings exceeding maturities and refundings of existing debt during fiscal year 2003. During the fiscal year, VSAC issued \$449.3 million in new bonds and notes. These bonds and notes provided \$235 million of new capital, and retired and refunded \$214.3 of existing debt.

See note 8 for additional information on bonds and notes payable.

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

STATEMENTS OF NET ASSETS

June 30, 2003 and 2002

ASSETS

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents (notes 3, 8 and 9)	\$ 261,668	\$ 143,541
Investments (notes 3, 8 and 9)	10,870	23,987
Receivables:		
Student loans, net (notes 4, 8 and 9)	95,335	81,141
Student loan interest and special allowance (note 10)	23,489	24,895
Investment interest	278	203
Federal administrative and program fees	410	336
Other	800	560
Other assets	<u>1,485</u>	<u>1,226</u>
Total current assets	394,335	275,889
Noncurrent assets:		
Receivables:		
Student loans, net (notes 4, 8 and 9)	1,028,319	905,967
Capital assets (note 7)	2,864	2,790
Deferred bond issuance costs, net	<u>6,428</u>	<u>5,206</u>
Total noncurrent assets	1,037,611	913,963
Total assets	<u>\$1,431,946</u>	<u>\$1,189,852</u>

LIABILITIES AND NET ASSETS

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Current liabilities:		
Bonds and notes payable (notes 8 and 9)	\$ 40,935	\$ 54,300
Accounts payable and other liabilities	3,103	2,750
Deferred revenue	2,743	2,672
Accrued interest on bonds payable	1,211	1,104
Arbitrage earnings rebatable (note 9)	<u>1,260</u>	<u>1,074</u>
Total current liabilities	49,252	61,900
Noncurrent liabilities:		
Bonds and notes payable (notes 8 and 9)	1,291,258	1,043,052
Arbitrage earnings rebatable (note 9)	<u>11,747</u>	<u>13,425</u>
Total noncurrent liabilities	<u>1,303,005</u>	<u>1,056,477</u>
Total liabilities	1,352,257	1,118,377
Commitments and contingencies (notes 12, 13 and 14)		
Net assets:		
Invested in capital assets	2,864	2,790
Restricted:		
Bond resolution	48,288	41,267
Grants and scholarships	393	440
Unrestricted	<u>28,144</u>	<u>26,978</u>
Total net assets	<u>79,689</u>	<u>71,475</u>
Total liabilities and net assets	<u>\$1,431,946</u>	<u>\$1,189,852</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Operating revenues:		
U.S. Department of Education (note 10):		
Interest benefits	\$ 9,019	\$ 11,550
Special allowance	16,099	10,011
Interest on student loans	45,412	49,932
State appropriations	16,582	15,446
Interest on investments	2,568	5,234
Guarantee agency administrative revenues	4,973	4,254
Federal grants	2,550	2,367
Scholarship income	3,651	2,503
Other income	<u>1,189</u>	<u>1,234</u>
Total operating revenues	102,043	102,531
Operating expenses:		
Financing expenses – interest	20,043	25,412
Salaries and benefits (note 11)	18,483	17,082
State grants and scholarships	20,603	18,634
Interest rebated to borrowers	14,664	15,354
Other general and administrative	6,095	5,667
Other guarantee agency expenses	435	455
(Reduction in) excess arbitrage (note 9)	(1,181)	5,120
Credit enhancement and remarketing fees	4,385	4,116
Consolidation and lender paid fees	6,861	5,107
Other loan financing expense	151	86
Provision for losses on student loans (note 4)	1,062	685
Depreciation and amortization	1,332	1,554
Amortization of bond issuance costs	<u>896</u>	<u>462</u>
Total operating expenses	<u>93,829</u>	<u>99,734</u>
Excess of operating revenues over operating expenses	8,214	2,797
Net assets, beginning of year	<u>71,475</u>	<u>68,678</u>
Net assets, end of year	<u>\$ 79,689</u>	<u>\$ 71,475</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	\$ 305,494	\$ 236,042
Cash paid to suppliers for goods and services	(55,095)	(49,297)
Student loans originated	(406,839)	(323,864)
Cash paid to employees for services	(18,838)	(17,080)
Interest received on student loans	47,714	51,130
State appropriations received	<u>16,582</u>	<u>15,446</u>
Net cash used in operating activities	(110,982)	(87,623)
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds/notes payable	449,285	25,380
Payments on bonds/notes payable	(214,300)	(25,380)
Interest paid to bond holders	<u>(20,080)</u>	<u>(26,413)</u>
Net cash provided by (used in) noncapital financing activities	214,905	(26,413)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(1,406)</u>	<u>(1,127)</u>
Net cash used in capital and related financing activities	(1,406)	(1,127)
Cash flows from investing activities:		
Interest received on investments	2,493	5,393
Redemption/(purchase) of investments, net	<u>13,117</u>	<u>(3,529)</u>
Net cash provided by investing activities	<u>15,610</u>	<u>1,864</u>
Net increase (decrease) in cash and cash equivalents	118,127	(113,299)
Cash and cash equivalents, beginning of year	<u>143,541</u>	<u>256,840</u>
Cash and cash equivalents, end of year	<u>\$ 261,668</u>	<u>\$ 143,541</u>

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

STATEMENTS OF CASH FLOWS
(CONTINUED)

Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities:		
Excess of operating revenues over operating expenses	\$ <u>8,214</u>	\$ <u>2,797</u>
Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities:		
Depreciation and amortization	1,332	1,554
Provision for losses on student loans	1,062	685
Amortization of bond issuance costs	896	462
Amortization of bond premium	(144)	(129)
Investment interest received	(2,493)	(5,393)
Interest paid to bond holders	20,080	26,413
Changes in operating assets and liabilities:		
(Increase) decrease in investment interest receivable	(75)	159
Increase in student loans receivable	(137,608)	(118,742)
Decrease in student loans interest receivable	1,406	445
Increase in federal administrative and program fees receivable	(74)	(12)
Increase in other receivables	(240)	(121)
Increase in other assets	(259)	(58)
Increase in deferred bond issuance costs	(2,118)	(64)
Increase in accounts payable and other liabilities	353	414
Increase in deferred revenue	71	1,018
Increase (decrease) in accrued interest on bonds payable	107	(873)
(Decrease) increase in arbitrage earnings rebatable	<u>(1,492)</u>	<u>3,822</u>
Total adjustments	<u>(119,196)</u>	<u>(90,420)</u>
Net cash used in operating activities	<u>\$ (110,982)</u>	<u>\$ (87,623)</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2003 and 2002

	Federal Loan Reserve Fund	<u>VHEIP</u>	2003 <u>Total</u>	2002 <u>Total</u>
	(In Thousands)			
<u>ASSETS HELD FOR OTHERS</u>				
Cash and cash equivalents	\$ 7,753	\$ 147	\$ 7,900	\$ 9,015
Investments	—	18,428	18,428	10,729
Student loans receivable and accrued student loan interest	—	2,504	2,504	1,090
Investment interest receivable	6	75	81	40
Other assets	<u>1,076</u>	<u>14</u>	<u>1,090</u>	<u>1,792</u>
Total assets	<u>\$ 8,835</u>	<u>\$ 21,168</u>	<u>\$ 30,003</u>	<u>\$ 22,666</u>
 <u>LIABILITIES</u>				
Accounts payable and other liabilities	\$ 171	\$ 37	\$ 208	\$ 446
Note payable	—	2,563	2,563	1,219
Federal advances	538	—	538	538
Amounts held on behalf of investors	—	18,568	18,568	10,815
Return of reserves due to U.S. Department of Education	552	—	552	2,146
Federal loan reserve funds held for U.S. Department of Education	<u>7,574</u>	<u>—</u>	<u>7,574</u>	<u>7,502</u>
Total liabilities	<u>\$ 8,835</u>	<u>\$ 21,168</u>	<u>\$ 30,003</u>	<u>\$ 22,666</u>

See accompanying notes to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

1. Authorizing Legislation

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

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

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

Restriction on Net Assets

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

Management Estimates

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Student Loans

Student loans consist primarily of guaranteed student loans which are made to post-secondary students attending eligible educational institutions and guaranteed parental loans made to parents of dependent undergraduate students, graduate and professional students, and independent undergraduate students attending eligible educational institutions. Student loans also include consolidation loans which are loans to eligible students that combine two or more existing student loans and extend the repayment period. Student loans are stated at their unpaid principal balance. During the in-school and grace periods, the U.S. Department of Education (“DE”) pays interest on behalf of the guaranteed student loan borrower. When the repayment period begins, the borrower is responsible for interest payments. Interest on student loans is recognized as revenue in the period earned.

Allowance for Loan Losses

A substantial portion of student loans are guaranteed by VSAC, as guarantor under the FFEL Program, and substantially all such loans are reinsured by DE. However, there is still the risk that loans may lose their guarantee and become uncollectible under certain circumstances and certain student loans are not guaranteed. Also, loans originated subsequent to October 1, 1993, are only reinsured by DE for 98% of the principal amount. Student loans issued under the FFEL program originated prior to October 1, 1993, are 100% reinsured by DE. At June 30, 2003 and 2002, most of VSAC’s student loans are subject to the 98% guarantee from DE. Therefore, management of VSAC has established an allowance for loan losses to provide for these potential losses. The amount of the allowance, which is established through a provision for losses on student loans charged to expense, is based on management’s estimation of the probable losses within the portfolio.

Operating Revenue and Expenses

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

Cash Equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Investments

Investment securities primarily consist of guaranteed investment contracts at June 30, 2003. At June 30, 2002, they consisted primarily of guaranteed investment contracts and short-term bonds. Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The cost of the guaranteed investment contracts approximates their fair values as VSAC can withdraw funds at par during the contract period according to the related bond indentures.

Capital Assets

Capital assets are stated at historical cost. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets. Capital asset acquisitions that equal or exceed \$2,500 are capitalized. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Bond Issuance Costs

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

Amortization of Bond Premiums

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

Grants

Unrestricted grants are recorded as revenue when received. Restricted grants are recorded as revenue upon compliance with the restrictions. Amounts received for grant programs that are restricted are recorded in deferred revenue until they become unrestricted.

FFEL Program Support

VSAC receives a percentage of the amounts collected on defaulted loans, a portfolio maintenance fee and a default aversion fee from DE as its primary support for the administration of the FFEL Program. These fees are recorded as guarantee agency administrative revenues when earned.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employees may accumulate, subject to certain limitations, unused vacation earned and upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation recognized as expense is the amount earned and this obligation is accrued.

Income Tax Status

VSAC is exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

Reclassification

Certain items in the 2002 financial statements have been reclassified to conform to the current year presentation.

The most significant reclassifications include the Federal Loan Reserve Fund and the Vermont Higher Education Investment Plan Fund being reported as *Fiduciary Funds* in the Statement of Fiduciary Net Assets. At June 30, 2002, the assets and liabilities of these funds were included in VSAC's Statement of Net Assets. The change in 2003 was made to better reflect VSAC's fiduciary role over these Funds as VSAC acts in a custodial capacity for these Funds. The resources in these Funds cannot be used to support VSAC's operations. This reporting change did not result in any change to net assets as previously reported.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of June 30, 2003 and 2002:

	2003		2002	
	Balance	Amount Insured or Collateralized	Balance	Amount Insured or Collateralized
Cash	\$ 253	\$ 100	\$ 156	\$ 102
Repurchase agreements	3,194	3,194	2,883	2,883
Money market accounts	<u>258,221</u>	<u>See Below</u>	<u>140,502</u>	<u>See Below</u>
	<u>\$261,668</u>		<u>\$143,541</u>	

At June 30, 2003 and 2002, cash and repurchase agreements are comprised of various bank accounts and principal cash held by a bank trust department. The bank balances at June 30, 2003, were \$4,033 and the bank balances at June 30, 2002, were \$3,444. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, \$100 and \$102 of the bank balances at June 30, 2003 and 2002, respectively, were covered by Federal depository insurance and \$3,194 and \$2,883, respectively, were collateralized by repurchase agreements for which the securities held are held by the bank's trustee in VSAC's name. The remainder of bank balances of \$739 and \$459 at June 30, 2003 and 2002, respectively, were uninsured and uncollateralized.

At June 30, 2003 and 2002, the money market accounts are primarily invested in the Federated Prime Cash Obligations Fund. The Fund objective is to provide current income consistent with stability of principal and liquidity. The Prime Cash Obligations Fund invests primarily in a portfolio of short-term, high quality fixed income securities insured by banks, corporations and the U.S. Government. The underlying assets are not held in the name of VSAC.

Investments

VSAC categorizes its investments to give an indication of the level of credit risk assumed by VSAC at year end. The categories are as follows:

- (1) Insured or collateralized with securities held by VSAC or by its agent in VSAC's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in VSAC's name.
- (3) Uncollateralized.

VERMONT STUDENT ASSISTANCE CORPORATION
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NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Investment securities and the level of credit risk assumed by VSAC were as follows at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Guaranteed investment contracts – Category 3	\$ 10,775	\$ 18,892
Certificates of deposit – Category 1	95	95
Short-term bonds – Category 2	<u>—</u>	<u>5,000</u>
	<u>\$ 10,870</u>	<u>\$ 23,987</u>

The bank and book balances of investments at June 30, 2003 and 2002, were the same.

A significant portion of cash, cash equivalents and investments are limited to their use for the repayment of bond and note obligations, and to satisfy certain reserve requirements specified by the bond and note indentures.

4. Student Loans Receivable

Student loans with annual interest rates ranging from 2.67% to 12.0% are insured by DE and the U.S. Department of Health and Human Services. Most of VSAC’s borrowers are located in the New England states, primarily in the State of Vermont.

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

Student loans receivable as of June 30, 2003 and 2002, are summarized as follows:

	<u>2003</u>	<u>2002</u>
Status:		
Interim status	\$ 258,982	\$ 224,140
Deferral status	195,002	171,958
Repayment status	670,749	591,614
Less: Allowance for loan losses	<u>(1,079)</u>	<u>(604)</u>
Total student loans receivable	1,123,654	987,108
Less: noncurrent student loans receivable	<u>1,028,319</u>	<u>905,967</u>
Current student loans receivable	<u>\$ 95,335</u>	<u>\$ 81,141</u>

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4. Student Loans Receivable (Continued)

	<u>2003</u>	<u>2002</u>
Guarantee type:		
U.S. Department of Education	\$1,058,858	\$932,972
U.S. Department of Health and Human Services	20,277	20,621
Other – nonguaranteed	45,598	34,119
Less: Allowance for loan losses	<u>(1,079)</u>	<u>(604)</u>
 Total student loans receivable	 1,123,654	 987,108
Less: noncurrent student loans receivable	<u>1,028,319</u>	<u>905,967</u>
 Current student loans receivable	 <u>\$ 95,335</u>	 <u>\$ 81,141</u>

The student loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended June 30, 2003 and 2002, were as follows:

	<u>2003</u>	<u>2002</u>
Balance July 1	\$ 604	\$ 340
Net loans charged off	(587)	(421)
Provision for losses on student loans	<u>1,062</u>	<u>685</u>
 Balance June 30	 <u>\$ 1,079</u>	 <u>\$ 604</u>

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

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

VERMONT STUDENT ASSISTANCE CORPORATION
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June 30, 2003 and 2002

(Dollars in Thousands)

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

Changes in Federal loan reserve funds held for DE for the years ended June 30, 2003 and 2002, were as follows:

	<u>2003</u>	<u>2002</u>
<i>Additions:</i>		
Reimbursement from DE on default loan purchases	\$ 11,411	\$ 10,185
Default loan collections	40	22
Loan administrative fees	1,821	1,632
Investment income	<u>88</u>	<u>187</u>
Total additions	13,360	12,026
<i>Deductions:</i>		
Purchases of default loans from lenders	11,655	10,375
Default aversion fee	507	432
Other disbursements	<u>1,126</u>	<u>89</u>
Total deductions	<u>13,288</u>	<u>10,896</u>
Federal loan reserve funds held, at beginning of year	<u>7,502</u>	<u>6,372</u>
Federal loan reserve funds held, at end of year	<u>\$ 7,574</u>	<u>\$ 7,502</u>

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 Act Amendments of 1998 require VSAC to maintain reserves equal to .25% of student loans guaranteed. During 2003 and 2002, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding guarantees issued under the FFEL Program were \$1,058,858 and \$932,972 at June 30, 2003 and 2002, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

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

VHEIP was established by the Vermont Legislature in April 1998. VHEIP encourages Vermont residents to save for college or other post-secondary education through tax favorable investments. The program has been designed to comply with the requirements for treatment as a “Qualified Tuition Program” under Section 529 of the Internal Revenue Code. There are two plans available: the Managed Allocation Option, and the Interest Income Option. The Managed Allocation Option is managed by TFI. TFI is part of TIAA-CREF, a New York-based financial services organization. Funds in the Managed Allocation Option are directed into special investment portfolios based on the age of the beneficiary. Investments in this option are not guaranteed. The Interest Income Option is managed by VSAC. Funds in the Interest Income Option are invested in an interest-bearing note to VSAC, which is expected to return at least the 91-day U.S. Treasury Bill rate. VSAC uses the proceeds from the note to make federally guaranteed education loans.

The changes in assets held on behalf of investors for the years ended June 30, 2003 and 2002, were as follows:

	<u>2003</u>	<u>2002</u>
<i>Additions:</i>		
Investment income	\$ 327	\$ 223
Net realized and unrealized gains (losses)	686	(950)
Student loan interest income	92	51
Net participant subscriptions/redemptions	<u>6,674</u>	<u>7,149</u>
Total additions	7,779	6,473
<i>Deductions:</i>		
Operational expenses	<u>26</u>	<u>7</u>
Total deductions	<u>26</u>	<u>7</u>
Assets held on behalf of investors, at beginning of year	<u>10,815</u>	<u>4,349</u>
Assets held on behalf of investors, at end of year	<u>\$18,568</u>	<u>\$10,815</u>

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NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2003 and 2002, were as follows:

	<u>Estimated Lives</u>	Balance July 1, 2001	Acqui- sitions	Balance June 30, 2002	Acqui- sitions	Disposals	Balance June 30, 2003
Furniture and equipment	3 – 5 Years	\$ 3,928	\$ 716	\$ 4,644	\$ 998	\$ (2,982)	\$2,660
Leasehold improvements	5 Years	929	–	929	–	(208)	721
Software	3 – 5 Years	4,285	135	4,420	64	(2,730)	1,754
Construction in process		<u>10</u>	<u>276</u>	<u>286</u>	<u>344</u>	<u>–</u>	<u>630</u>
		9,152	1,127	10,279	1,406	(5,920)	5,765
Less accumulated depreciation		<u>5,935</u>	<u>1,554</u>	<u>7,489</u>	<u>1,332</u>	<u>(5,920)</u>	<u>2,901</u>
Capital assets, net		<u>\$ 3,217</u>	<u>\$ (427)</u>	<u>\$ 2,790</u>	<u>\$ 74</u>	<u>\$ –</u>	<u>\$2,864</u>

Depreciation charged to operations for the years ended June 30, 2003 and 2002, was \$1,332 and \$1,554, respectively.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2003 and 2002, which were issued to finance the origination of student loans:

	<u>2003</u>	<u>2002</u>
<i>Bonds Payable:</i>		
1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds with the balance maturing in January 2008; interest is payable monthly at variable rates which ranged from 1.1% to 1.8% during fiscal year 2003 (1.15% at June 30, 2003).	\$ 40,900	\$ 40,900
1992 Series A-2 and A-3, dated June 15, 1992. Series A-2 bonds were comprised of auction rate bonds that were advance refunded by the 2003 Series EE bonds in 2003; interest was paid every 35 days at rates that ranged from 1.1% to 1.7% during fiscal 2003. Series A-3 bonds are comprised of serial rate bonds maturing in increments through December 2005; interest is paid semi-annually at fixed rates ranging from 5.8% to 6.5%.	17,165	48,270

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8. Bonds and Notes Payable (Continued)

	<u>2003</u>	<u>2002</u>
1992 Series B and C, dated July 15, 1992. Series B bonds are comprised of term and serial variable rate bonds maturing in increments through December 2012; interest on Series B bonds is paid semi-annually at fixed rates ranging from 6.0% to 6.7%. Series C bonds were advance refunded in 2003, by the 2003 Series FF bonds; interest was paid every 35 days at rates which ranged from 1.118% to 1.6% during fiscal year 2003.	\$ 24,085	\$ 50,000
1993 Series D and E, dated June 22, 1993; comprised of term, serial and auction rate bonds maturing in increments between December 2003 and June 2012; interest on Series D is paid semi-annually at fixed rates ranging from 5.3% to 9.5%; interest on Series E bonds is paid every 35 days at rates which ranged from 1.1% to 1.68% during fiscal year 2003. The Series E bonds were advance refunded in 2003.	40,000	80,000
1993 Series F, G, H, I and J dated September 27, 1993. The Series F and G bonds were advance refunded in 2003, by the 2003 Series HH bonds, and the Series J bonds were refunded in 2003, by the 2003 Series EE bonds. Interest was reset every 35 days and payable semi-annually at rates which ranged from 1.1% to 1.75% during fiscal year 2003. Series H and I bonds are comprised of auction rate bonds maturing December 2015; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.98% to 1.75% during fiscal year 2003 (0.98% at June 30, 2003).	50,000	122,500
1995 Series A, B, C and D, dated June 27, 1995; comprised of auction rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.03% to 1.7% during fiscal year 2003 (1.03% to 1.11% at June 30, 2003).	96,000	96,000
1995 Series E, dated October 17, 1995; comprised of auction rate bonds which matured December 2002; interest was reset every 35 days and payable semi-annually at rates which ranged from 1.25% to 1.7% during fiscal year 2003.	—	5,300
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.95% to 1.75% during fiscal year 2003 (0.95% to 1.15% at June 30, 2003).	100,000	100,000

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8. Bonds and Notes Payable (Continued)

	<u>2003</u>	<u>2002</u>
1996 Series J, dated October 23, 1996; comprised of auction rate bonds which matured December 2002; interest was reset every 35 days and payable semi-annually at rates which ranged from 1.4% to 1.5% during fiscal year 2003.	\$ —	\$ 3,100
1998 Series K-O, dated June 16, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.0% to 1.7% during fiscal year 2003 (1.0% to 1.10% at June 30, 2003).	165,000	165,000
2000 Series P and Q, dated May 31, 2000; comprised of auction rate bonds maturing in December 2005. Interest is reset every 35 days and payable semi-annually; rates ranged from 1.05% to 1.65% during fiscal year 2003 (1.05% at June 30, 2003).	11,950	22,950
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction rate bonds maturing December 2034. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.94% to 1.8% during fiscal year 2003 (0.94% to 1.12% at June 30, 2003).	172,550	172,550
2001 Series V, W and Z dated June 27, 2001; comprised of auction rate bonds maturing December 2035. Interest is reset every 35 days for Series V and W, and every 7 days for Series Z. Interest is payable semi-annually at rates which ranged from 0.603% to 1.75% during fiscal year 2003 (1.0% to 1.13% at June 30, 2003).	84,750	84,750
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA. Interest rates ranged from 1.02% to 1.96% during fiscal year 2003 (1.02% to 1.34% at June 30, 2003).	80,000	80,000
2002 Series BB, CC and DD dated October 8, 2002; comprised of auction rate bonds maturing December 2036. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.99% to 1.75% during fiscal year 2003 (0.99% to 1.05% at June 30, 2003).	112,500	—

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June 30, 2003 and 2002

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8. Bonds and Notes Payable (Continued)

	<u>2003</u>	<u>2002</u>
2003 Series EE dated May 30, 2003; comprised of auction rate bonds maturing December 2005; interest is reset every 35 days and payable semi-annually; initial rate was 1.15%.	\$ 45,000	\$ —
2003 Series FF, GG and HH dated May 30, 2003; comprised of auction rate bonds with maturity dates ranging from June 2009 through December 2014; interest is reset every 35 days and payable semi-annually; initial rates were 1.15%.	115,900	—
2003 Series II, JJ and KK dated May 30, 2003; comprised of auction rate bonds maturing December 2037; interest is reset every 35 days and payable semi-annually; initial rates were 1.15%.	150,000	—
<i>Notes Payable:</i>		
2001 Series A-XIII, dated December 15, 2001, matured December 2002. Interest at 2.25%, was paid June 15, 2002 and at maturity.	—	8,520
2002 Series A-XIV, dated June 15, 2002, matured December 2002. Interest at 1.95% was paid at maturity.	—	16,860
2002 Series A-XV, dated December 16, 2002, is due December 2003, and interest at 1.8% is paid semi-annually.	21,515	—
2003 Series A-XVI, dated June 16, 2003, is due December 2003, and interest at 1.35% is due at maturity.	<u>4,370</u>	<u>—</u>
Total bonds and notes payable	1,331,685	1,096,700
Plus: premium	<u>508</u>	<u>652</u>
Total bonds and notes payable	1,332,193	1,097,352
Less current portion of bonds and notes payable	<u>40,935</u>	<u>54,300</u>
Noncurrent portion bonds and notes payable	<u>\$1,291,258</u>	<u>\$1,043,052</u>

VERMONT STUDENT ASSISTANCE CORPORATION
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NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

All bonds are limited obligations of VSAC and are secured, as provided in the underlying bond resolutions, by an assignment and pledge to the Trustee of all VSAC's rights, title and interest in student loans and revenues derived thereon and the guarantee thereof, including the insurance of certain student loans by DE. In addition, a significant portion of cash, cash equivalents and investments (including debt service reserve accounts which may be used to replenish any deficiency in funds required to pay principal and interest due on the bonds) are held in trust to secure the bonds.

The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by State Street Bank. The 1992 Series A-3, 1992 Series B, 1993 Series D and E, and 1993 Series H and I bonds are secured for credit-worthiness by Financial Security Assurance Corporation. The 1995 Series A-D and E, 1996 Series F-I and J, 1998 Series K-N, 2000 Series P-Q, 2000 Series R-U, 2001 Series V, W and Z, 2001 Series X, Y and AA, 2002 Series BB-DD, 2003 Series EE, 2003 Series FF-HH and 2003 Series II-KK bonds are secured for credit-worthiness by AMBAC Assurance Corporation. The 2003 and 2002 Series notes payable and the 1998 Series O bonds payable have no credit support.

All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2003, all bonds authorized under the underlying bond resolutions have been issued, except the \$50,000 2003 Series LL, which was issued in September 2003.

Proceeds from issuance of the bonds payable and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses.

The debt service requirements, which are based on the interest rates at June 30, 2003, through 2010 and in five-year increments thereafter to maturity for VSAC, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 40,935	\$ 18,075	\$ 59,010
2005	14,860	16,978	31,838
2006	70,175	15,714	85,889
2007	7,920	14,798	22,718
2008	48,200	14,119	62,319
2009	7,575	13,458	21,033
2010	5,890	13,046	18,936
2011 – 2015	125,330	59,074	184,404
2016 – 2020	50,000	51,747	101,747
2021 – 2025	–	51,523	51,523
2026 – 2030	96,000	46,835	142,835
2031 – 2035	337,550	40,949	378,499
2036 – 2040	<u>527,250</u>	<u>9,187</u>	<u>536,437</u>
Total	<u>\$ 1,331,685</u>	<u>\$ 365,503</u>	<u>\$ 1,697,188</u>

VERMONT STUDENT ASSISTANCE CORPORATION
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June 30, 2003 and 2002

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8. Bonds and Notes Payable (Continued)

The actual maturities and interest may differ due to changes in interest rates or other factors.

The following summarizes the debt activity for VSAC for the years ended June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$1,097,352	\$1,097,481
Issuance	449,285	25,380
Redemptions and refundings	(214,300)	(25,380)
Amortization of premiums	<u>(144)</u>	<u>(129)</u>
Balance at end of year	<u>\$1,332,193</u>	<u>\$1,097,352</u>

In May 2003, VSAC issued \$310,900 in education loan revenue bonds, 2003 Series EE-KK. The primary purpose was to finance the origination of qualifying student loans. The bonds were also issued to advance refund certain 1993 and 1992 Series bonds, totaling \$160,900. \$120,900 of the 2003 Series EE-KK proceeds were used to advance refund certain 1993 and 1992 Series bonds prior to June 30, 2003. \$40,000 of the proceeds of the 2003 Series EE-KK bonds were deposited into an irrevocable trust with the trustee to provide for all future debt service payments for the 1993 E Series bonds. As a result, the 1993 E Series of bonds are considered to be defeased and the bonds payable and the amounts held in trust have been removed from VSAC's Statement of Net Assets at June 30, 2003.

There was no early call premium paid on any of the refunded bonds. The deferred loss on refunding was immaterial to VSAC, as well as any economic gain. VSAC completed the advance refunding to further consolidate its credit enhancement providers.

9. Arbitrage Earnings Rebatable

The bonds issued by VSAC are subject to Internal Revenue Service regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the Federal government. VSAC has estimated that there is an arbitrage liability at June 30, 2003 and 2002, of \$13,007 and \$14,499, respectively. VSAC has estimated the current portion to be \$1,260 and \$1,074 at June 30, 2003 and 2002, respectively.

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June 30, 2003 and 2002

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10. Student Loan Interest and Special Allowance Revenues

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

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

11. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 2003 and 2002, amounted to \$12,666 and \$12,379, respectively; VSAC's total payroll was \$13,191 and \$12,611, respectively. Total contributions by VSAC amounted to \$1,267 and \$1,238 in 2003 and 2002, respectively, which represented 10% of the covered payroll.

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June 30, 2003 and 2002

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12. Commitments Under Operating Lease

VSAC has two noncancelable operating leases for its office facilities that expire in 2005. Both leases provide for renewal options. Rental expense for the years ended June 30, 2003 and 2002, amounted to \$676 and \$650, respectively. Future minimum rental commitments under these noncancelable operating leases as of June 30, 2003, are as follows:

<u>Year ending June 30,</u>		
2004		\$ 654
2005		<u>299</u>
		<u>\$ 953</u>

13. Contingencies

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

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

A summary of the reserve for self-insured medical and dental liabilities for the years ended June 30, 2003 and 2002, is as follows:

	<u>2003</u>	<u>2002</u>
Balance, beginning of year	\$ 136	\$ 144
Claims paid	(2,637)	(2,097)
Adjustment to reserve	<u>2,759</u>	<u>2,089</u>
Balance, end of year	<u>\$ 258</u>	<u>\$ 136</u>

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14. Loan Commitments

At June 30, 2003, VSAC had commitments to extend credit for student loans of approximately \$31,000. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. VSAC uses the same credit policies in making commitments as it does for student loans receivable.

15. Subsequent Event

In September of 2003, VSAC issued 2003 Series LL auction rate bonds, in the amount of \$50,000.

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APPENDIX L

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 \$275,000,000 Education Loan Revenue Bonds, Senior Series 2004MM, 2004NN, 2004OO and 2004PP (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 Repository
Attention: Municipal Department
100 Business Park Drive
Skillman, NJ 08558
E-Mail Address: MUNIS@Bloomberg.com
Phone: (609) 279-3225
Fax: (609) 279-5962

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

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

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

“Official Statement” shall mean the Official Statement of the Corporation, dated May 25, 2004, relating to the Bonds.

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

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

“State” shall mean the State of Vermont.

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

“Underwriter” or “Participating Underwriter” shall mean collectively, and individually, UBS Financial Services Inc. and RBC Dain Rauscher 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 2004 fiscal year, provide to each Repository the Annual Financial Information for the Corporation for the preceding fiscal year. The Annual Financial Information may be submitted as a single document or as separate documents comprising a package; provided that, if the financial statements of the Corporation are audited, the audited financial statements of the Corporation must be submitted but may be submitted separately from the balance of the Annual Financial Information and later than the date required above for the filing of the Annual Financial Information if they are not available by that date. If the fiscal year of the Corporation changes, the Corporation shall give written notice of such change in the same manner as for a Listed Event under Section 5(a) hereof. If the financial statements of the Corporation specified in Section 4(i) hereof are audited but are not available by the time the Annual Financial Information must be provided, unaudited financial statements of the Corporation will be provided by the Corporation as part of the Annual Financial Information and such audited financial statements of the Corporation, when and if available, will be provided by the Corporation to each Repository.

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

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

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

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

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

(b) The following Resolution information:

(i) Debt Service Reserve Account balance,

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

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

(iv) Issuance of any Additional Bonds.

(c) Outstanding debt of the Corporation.

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

(iii) An update of the information concerning the availability of information with respect to the parent company of Ambac Assurance Corporation, Ambac Financial Group Inc., of the type included under the heading “Ambac Assurance Corporation -- Available Information” in Appendix G 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.

[Signatures on following page.]

IN WITNESS WHEREOF, the Parties have caused this CONTINUING DISCLOSURE AGREEMENT to be executed on their behalf as of this _____ day of June, 2004, 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: _____

