

In the opinion of Bond Counsel, interest on the Series 2003-2 Bonds (as defined below) will be fully includable in the gross income of the owners thereof for federal income tax purposes. See "TAX MATTERS" herein.

New Issue-Book Entry Only

\$150,000,000
North Texas Higher Education Authority, Inc.
Student Loan Revenue Bonds
Series 2003-2

\$67,500,000 Series 2003-2A-1 (Class II)
(Taxable Auction Rate Certificates)

\$67,500,000 Series 2003-2A-2 (Class II)
(Taxable Auction Rate Certificates)

\$15,000,000 Series 2003-2B (Class IV)
(Taxable Auction Rate Certificates)

Series 2003-2 Bonds Dated: Delivery Date **Price:** 100% **Due:** October 1, 2043

The Series 2003-2A-1 (Class II) (the "Series 2003-2A-1 Bonds"), the Series 2003-2A-2 (Class II) (the "Series 2003-2A-2 Bonds") and the Series 2003-2B (Class IV) Bonds (the "Series 2003-2B Bonds," and together with the Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds, the "Series 2003-2 Bonds") will be issued as Auction Rate Certificates—ARCs® ("ARCs") in denominations of \$50,000 or any integral multiple thereof (the "Authorized Denominations"). The Applicable Interest Rate and the Auction Period for each series of Series 2003-2 Bonds shall be established from time to time pursuant to the Auction Procedures described herein.

The Series 2003-2 Bonds will be issued pursuant to the General Indenture, dated as of May 1, 1993, between North Texas Higher Education Authority, Inc. (the "Authority") and Wells Fargo Bank, National Association, as successor trustee thereunder (the "Trustee"), as amended and supplemented. The Series 2003-2 Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2003-2 Bonds. Purchasers of the Series 2003-2 Bonds will not receive certificates representing their beneficial ownership interests in the Series 2003-2 Bonds. Purchases and sales by the beneficial owners of the Series 2003-2 Bonds will be made in book-entry form. See the caption "THE SERIES 2003-2 BONDS – Book-Entry Only System" herein.

The Indenture provides that bonds issued thereunder be designated a priority Class, with Class I Bonds being the highest priority, and the order of priority decreasing as the Class roman numeral increases. The Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds constitute Class II Bonds and the Series 2003-2B Bonds constitute Class IV Bonds. See the caption "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Payment Priorities" herein.

Payments of principal, redemption price and interest with respect to the Series 2003-2 Bonds are to be made directly to DTC by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Series 2003-2 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 Series 2003-2 Bonds, prior to a change in the Interest Payment Dates as described herein, is payable on the day following each Interest Period (as defined herein) until maturity or earlier redemption.

The Series 2003-2 Bonds are subject to redemption and, upon default, acceleration prior to maturity, as described herein.

The Series 2003-2 Bonds will be issued by the Authority (i) to acquire Eligible Loans made under the Higher Education Act of 1965, as amended, (ii) to make a deposit to the Debt Service Reserve Fund and (iii) to pay costs of issuance and make a deposit to the Operating Fund, as set forth herein.

THE SERIES 2003-2 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF TEXAS, THE CITY OF ARLINGTON, TEXAS, THE CITY OF DENTON, TEXAS, OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF TEXAS, THE CITY OF ARLINGTON, TEXAS, THE CITY OF DENTON, TEXAS OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF. THE AUTHORITY HAS NO TAXING POWER.

The Series 2003-2 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and subject to receipt of the approving legal opinions of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel and General Counsel to the Authority. Certain legal matters will be passed upon for the Underwriter by its counsel Kutak Rock LLP. The Series 2003-2 Bonds in book-entry form are expected to be available for delivery in New York, New York through the facilities of DTC on or about December 3, 2003.

UBS Financial Services Inc.

November 24, 2003

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This Official Statement is submitted in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

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, the Series 2003-2 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Authority, certain student loan guarantors and servicers identified herein and other sources which are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion 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 Authority or any other person. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriter to give any information or make any representations, other than those 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.

The price and other terms respecting the offering and sale of the Series 2003-2 Bonds may be changed from time to time by the Underwriter after such Series 2003-2 Bonds are released for sale, and such Series 2003-2 Bonds may be offered and sold to certain dealers (including dealers depositing Series 2003-2 Bonds into investment accounts) and others at prices lower than the initial public offering price. In connection with the offering of the Series 2003-2 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Series 2003-2 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Trustee assumes no responsibility for this Official Statement and has not reviewed or undertaken to verify any information contained herein.

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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 Series 2003-2 Bonds to potential investors is made only by means of this entire Official Statement. Capitalized terms used in this Summary Statement are defined elsewhere in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement.

Issuer..... North Texas Higher Education Authority, Inc., a nonprofit corporation organized pursuant to the laws of the State of Texas.

Series 2003-2 Bonds..... The Series 2003-2 Bonds will be issued pursuant to the General Indenture, dated as of May 1, 1993 (the “General Indenture”), between the Authority and Wells Fargo Bank, National Association, as successor trustee thereunder (the “Trustee”), as amended and supplemented by an Amended and Restated First Supplemental Indenture, dated as of April 1, 2003 (the “First Supplemental Indenture”), a Second Supplemental Indenture, dated as of March 1, 2002 (the “Second Supplemental Indenture”), a Third Supplemental Indenture, dated as of January 1, 2003 (the “Third Supplemental Indenture”), a Fourth Supplemental Indenture, dated as of January 1, 2003 (the “Fourth Supplemental Indenture”) and a Fifth Supplemental Indenture, dated as of December 1, 2003 (the “Fifth Supplemental Indenture”) and together with the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture, the “Indenture”).

The Series 2003-2 Bonds of each series mature on October 1, 2043 in the amounts set forth on the cover page of this Official Statement and bear interest as established from time to time as set forth herein and have the payment priorities described herein. The Authority has previously issued bonds under the Indenture and may issue Additional Bonds (all bonds issued under the Indenture are referred to herein as the “Bonds”). Each series of Bonds may mature and pay interest on dates different from the Series 2003-2 Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Additional Bonds and Other Obligations” herein.

Auction Rate Certificates..... The Series 2003-2 Bonds will be issued as taxable Auction Rate Certificates—ARCs[®] (“ARCs”). The Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds will be issued as Class II Bonds under the Indenture and the Series 2003-2B Bonds will be issued as Class IV Bonds under the Indenture. See “SECURITY AND SOURCE

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OF PAYMENT FOR THE BONDS—Payment Priorities” herein. The Series 2003-2 Bonds will be issued in denominations of \$50,000 or any integral multiple thereof. Interest on the Series 2003-2 Bonds prior to a change in the Interest Payment Dates as described herein is payable on January 8, 2004 with respect to the Series 2003-2A-1 Bonds, January 15, 2004 with respect to the Series 2003-2A-2 Bonds and January 15, 2004 with respect to the Series 2003-2B Bonds, and generally every 28 days thereafter as provided herein, or if any such date is not a Business Day, the next succeeding Business Day, until maturity or earlier redemption. See “AUCTION RATE CERTIFICATES—Interest” and “—Changes in Auction Periods or Auction Dates” herein.

Use of Bond Proceeds The proceeds of the Series 2003-2 Bonds are to be used (a) to acquire Eligible Loans, (b) to make a deposit to the Debt Service Reserve Fund and (c) to pay costs of issuance and make a deposit to the Operating Fund, as described herein. See “USE OF PROCEEDS” herein.

Redemption and Acceleration The Series 2003-2 Bonds are subject to redemption, and upon default, acceleration prior to maturity under the circumstances described herein. See “THE SERIES 2003-2 BONDS—Redemption Provisions” herein and APPENDIX B “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—EVENTS OF DEFAULT.”

Sources of Revenue and Security The Series 2003-2 Bonds (and any other obligations issued under the Indenture) are secured by and are payable solely from the Trust Estate created by the Indenture. The Trust Estate includes Student Loans acquired with moneys held under the Indenture, proceeds of Bonds and Net Revenues on deposit in certain specified funds and accounts established under the Indenture until their use or release.

Priority..... The Indenture provides that Bonds of each series must be designated a priority or priorities by Class, with Class I constituting the highest priority under the Indenture and priority decreasing by increasing Class roman numeral. The Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds constitute Class II Bonds and the Series 2003-2B Bonds constitute Class IV Bonds. Upon the issuance of the Series 2003-2 Bonds, \$478,400,000 of the Authority’s Student Loan Revenue Bonds will be outstanding under the Indenture, of which \$70,000,000 are designated as Class I Bonds, \$361,400,000 are designated as Class II Bonds and \$47,000,000 are designated as Class IV Bonds.

Should the Authority enter into any interest rate exchange agreements, the payments due any counterparty will be paid on a parity with Class II Bonds.

Priority with respect to payment of Bonds at any particular time and exercise of various rights and remedies is based upon Class of Bonds in order of priority as described herein. No interest or principal due on any Bond (or interest rate exchange agreement) may be paid if all interest and principal then due on Bonds of a higher priority (or interest rate exchange agreement relating to Bonds of a higher priority) has not been paid. Exercise of remedies by or on behalf of a prior Class upon a default, including particularly acceleration of a prior Class of Bonds, could adversely affect the ability of the Authority to pay debt service when due on subordinate Classes of Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Payment Priorities” and “RISK FACTORS” herein.

Student Loan Insurance, Guarantee and Reinsurance

All Student Loans financed by the Authority with the proceeds of the Series 2003-2 Bonds are to be:

(a) guaranteed as to principal and accrued interest to the extent permitted by the Higher Education Act by a Guarantor and reinsured by the Secretary under a formula providing reimbursement as provided in applicable federal legislation on such Student Loans; or

(b) fully insured as to principal and accrued interest by the United States Department of Education under its Federally Insured Student Loan Program.

Additional Bonds

The Indenture provides that Additional Bonds of any Class or Classes may be issued from time to time thereunder, provided that such issuance does not, among other things, adversely affect the rating of any Bonds previously issued and Outstanding. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Additional Bonds and Other Obligations” herein.

Initial Collateralization

Upon the issuance of the Series 2003-2 Bonds, it is anticipated that the value of the Trust Estate pledged under the Indenture will be equal to approximately 117.0% of the aggregate principal amount of the Class I and Class II Bonds then Outstanding and 105.5% of all Bonds then Outstanding. The Indenture does not require that these levels of collateralization be maintained. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Initial Collateralization” herein.

Limited Obligations.....

The Bonds are special, limited obligations of the Authority secured by and payable solely from the Trust Estate. **The Bonds are limited obligations of the Authority and do not constitute the debt, liability or obligation of the State of Texas, the City of Arlington, Texas, the City of**

Denton, Texas or of any agency or political subdivision thereof or a pledge of the faith and credit of the State of Texas, the City of Arlington, Texas, the City of Denton, Texas or of any agency or political subdivision thereof. The Authority has no taxing power.

Changes to the Federal Family Education Loan Program

The programs under the Higher Education Act have been the subject of numerous statutory and regulatory changes over the last several years that have resulted in material modifications to such programs. In addition, the Higher Education Act is scheduled to be considered for reauthorization no later than September 30, 2004. No assurance can be given that relevant laws, including the Higher Education Act, will not be changed in the future in a manner which might adversely affect the availability or volume of Eligible Loans which can be acquired by the Authority or the rate of return on such Eligible Loans or the various federal benefits available with respect thereto. See APPENDIX A “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

Certain Risk Factors

Investment in the Series 2003-2 Bonds entails certain investment risks which are summarized in this Official Statement under the heading “RISK FACTORS.”

Definitions.....

Certain terms used in this Official Statement but not otherwise defined are used as defined in the Indenture. See APPENDIX B “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” and APPENDIX C “AUCTION PROCEDURES” for the definitions of many of these terms as well as a more detailed explanation of the principal provisions of the Indenture.

OFFICIAL STATEMENT

\$150,000,000

**North Texas Higher Education Authority, Inc.
Student Loan Revenue Bonds
Series 2003-2**

**\$67,500,000 Series 2003-2A-1 (Class II)
(Taxable Auction Rate Certificates)**

**\$67,500,000 Series 2003-2A-2 (Class II)
(Taxable Auction Rate Certificates)**

**\$15,000,000 Series 2003-2B (Class IV)
(Taxable Auction Rate Certificates)**

This Official Statement, including the cover page and the Appendices hereto, provides certain information in connection with the issuance and sale by the North Texas Higher Education Authority, Inc. (the "Authority"), a Texas nonprofit corporation, of its \$67,500,000 Student Loan Revenue Bonds, Series 2003-2A-1 (Class II) (Taxable Auction Rate Certificates) (the "Series 2003-2A-1 Bonds"), \$67,500,000 Student Loan Revenue Bonds, Series 2003-2A-2 (Class II) (Taxable Auction Rate Certificates) (the "Series 2003-2A-2 Bonds"), and \$15,000,000 Student Loan Revenue Bonds, Series 2003-2B (Class IV) (Taxable Auction Rate Certificates) (the "Series 2003-2B Bonds," and together with the Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds, the "Series 2003-2 Bonds"). The Series 2003-2 Bonds being offered hereby are authorized pursuant to the Constitution and the laws of the State of Texas, including Chapter 53 of the Texas Education Code, as amended (the "Education Code"), the General Indenture, dated as of May 1, 1993 (the "General Indenture"), between the Authority and Wells Fargo Bank, National Association, as successor trustee thereunder (the "Trustee"), as amended and supplemented by an Amended and Restated First Supplemental Indenture, dated as of April 1, 2003 (the "First Supplemental Indenture"), a Second Supplemental Indenture, dated as March 1, 2002 (the "Second Supplemental Indenture"), a Third Supplemental Indenture, dated as of January 1, 2003 (the "Third Supplemental Indenture"), a Fourth Supplemental Indenture, dated as of January 1, 2003 (the "Fourth Supplemental Indenture"), a Fifth Supplemental Indenture, dated as of December 1, 2003 (the "Fifth Supplemental Indenture") and together with the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture, the "Indenture"). The Series 2003-2 Bonds will be issued: (a) to acquire Eligible Loans, (b) to make a deposit to the Debt Service Reserve Fund and (c) to pay costs of issuance and make a deposit to the Operating Fund, as set forth herein. See "USE OF PROCEEDS" herein.

The Series 2003-2 Bonds, collectively with all Bonds previously issued and all Additional Bonds to be issued pursuant to the General Indenture, are referred to herein as the "Bonds." Upon the issuance of the Series 2003-2 Bonds, \$70,000,000 of the Authority's Student Loan Revenue Bonds, Series 1993 (the "Series 1993 Bonds") will be outstanding under the Indenture, \$109,000,000 of the Authority's Student Loan Revenue Bonds, Series 2002 (the "Series 2002 Bonds") will be outstanding under the Indenture and \$103,400,000 of the Authority's Student Loan Revenue Bonds, Series 2003 (the "Series 2003 Bonds") will be outstanding under the Indenture (in addition to the Series 2003-2 Bonds). Of such Series 1993 Bonds, Series 2002 Bonds, Series 2003 Bonds and Series 2003-2 Bonds to be outstanding, \$70,000,000 are designated as Class I Bonds, \$361,400,000 are designated as Class II Bonds and \$47,000,000 are designated as Class IV Bonds.

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as assigned in the Indenture. The summaries of the Indenture and other documents included in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each of such documents or statutes and the definitive forms of the Series 2003-2 Bonds. See APPENDIX B "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereof.

INTRODUCTION

The Authority is a nonprofit corporation acting on behalf of the Cities of Arlington and Denton, Texas, duly organized and validly existing under the laws of the State of Texas (the “State”) and is authorized to purchase and make Eligible Loans meeting the requirements of the Higher Education Act of 1965, as amended (together with any regulations promulgated thereunder, the “Higher Education Act”).

“Eligible Loans” are qualified loans made to students or parents to finance such students’ post-secondary education. Eligible Loans made or acquired by the Authority and held in the Trust Estate (referred to as “Student Loans”) must be made to students, or to parents for the benefit of students, to finance such students’ post-secondary education at eligible institutions and must have been originated by institutions which qualify as eligible lenders under the provisions of the Higher Education Act. To qualify for purchase, loans must (i) be either (a) guaranteed by an organization which is authorized by the Higher Education Act to act as a “guarantee agency” (each, a “Guarantor”) and designated as such under the Indenture, or (b) insured by the United States Department of Education through the Secretary of Education (the “Secretary”) under the Higher Education Act and (ii) meet the other requirements for purchase established by the Indenture.

There can be no assurance that relevant federal laws, including the Higher Education Act, will not be changed in a manner that might adversely affect the Authority and its Student Loan Program. Amendments to the Higher Education Act have in the past altered the Federal Family Education Loan Program (as defined herein) and amendments in the future could restrict the ability of secondary market participants such as the Authority to finance Eligible Loans by affecting the availability or volume of Eligible Loans which can be acquired by the Authority or the rates of return on such Eligible Loans or the various federal benefits available with respect thereto. However, the Authority believes that it will be able to fulfill the debt service requirements of the Series 2003-2 Bonds. See APPENDIX A “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” hereto.

The Series 2003-2 Bonds (and any other obligations issued under the Indenture) are limited obligations of the Authority, secured by and payable from all payments, proceeds, charges and other income received by the Trustee from or on account of Student Loans held under the Indenture, all interest earned or gain realized from the investment of amounts in specified funds and accounts under the Indenture, and all payments received by the Authority pursuant to an interest rate exchange agreement (if any), less amounts due and owing to Indenture Agents, as described under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003-2 BONDS” herein. Such income includes, without limitation, payments of interest on such Student Loans (including federal interest subsidy payments and special allowance payments from the Secretary) and principal payments on such Student Loans (whether regularly scheduled, prepayments or proceeds of insurance payments for defaulted Student Loans).

THE SERIES 2003-2 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF TEXAS, THE CITY OF ARLINGTON, TEXAS, THE CITY OF DENTON, TEXAS, OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF TEXAS, THE CITY OF ARLINGTON, TEXAS, THE CITY OF DENTON, TEXAS, OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF. THE AUTHORITY HAS NO TAXING POWER.

The descriptions of the Series 2003-2 Bonds and of the statutes and documents authorizing and securing the Series 2003-2 Bonds contained herein do not purport to be definitive or comprehensive. All references herein to such documents and statutes are qualified in their entirety by reference to such documents and statutes. Copies of such documents may be obtained from, and questions with respect to the Series 2003-2 Bonds may be directed to, the Authority or the Trustee.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds, including the Series 2003-2 Bonds, are secured by and payable solely from assets pledged under the Indenture. Subject to the provisions of the Indenture permitting the application of such assets for the purposes permitted thereby, the following assets are pledged: (a) the Student Loans, including any agreements and notes evidencing such Student Loans; (b) all proceeds of the Bonds and Net Revenues in the Funds and Accounts described below until their use or release; (c) to the extent constituting or directly related to the components of the Trust Estate described in clauses (a) and (b) above, property of the Authority in the nature of accounts, general intangibles (including payment intangibles), promissory notes and instruments; and (d) any other property pledged to the Trust Estate. No other assets of the Authority are pledged to the payment of the Bonds, including the Series 2003-2 Bonds.

Student Loans

Student Loans consist of all Eligible Loans held under the Indenture. These include those Student Loans presently held for the credit of the Student Loan Fund and will also include other Eligible Loans acquired with the proceeds of the Series 2003-2 Bonds and moneys received as payments on Student Loans. The Authority is authorized to utilize proceeds of the Series 2003-2 Bonds to acquire Eligible Loans until April 1, 2004, or such later date as does not adversely affect the ratings on any Bonds, and to utilize payments on Student Loans to acquire additional Eligible Loans until April 1, 2006, or such later date as does not adversely affect the ratings on any Bonds.

Eligible Loans include all student loans authorized to be made under the Higher Education Act. Generally, these loans are guaranteed by a Guarantor (as described herein) and reinsured at various levels by the federal government. The loans acquired by the Authority are guaranteed at levels equal to either 98% or 100% by the Guarantor depending upon when the loan was originated. The level of federal reinsurance paid by the federal government to the Guarantor presently varies between 75% and 100%, depending upon applicable default rates and when the loan was originated. See APPENDIX A "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto. The levels of guarantees and reinsurance, and the levels of other federal benefits, such as interest subsidies and special allowance payments, could change in the future.

Net Revenues

The Net Revenues pledged under the Indenture include, generally, all principal and interest payments received on behalf of or with respect to the Student Loans, including any interest benefit payments, special allowance payments or default recoveries, and all investment earnings on moneys in the Funds and Accounts described below, less amounts due and owing to Indenture Agents.

Funds and Accounts

The Indenture establishes a Revenue Fund, a Restricted Yield Fund, a Debt Service Reserve Fund and an Acquisition Fund, all of which are pledged as security for the Bonds. No other Fund established pursuant to the Indenture is pledged as security for the Bonds. Student Loans are credited to the Student Loan Fund and the Student Loans contained therein are pledged as security for the Bonds.

For a further description of the security for the Bonds and the Funds created under the Indenture, see APPENDIX B "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereto.

Payment Priorities

The Indenture provides that Bonds issued thereunder, including the Series 2003-2 Bonds, be designated a Class, with Class I Bonds being the highest priority, and the order of priority decreasing as the Class roman numeral increases. The Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds constitute Class II Bonds and the Series 2003-2B Bonds constitute Class IV Bonds. Upon the issuance of the Series 2003-2 Bonds, \$70,000,000 of the Authority's Series 1993 Bonds will be outstanding under the Indenture, \$155,000,00 of the Authority's Series 2002 Bonds will be outstanding under the Indenture and \$103,400,000 of the Authority's Series 2003 Bonds will be outstanding under the Indenture (in addition to the Series 2003-2 Bonds). Of such Series 1993 Bonds, Series 2002 Bonds, Series 2003 Bonds and Series 2003-2 Bonds to be outstanding, \$70,000,000 are designated as Class I Bonds, \$361,400,000 are designated as Class II Bonds and \$47,000,000 are designated as Class IV Bonds. The Class I Bonds are currently additionally secured by a direct-pay letter of credit issued by Lloyds TSB Bank plc, which expires April 21, 2006.

Should the Authority enter into any interest rate exchange agreements, the payments due any counterparty will be paid on a parity with Class II Bonds.

At any time a current principal or interest payment is required to be made, it will be made first with respect to Bonds of the highest priority Class, and then in descending order of priority. No interest or principal due on any Bond (or interest rate exchange agreement) may be paid unless all interest and principal then due on Bonds of a higher priority (or interest rate exchange agreement relating to Bonds of a higher priority) has been paid. In addition, the ability to control or pursue certain remedies is given "By Class in Descending Priority." See APPENDIX B "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereto. Exercise of remedies by a senior Class upon a default, including particularly acceleration of a senior Class of Bonds, could adversely affect the ability of Classes of Bonds subordinate thereto to receive payment of debt service when due.

Cashflow Assumptions

The Authority expects that Net Revenues and other available amounts will be sufficient to pay the principal of and interest on the Series 2003-2 Bonds, the Series 2003 Bonds, the Series 2002 Bonds and the Series 1993 Bonds and other amounts due and payable under the Indenture. Such expectation is based upon certain assumptions, believed by the Authority to be reasonable, including the expected composition of the loan portfolio, the investment of certain funds held under the Indenture and the occurrence of certain events when anticipated. Actual events may not correspond with such assumptions. In addition, further changes in the Higher Education Act could adversely affect the Authority's ability to pay principal of and interest on the Bonds. For a description of certain characteristics of the portfolio of Student Loans expected to be held in the Indenture immediately after the issuance of the Series 2003-2 Bonds, see "USE OF PROCEEDS" herein.

Initial Collateralization

Upon the issuance of the Series 2003-2 Bonds, it is anticipated that the value of the Trust Estate pledged under the Indenture will be equal to approximately 117.0% of the aggregate principal amount of the Class I and Class II Bonds then Outstanding and 105.5% of all Bonds then Outstanding. The Indenture does not require that these levels of collateralization be maintained.

Additional Bonds and Other Obligations

The Authority has covenanted not to create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge or lien on the Trust Estate pledged under the General Indenture, except that Additional Bonds may be issued from time to time, subject to the

provisions of the General Indenture, subsequent to the issuance of the Series 2003-2 Bonds and superior to (but not superior to Class I Bonds), on a parity with or subordinate to one or more Classes of the Bonds; provided, among other things, that such issuance does not adversely affect the then current rating of any Bonds previously issued and Outstanding and the Authority obtains the consent of each Credit Provider or Liquidity Provider, if required by its reimbursement agreement. In addition, Interest Rate Exchange Agreements may also be secured by the General Indenture as provided therein; provided, among other things, such agreements do not adversely affect the then current rating of any Bonds previously issued and Outstanding.

Debt Service Reserve Fund

As part of the Trust Estate, the Series 2003-2 Bonds are secured (subject to priority as described in this Official Statement) by the Debt Service Reserve Fund established under the Indenture and which was originally funded upon the issuance of the Series 1993 Bonds in an amount equal to 2% of the principal amount of the Series 1993 Bonds Outstanding. The Debt Service Reserve Fund was further funded upon the issuance of the Series 2002 Bonds in an amount equal to 0.75% of the principal amount of the Series 2002 Bonds Outstanding. There was no deposit required to be made to the Debt Service Reserve Fund at the time the Series 2003 Bonds were issued. The Indenture requires that, at the time of issuance of the Series 2003-2 Bonds, the Debt Service Reserve Fund be further funded to increase the balance therein to an amount equal to 2% of the principal amount of the Series 1993 Bonds Outstanding, 0.75% of the principal amount of the Series 2002 Bonds Outstanding, and 1% of the principal amount of the Series 2003-2 Bonds Outstanding but in no event less than \$500,000 (the “Debt Service Reserve Requirement”). Amounts on deposit in the Debt Service Reserve Fund (other than amounts in excess of the Debt Service Reserve Requirement, which are to be transferred to the Restricted Yield Fund) are to be used to pay the principal of or interest on the Bonds, including the Series 2003-2 Bonds, by Class in Descending Order of Priority, to the extent other moneys held and available under the Indenture are insufficient, and to reimburse a Credit Provider to the extent provided therein.

RISK FACTORS

The factors discussed below could affect the sufficiency of the Trust Estate to meet required payments on the Bonds, including the Series 2003-2 Bonds.

Factors Affecting Sufficiency and Timing of Receipt of Revenues and Prepayment Considerations

The Authority expects that the Net Revenues to be held and received pursuant to and under the Indenture will be sufficient and available when needed to pay principal of and interest on the Bonds, including the Series 2003-2 Bonds, when due, and also to pay all Trustee fees, servicing costs and other expenses related thereto and to the Student Loans until the final maturity or earlier redemption of the Bonds. This expectation is based upon an analysis of projections of cash flow, based on assumptions which the Authority believes are reasonable, regarding the timing of the financing of such Eligible Loans to be held pursuant to the Indenture, the future composition of and yield on the Student Loan portfolio, the rate of return on moneys to be invested in various funds and accounts under the Indenture, and the occurrence of future events and conditions. These assumptions are derived from the Authority’s experience in the administration of its Program. There can be no assurance, however, that the Eligible Loans will be financed as anticipated, that interest and principal payments from the Student Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various funds and accounts will be realized, or that Special Allowance Payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Authority has no control may adversely affect the Authority’s actual receipt of Net Revenues pursuant to the Indenture.

Principal repayments with respect to the Series 2003-2 Bonds may be accelerated or delayed by a variety of economic, demographic and other factors. Receipt of principal of and interest on Student 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 Authority's student loan portfolio expected to be held pursuant to the Indenture; (c) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Authority's student loan portfolio expected to be held pursuant to the Indenture; (d) economic conditions that induce borrowers to refinance or repay their loans prior to maturity; and (e) changes in federal law which may affect the timing of the receipt of funds by the Trust Estate. Lenders 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 Student Loans are repaid with consolidation loans, the Authority will realize repayment of such Student Loans earlier than projected.

Delay in the receipt of principal of and interest on Student Loans may adversely affect payment of the principal of and interest on the Bonds, including the Series 2003-2 Bonds, when due. Principal of and interest on Student 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) 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 Authority's student loan portfolio expected to be held pursuant to the Indenture; 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 Indenture.

If actual receipt of Net Revenues under the Indenture or actual expenditures by the Authority under its Student Loan Program vary greatly from those projected, the Authority may be unable to pay the principal of and interest on the Bonds, including the Series 2003-2 Bonds, and amounts owing on other obligations when due. In the event that payment of the principal of or interest on any of the Bonds or other obligations shall not be made when and as the same shall become due, the Indenture authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of the Bonds, including the Series 2003-2 Bonds, and sell the Student Loans and all other assets comprising the Trust Estate. In such circumstances, it is possible that the Student Loans and other assets could not be sold in a timely manner or at prices sufficient to permit payment of the principal of and accrued interest on the Bonds, including the Series 2003-2 Bonds, or one or more Classes thereof, when due, and all amounts due with respect to other obligations. At any time a current principal or interest payment is required to be made, it will be made first with respect to Bonds of the highest priority Class, and then in descending order of priority. No interest or principal due on any bond (or interest rate exchange agreement) may be paid if all interest and principal then due on Bonds of a higher priority (or interest rate exchange agreement relating to Bonds of a higher priority) has not been paid. In addition, the ability to control or pursue certain remedies is given "By Class in Descending Priority." See APPENDIX B "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereto. Exercise of remedies by a senior Class upon a default, including particularly acceleration of a senior Class of Bonds, could adversely affect the ability of Classes of Bonds subordinate thereto to receive payment of debt service when due.

Interest Rate Risk

The interest rates on the Series 2003-2 Bonds will be based on auctions of those Series 2003-2 Bonds. The interest rates for other series of Bonds may be fixed or based on auctions, or other indices, formulas or methods of determination. The Authority can make no representation as to what such rates (other than currently established fixed rates) may be in the future. The Student 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 Student Loans. See APPENDIX A “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” hereto. As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on Bonds issued under the Indenture, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds and Program Expenses. Further, if there is a decline in the Loan Rates, the amount of funds representing interest deposited in the Trust Estate may be reduced and, even if there is a similar reduction in the variable interest rates applicable to any series of Bonds, there may not necessarily be a similar reduction in the other amounts required to be funded out of such funds (such as certain Program Expenses).

Carry-over Amount

The Auction Rates on the Series 2003-2 Bonds will be limited to the Maximum Rate. See APPENDIX C “AUCTION PROCEDURES—Definitions” hereto. For an Interest Payment Date on which the Maximum Rate applies to the Series 2003-2 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 Indenture and may never be paid. Unpaid Carry-over Amounts on a Series 2003-2 Bond will be cancelled upon the redemption or maturity of such Bond if there are insufficient moneys available in the Revenue Fund to pay such Carry-over Amount. See “AUCTION RATE CERTIFICATES—Interest—*Carry-over Amounts*” herein.

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

Future Changes in Relevant Law. Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times. Certain of these amendments have significantly affected the federal student loan programs under the Higher Education Act. In addition, the United States Department of Education (the “Department of Education”) continues to engage in the rulemaking process to revise the regulations promulgated by the Department of Education under the Higher Education Act.

The Department of Education’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act terminates on a date specified in the Higher Education Act. The 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. While Congress has consistently extended the effective date of the Higher Education Act and the FFEL Program, it may elect not to reauthorize the Department of Education’s ability to provide interest subsidies and federal insurance for loans. While this failure to reauthorize would not affect the Student Loans in the Trust Estate, it would reduce the number of Eligible Loans available for purchase in the future.

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 Authority’s Student Loan Program.

Changes to Federal Family Education Loan Program. The Higher Education Act and the FFEL Program have been subject to numerous amendments and changes over the years. These changes have included, among other things, changes in the calculation of interest rates and special allowance payments on federal student loans, changes in the requirements to offer alternate payment plans to borrowers, additional loan forgiveness provisions, and additional restrictions on guarantors use of funds. As a result of the changes to the FFEL Program, the net revenues resulting to holders of student loans have in some cases been reduced and may be further reduced in the future. In addition, expansion of the 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 B “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

Federal Direct Student Loan Program. The Student Loan Reform Act of 1993 established the William D. Ford Federal Direct Student Loan Program (the “FDSL Program”). Under the FDSL Program, approved institutions of higher education, or alternative loan originators approved by the Department of Education, make loans to students or parents without application to or funding from outside lenders or guarantors. The Department of Education provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including extended, graduated and income-contingent repayment plans, forbearance of payments during periods of national service and consolidation under the FDSL Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the FDSL Program. The FDSL Program also provides certain programs under which principal may be forgiven or interest rates may be reduced.

The first loans under the FDSL Program were made available for the 1994-1995 academic year, and the Higher Education Act provided for phase-in goals through the 1998-1999 academic year, for which direct loans were to have represented 60% of new student loan volume under the Higher Education Act (excluding Consolidation Loans). No provision was made for the size of the FDSL Program after the 1998-1999 academic year. The transition from the FFEL Program to the FDSL Program involved reduction over time in the volume of loans made under the FFEL Program, and may continue to do so unless the FDSL Program is limited or eliminated legislatively.

Federal Budgetary Legislation. The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. No representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department of Education, or the effect, if any, of any future legislation or regulations upon the Authority’s Student Loan Program or other factors that could potentially affect timely payment of the Series 2003-2 Bonds.

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 Authority. Among the possible causes of deterioration in a Guarantor’s financial status are: (a) an increase in the amount and percentage of defaulting FFELP Loans guaranteed by such Guarantor; (b) an increase in the costs incurred by such Guarantor in connection with FFELP Loans guaranteed; and (c) a reduction in revenues received in connection with FFELP Loans guaranteed. The Higher Education Act grants the Department broad powers over 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 guarantee 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. Substantially all of the existing Student Loans are guaranteed by two Guarantors, the Texas Guaranteed Student Loan Corporation and United Student Aid Funds, Inc., and the Authority anticipates that the Texas Guaranteed Student Loan Corporation and United Student Aid Funds, Inc. will be the primary guarantors for the Eligible Loans to be purchased with the proceeds of the Series 2003-2 Bonds. See the caption “THE GUARANTORS” herein and APPENDIX A “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” hereof.

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Student Loans by any lender, any Guarantor, any Servicer or the Authority may adversely affect payment of principal of and interest on the Bonds, including the Series 2003-2 Bonds, when due. The Higher Education Act and the applicable regulations thereunder require the lenders making Eligible Loans, guarantors guaranteeing such Eligible Loans and lenders or servicers servicing such Eligible Loans to follow certain due diligence procedures in an effort to ensure that Eligible 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 Higher Education Act loans are set forth in the Code of Federal Regulations and other documents of the Department of Education, and no attempt has been made in this Official Statement to describe those procedures in their entirety. Failure to follow such procedures may result in the refusal by the Department to make reinsurance payments to a guarantor on such loans or may result in the guarantor’s refusal to honor its guarantee on such loans to holders of guaranteed loans, including the Authority. Such action by the Department could adversely affect a guarantor’s ability to honor guarantee claims and loss of guarantee payments to the Authority by a Guarantor could adversely affect the ability of the Authority to make payment of principal of and interest on the Bonds, including the Series 2003-2 Bonds.

Certain Factors Relating to Security

The Authority has covenanted in the Indenture that the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon equal or superior to those created under the Indenture. The Authority acquires Eligible Loans by purchasing such loans. When purchasing Eligible Loans, the Authority customarily obtains warranties from the sellers as to several matters, including that the loans were originated in accordance with the Higher Education Act and that the loans will be transferred to the Authority free of any liens and that all filings (including UCC filings) necessary in any jurisdiction to give the Trustee on behalf of the Authority ownership of the Eligible Loans. Notwithstanding the foregoing, under applicable law, security interests in such loans may exist which may not be ascertainable from available sources. Therefore, no absolute assurance can be given that liens other than the lien of the Indenture do not and will not exist. In addition, notwithstanding any representations and warranties which may be made by a seller of Eligible Loans, no assurance can be given that such seller would, or would be financially able to, honor any repurchase obligation or to pay any damages resulting from any legal action brought by the Authority against such seller.

Uncertainty as to Available Remedies

The remedies available to Owners of the Bonds, including the Series 2003-2 Bonds, upon an Event of Default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Indenture and such other documents may not be readily available or

may be limited. The various legal opinions to be delivered concurrently with the issuance of the Series 2003-2 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.

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 Student 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. See the caption "THE GUARANTORS" herein.

Soldiers' and Sailors' Civil Relief Act of 1940

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 FFELP 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. As a result, there may be delays in payment and increased losses on the Student Loans.

The Department has issued guidelines that would 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 FFELP Loan, the applicable Guaranty Agency 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 Authority does not know how many Student Loans have been or may be affected by the application of the Relief Act and the Department's recent guidelines.

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 Student 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 Authority on Student Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers of the Student 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 Student Loans and the ability of the Authority to pay interest on the Bonds, including the Series 2003-2 Bonds, if there are insufficient funds in the Debt Service Reserve Fund.

THE SERIES 2003-2 BONDS

General

The Series 2003-2 Bonds will be issued as taxable Auction Rate Certificates (“ARCs”) and, while outstanding as ARCs, will bear interest at the Applicable Interest Rate, to be established from time to time pursuant to Auction Procedures described below under “AUCTION RATE CERTIFICATES—Interest.” The Series 2003-2 Bonds are dated as of their date of initial delivery, will mature as provided on the cover page hereof, and when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as the initial securities depository for the Series 2003-2 Bonds. ARCs are issuable only as book-entry securities. To the extent that DTC discontinues providing its services with respect to the Series 2003-2 Bonds and no satisfactory substitute depository is found, the Auction Procedures will be suspended and the rate of interest on the Series 2003-2 Bonds for any Interest Period commencing after the delivery of certificates representing the Series 2003-2 Bonds will equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period, as calculated by the Trustee. The Series 2003-2 Bonds are issued as fully registered bonds in authorized denominations of \$50,000 or any integral multiple thereof (the “Authorized Denominations”).

Principal of the Series 2003-2 Bonds is payable upon presentation and surrender of such Bonds at the operations office of the Trustee located in Minneapolis, Minnesota. So long as DTC or Cede & Co. is the registered owner of the Series 2003-2 Bonds, payment of principal, redemption price and interest with respect to the Series 2003-2 Bonds is to be made directly to DTC by the Trustee. Disbursements of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC Participants as more fully described herein. See “THE SERIES 2003-2 BONDS—Book-Entry Only System” herein.

The Series 2003-2 Bonds are subject to redemption and, upon default, acceleration prior to maturity, as described herein.

Book-Entry Only System

The information in this section concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC, and the Authority assumes no responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 2003-2 Bonds. The Series 2003-2 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each series of the Series 2003-2 Bonds, in the aggregate principal amount of such issue, 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 two 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 EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations 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.

Purchases of Series 2003-2 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003-2 Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in the Series 2003-2 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' 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 Series 2003-2 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 Series 2003-2 Bonds, except in the event that use of the book-entry system for the Series 2003-2 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003-2 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 Series 2003-2 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003-2 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003-2 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 2003-2 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003-2 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Series 2003-2 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2003-2 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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 will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2003-2 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2003-2 Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Series 2003-2 Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Series 2003-2 Bonds.

The Authority and the Underwriter of the Series 2003-2 Bonds cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, or interest on the Series 2003-2 Bonds paid to DTC or its nominee, as the registered owner, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. Neither the Authority nor the Underwriter are responsible or liable for the failure of DTC, Direct Participants or Indirect Participants to make any payment or give any notice to a Beneficial Owner in respect of the Series 2003-2 Bonds or any error or delay relating thereto.

By purchasing the Series 2003-2 Bonds, whether in an Auction or otherwise, each prospective purchaser of the Series 2003-2 Bonds or its Broker-Dealer must agree and will be deemed to have agreed: (i) to have its beneficial ownership of the Series 2003-2 Bonds maintained at all times in Book-Entry Form for the account of its Direct Participant, which in turn will maintain records of such beneficial ownership, and to authorize such Direct Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; and (ii) so long as the beneficial ownership of the Series 2003-2 Bonds is maintained in Book-Entry Form, to sell, transfer or

otherwise dispose of the Series 2003-2 Bonds only pursuant to a Bid or a Sell Order in an Auction, or otherwise through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of the Series 2003-2 Bond so transferred, its Direct Participant or Broker-Dealer advises the Auction Agent of such transfer. For information regarding the settlement procedures for purchases and sales of Series 2003-2 Bonds in connection with an Auction, see Appendix D hereto.

References to Registered Owners

So long as DTC or its nominee is the registered owner of the Series 2003-2 Bonds, references herein to the Owners of the Series 2003-2 Bonds shall mean Cede & Co. or another nominee of DTC and shall not mean the beneficial owners of the Series 2003-2 Bonds.

Redemption Provisions

The Series 2003-2 Bonds while bearing interest at an Auction Rate, are subject to redemption prior to maturity at the option of the Authority from any source of funds in whole or in part on any date at a redemption price equal to 100% of the principal amount of the Series 2003-2 Bonds or portions thereof redeemed (and without premium), together with accrued interest thereon, if any, to the date of redemption. The Authority is required to exercise its right to optionally redeem Series 2003-2 Bonds from funds on deposit in the Series 2003-2 Account of the Acquisition Fund on April 1, 2004 and from funds on deposit in the Series 2003-2 Account of the Revenue Fund on and after April 1, 2006, or such later dates as permitted by a Rating Confirmation.

Notice, Effect of Redemption and Selection of Series 2003-2 Bonds Upon Partial Redemption

On the date designated for redemption by notice as provided under the Indenture, the Bonds so called for redemption shall become due and payable at the stated redemption price and to the extent moneys are available therefor, interest shall cease to accrue on such Bonds and such Bonds will no longer be entitled to any benefit or security under the Indenture. The Trustee is directed to furnish notice as provided in the Indenture not less than 10 nor more than 30 days prior to the date fixed for redemption, but failure to furnish, or any defect in, any such notice will not affect the validity of the proceedings of redemption of any other Bond with respect to which notice was properly given.

The Series 2003-2 Bonds to be redeemed will, except as otherwise described below, be selected by the Authority by any one of the following means: (i) By Class in Descending Priority, or (ii) pro rata among all Classes and pro rata as to maturities within a Class or (iii) if neither clause (i) nor (ii) is followed, then in any such order as the Authority determines, subject to receipt by the Trustee of a certificate of the Authority to the effect that the value of the Student Loans credited to the Student Loan Fund and all cash and Investment Securities held in the Funds and Accounts (excluding amounts irrevocably set aside to pay particular Bonds), will not be less than each and all of the following sums (unless permitted by a Rating Confirmation), after giving effect to such redemption: (a) with respect to the Outstanding Class I and Class II Bonds, at least 107% of the aggregate principal amount of such Bonds then Outstanding, (b) with respect to the Outstanding Class I, Class II and Class III Bonds, at least 105% of the aggregate principal amount of such Bonds then Outstanding, and (c) with respect to the Outstanding Class I, Class II, Class III and Class IV Bonds, at least 102% of the aggregate principal amount of such Bonds then Outstanding. The ratios set forth above may be reduced upon obtaining a Rating Confirmation. Series 2003-2 Bonds within any Class or maturity will be selected by the Trustee in any manner as the Trustee shall deem fair and reasonable, in its sole discretion.

AUCTION RATE CERTIFICATES

General

The Series 2003-2 Bonds will be issued initially as Auction Rate Certificates (“ARCs”), will be dated the date of initial delivery thereof and will mature on October 1, 2043. Certain capitalized terms used herein with respect to the Series 2003-2 Bonds are defined in APPENDIX B and APPENDIX C to this Official Statement.

Interest

Interest Payments. Interest on the Series 2003-2 Bonds outstanding as ARCs will accrue for each Interest Period and will be payable in arrears on each succeeding Interest Payment Date. An “Interest Payment Date” means 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 thereof shall be each April 1 and October 1 (or if any such date is not a Business Day, then the immediately following Business Day) during such Interest Period and the Business Day following the last day of such Interest Period, and on the maturity date of any of the Series 2003-2 Bonds or, if any such 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). The Initial Interest Payment Date will be January 8, 2004, for the Series 2003-2A-1 Bonds, January 15, 2004, for the Series 2003-2A-2 Bonds and January 15, 2003, for the Series 2003-2B Bonds. An “Interest Period” means (a) the period commencing on the date of delivery of the Series 2003-2 Bonds and ending on and including January 7, 2004 for the Series 2003-2A-1 Bonds, January 14, 2004, for the Series 2003-2A-2 Bonds and January 14, 2004, for the Series 2003-2B Bonds, 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 described below under “Changes in Auction Periods or Auction Dates—*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. Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods. See “Changes in Auction Periods or Auction Dates—*Changes in Auction Period or Periods*” below.

The amount of interest distributable to Owners of ARCs in respect of each \$50,000 in principal amount thereof for any Interest Period or part thereof will be calculated by the Trustee by applying the Applicable Interest Rate (as defined below) 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. Interest on the ARCs will be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any leap year, such calculation with respect to an Interest Payment Date occurring after January 1 of such year through December 31 of such year will be computed on the basis of a 366-day year period. The Trustee will make the calculation described above not later than the close of business on each Auction Date.

Interest payments on the ARCs are to be made by the Paying Agent to Owners of the ARCs, as of the Regular Record Date for such Interest Payment Date. The ARCs are to be initially registered in the name of Cede & Co., as nominee of DTC, which is acting as the depository for the ARCs. See “THE SERIES 2003-2 BONDS—Book-Entry Only System” herein for a description of how DTC, as Registered Owner, is expected to disburse such payments to the beneficial owners.

Applicable Interest Rate. The rate of interest on the Series 2003-2 Bonds outstanding as auction rate certificates, for each Interest Period subsequent to the Initial Interest Period will be equal to the rate of interest that results from implementation of the Auction Procedures described in APPENDIX C hereto (the "Auction Rate") unless the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the Series 2003-2 Bonds for such Interest Period will be the Maximum Rate; provided that if, in the event that the Auction Agent no longer determines, or fails to determine when required, the Applicable Interest Rate with respect to a series of Series 2003-2 Bonds, or if for any reason, such manner of determination is held to be invalid or unenforceable, the Applicable Interest Rate for the next succeeding Interest Period will be the Maximum Rate. Notwithstanding the foregoing, (a) if the ownership of the Series 2003-2 Bonds is no longer maintained in book-entry form the Auctions will be immediately suspended and the Applicable Interest Rate (as defined below) on the Series 2003-2 Bonds for any Interest Period commencing after the delivery of certificates representing Series 2003-2 Bonds as described above will equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period or (b) if a Payment Default occurs, Auctions will be immediately suspended and the Applicable Interest 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. Notwithstanding the foregoing, see "Auctions" below for a description of the applicable Auction Rate if an Auction is scheduled to occur 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 rate per annum at which interest is payable on the Series 2003-2 Bonds outstanding as auction rate certificates for any Interest Period is herein referred to as the "Applicable Interest Rate." Notwithstanding anything herein to the contrary, the Applicable Interest Rate cannot exceed the Maximum Rate, unless the Applicable Interest 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.

The interest rate on the Series 2003-2 Bonds may not exceed a net effective interest rate of 15%, as calculated under the laws of the State of Texas.

Notwithstanding anything herein to the contrary, if any Series 2003-2 Bonds outstanding as auction rate certificates or portion thereof have been selected for redemption during the next succeeding Interest Period, such Series 2003-2 Bonds outstanding as auction rate certificates 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.

Carry-over Amounts. If the Auction Rate for any Series 2003-2 Bonds is greater than the Maximum Rate, then the interest rate applicable to such series of Series 2003-2 Bonds for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Series 2003-2 Bonds outstanding as auction rate certificates at the Auction Rate over the amount of interest actually accrued at the Maximum Rate will be designated as the Carry-over Amount. The Carry-over Amount for an Interest Period will be limited to the extent necessary so that such Carry-over Amount, calculated as a percentage per annum, when added to the Maximum Rate for such Interest Period, does not exceed the Maximum Interest Rate. The Carry-over Amount will bear interest to the extent permitted by law calculated at a rate equal to One-Month LIBOR (as determined by the Trustee on the related Interest Rate Determination Date, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and if the Trustee has not, then as determined by the Trustee) from the Interest Payment Date for the Auction Period with respect to which such Carry-over Amount was calculated, until paid. As used in the Fifth Supplemental Indenture, 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; provided, however, Carry-over Amount or any interest accrued on any Carry-over

Amount is recognized to be included within the definition of interest for the purpose of calculating the Net Effective Interest Rate under Chapter 1204, Texas Government Code. The Carry-over Amount will be separately calculated for each series of the Series 2003-2 Bonds by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice to each Owner of a Series 2003-2 Bond of such Carry-over Amount as described in the following sentence. On the Interest Payment Date for an Auction Period during which a Carry-over Amount has been calculated, the Trustee will give written notice to each Owner of a Series 2003-2 Bond on which a Carry-over Amount has been determined of such Carry-over Amount, which written notice may accompany the payment of interest by check made to each 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 Owner at such Owner's address as it appears on the registration books maintained by the Registrar. Such notice will state, in addition to such Carry-over Amount, that, unless and until such Series 2003-2 Bond has been redeemed or has been deemed no longer Outstanding under the Indenture (after which all accrued Carry-over Amount, and all interest accrued thereon, that remains unpaid will be canceled and no Carry-over Amount, or interest accrued thereon, will be paid with respect to such Series 2003-2 Bond), (i) the Carry-over Amount (and interest accrued thereon to the extent permitted by law) will be paid by the Trustee in part or in whole, on the next occurring Interest Payment Date for such Series 2003-2 Bond, and on each succeeding Interest Payment Date until paid, but only if and to the extent that (A) the Eligible Carry-Over Make-Up Amount with respect to such Interest Period is greater than zero, and (B) money is available pursuant to the Indenture to pay such Carry-over Amount, and (ii) interest will accrue on the Carry-over Amount to the extent permitted by law at a per annum rate equal to One-Month LIBOR until such Carry-over Amount is paid in full or is canceled. The right to receive the Carry-over Amount payable with respect to any Series 2003-2 Bond may not be assigned apart from such Series 2003-2 Bond and the Carry-over Amount due on any Interest Payment Date with respect to any Series 2003-2 Bond shall be payable solely to the Owner of such Series 2003-2 Bond on the applicable Record Date for such Interest Payment Date.

The Carry-over Amount with respect to the Series 2003-2 Bonds 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 Fund. In addition, any Carry-over Amount (and any interest accrued thereon to the extent permitted by law) on any Series 2003-2 Bond which is unpaid as of the redemption or maturity of such Series 2003-2 Bond, shall be paid to the Owner thereof on the date of such redemption or maturity to the extent that moneys are available therefor in accordance with the provisions of the Indenture; provided, however, that any Carry-over Amount or portion thereof (and any interest accrued thereon) which is not paid on the date of such redemption or maturity will be canceled with respect to said Series 2003-2 Bond on the date of such redemption or maturity 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 Indenture are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Series 2003-2 Bond, the Trustee will give written notice in the manner set forth in the immediately preceding paragraph to the Owner of such Series 2003-2 Bond receiving such partial payment of the Carry-over Amount remaining unpaid on such Series 2003-2 Bond.

Carry-over Amounts and interest thereon are considered to be interest for the purpose of determining the amount of interest permitted to be paid on the Series 2003-2 Bonds under Texas law.

Whether the Carry-over Amount for a Series 2003-2 Bond 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 and in the same priority it pays interest on the Series 2003-2 Bonds on any Interest Payment Date.

ANY UNPAID CARRY-OVER AMOUNT ON A SERIES 2003-2 BOND NOT PAID ON MATURITY, DEFEASANCE OR THE REDEMPTION DATE WITH RESPECT TO SUCH SERIES 2003-2 BOND WILL BE EXTINGUISHED UPON THE MATURITY, DEFEASANCE OR REDEMPTION OF SUCH SERIES 2003-2 BOND.

Auction Participants

Existing Owners and Potential Owners. Participants in each Auction will include (i) "Existing Owners," which means (a) any Broker-Dealer who is listed as the owner of record of Series 2003-2 Bonds in the records of the Auction Agent (described below) at the close of business on the Business Day preceding each Auction, and (b) with respect to and for the purpose of dealing with a Broker-Dealer in connection with an Auction, a person who is a beneficial owner of Series 2003-2 Bonds; and (ii) "Potential Owners," which means any Person (including any Existing Owner that is (a) a Broker-Dealer when dealing with the Auction Agent or (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring Series 2003-2 Bonds (or in the case of an Existing Owner, an additional principal amount of Series 2003-2 Bonds).

By purchasing Series 2003-2 Bonds, whether in an Auction or otherwise, each prospective purchaser of Series 2003-2 Bonds or its Broker-Dealer must agree and will be deemed to have agreed, among other things: (i) to participate in Auctions on the terms set forth in APPENDIX C hereto, (ii) so long as the beneficial ownership of the Series 2003-2 Bonds is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Series 2003-2 Bonds only pursuant to a Bid or a Sell Order (each as defined in APPENDIX C hereto) 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 Series 2003-2 Bonds so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, (iii) to have its beneficial ownership of Series 2003-2 Bonds maintained at all times in book-entry form by the securities depository for the account of its Participants of DTC, which in turn will maintain records of such beneficial ownership, and (iv) 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 is appointed as the initial Auction Agent for the Series 2003-2 Bonds. The Trustee is directed to enter into the initial Auction Agent Agreement with The Bank of New York. Any substitute Auction Agent shall be (i) a bank, national banking association or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Trustee in writing, and having a combined capital stock or surplus of at least \$50,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agent Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Fifth Supplemental Indenture by giving at least 90 days' written notice to the Authority, the Trustee and the Market Agent (or a shorter period if the Auction Agent has not been paid its fees). The Auction Agent may be removed at any time by the Trustee, acting at the direction of either (i) the Authority or (ii) the Owners of 66-2/3% of the aggregate principal amount of the Outstanding Series 2003-2 Bonds upon at least 90 days' notice.

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

The Auction Agent is acting as agent for the Authority in connection with Auctions. In the absence of misconduct, negligent failure to act or negligence on its part, the Auction Agent will 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 Agent Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent was 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 for the Series 2003-2 Bonds, 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 Authority 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 with the Trustee and in connection with the ARCs, shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the beneficial owners.

Auctions

Auctions to establish the Applicable Interest Rate are to be held on each Auction Date, except as described above under “Interest—*Applicable Interest Rate*,” by application of the Auction Procedures described in APPENDIX C hereto. “Auction Date” shall mean initially for the Series 2003-2A-1 Bonds, January 7, 2004, for the Series 2003-2A-2 Bonds, January 14, 2004, for the Series 2003-2B Bonds, January 14, 2004, and thereafter, the Business Day immediately preceding the first day of each related Interest Period, other than (i) each Interest Period commencing after the ownership of the Series 2003-2 Bonds is no longer maintained in book-entry form; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under “Changes in Auction Periods or Auction Dates—*Changes in Auction Period or Periods*.”

The Auction Agent shall determine the Maximum Rate, the Maximum Interest Rate, the Maximum Auction Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate on each Auction Date. The determination by the Auction Agent, the Authority or the Trustee of the Maximum Rate, the Maximum Interest Rate, the Maximum Auction Rate, the All-Hold Rate, One-Month LIBOR, the Applicable Interest Rate, the Non Payment Rate 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 Series 2003-2 Bonds is no longer maintained in book-entry form, 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 Series 2003-2 Bonds. If a Payment Default shall have occurred, the Trustee shall calculate the Non Payment Rate on the Interest Rate Determination Date for (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in APPENDIX C hereto. A description of the Settlement Procedures to be used with respect to Auctions is contained in APPENDIX D hereto.

Notwithstanding any provision in the Indenture to the contrary, 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 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 next 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 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 auction period length.

Changes in Auction Periods or Auction Dates

Changes in Auction Period or Periods. The Authority may:

- (i) in order to conform with then current market practice with respect to similar securities, or
- (ii) 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 Series 2003-2 Bonds,

change, from time to time, the length of one or more Auction Periods. The Authorized Officer of the Authority shall not initiate such change in the length of the Auction Period, unless he or she shall have received from the Market Agent not less than ten days nor more than 20 days prior to the effective date of such change, a written consent. The Authority shall initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Auction Agent, the Market Agent and the Securities Depository at least 10 days prior to the Auction Date for such Auction Period.

Any changed Auction Period shall not be less than 7 days nor more than one year. The change in length of one or more Auction Periods shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M. on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Authority authorizing the change in the length of one or more Auction Periods specified in such certificate along with a Rating Confirmation and (B) Sufficient Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Applicable Interest Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) above is met but the condition referred to in (B) above is not met, the Applicable Interest Rate for the next Auction Period will be the Maximum Rate and the Auction Period will be the Auction Period determined without reference to the proposed change.

Changes in the Auction Date. The Market Agent:

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

(ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARCs, 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, with the written consent of an Authorized Officer of the Authority. The Market Agent will deliver a written request for consent to such change in the Auction Date to the Authority not less than three days nor more than twenty days prior to the effective date of such change. The Market Agent will provide notice of its determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least three days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Authority and DTC.

USE OF PROCEEDS

The proceeds of the Series 2003-2 Bonds are expected to be used as set forth below:

Acquire Eligible Loans	\$147,227,750
Debt Service Reserve Fund Deposit	1,500,000
Costs of Issuance (including underwriting compensation)	991,250
Operating Fund Deposit	<u>281,000</u>
Total	\$150,000,000

The Trust Estate, without giving effect to the use of proceeds of the Series 2003-2 Bonds, is expected to include approximately \$317,741,907 in principal amount of Eligible Loans on the date of issuance of the Series 2003-2 Bonds. Additional Eligible Loans in the principal amount of approximately \$147,227,750 are expected to be acquired and added to the Trust Estate by April 1, 2004.

Set forth below are certain characteristics of Student Loans held under the Indenture as of September 30, 2003. In the future, the portfolio of Student Loans expected to exist under the Indenture may have similar characteristics, or the characteristics of such Eligible Loans may vary materially from the Student Loans held under the Indenture. The characteristics of the portfolio of Student Loans under the Indenture are expected to change over the life of the Series 2003-2 Bonds.

Portfolio Composition As of September 30, 2003

Loan Type	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Subsidized Stafford Loans	\$127,876,437	40.3%
Unsubsidized Stafford Loans	93,539,777	29.4
Consolidation Loans	75,882,854	23.9
PLUS Loans	18,408,387	5.8
SLS Loans	<u>2,034,452</u>	<u>0.6</u>
Total	<u>\$317,741,907</u>	<u>100.0%</u>

Borrower Payment Status	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Repayment	\$160,659,045	50.5%
In School	67,623,169	21.3
Forbearance	37,404,794	11.8
Deferment	31,036,083	9.8
In Grace	19,326,276	6.1
Claim	<u>1,690,540</u>	<u>0.5</u>
Total	<u>\$317,741,907</u>	<u>100.0%</u>

School Type	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Four Year	\$229,949,449	72.0%
Unknown*	67,944,749	21.0
Two Year	11,274,462	4.0
Proprietary	<u>8,573,247</u>	<u>3.0</u>
Total	<u>\$317,741,907</u>	<u>100.0%</u>

*Substantially all of the Student Loans in this category are Consolidation Loans, the school type for which is not verifiable.

THE AUTHORITY

General

The Authority is a nonprofit corporation acting on behalf of the Cities of Arlington and Denton, Texas. Originally created under the Texas Non-Profit Corporation Act in 1971 under the name of “Dallas Schools Foundation,” the corporation was dormant from its incorporation in 1971 until 1978 when it was reorganized and its Articles of Incorporation were amended to change its name and purpose to the present name and purpose. The Authority’s purpose is to promote student access to higher education. The Authority is located at 1250 E. Copeland Road, Suite 200, Arlington, Texas 76011-4921, Telephone (817) 265-9158.

The Authority is authorized to (a) provide funds for the acquisition of Eligible Loans made to students at post-secondary educational institutions, and (b) provide procedures for the servicing of such Eligible Loans in accordance with the Higher Education Act and the Education Code of Texas (the “Education Code”). The Authority’s Articles of Incorporation provide that after payments of expenses, debt service and the creation of reserves for the same, all revenues shall be utilized for the purchase of Eligible Loans, or, upon dissolution of the Authority, paid to the Federal Government. The Authority’s activities are governed by the Education Code, the Texas Non-Profit Corporation Act, and Section 150(d) of the Internal Revenue Code of 1986, as amended.

The Authority has no employees. Administration of the Authority’s activities is provided by Higher Education Servicing Corporation. See “SERVICING OF THE LOANS—Higher Education Servicing Corporation—*The Servicing Agreement*.”

The Authority is governed by a Board of Directors consisting of nine Directors. Four directors are appointed by the City Council of Arlington, Texas, four directors are appointed by the City Council of

Denton, Texas, and one director is appointed by both. The Authority submits nominations to such Cities. Each of the City Councils of such Cities may also remove those Directors appointed by it. Directors serve two-year staggered terms of office. The occupations and Board of Directors positions for each of the Directors of the Authority is set forth below. The members of the Board of Directors serve without compensation, except for the payment of expenses incurred in connection with the business of the Authority. The Bylaws of the Authority provide for the appointment of Advisory Directors by the Board of Directors. Advisory Directors serve two-year terms and are entitled to all of the rights and powers of a Board member, except that Advisory Directors may not vote nor may they hold the offices of President or Vice-President. The Cities of Arlington and Denton each appoint an ex-officio member to the Board whose terms are non-expiring and who have no powers or voting rights.

Board of Directors

Name and Position Held	Principal Occupation	Term Expires (September 30)
Mr. Governor E. Jackson President	Director of Student Financial Aid Texas Woman's University Denton, Texas ¹	2004
Dr. J. Lindsay Keffer Vice President	Associate Director for Administration University of North Texas Denton, Texas ¹	2005
Dr. B. Wayne Duke Secretary/Treasurer	Vice President Student Affairs (retired) University of Texas at Arlington Arlington, Texas ¹	2005
Ms. Floreen B. Henry	Assistant Professor Tarrant County College – South Campus Fort Worth, Texas ¹	2004
Mr. James Brock	President (retired) B H & W Manufacturing, Inc. Grandbury, Texas	2005
Mr. W. Jay Anderson	Financial Principal Anderson & Associates Denton, Texas	2005
Mr. K. Daniel Tonn	Certified Public Accountant/Partner Hankins, Powers, Eastup, Deaton & Tonn Denton, Texas	2004
Mr. Jim D. Schultz	Chief Executive Officer Breckwell Holdings, Inc. Arlington, Texas	2004
Dr. Carl D. McDaniel, Jr.	Professor and Chairman of the Marketing Department University of Texas at Arlington Arlington, Texas ¹	2005
Mr. Stephen Nesbitt	Controller City of Denton Denton, Texas ²	N/A
Ms. Donna Swarb	Chief Financial Officer City of Arlington Arlington, Texas ²	N/A

¹ Eligible Institution

² Ex-Officio Member

Eligible Lenders

The Authority purchases its loans from financial institutions located within the State of Texas. Many of these institutions utilize the loan origination services of the Higher Education Servicing Corporation, whereby the initial loan disbursement and servicing of the loans is performed on their behalf by Higher Education Servicing Corporation. See "SERVICING OF THE LOANS—Higher Education

Servicing Corporation” and “SERVICING OF THE LOANS—Nelnet Loan Services, Inc” and “— Educational Services of America, Inc.”

The Authority makes consolidation loans.

Authority Financing Activities 1979 to Present

The following table summarizes the Authority’s financing activities since 1979.

Financings			
Date	Type	Amount	Outstanding Balance
1979	Series A	\$ 10,000,000	\$ 0
1980	Series B	6,000,000	0
1982	Series A	11,845,000	0
1982	Series B	25,000,000	0
1983	Series A & B	50,000,000	0
1985	Series A	23,100,000	0
1987	Series 1987	98,000,000	87,750,000
1990	Series 1990	50,000,000	41,000,000
1991	Series A – C	76,750,000	25,000,000
1991	Series D – F	76,750,000	25,000,000
1991	Series G	90,000,000	0
1993	Series A – D	140,000,000	70,000,000
1996	Series A and B	21,500,000	17,500,000
1996	Series C and D	21,500,000	17,500,000
1998	Series 1998	40,815,000	40,815,000
2000	Series 2000A	67,580,000	18,080,000
2000	Series 2000B	35,000,000	35,000,000
2001	Series 2001A	39,545,000	39,545,000
2002	Series 2002A-B	155,000,000	155,000,000
2003	Series 2003A-B	103,400,000	103,400,000
2003	Series 2003-2A and -2B	<u>150,000,000</u>	<u>150,000,000</u>
Total Financings		<u>\$1,291,785,000</u>	<u>\$ 825,590,000</u>

With the exception of the Series 1993 Bonds, the Series 2002 Bonds and the Series 2003 Bonds, the bonds described above are issued under indentures separate and apart from the Indenture under which the Series 2003-2 Bonds are being issued, and are not cross-collateralized with the Series 2003-2 Bonds.

In addition, the Authority currently has taxable lines of credit for the purchase of student loans and refinancing of indebtedness in the aggregate amount of \$125,000,000 which will reduce to \$75,000,000 by December 31, 2003. The utilized balance on the Authority’s lines of credit is approximately \$73 million, of which approximately \$16 million will be retired with a portion of the Series 2003-2 Bonds. Accordingly, upon the issuance of the Series 2003-2 Bonds, approximately \$68 million of the lines of credit will be unused and available.

THE GUARANTORS

General

The Indenture authorizes the Authority to purchase any Eligible Loans which are guaranteed by Texas Guaranteed Student Loan Corporation (“TGSLC” or “TG”), United Student Aid Funds, Inc. or any other entity which guarantees student loans under the Higher Education Act and which has entered into an agreement with the Trustee and the Secretary for reinsurance of its guarantees of student loans and upon receipt of a Rating Confirmation with respect thereto (a “Guarantor” or an “Eligible Guarantor”); provided that substantially all of the Eligible Loans must be made on behalf of residents of the State of Texas or persons attending Eligible Institutions (as defined in the Higher Education Act) located in the State of Texas. The Authority expects that substantially all of the Eligible Loans purchased and held under the Indenture will be guaranteed by TGSLC; however, the Indenture authorizes the Authority to purchase Eligible Loans which are guaranteed by other entities, as described above. A brief description of TGSLC is included in this Official Statement immediately below. The information concerning TGSLC was provided to the Authority by TGSLC and has not been verified by the Authority or the Underwriter. No representation is made by the Authority as to the accuracy or completeness of such information.

Texas Guaranteed Student Loan Corporation

Organization. The Texas Guaranteed Student Loan Corporation (TG) is a Texas public non-profit corporation organized in 1980 by the Texas legislature to operate as a guarantee agency in what is now known as the Federal Family Education Loan Program (FFELP), providing a Federally reinsured guaranty of eligible Stafford, PLUS and consolidation student loans. Located at 13809 N. Highway 183, Austin, Texas 78750-1240, TG is governed by nine directors appointed by the Governor of Texas in addition to the State Comptroller, and is staffed by approximately 547 employees.

Guarantee Volume. Approximate annual loan guarantee volume is as follows (in billions):

Federal Fiscal Year	Net Loan Guarantee Volume	
	Excluding Consolidation Loans	Including Consolidation Loans
2000	\$1.59	\$1.97
2001	\$1.68	\$2.04
2002	\$1.97	\$2.67

Portfolio Loans. As discussed under “RISK FACTORS,” loan default rates for students attending proprietary schools typically exceed that for two-year and four-year schools. School type mix for the most current Federal fiscal year and for the total portfolio are as follows:

School Type	Federal Fiscal Year 2002	Total Portfolio as of September 30, 2002
Four year	87%	86%
Two year	6	7
Proprietary	7	7

Including consolidation loans, the Federal fiscal year 2002 portfolio is comprised of 63% four year, 5% two year, 5% proprietary, and 27% consolidation.

Reserves. Prior to implementation of Voluntary Flexible Agreement (VFA) provisions on March 31, 2001, TG maintained net assets as reserves in operating the FFEL program at or exceeding Federally established requirements for FFELP guarantors. Such reserves were considered United States property and accordingly were subject to recall by the Federal government. Beginning in Federal fiscal year 1999, pursuant to the 1998 Higher Education Act Reauthorization (Reauthorization), TG's Federal Fund was TG's Federal Reserve. TG's reserve ratio for recent Federal fiscal years ended September 30 is presented below.

Under provisions of the VFA, effective March 31, 2001, TG escrowed all Federal Reserve assets in a joint TG/US Department of Education (ED) account, and received 100% reinsurance from ED on all FFELP guarantee claims paid subsequent to that date. The VFA provides for reinstatement of TG's Federal Reserve upon termination of the VFA.

Federal Fiscal Year Ended September 30	Federal Reserve Net Assets		Loans Outstanding ⁽⁴⁾ (in billions)	Excluding Consolidation Loans Reserve Ratio		Loans Outstanding ⁽⁴⁾ (in billions)	Including Consolidation Loans Reserve Ratio	
	Cash Basis ⁽²⁾	Accrual Basis ⁽³⁾		Cash Basis	Accrual Basis		Cash Basis	Accrual Basis
	(in millions)							
1998	\$149.58	\$154.85	\$7.88	1.90%	1.97%	\$9.67	1.55%	1.60%
1999	131.42 ⁽⁵⁾	147.23 ⁽⁵⁾	8.28	1.58	1.78	10.45	1.26	1.41
2000	137.39 ⁽⁵⁾	149.98 ⁽⁵⁾	8.86	1.55	1.69	11.45	1.20	1.31
2001	N/A ⁽¹⁾	N/A ⁽¹⁾						
2002	N/A ⁽¹⁾	N/A ⁽¹⁾						

⁽¹⁾Under provisions of the VFA, effective March 31, 2001, TG escrowed all Federal Reserve assets in a joint TG/US Department of Education (ED) account, and received 100% reinsurance from ED on all FFELP guarantee claims paid subsequent to that date. The VFA provides for reinstatement of TG's Federal Reserve upon termination of the VFA.

⁽²⁾The statutory cash basis reserve consists of cash, cash equivalents, and marketable securities.

⁽³⁾The accrual basis reserve includes the cash basis reserve as well as transaction settlements in process between TG and the U. S. Department of Education (ED) for claims reinsurance, administrative expense allowance, and collection activities, and reflects return of reserves in the period such assets are deposited in the specified restricted account. This measure of reserve eliminates the impact of inconsistent ED settlement timing for fiscal year-end transactions.

⁽⁴⁾The Federal Reserve ratio is computed based upon the original principal balance of loans outstanding. This differs from the TG specific Guarantee Reserve ratio referred to in various lender participation agreements which is calculated using the estimated current principal outstanding on loans guaranteed.

⁽⁵⁾Net Assets are reduced by required deposits to the Balanced Budget Act of 1997 reserve return restricted account, totaling \$11.33 million at September 30, 2000.

The Balanced Budget Act of 1997 required the return of \$1 billion in Federal reserves from the FFELP guarantee agencies, of which TG's portion, \$28.88 million, was remitted to the U.S. Treasury in September 2002. Reauthorization requires an additional \$250 million return of reserves of which TG's portion is \$12.75 million. The first installment of \$4.33 million was remitted to the U.S. Treasury in September 2002, with the remainder payable in two installments scheduled for fiscal years 2006, and 2007 from escrowed reserves.

Claims Rate. TG's claims rate represents the percentage of Federal reinsurance claims made by TG during a Federal fiscal year relative to TG's portfolio of loans designated as "in repayment" at the end of the prior Federal fiscal year. TG's historical claims rates are as follows:

<u>Federal Fiscal Year</u>	<u>Claims Rate</u>
1998	3.21
1999	2.40
2000	2.00
2001	2.75
2002	3.24

Voluntary Flexible Agreement. TG entered into a VFA with ED, effective October 1, 2000. TG's VFA increases the focus upon borrower delinquency and default prevention, and includes: the escrow of all Federal Reserves coupled with 100% ED reinsurance of default claims; continuance of Loan Processing and Issuance Fee and Account Maintenance Fee revenues as provided under the Higher Education Act; a new Delinquency Prevention Fee with an .05% annual base rate of TG's Loans in Repayment portfolio, with performance rate increases based upon reductions in annual Default Aversion Requests (DAR); an increased base DAR rate to 1.25% with performance rate increases based upon cure performance; and a reduction in borrower payment collections to 19.5% with performance rate increases for all collection types based upon collection performance. The VFA provides for reinstatement of TG's Federal Reserve upon termination of the VFA.

No Liability to Owners. The information concerning TG in this Official Statement has been provided for the sole purpose of describing TG's function as guarantor of certain of the Eligible Loans. TG has no obligation or liability of any kind to the holders of these bonds or to pay the principal of redemption premium or interest on these bonds.

Miscellaneous. Liabilities created by TG are not debts of the State of Texas and TG may not secure any liability with funds or assets of the State except as otherwise provided in the final sentence of this paragraph. TG is subject to the Texas Sunset Act (Chapter 325, Government Code) and, unless continued in existence as provided by such act, TG will be abolished on September 1, 2005. If TG is abolished, the Comptroller of Public Accounts of the State of Texas is required under the Education Code to serve as trustee to administer the assets of TG and satisfy its outstanding obligations.

TG has not reviewed any other section of this Official Statement and shall have no responsibility of any information contained therein.

SERVICING OF THE LOANS

The information set forth below with respect to the Servicer, Nelnet (as defined below) and EdFinancial Services (as defined below) has been obtained from the Servicer, Nelnet and EdFinancial Services, respectively, and the Authority makes no representation as to its accuracy or completeness.

Higher Education Servicing Corporation

General. The Authority has entered into a servicing agreement (the "Servicing Agreement") with the Trustee and Higher Education Servicing Corporation (the "Servicer") pertaining to Student Loans under the Indenture. The Servicer is authorized to enter into subservicing agreements for the Student Loans and has entered into two such agreements as described below. The Servicer presently utilizes student loan servicing software under a license agreement from Charter Account Systems, Inc. to originate and service student loans on behalf of various eligible lenders. These eligible lenders are required to sell their student loans to the Authority no later than shortly before they enter repayment. When loans are sold to the Authority, the Servicer has transferred, and expects to continue to transfer

most servicing functions to one of its subservicers, Nelnet Loan Services, Inc. (“Nelnet”) or Educational Services of America, Inc. (“EdFinancial Services”).

The Servicer is a nonprofit corporation organized under the Texas Non-Profit Corporation Act in September 1978 to provide Texas higher education authorities with student loan billing and servicing, and to provide headquarters and administrative support services to such authorities. The Servicer is located at 1250 East Copeland Road, Suite 200, Arlington, Texas 76011-4921, Telephone (817) 265-9158 and is governed by a self-perpetuating five-member Board of Directors, one of whom is nominated by the Authority and two of whom were nominated by higher education authorities which are no longer active but with which the Servicer has had servicing agreements in the past. The present Board of Directors is as follows:

Name and Position Held	Principal Occupation
Mr. Marion L. Jacob President	Director of Student Financial Aid (Retired) University of Texas at Arlington
Dr. Jerry Lytle Vice President	Director of Placement (Retired) East Texas State University
Mr. Governor E. Jackson	Director of Student Financial Aid Texas Woman’s University Denton, Texas ¹
Mrs. Kris Anne Vogelpohl	Secretary, Southwest Medical Association Auxiliary
Mrs. Judy Schneider	Program Manager, National Association of Student Financial Aid Administrators

¹ Also serves as President and a member of the Board of Directors of the Authority.

The current staff of the Servicer consists of 36 permanent full-time, four permanent part-time and three temporary employees. The following is a brief description of the qualifications of the professional staff:

Kathryn Bryan, Executive Director. Ms. Bryan has responsibility for overall management of the Servicer and reports directly to the Board of Directors. Prior to joining the Servicer in 1983, Ms. Bryan was employed in public accounting and student financial assistance. She currently serves as a member of the board of directors of the Mayo Foundation at Texas A&M University Commerce and as a member of the board of directors of the Education Finance Council, a national organization for not-for-profit secondary markets. Ms. Bryan holds a B.S. degree and an M.S. degree in Business Education and an M.B.A. degree in Management from Texas A & M University Commerce.

Sharon Newkirk, Controller. Ms. Newkirk has responsibility for oversight of all accounting functions, cash management, loan portfolios, and investment activities. Ms. Newkirk joined the Servicer in 1995. Her experience includes 11 years with another Texas secondary market as Director of Accounting and Director of Compliance. She received a B.B.A. degree in Accounting from West Texas A & M University.

Phillip Wambsganss, Director of Marketing. Mr. Wambsganss has responsibility for marketing activities and governmental affairs. He received his undergraduate degree from the University of Texas at Arlington and an MBA from LeTourneau University. Mr. Wambsganss has 10 years' experience in the banking industry and joined the Servicer in 1998.

Elizabeth Garrett, Director of Acquisitions. Ms. Garrett has managerial responsibility for loan acquisitions, loan consolidations and cures. She joined the Servicer in 1993. Her prior experience includes 10 years in banking including student loan collections, loan officer and vice president. Ms. Garrett's most recent position prior to joining the Servicer was with NationsBank Texas.

Don Shields, Director of Accounting. Mr. Shields is a CPA and has responsibility for accounting functions including financial reporting. He joined the Servicer in 1996. He has prior experience in both nonprofit and retail accounting. Mr. Shields holds both a B.B.A. and an M.B.A. in Accounting from Angelo State University.

Paulette Walker, Director of Loan Services. Ms. Walker's responsibility includes customer service and records and vault management. She joined the Servicer in 1993. Her experience consists of eight years with a large student loan servicer and two years with the Louisiana state secondary market. Ms. Walker attended Oklahoma State University.

The Servicing Agreement. Under the Servicing Agreement, the Servicer has agreed to service the Financed Eligible Loans which are in the Trust Estate created under the Indenture. In servicing such Student Loans, the Servicer has agreed to comply with the care and diligence requirements of the Higher Education Act, the rules and regulations promulgated under the Higher Education Act, and the rules of the Guarantors of the Student Loans.

Pursuant to the Servicing Agreement, the Servicer will review student loans to be purchased by the Authority and will use its best efforts to insure that the representations, guarantees and warranties of the sellers included in the student loan purchase agreements have been made and are evidenced by appropriate documentation. The Servicer will certify to the Trustee that to the best of its knowledge each student loan appears to qualify in all respects as an Eligible Loan under the Indenture, that each student loan bears interest at a rate not less than that permitted under the Indenture and that all documentation required by the student loan purchase agreement to accompany the student loan is present and in the proper form. As long as the Servicer maintains a best efforts standard in fulfilling this covenant, it is not responsible or liable for the loss or voiding of the insurance or the guarantee on any student loan when such loss or voiding has been caused by the action, or failure to act, on the part of the seller or any other person or entity.

In the event a seller of a student loan to the Authority failed to comply with the due diligence requirements of the Higher Education Act during the time it owned the loan, the Servicer is required to recourse the loan back to the seller, any recovery to be for the account of the trust estate.

The Servicer will prepare and send or will cause to be prepared and sent to the Trustee information to be added to the quarterly request to the Department of Education for payment of all interest subsidies and special allowances payments. Servicing and collection reports pertaining to the student loans will be prepared and retained by the Servicer.

The Servicer may subcontract with others to perform its servicing duties under the Servicing Agreement. The Servicer has contracted with the subservicers described below, and may contract with others or may have Student Loans serviced under any such contract or contracts. Each subcontract must have the written consent of the Authority and the Trustee.

The Authority has agreed to hold the Servicer harmless for any insurance claim which the Secretary or a Guarantor refuses to pay because of a failure on the part of the originating lender to exercise due diligence in the loan origination process. The Authority will indemnify and hold the Servicer harmless for any and all loss, damage, cost or expense (including reasonable legal expenses but excluding consequential damages), suit or other claims arising out of any acts performed by the Servicer, Nelnet, EdFinancial Services or any Custodian, except those arising out of the Servicer's own gross negligence or that of its sub-agents, or the Servicer's acts which are unauthorized or not within the scope of the Servicing Agreement. The Servicer will not be accountable or responsible for any action of the Authority or the Trustee.

The Servicer has agreed to provide internal accounting and to maintain corporate records for the Authority, to review monthly the flow of funds as set forth in the Indenture, to prepare documents, reports, tax returns, or any other required forms on behalf of the Authority. The Servicer has also agreed to prepare for adoption by the Authority all budgets or amendments thereto, to prepare reports, documents, agendas and meeting notices necessary for the affairs of the Authority's Board of Directors, and to keep and maintain all records of the meetings and business affairs of the Authority as directed by the Secretary of the Authority's Board of Directors.

The Authority will pay the Servicer monthly and will also reimburse it for any fees paid on behalf of the Authority pursuant to the Indenture. All fees or other obligations payable to the Servicer pursuant to a Servicing Agreement will be derived only from assets in the Trust Estate established in the Indenture.

The Servicing Agreement provides that the Trustee is not accountable or responsible in any manner whatsoever for any action of the Servicer, Nelnet or EdFinancial Services.

The information included herein relating to Nelnet and EdFinancial Services has been obtained from Nelnet and EdFinancial Services and has not been independently verified by the Authority. The inclusion of this information is not, and should not be construed as, a representation by the Authority or its counsel as to its accuracy or completeness or otherwise.

Nelnet, Inc.

General. Nelnet, Inc., formerly known as Nelnet Loan Services, Inc., a Nebraska corporation (hereafter "Nelnet"), began its education loan servicing operations on January 1, 1978, and provides education loan servicing, time-sharing, administration and other services to lenders, secondary market purchasers and guaranty agencies throughout the United States. Nelnet is a privately held corporation. Nelnet offers student loan servicing to lending institutions and secondary markets. Nelnet has offices located in Aurora, Colorado, Lincoln, Nebraska, Jacksonville, Florida, and Indianapolis, Indiana and, as of October 31, 2003, employs a total of 968 employees. As of October 31, 2003, Nelnet serviced more than \$18.5 billion in student loans.

The Nelnet Servicing Agreement. The Loan Servicing Agreement, dated as of April 1, 2003 between Nelnet and the Servicer (the "Nelnet Servicing Agreement"), provides for an initial term of five years which ends on March 31, 2008 and provides that it will continue thereafter on a month to month basis until either party terminates the agreement, upon 60 days written notice.

In accordance with the Nelnet Servicing Agreement, Nelnet will perform servicing functions for those Financed Eligible Loans presented to it for servicing by the Servicer. Nelnet will service such student loans in accordance with the Higher Education Act and Regulations. Specifically, Nelnet has agreed to take all steps necessary to maintain the insurance on student loans, to prepare and mail to the borrower all required statements, notices, disclosures and demands, to retain records for each student loan, to provide accounting for all transactions related to individual student loans, to process all

deferments and forbearances, to process and update accordingly all address changes, to retain all documents received by Nelnet, to take all steps necessary to file a claim for loss with a Guarantor when necessary and allowable by the Higher Education Act, to provide reports and any other information required by the Guarantor, to provide other customary and appropriate services, to exercise reasonable efforts to collect all payments due from the Secretary and the Guarantor, to comply with the procedures and requirements of the Higher Education Act with respect to the collection of delinquent loans, to exercise reasonable diligence efforts to collect any benefits payable by the Guarantor or otherwise payable, and to transfer or cause to be transferred to the Trustee all funds held in the account referred to in the Nelnet Servicing Agreement.

In the event Nelnet takes any action in connection with servicing responsibilities under the Nelnet Servicing Agreement or fails to take any action which causes any serviced student loan to be denied the benefit of any applicable guarantee, Nelnet has a reasonable time to cure such defect. If the cure is not complete within nine months, Nelnet is required to arrange to have the loan purchased from the Authority. Nelnet is not responsible for defects which arise prior to the time Nelnet processes the application or places the student loan on its system.

In no event is Nelnet liable for any lost profits or exemplary, punitive, special, incidental, indirect or consequential damages. Any action for the breach of any provision of the Nelnet Servicing Agreement must be commenced within one year after the breach was discovered or should have been discovered.

There is a removal fee should any student loans serviced by Nelnet be removed from Nelnet's system prior to a scheduled termination or breach of the Nelnet Servicing Agreement.

Educational Services of America, Inc.

General. Educational Services of America, Inc. ("EdFinancial Services") is a nonprofit corporation incorporated in December 1994 pursuant to applicable laws of the State of Tennessee. EdFinancial Services is empowered by its Charter, among other things, to (i) contract with lenders and other makers of educational loans (including those made under the Higher Education Act) to provide marketing, administrative and loan origination services and loan servicing for such educational loans, (ii) make educational loans or acquire educational loan notes (other than those made under the Higher Education Act), (iii) service all such educational loans made or acquired, (iv) contract with nonprofit companies organized for exempt purposes and with agencies or instrumentalities of the government of any state or of the United States of America to provide services in furtherance of the exempt purposes of such companies, agencies or instrumentalities, and (v) to establish, manage and operate programs for gathering and distributing or disseminating information and materials with respect to higher education and financial aid and assistance programs available to students and potential students seeking a higher education. EdFinancial Services' principal office is located at 123 Center Park Drive, Knoxville, Tennessee, with an operations center located at 120 North Seven Oaks Drive, Knoxville, Tennessee, and remote offices located in Jacksonville, Florida and Little Rock, Arkansas. Currently, EdFinancial Services provides full student loan servicing for approximately twelve major lenders and secondary markets involving approximately \$3 billion of educational loans. EdFinancial Services provides servicing for student loans under a Remote System Agreement with the Pennsylvania Higher Education Assistance Agency. EdFinancial Services is governed by a five-member Board of Directors and employs a corporate staff of approximately 290 full-time and part-time personnel performing various functions, including marketing, loan and guarantee processing, disbursement services, loan servicing, regulatory compliance and internal accounting.

The EdFinancial Subservicing Agreement. The EdFinancial Subservicing Agreement, entered into as of November 15, 2002, by and between the Servicer and EdFinancial Services provides for an initial term of five years.

In accordance with the EdFinancial Subservicing Agreement, the Servicer has agreed to place on EdFinancial Services' loan servicing system all Eligible Loans made or acquired by the Authority including all Eligible Loans made or acquired which have a borrower who has a prior loan being serviced by EdFinancial Services. Notwithstanding the prior sentence, the Servicer has no obligation to place Eligible Loans with EdFinancial Services (i) which are for borrowers who have prior loans held by the Authority which are being serviced by another entity under a contractual undertaking predating the EdFinancial Subservicing Agreement or for which the Authority is obligated to deliver to another servicer under a contractual undertaking predating the EdFinancial Subservicing Agreement, (ii) which, as a condition of acquisition, are required to be serviced by an entity other than EdFinancial Services, or (iii) if EdFinancial Services consents to the delivery of such loans to another servicer. EdFinancial Services will perform servicing functions for those Financed Eligible Loans presented to it for servicing by the Servicer in accordance with all state and federal laws, including the Higher Education Act and other governmental legislation relating to the administering, servicing, and collection of loans and regulations pertaining to such legislation, and applicable guaranty agency program requirements, as may be in effect from time to time when published in final form.

Specifically, EdFinancial Services has agreed to promptly and routinely furnish the Servicer with copies of all material reports, records, and other documents and data reasonably required by the Servicer, and to maintain all correspondence received by it relating to individual borrower accounts and to make such information available to the Servicer. EdFinancial Services is required to submit those reports which EdFinancial Services is legally required to submit. Other required governmental reports or requests for data with respect to Eligible Loans serviced under the EdFinancial Subservicing Agreement not legally the responsibility of EdFinancial Services will be the responsibility of the Servicer. EdFinancial Services has covenanted that at all times during the term of the EdFinancial Subservicing Agreement, it will be a third party servicer which satisfies and complies with the standards and requirements of the Higher Education Act and the regulations thereunder. Additionally, EdFinancial Services has agreed to establish procedures mutually acceptable to the Servicer and EdFinancial Services for the collection of amounts payable on Eligible Loans under the EdFinancial Subservicing Agreement. All sums received by EdFinancial Services with respect to any Eligible Loans, whether attributable to principal, interest, or any other amounts payable are required to be deposited daily in a third party lockbox account maintained by EdFinancial Services at a financial institution mutually acceptable to EdFinancial Services and the Servicer. Receipts are to be transferred weekly to accounts held by the Authority or its Trustee. Under certain circumstances, EdFinancial Services is authorized to withdraw money from the lockbox account, including when necessary to refund overpayments made by a borrower, to refund money to a guarantor when a defaulted borrower makes additional payments to EdFinancial Services, to refund money to the guarantor when the lender repurchases a defaulted loan, or to correct money deposited in error in the lockbox account. EdFinancial Services may withdraw funds for other reasons only with the prior written consent of the Servicer. The Servicer will be responsible for auditing or causing the auditing of all processed records and reporting any errors to EdFinancial Services within sixty days of receipt.

In the event that records or other data submitted to EdFinancial Services for processing are lost or damaged by EdFinancial Services, the liability of EdFinancial Services for such loss or damage may not exceed the greater of the actual loss to the Servicer or the Authority or the reasonable cost of reproducing such records or data.

EdFinancial Services has agreed to pay for any loss, liability or expense, including reasonable attorney's fees, which arise out of or relate to EdFinancial Services' acts or omissions with respect to the services provided under the EdFinancial Subservicing Agreement, provided that the Servicer comply with certain notice requirements. EdFinancial Services will not have any liability resulting from any inaccurate or incomplete data or data which is not in the form required by the EdFinancial Subservicing Agreement or for any delays in servicing caused by defects in the same.

Custody of Student Loan Documents

Physical custody of the documentation for each Student Loan, including the promissory note, is retained with either Nelnet, EdFinancial Services or the Servicer as custodian or bailee. Such custodians or bailees are acting as agent for the Trustee. The Trustee has no liability for any default, neglect or misconduct of any agents, if reasonable care has been exercised in their appointment.

Further Information Regarding Servicing Issues

As is the case with any portfolio of student loans, the Student Loans in the Trust Estate are subject to loss of their guarantee from the Guarantor or a reduction in interest subsidy or special allowance payments made on them by the federal government due to servicing errors or errors made by the originating lender. The Servicer, Nelnet or EdFinancial Services will recourse any Student Loan discovered to have such errors to the party responsible for them and will be responsible for its own errors, to the extent described in the Servicing Agreement, the Nelnet Servicing Agreement and the EdFinancial Services Subservicing Agreement. In some cases, however, the responsible party may no longer be in business or there may be a dispute over the party responsible for an error.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Texas Government Code, as amended, provides that an obligation such as the Series 2003-2 Bonds is (1) a negotiable instrument, (2) an investment security to which Chapter 8, Business & Commerce Code applies, and (3) a legal and authorized investment for: (a) an insurance company; (b) a fiduciary or trustee; or (c) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. No review by the Authority has been made of the laws in other states to determine whether the Series 2003-2 Bonds are legal investments for various institutions in those states.

TAX MATTERS

General

The following is a general summary of the federal income tax consequences of the purchase and ownership of the Series 2003-2 Bonds. The discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of federal income taxation that may be relevant to a particular investor in the Series 2003-2 Bonds in light of the investor's particular personal investment circumstances, including, but not limited to, the application of the original issue discount provisions of the Code, or to certain types of investors subject to special treatment under federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2003-2 Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2003-2 Bonds as "capital assets" within the meaning of Section 1221 of the Code, and acquire such Series 2003-2 Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the "Service") with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2003-2 BONDS.

Payments of Stated Interest on a Series 2003-2 Bond

In the opinion of Fulbright & Jaworski L.L.P., the Series 2003-2 Bonds will be treated as indebtedness of the Authority for federal income tax purposes. The stated interest paid on the Series 2003-2 Bonds will be included in the gross income, as defined in Section 61 of the Code, of the owners thereof and be subject to federal income taxation when received or accrued, depending on the tax accounting method applicable to the owners thereof.

Backup Withholding

Under Section 3406 of the Code, an owner of the Series 2003-2 Bonds who is a United States person, as defined in Section 7701(a)(3) of the Code, may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Series 2003-2 Bonds. This withholding applies if such owner of Series 2003-2 Bonds: (i) fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such owner is not subject to backup withholding.

OWNERS OF THE SERIES 2003-2 BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH EXEMPTION.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the owner of the Series 2003-2 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 lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if (i) the owner provides a statement to the payor certifying, under penalties of perjury, that such owner is not a United States person and providing the name and address of such owner, (ii) such interest is treated as not effectively connected with the owner’s United States trade or business, (iii) 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, (iv) interest payable with respect to the Series 2003-2 Bond is not deemed contingent interest within the meaning of the portfolio debt provision, (v) such owner is not a controlled foreign corporation, within the meaning of Section 957 of the Code, and (vi) such owner is not a bank receiving interest on the Series 2003-2 Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments on the Series 2003-2 Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no backup withholding under Section 1441 and 1442 of the Code and no backup withholding under Section 3406 of the Code is required with respect to owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor has no actual knowledge that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to owners with respect to the Series 2003-2 Bonds will be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address, and TIN of the owner. A copy of Form 1099 will be sent to each owner of a Series 2003-2 Bond for federal income tax purposes.

UNDERWRITING

The Series 2003-2 Bonds are being purchased for reoffering by UBS Financial Services Inc., 1285 Avenue of the Americas, New York, New York 10019 at a purchase price equal to the principal amount thereof less an aggregate underwriting discount of \$704,750 pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the Authority and the Underwriter. The obligation of the Underwriter to accept delivery of the Series 2003-2 Bonds is subject to various conditions set forth in the Bond Purchase Agreement, and the Underwriter is obligated to purchase all of the Series 2003-2 Bonds if it purchases any of the Series 2003-2 Bonds.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2003-2 Bonds to the public, and may offer and sell the Series 2003-2 Bonds to certain dealers and others at prices lower than the public offering price stated on the cover page hereof. After the initial public offering, the public offering price may be changed from time to time by the Underwriter.

The Authority has agreed to indemnify the Underwriter against certain liabilities relating to this Official Statement, or to contribute to payments the Underwriter may be required to make in respect thereof.

RATINGS

The Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds are expected to be rated "Aaa" by Moody's Investors Service ("Moody's") and the Series 2003-2B Bonds are expected to be rated "A2" by Moody's. Such ratings reflect only the view of Moody's and an explanation of the significance of such ratings can only be obtained from Moody's. 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 if, in the judgment of Moody's, 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 applicable Series 2003-2 Bonds.

FINANCIAL STATEMENTS

Attached as APPENDIX E hereto are the audited financial statements of the Authority for the fiscal years ended August 31, 2002 and 2001. Attached as APPENDIX F hereto are the unaudited financial statements of the Authority for the fiscal year ended August 31, 2003.

LEGAL MATTERS

The validity and issuance of the Series 2003-2 Bonds are subject to the approving legal opinion of the Attorney General of the State of Texas and of Fulbright & Jaworski L.L.P., Bond Counsel. Certain legal matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., special counsel to the Authority. Certain legal matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP.

CERTAIN LEGAL PROCEEDINGS

There is currently no litigation pending or, to the knowledge of the Authority, threatened, which would have the effect of prohibiting the sale or delivery of the Series 2003-2 Bonds or the pledge of the Trust Estate as provided by the Indenture, or which would adversely affect the Authority's Student Loan Program or business and operations.

CONTINUING DISCLOSURE

General

The Authority will enter into a continuing disclosure undertaking (the "Continuing Disclosure Undertaking") pursuant to the Indenture wherein the Authority will agree to provide certain annual financial information and material events information to assist the Underwriter in complying with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule").

The Authority will agree in its Continuing Disclosure Undertaking for the benefit of Owners (including the beneficial owners) of the Series 2003-2 Bonds to provide annual financial information and operating data relating to the Authority (the "Annual Financial Information") covering the matters described under the caption "Annual Financial Information" below. The Authority will also agree for the benefit of Owners of the Series 2003-2 Bonds to provide notice ("Event Notice") of any of the events, if material, described under the caption "Event Notices" below and notice of defaults on undertakings under the Rule ("Default Notice"). The Annual Financial Information will be required to be filed with each NRMSIR (defined below) and the SID (defined below). Event Notices and Default Notices will be required to be filed with each NRMSIR or the MSRB and with the SID.

Annual Financial Information is required to be provided within a specified period of time after the end of each fiscal year, as described below. Whenever the Authority obtains knowledge of the occurrence of an event which might be the subject of an Event Notice, the Authority is to determine if such event is material under applicable federal securities laws and, if so, is required to report such event in an Event Notice.

The Authority will be obligated to observe and perform the covenants specified in the Continuing Disclosure Undertaking with respect to the Authority and the Series 2003-2 Bonds while, but only while, the Authority remains an "obligated person" with respect to the Series 2003-2 Bonds within the meaning of the Rule, except that the Authority in any event will give the notice required by the Continuing Disclosure Undertaking of any Series 2003-2 Bond calls and defeasance that cause the Authority to be no longer such an "obligated person."

The provisions of the Continuing Disclosure Undertaking may be amended by the Authority and the Trustee by execution and delivery of a supplemental indenture from time to time to adapt to changed circumstances resulting from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Authority, but only if (a) the provisions of the Continuing Disclosure Undertaking as so amended, would have permitted an underwriter to purchase or sell Series 2003-2 Bonds in the primary offering of the Series 2003-2 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (b) either (i) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Indenture that authorizes such an amendment) of the Outstanding Series 2003-2 Bonds consent to such amendment or (ii) a Person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Series 2003-2 Bonds. The provisions of the Continuing Disclosure Undertaking may also be amended from time to time or repealed

if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the Authority's right to do so would not prevent underwriters of the initial public offering of the Series 2003-2 Bonds from lawfully purchasing or selling Series 2003-2 Bonds in such offering. If the Authority so amends the provisions of the Continuing Disclosure Undertaking, it shall include with any amended financial information or operating data next provided an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

In the event of default by the Authority of its obligations under its Continuing Disclosure Undertaking to provide continuing disclosure, the Owners, including beneficial owners, of Series 2003-2 Bonds may take such action, including seeking mandamus or specific performance by court order, to compel compliance. No such default under the Continuing Disclosure Undertaking shall constitute a breach or default under the Indenture and the sole remedy of Owners (or beneficial owners) of the Series 2003-2 Bonds shall be actions to compel performance.

The provisions of the Continuing Disclosure Undertaking are for the sole benefit of the Owners and beneficial owners of the Series 2003-2 Bonds and nothing in the Continuing Disclosure Undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim thereunder to any other person. The Authority undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to the Continuing Disclosure Undertaking and does not undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the Authority or the State of Texas or undertake to update any information provided in accordance with the Continuing Disclosure Undertaking or otherwise, except as expressly provided in the Continuing Disclosure Undertaking. The Authority does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2003-2 Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE AUTHORITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE AUTHORITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THE CONTINUING DISCLOSURE UNDERTAKING, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

Annual Financial Information

The Authority will provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year (beginning with the fiscal year ending August 31, 2003) financial information and operating data with respect to the Authority of the type included in this Official Statement, including the following:

- (a) annual financial statements prepared in accordance with generally accepted accounting principles;
- (b) the following information:
 - (i) Debt Service Reserve Fund balance and the Debt Service Reserve Fund Requirement;

- (ii) outstanding principal amount of the Series 2003-2 Bonds and other bonds issued under the Indenture and collateralization levels;
- (iii) breakdown of Student Loans by loan type, borrower payment status and school type;
- (iv) issuance of any Additional Bonds; and
- (c) outstanding debt of the Authority.

Financial Statements to be provided shall be (a) prepared in accordance with the accounting principles described in Authority's audited financial statements attached as APPENDIX E hereto and (b) audited, if the Authority commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not available at the time the financial information and operating data must be provided, then the Authority will provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID with the financial information and operating data and will file the annual audit report when and if the same becomes available.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any documents (including an offering memorandum or other offering documents, if it is available from the MSRB) that therefor has been provided to each NRMSIR and the SID or filed with the SEC.

Event Notices

In addition to the financial information and operating data described above, the Authority will also agree to provide an Event Notice to any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Series 2003-2 Bonds if such event is material within the meaning the federal securities laws:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) modifications to rights of the Owners;
- (d) bond calls;
- (e) defeasances;
- (f) rating changes;
- (g) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (h) unscheduled draws on credit enhancements reflecting financial difficulties;
- (i) substitution of credit or liquidity providers, or their failure to perform;
- (j) adverse tax opinions or events affecting the tax status of the Series 2003-2 Bonds; or

(k) release, substitution or sale of property securing repayment of the Series 2003 Bonds.

The Authority will also notify the SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the Authority to provide financial information or operating data pursuant to the Continuing Disclosure Undertaking. The Authority has been in material compliance with all of its undertakings under the Rule.

Definitions

“*MSRB*” means Municipal Securities Rulemaking Board, 1150 18th Street, NW, Suite 400, Washington, DC 20036-2491.

“*NRMSIR*” means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule. The current NRMSIRs are Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, NJ 08558, Phone: (609) 279-3225, Fax: (609) 279-5962, E-mail: munis@bloomberg.com; DPC Data Inc., One Executive Drive, Fort Lee, NJ 07024, Phone: (201) 346-0701, Fax: (201) 947-0107, E-mail: nrmsir@dpcdata.com; FT Interactive Data, Attn: NRMSIR, 100 William Street, New York, New York 10038, Phone: (212) 771-6999, Fax: (212) 771-7390 (Secondary Market Information), (212) 771-7391 (Primary Market Information), E-mail: nrmsir@ftid.com; Standard & Poor’s Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Phone: (212) 438-4595, Fax: (212) 438-3975, E-mail: nrmsir_repository@sandp.com.

“*SEC*” means the United States Securities and Exchange Commission.

“*SID*” means any person designated by the State of Texas or an authorized department, officer or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time. The current SID is Municipal Advisory Council of Texas, P.O. Box 2177, Austin, TX 78768-2177, Phone: (512) 476-6947, Fax: (512) 476-6403.

OTHER MATTERS

The information set forth herein has been obtained from the Authority’s records and other sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. Any statement in this Official Statement including matters of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact. This Official Statement is not to be construed as an agreement or contract between the Authority and the purchasers of any of the Series 2003-2 Bonds.

All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The information contained herein with respect to The Depository Trust Company, TGSLC, EdFinancial Services and Nelnet has been furnished by each respective party, and has not been independently verified by the Authority. The Authority assumes no responsibility for the accuracy or sufficiency of such information.

The Authority, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions pertaining to the Authority and its affairs

contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in the Official Statement other than that relating to the Authority, the Authority has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board makes no representation as to the accuracy or completeness of the information derived from sources other than the Authority. The Board has relied in part upon its examination of records of the Authority and its discussions with, or certificates or correspondence signed by, certain other officials, consultants and representatives of the Authority.

The Indenture provides that all covenants, stipulations, promises, agreements and obligations of the Authority contained in the Indenture shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any officer, director or employee of the Authority in such person's individual capacity, and no recourse shall be had for the payment of the principal of or interest on the Series 2003-2 Bonds or for any claim based thereon or on the Indenture against any officer or employee of the Authority or against any person executing the Series 2003-2 Bonds.

The distribution of this Official Statement has been duly authorized by the Authority.

NORTH TEXAS HIGHER EDUCATION
AUTHORITY, INC.

By /s/ Governor E. Jackson
President

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APPENDIX A

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

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

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the FFELP Loans. Generally, this Official Statement describes only the provisions of the Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. The 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

Several types of loans are currently authorized as Federal Family Education Loans pursuant to the Federal Family Education Loan Program. These include: (a) 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”); (b) 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”); (c) loans to parents of dependent students (“PLUS Loans”); and (d) 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 (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution; (b) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (c) has agreed to notify promptly the holder of the loan of any address change; and (d) 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 (a) insurance or reinsurance of eligible Subsidized Stafford Loans, (b) interest subsidy payments to eligible lenders with respect to certain eligible Subsidized Stafford Loans, and (c) 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 “Direct Loan 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 Direct Loan 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%, with a maximum rate of 8.25%. 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% 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%, with a maximum rate of 8.25%. 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%, with a maximum rate of 9%. 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 to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%. Consolidation Loan applications received on or after July 1, 2003 bear interest at a rate equal to the weighted average of the interest rates on the loans being consolidated, rounded upward to the nearest one-eighth of 1%.

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

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

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.

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 Direct Loan Program are eligible for Interest Subsidy Payments. The Secretary is required to make interest subsidy payments to the holder of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the holder of an eligible Subsidized Stafford Loan, or the eligible portions of Consolidation Loans, shall be deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

Special Allowance Payments

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

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

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

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

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

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

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

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

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

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States to receive those payments during the life of the loan. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of federal regulations or 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 FFEL Loan is required to pay to the Secretary an additional origination fee equal to 0.5% of the principal amount of the loan.

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

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

Insurance and Guarantees

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

Federal Insurance

The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and ensures that such reimbursements are not subject to reduction. In addition, the Higher Education Act provides that if a guarantor is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guarantor capable of

meeting such obligations or until a successor guarantor assumes such obligations. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

Guarantees

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, educational loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower’s dependents. Further, the Secretary is to reimburse a guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below.

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: (a) no state court may issue an order affecting the Secretary’s actions with respect to that guarantor; (b) 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 (c) 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	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: (a) guarantee payments on such loans, (b) the original principal amount of such loans that have been fully repaid, and (c) 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 .5%.

The Higher Education Act provides for an additional recall of reserves from each Federal Fund, but also provide 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: (a) 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 (b) 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.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture pursuant to which the Series 2003-2 Bonds, are issued. This summary is qualified in all respects by reference to the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, which contain all the terms and conditions pursuant to which the Series 2003-2 Bonds are issued. Copies of the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture are available from the Trustee.

CERTAIN DEFINITIONS

The following defined terms are used as defined in the text of this Appendix or elsewhere in the Official Statement.

“*Adjustable Rate Bonds*” means those Bonds whose terms provide for the adjustment of the interest rate to be borne by such Bonds periodically prior to their stated maturity and for the mandatory tender of such Bonds upon such adjustment, including the Series 1993A Bonds but not the Series 2003-2 Bonds.

“*Auction Agent Fees*” has the meaning ascribed to such term in the Auction Agent Agreement.

“*Authority Order*” means a written order of the Authority executed by an authorized representative, requiring action on the part of any Indenture Agent, and certifying such action is in accordance with the Indenture and any applicable Reimbursement Agreement.

“*Board*” or “*Board of Directors*” means the Board of Directors of the Authority.

“*Bond Payment Date*” means the date or dates specified in any Supplemental Indenture for payment of principal of or interest on the Bonds.

“*Bondholder*,” “*Owner*” or “*owner*” or words of similar import, when used with reference to a Bond means any person who will be the registered owner of any Outstanding Bond as set forth on the registration books maintained by the Registrar.

“*Bonds*” means any bonds issued by the Authority under that certain Indenture dated as of May 1, 1993 between the Authority and the Trustee, as the same may have been or will be supplemented from time to time, including the Series 1993 Bonds, the Series 2002 Bonds, the Series 2003 Bonds and the Series 2003-2 Bonds.

“*Bond Year*” means the period established in each Supplemental Indenture for a Series of Bonds.

“*Broker-Dealer Fee*” has the meaning ascribed to such term in the Auction Agent Agreement.

“*Business Day*” has the meaning set forth in Appendix C hereto.

“*By Class in Descending Priority*” means any treatment of Bonds or the Owners thereof according to the priority of the Class of such Bonds, regardless of Series, with Class I Bonds being of the

highest priority and the order of priority descending as the roman numeral identifying the Class increases. Whenever the Indenture provides for the consent, permission or direction by Owners on a certain matter “By Class in Descending Priority,” it means that the Owners in the particular percentage of ownership described of the most senior Class of Bonds then Outstanding under the Indenture and affected by the matter under consideration will effect such consent, permission or direction; provided, however, that matters affecting only one Class of Bonds need be approved only by the Owners of the particular percentage of that Class of Bonds except as otherwise provided in the Indenture.

“*Cash Flow Certificate*” means a report or reports with accompanying cash flow schedules prepared by the Authority or its designee showing, with respect to one or more Series of Bonds for the period covered by the Cash Flow Certificate, which period will extend from the date of the Cash Flow Certificate to the latest stated maturity of all applicable Bonds then Outstanding (a) all Net Revenue expected to be received during such period from the applicable portions(s) of the Trust Estate, (b) the application of all such Net Revenue in accordance with the Indenture and (c) that on each Interest Payment Date, the resulting periodic balances in each of the Accounts of the Revenue Fund will be no less than \$50,000 under all scenarios included in the Cash Flow Certificate. Each Cash Flow Certificate must include a list of all assumptions used on the preparation of such Cash Flow Certificate.

“*Class*” means a level of priority of Bonds, among all Series, as to security and order of payment of principal and interest from the Trust Estate, which will be further designated by Roman numeral designations, with I being the highest and descending in priority as the numerals increase.

“*Closing Cash Flow Projection*” means the Cash Flow Certificate delivered on the Issue Date of a particular series of Bonds and certified as such by an authorized officer of the Authority.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and court decisions promulgated thereunder and pertaining thereto. Such regulations will also include any successor provision to any existing regulations thereafter promulgated by the Internal Revenue Service pursuant to Section 141 through 150 of the code applicable to the Bonds. The Series 2003-2 Bonds are Federally Taxable Bonds.

“*Costs of Issuance*” means all items of expense, directly or indirectly payable or reimbursable by or to the Authority 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, any bond insurance premiums, fees and expenses of any Credit Provider, underwriting fees, initial fees and charges of any Indenture Agent, legal fees, including bond counsel fees and expenses and underwriter’s counsel fees and charges (if charged to the Authority), fees and disbursements of consultants and professionals, Authority staff travel and expenses related to an issue of Bonds, cost of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

“*Credit Facility*” means any form of credit enhancement purchased by the Authority for a Series of Bonds or for one or more Classes within a Series, including, without limitation, a letter of credit, bond insurance, a surety bond or standby bond purchase agreement, which will be identified in the Supplemental Indenture for such Series, and may include as part of the same facility, a liquidity component which, if issued separately, would constitute a Liquidity Facility.

“*Credit Provider*” means the issuer of a Credit Facility.

“*Debt Service*” means, with respect to any particular Bond Year and any particular Series of Bonds, an amount equal to the sum of (a) all interest payable on such Bonds during such Bond Year, plus

(b) any Principal Installments of such Bonds during such Bond Year, plus (c) any additional applicable premium payable on such Bonds during such Bond Year, but will not include the Purchase Price of Bonds.

“Debt Service Reserve Requirement” means, as of any date of calculation, an amount equal to the aggregate of the amounts specified in each and every Supplemental Indenture authorizing the issuance of a Series of Bonds as the amount required to be deposited in the Debt Service Reserve Fund with respect to such Series of Bonds which, at the time of issuance of the Series 2003-2 Bonds, is equal to the aggregate of 2% of the principal amount of the Series 1993 Bonds, 0.75% of the Series 2002 Bonds and 1.0% of the Series 2003-2 Bonds Outstanding, which amount will not be less than \$500,000.

“Eligible Student Loan” or *“Eligible Loan”* means any student loan satisfying the requirements of the Higher Education Act and the Indenture which is eligible to be made by the Authority to an eligible borrower or purchased by the Authority from a qualified lender to finance post-secondary education pursuant to the Higher Education Act and the Student Loan Program, and with respect to Student Loans acquired with the proceeds of the Series 2003-2 Bonds, which qualify under Section 53.47(c) of the Texas Education Code. No Student Loan will cease to be an Eligible Loan merely because the Authority, in its discretion, charges interest to the related borrower at a rate less than the statutory maximum interest rate, so long as the Authority delivers a Rating Confirmation to the Trustee prior to instituting the authorization for such lesser charges under the Student Loan Program. In the event there is enacted any reauthorization or amendment of the Higher Education Act which makes any material adverse change in the benefits, terms or provisions for guarantee or servicing of Student Loans that are authorized to be issued under the Act, then a Student Loan made after the effective date of such change will not constitute an Eligible Loan unless a Rating Confirmation is obtained.

“Excess Coverage” means, as of any date of calculation, and except as otherwise provided in a Supplemental Indenture, the amount by which the sum of the value of (a) the Student Loans (valued at par plus accrued interest and accrued Special Allowance Payments, if any) credited to the Student Loan Fund and (b) all cash and Investment Securities held in the Funds and Accounts (valued as set forth in the definition of “Investment Securities,” plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds) will exceed all of the following sums taken individually and not as an aggregate: (x) 107% of the sum of the principal and accrued interest on all Outstanding Class I and Class II Bonds; (y) 105% of the sum of the principal and accrued interest on all Outstanding Class I, Class II and Class III Bonds; and (z) 102% of the sum of the principal of and accrued interest on all Outstanding Bonds; all as evidenced in a certificate of an authorized representative of the Authority.

“Favorable Opinion” means an Opinion of Bond Counsel to the effect that the action proposed to be taken is authorized or permitted by the Indenture and any applicable Supplemental Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which are the subject of such opinion.

“Federally Taxable Bonds” means Bonds so designated by the Supplemental Indenture pursuant to which they are issued, the interest on which is not excludable from gross income for federal income tax purposes, including the Series 2003-2 Bonds.

“Fifth Supplemental Indenture” means the Fifth Supplemental Indenture entered into between the Authority and the Trustee dated as of December 1, 2003, under which the Series 2003-2 Bonds are issued.

“First Supplemental Indenture” means the Amended and Restated First Supplemental Indenture entered into between the Authority and the Trustee dated as of April 1, 2003, under which the Series 1993 Bonds are issued.

“*Fourth Supplemental Indenture*” means the Fourth Supplemental Indenture entered into between the Authority and the Trustee dated as of January 1, 2003, under which the Series 2003A-3 Bonds are issued.

“*Funds*” means any of the funds created and established pursuant to the Indenture, including the Funds and Accounts, the Rebate Fund, the Excess Interest Fund and the Credit Proceeds Fund, but excluding the Purchase Fund and Operating Fund.

“*Funds and Accounts*” means the Revenue Fund, the Acquisition Fund, the Restricted Yield Fund and the Debt Service Reserve Fund created pursuant to the Indenture.

“*General Indenture*” means the General Indenture entered into by the Authority and the Trustee as of May 1, 1993, as supplemented from time to time.

“*Governmental Obligations*” means direct obligations of the United States and obligations, the principal and interest of which are guaranteed by the United States as to full and timely payment.

“*Guarantor*” means (a) the Texas Guaranteed Student Loan Corporation, United Student Aid Funds, Inc., Student Loan Guarantee Foundation of Arkansas and Oklahoma State Regents for Higher Education, (b) any successor to a Guarantor described in (a) which acts under the Higher Education Act and has an agreement with the Secretary for the Secretary’s reimbursement of amounts expended by the Guarantor in discharge of insurance obligations on Eligible Student Loans after a Rating Confirmation and approval by the Authority, or (c) any other entity approved by the Authority which guarantees student loans under the Higher Education Act or other Federal law and has entered into an agreement with the Trustee therefor and with the Secretary for reinsurance of its guarantees of student loans, upon receipt by the Authority and the Trustee of a Rating Confirmation, provided, however, that the Student Loan Guarantee Foundation of Arkansas and the Oklahoma State Regents for Higher Education will not be deemed a Guarantor hereunder until they have entered into an agreement with the Trustee for the guarantee of student loans under the Higher Education Act or other federal law and with the Secretary for reinsurance of its guarantees of student loans.

“*Higher Education Act*” means Title IV, Part B of the Higher Education Act of 1965, as amended, or any successor federal act, and the regulations promulgated thereunder.

“*Indenture*” means the General Indenture, as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture and any future supplemental indentures.

“*Indenture Agent*” means the Trustee, the Paying Agent, the Registrar, the Authenticating Agent, the Tender Agent and any such additional agent as may be authorized pursuant to a Supplemental Indenture, or any or all of them as may be appropriate.

“*Interest Rate Exchange Agreement*” means a contract providing for an interest rate cap, floor, swap or other similar instrument entered into pursuant to the Indenture.

“*Interest Subsidy Payments*” means interest subsidy benefits payable by the Secretary under the Higher Education Act, or similar payments authorized from time to time by federal law.

“*Investment Rating*” means an investment having a rating of (a) “P1” from Moody’s in the event it has a term of (or is redeemable at the option of the holder within) 12 months or less; (b) at least “A2” and “P1” from Moody’s in the event it has a term of (or is redeemable at the option of the holder within)

more than 12 months but no more than 24 months; and (c) at least “Aa2” and “P1” from Moody’s in the event it has a term of (or is redeemable at the option of the holder within) more than 24 months.

“*Investment Securities*” means, for purposes of investing funds relating to the Series 2003-2 Bonds, the following categories of securities:

(a) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States of America. Such obligations will be valued at the average of the bid and asked price as reported the previous Business Day by *The Wall Street Journal* (but if such information is unavailable, such obligations will be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Authority);

(b) interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other depository institution, including the Trustee or any of its affiliates, provided that, at the time of deposit or purchase such depository institution has senior debt rated “Aa2” or higher by Moody’s and, if commercial paper is outstanding, commercial paper which is rated “P1” by Moody’s. Such deposits and certificates of deposit will be valued at par less any withdrawal penalties;

(c) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Home Loan Mortgage Corporation; the Export-Import Bank of the United States; the Federal National Mortgage Association; the Government National Mortgage Association; the Federal Home Loan Bank; provided that each such obligation is rated “Aaa” by Moody’s; or any agency or instrumentality of the United States of America which will be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor. Such obligations will be valued at the average of the bid and asked price as reported the previous Business Day by *The Wall Street Journal* (but if such information is unavailable, such obligations will be valued at the bid price as quoted the previous business day by at least two dealers in such obligations selected by the Authority);

(d) repurchase agreements with banks (which may include the Trustee) which are members of the Federal Deposit Insurance Corporation and whose senior debt meets the Investment Rating, which such agreements are (i) secured by securities the principal and interest of which are guaranteed by the United States or any of its agencies (without regard to maturity) (ii) are free and clear of any claims by third parties and (iii) are segregated in a custodial or trust account held either by the Trustee or by a third party (other than the repurchaser) approved by the Authority, as the agent solely of, or in trust solely for the benefit of, the Trustee and (iv) are margined at least 102% valued weekly by the Trustee or the third party custodian and (v) are “repurchase agreements” as defined in the Bankruptcy Amendments and Federal Judgeship Act of 1984, as amended, and provided that upon the occurrence of an Event of Default under the Indenture, all funds may be withdrawn thereunder, without penalty, by requiring a repurchase. Repurchase agreements will be valued at par;

(e) repurchase agreements between the Trustee and another entity whose senior debt meets the Investment Rating in which one of the parties has agreed to purchase investment securities described in items (a) and (c) above on a specified date and the other party has agreed to repurchase the investment securities at the same price plus accrued interest on a later date, in which the market value of the investment securities purchased is in excess of the amount of the repurchase agreement, and in which the investment securities are so purchased and held

separately from all other investment securities, in trust, in order to complete the contractual commitment. Repurchase agreements will be valued at par;

(f) shares in a no-load investment company registered under the Federal Investment Company Act of 1940 which meets the Investment Rating whose shares are registered under the Federal Securities Act of 1933, whose only investments are obligations described in items (a), (c), (d) or (g) above, the dollar-weighted average maturity of which will not exceed 90 days, and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. Such obligations will be valued at par;

(g) obligations of an agency or instrumentality of the United States which meets the Investment Rating;

(h) marketable obligations of any state or political subdivision or municipal corporation thereof which (i) are general obligations of the issuer thereof, (ii) are issued by an issuer which has general taxing powers the use of which is pledged or otherwise covenanted to provide sufficient moneys to pay such obligations, and (iii) are rated "Aa" or better by Moody's;

(i) revenue obligations, income from which is not taxable under Section 103(a) of the Code, issued by any state or political subdivision or municipal corporation which are rated "Aa2" or better by Moody's, and if such obligations have a short-term rating, the rating is in one of the two highest rating categories designated by Moody's. Obligations described in items (g), (h) and (i) of this definition will be valued at the average of the bid and asked price as reported the previous Business Day by *The Wall Street Journal* (but if such information is unavailable, such obligations will be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Authority);

(j) commercial paper rated "P1" by Moody's and which matures not more than 270 days after the date of issuance provided that the issuer's senior unsecured debt is rated "Aa" or better by Moody's. Such obligations will be valued at par;

(k) a collective investment fund which meets the Investment Rating that is created as provided by Regulation 9 of the Office of the Comptroller of the Currency and that is invested in the items described in (a), (c) and (e) above; and

(l) any other investment allowed by law and approved in writing in advance by Moody's. Such obligations will be valued at par.

Notwithstanding the foregoing, investments described in subparagraphs (j), (k) and (l) above will not include any "margin security" as such term is defined in Regulation T of the Board of Governors of the Federal Reserve System or any "margin stock" as such term is defined in Regulation G, U or X of the Board of Governors of the Federal Reserve System.

"*Issue Date*" means the date a Series of Bonds is delivered to the initial purchasers in exchange for the purchase price of the Series of Bonds.

"*Liquidity Facility*" means any facility designed to provide for the payment of the purchase price of any Adjustable Rate Bonds upon tender thereof.

"*Liquidity Provider*" means the issuer of a Liquidity Facility.

“*Moody’s*” means Moody’s Investors Service, a Delaware corporation, its successors and assigns.

“*Net Revenues*” means all payments, proceeds, charges and other income received by the Trustee from or on account of any Student Loan (including scheduled, delinquent and advance payments of and any insurance proceeds with respect to interest (including Interest Subsidy Payments) on any Student Loan and any Special Allowance Payment received by the Trustee with respect to any Student Loan) and all interest earned or gain realized from the investment of amounts in the Funds and Accounts, and all payments received by the Authority pursuant to an Interest Rate Exchange Agreement, less amounts due and owing the Indenture Agents.

“*Opinion of Bond Counsel*” means a written opinion from an attorney or firm of attorneys of recognized standing with respect to the tax status of obligations of municipal, state and public agencies, selected by the Authority.

“*Opinion of Counsel*” means a written opinion of an attorney at law or sum of attorneys selected by the person obliged to deliver an opinion on the subject in question, reasonably acceptable to the person who is to receive the same, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“*Outstanding*” when used with reference to Bonds, will mean, as of any date, all Bonds, including any Bonds held in custody for the benefit of any Credit Provider, theretofore or thereupon being authenticated and delivered under the Indenture except:

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

(b) on or after any purchase date for Bonds subject to tender pursuant to the provisions of any Supplemental Indenture, all Bonds or portions thereof (excluding any Bonds held in custody for the benefit of any Credit Provider) which are tendered or deemed to have been tendered for purchase, provided that moneys sufficient for such purchase are on deposit with the Trustee or the Tender Agent;

(c) any Bond in lieu of or in substitution for which other Bonds will have been authenticated and delivered pursuant to the Indenture; and

(d) any Bond paid or deemed to have been paid as provided in the section regarding Defeasance in the Indenture.

“*Paying Agent*” means the Trustee or any other commercial bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the Indenture.

“*Principal Installment*” means, as of any date of calculation, (a) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would have been retired by such future date by reason of the payment when due and application in accordance with the Indenture of Sinking Fund Payments payable before such certain future date, plus (b) any Sinking Fund Payments due on such certain future date, plus (c) the principal component of the Redemption Price of the Bonds then having been called for redemption on such certain future date.

“Program Expenses” means (a) the fees and expenses of each Indenture Agent; (b) the fees and expenses of any remarketing agent then acting under a Supplemental Indenture with respect to Adjustable Rate Bonds; (c) the fees and expenses of a Credit Provider or a Liquidity Provider following the date of issuance of any Class or Series of Bonds for which a Credit Facility or Liquidity Facility is in place; (d) the fees of the Servicer under any servicing agreement; (e) the fees and expenses of the Authority incurred in connection with the preparation of Opinions of Counsel and Opinions of Bond Counsel and other authorized reports or statements attributable to the Bonds and the Student Loans acquired under the Indenture; (f) transfer fees, purchase premiums and loan origination fees on Student Loans held by the Authority and acquired under the Indenture (or by the Trustee on behalf of the Authority); (g) fees and expenses associated with the delivery of a substitute Credit Facility or Liquidity Facility under a Supplemental Indenture; (h) fees and expenses associated with (but not payments under) an Interest Rate Exchange Agreement; (i) the costs of remarketing any of the Adjustable Rate Bonds, which costs will be limited to (i) fees and expenses of the financial advisors to the Authority in connection with a remarketing, (ii) the fees and expenses of attorneys representing the parties in connection with a remarketing (excluding the attorneys for the Credit Provider), (iii) the cost of printing in connection with a remarketing, (iv) the fees and expenses of accountants in connection with a remarketing, (v) the fees of any Rating Agency then rating the Bonds, (vi) travel expenses of officers and directors of the Authority incurred in connection with a remarketing of Adjustable Rate Bonds and the related proceedings taken by the Authority, and (vii) miscellaneous reasonable and customary expenses, in each case, as such costs were incurred; and (j) expenses incurred for the Authority’s maintenance and operation of its Student Loan Program as a direct consequence of the Indenture, the Bonds or the Eligible Student Loans acquired by the Authority under the Indenture; including the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants and other professionals, attributable to such maintenance and operation. Program Expenses will not include Costs of Issuance.

“Purchase Date” means any date established for the mandatory or optional tender of Adjustable Rate Bonds, established in accordance with the terms of the applicable Supplemental Indenture.

“Purchase Price” means the price due to a tendering Owner of any Adjustable Rate Bond issued under the Indenture, being the principal amount thereof, plus interest accrued at the applicable rate or rates to the Purchase Date.

“Rating Agency” means Moody’s and any other nationally recognized securities rating agency to the extent such agency has issued and continues to maintain a rating on such Bonds at the time in question at the request of the Authority. Neither all Bonds issued under the Indenture, nor all Classes of Bonds that may be issued within a certain Series of Bonds, nor all Bonds within a given Class, need be rated by the same rating agency or agencies.

“Rating Confirmation” means a letter from each Rating Agency then providing a rating for particular Bonds, confirming that the action proposed to be taken by the Authority will not, in and of itself, have the effect of reducing or withdrawing the rating then applicable to any Bonds.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, and interest accrued or accreted to the redemption date established for such Bond.

“Refunding Series 2003 Bonds” means the Series 2003A-1 Bonds, the Series 2003A-2 Bonds and the Series 2003B Bonds.

“Regulations” means the regulations adopted from time to time either by the Secretary pursuant to the Higher Education Act or by any Guarantor.

“*Reimbursement Agreement*” means any reimbursement or similar agreement by and between the Authority and any Credit Provider or Liquidity Provider with respect to a particular Series or Class of Bonds.

“*Revenues*” means all payments, proceeds, charges and other income received by the Trustee from or on account of any Student Loan (including scheduled, delinquent and advance payments of and any insurance proceeds with respect to, interest (including Interest Subsidy Payments) on any Student Loan and any Special Allowance Payment received by the Trustee with respect to any Student Loan) and all interest earned or gain realized from the investment of amounts in the Funds and Accounts, and all payments received by the Authority pursuant to an Interest Rate Exchange Agreement.

“*Second Supplemental Indenture*” means the Second Supplemental Indenture entered into between the Authority and the Trustee dated as of March 1, 2002, under which the Series 2002 Bonds were issued.

“*Secretary*” means the Secretary of the United States Department of Education.

“*Series*” means all of the Bonds authenticated and delivered upon original issuance in a simultaneous transaction, pursuant to the same Supplemental Indenture and designated as a Series in such Supplemental Indenture regardless of variations in maturity, interest rate, Class, Sinking Fund Payments or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture. For purposes of determining Rebatable Arbitrage, Excess Interest, and the permissible Yield on Investments in the Restricted Yield and Acquisition Funds, however, a Series means all of the Bonds authenticated and delivered upon original issuance in a simultaneous transaction or within 31 days, whether they are designated as the same Series in the Supplemental Indenture.

“*Series 1993 Bonds*” means the Series 1993A Bonds, the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds, collectively, issued under the Indenture.

“*Series 2002 Bonds*” means the Series 2002A-1 Bonds, the Series 2002A-2 Bonds, the Series 2002A-3 Bonds and the Series 2002B Bonds, collectively, issued under the Indenture.

“*Series 2003 Bonds*” means the Refunding Series 2003 Bonds and the Taxable Series 2003 Bonds.

“*Series 2003-2 Bonds*” means the Series 2003-2A-1 Bonds, the Series 2003-2A-2 Bonds and the Series 2003-2B Bonds, collectively, issued under the Indenture.

“*Series 2003-2A-1 Bonds*” means the Authority’s Student Loan Revenue Bonds, Series 2003-2A-1, issued under the Indenture.

“*Series 2003-2A-2 Bonds*” means the Authority’s Student Loan Revenue Bonds, Series 2003-2A-2, issued under the Indenture.

“*Series 2003-2B Bonds*” means the Authority’s Student Loan Revenue Bonds, Series 2003-2B, issued under the Indenture.

“*Servicer*” means Higher Education Servicing Corporation, a nonprofit corporation, or any successor designated in a Supplemental Indenture.

“*Servicing Agreement*” means that certain Servicing Agreement dated as of May 1, 1993 among the Trustee, the Authority and the Servicer, under which the Servicer has agreed to service Student Loans in the Trust Estate.

“*Sinking Fund Payment*” means, as of any particular date of calculation, the amount required to be paid by the Authority on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Authority by reason of the maturity of a Bond or by call for redemption at the election of the Authority.

“*Special Allowance Payments*” means certain incentive payments received by the Authority pursuant to the Higher Education Act.

“*State*” means the State of Texas.

“*Student Loan*” means any Eligible Loan made or acquired by the Authority and held in the Trust Estate.

“*Student Loan Purchase Agreement*” means an agreement to sell Eligible Loans to the Authority, executed by the seller, the Trustee and the Authority, and substantially in the form set forth in the Servicing Agreement, as the same may be amended from time to time.

“*Subservicer*” means, initially, Educational Services of America, Inc., Nelnet, Inc., or any additional subservicer or successor as subservicer selected by the Servicer, with prior written notice to the Rating Agency and a Rating Confirmation.

“*Supplemental Indenture*” means any Indenture supplemental to or amendatory of the General Indenture, executed by the Authority and the Trustee and effective in accordance with the General Indenture.

“*Taxable Series 2003 Bonds*” means the Series 2003A-3 Bonds.

“*Third Supplemental Indenture*” means the Third Supplemental Indenture entered into between the Authority and the Trustee dated as of January 1, 2003, under which the Series 2003A-1, Series 2003A-2 and Series 2003B Bonds were issued.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

This summary is qualified in all respects by reference to the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, which contain complete descriptions of all the terms and conditions pursuant to which Series 2003-2 Bonds are issued. The General Indenture creates a Trust Estate for the Bonds, including the Series 2003-2 Bonds. Copies of the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture are available from the Trustee. Capitalized terms not otherwise defined herein have the meanings set forth in the General Indenture, the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture or the Fifth Supplemental Indenture.

ESTABLISHMENT OF FUNDS AND ACCOUNTS

The Indenture provides for the establishment of, among other funds and accounts, the following Funds and within such Funds, Accounts, which are to be held by the Trustee and maintained in accordance with the provisions of the Indenture:

- (a) Student Loan Fund;
- (b) Revenue Fund, and within such Fund, a Series 1993 Account (which contains a Refunding Series 2003 Subaccount, a Taxable Series 2003 Subaccount and a Series 2003-2 Subaccount) and a Series 2002 Account;
- (c) Restricted Yield Fund;
- (d) Debt Service Reserve Fund; and
- (e) Acquisition Fund, and within such Fund, a Series 2003-2 Account.

The Trustee may establish such other Funds, and within such Funds, Accounts, as it may determine to be necessary or convenient to facilitate the administration of the Trust Estate.

The Rebate Fund, Excess Interest Fund, Purchase Fund and the Operating Fund referred to in the Indenture are outside of the Trust Estate, and are not available to pay Debt Service on the Bonds.

Student Loan Fund

The Trustee will credit all Student Loans transferred to the Trustee from other trust estates of the Authority, and all Eligible Loans purchased from lenders or made by the Authority (the latter being consolidation loans) to the Student Loan Fund. The Student Loan Fund will hold only Student Loans and no other assets of any kind whatsoever.

Student Loans held under the Indenture will be sold by the Trustee free from the lien of the Indenture at any time if the Trustee is provided: (a) an Authority Order stating the sale price and directing that Student Loans be sold and delivered to an eligible lender under the Higher Education Act whose name must be specified or the trustee under another indenture securing bonds issued by the Authority or another higher education authority whose name will be specified in such Authority Order; (b) a Certificate signed by the Authority to the effect described under the Section of this Appendix B titled "COVENANTS—Student Loan Program," if required; and (c) the purchase price. The Trustee will apply such purchase price in accordance with the requirements under the Revenue Fund.

Notwithstanding the foregoing, the Authority may not direct the Trustee to sell Student Loans if such sale would have an adverse effect on the exclusion from gross income of interest on the Bonds (other than Federally Taxable Bonds) for federal income tax purposes and the Trustee must receive a Favorable Opinion prior to such sale.

All Student Loans acquired with the proceeds of a Series of Bonds are required to be recorded on the books of the Authority as relating to the Series of Bonds, the proceeds of which financed the purchase price of such Student Loans. Student Loans identified as relating to a Series of Bonds may be designated on the books of the Authority as relating to a Series of Bonds different from that Series of Bonds to which such Student Loan originally related, provided that such Student Loan is transferred in consideration of a payment equal to the outstanding principal of, accrued interest and unamortized premium on such Student

Loan. Such payment is required to be deposited to the subaccount of the Restricted Yield Fund pertaining to such Series of Bonds or the subaccount of the Revenue Fund pertaining to such Series of Bonds.

Acquisition Fund

The Trustee will deposit to the Series 2003-2 Account of the Acquisition Fund the amounts set forth in the Fifth Supplemental Indenture. Moneys in the Series 2003-2 Account of the Acquisition Fund will be used to acquire Eligible Loans. In the event of a deficiency in the Revenue Fund and Restricted Yield Fund, moneys in the Acquisition Fund may be used to pay principal and interest on the Bonds, to reimburse a Credit Provider or Liquidity Provider, or to pay Program Expenses.

Revenue Fund

The Trustee is required to deposit in the Revenue Fund the amounts described in any Supplemental Indenture, any other amounts deposited thereto on Authority Order, and all Revenues, including earnings on amounts in the Funds and Accounts, except as specified in the General Indenture, all payments of principal and interest, Special Allowance Payments, if any, together with any tuition refunds, repurchase payments from sellers, funds transferred to the Trustee from the Servicer's or Subservicers' separate bank accounts maintained pursuant to any servicing agreement, insurance and guaranty payments and proceeds from the sale of Student Loans. Money in the Revenue Fund will be kept separate and apart from all other Funds.

The Indenture provides for a Series 1993 Account (and within such Account, a Refunding Series 2003 Subaccount, a Taxable Series 2003 Subaccount and a Series 2003-2 Subaccount) and a Series 2002 Account.

The Trustee is required to deposit to the Series 2003-2 Subaccount of the Revenue Fund the following:

- (a) All Revenues allocable to Eligible Student Loans acquired with the proceeds of the Series 2003-2 Bonds; and
- (b) Any other amounts deposited thereto upon Authority Order or transferred from any other Account of the Revenue Fund pursuant to the last paragraph of this section captioned "Revenue Fund."

Money in the Series 2003-2 Account of the Revenue Fund will be used to pay Costs of Issuance upon Authority Order and to make the following disbursements, in the following order of priority, on any Interest Payment Date:

- (a) to pay the Auction Agent Fees and Broker-Dealer Fees then due;
- (b) to make a transfer to the Operating Fund in an amount equal to Program Expenses allocable to the Series 2003-2 Bonds for the coming month;
- (c) to pay the interest and principal on the Series 2003-2 Bonds then due and payable by Class in Descending Order of Priority and to make payment on any amounts due on an Interest Rate Exchange Agreement on a parity with Class II Bonds;
- (d) to make a deposit to the Debt Service Reserve Fund to the extent needed to make the balance in such fund equal to the Debt Service Reserve Requirement;

(e) Prior to April 1, 2006, as such date may be extended pursuant to the Fifth Supplemental Indenture, all remaining amounts in the Series 2003-2 Account of the Revenue Fund may be used to acquire Eligible Student Loans which will be held in the Student Loan Fund and identified as being allocable to the Series 2003-2 Bonds, and, thereafter, all remaining amounts in the Series 2003-2 Subaccount of the Revenue Fund will be used to redeem Bonds in accordance with the Fifth Supplemental Indenture, unless the Authority has obtained a Rating Confirmation permitting it to use the remaining proceeds in the Revenue Fund to purchase Eligible Loans, make a transfer to the Operating Fund as provided in subsection (f) below, or otherwise; and

(f) At the option of the Authority, upon an Authority Order, to make a transfer to the Operating Fund for withdrawal by the Authority, but only to the extent that there is Excess Coverage.

In the event of a deficiency in any Account or Subaccount of the Revenue Fund which would cause the Trustee to be unable to pay any amount authorized to be paid from such Account or Subaccount of the Revenue Fund (excluding amounts used to pay Costs of Issuance or used to purchase or make Eligible Loans) after utilizing the Restricted Yield Fund for such purposes, then the Trustee is required to transfer sufficient funds to make such payments from the other Accounts or Subaccounts of the Revenue Fund; provided, however, in no event will interest or principal then due on any Bond (or Interest Rate Exchange Agreement) be paid if all interest and principal then due on Bonds of a higher Class (or Interest Rate Exchange Agreement relating to a Higher Class) have not been paid.

Restricted Yield Fund

The Indenture establishes a Restricted Yield Fund in which the Trustee will deposit all amounts required to be transferred thereto from the Series 1993 Account of the Revenue Fund or the Refunding Series 2003 Subaccount of the Revenue Fund and all amounts transferred from any other trust estate of the Authority. Money in the Restricted Yield Fund will be invested in the manner set forth in the Indenture. Money in the Restricted Yield Fund, in addition to other uses, may be transferred to the Authority if there is Excess Coverage on deposit under the Indenture and a Rating Confirmation has been obtained.

Debt Service Reserve Fund

The Trustee has deposited and will deposit in the Debt Service Reserve Fund, from the proceeds of the Series 1993 Bonds, the Series 2002 Bonds and the Series 2003-2 Bonds, the Debt Service Reserve Requirement, any further additions thereto if Additional Bonds are issued, and any transfers thereto from the Revenue Fund or Restricted Yield Fund. To the extent moneys on deposit in the Debt Service Reserve Fund exceed the Debt Service Reserve Requirement, as required under a Supplemental Indenture, the Authority will by Authority Order direct the Trustee to transfer such excess, and all earnings thereon, to the Restricted Yield Fund.

Moneys in the Debt Service Reserve Fund are required to be used to pay principal and interest on the Bonds and to reimburse a Credit Provider for a drawing on its Credit Facility or a Liquidity Provider for a drawing on its Liquidity Facility, to the extent there are insufficient moneys in the Revenue Fund, Restricted Yield Fund and Acquisition Fund. Amounts on deposit in the Debt Service Reserve Fund will be applied in conjunction with the final payment of the principal of and interest on the last Outstanding Bonds.

Operating Fund

The Operating Fund is not part of the Trust Estate and moneys therein are not available to pay Debt Service on the Bonds.

The Authority is entitled to withdraw quarterly in advance and as needed, in accordance with the Indenture, moneys from the Revenue Fund, Restricted Yield Fund and Acquisition Fund to pay Program Expenses. Pending disbursement of the moneys to pay Program Expenses, the Authority will cause moneys to be deposited in a bank account of its selection designated as the "Operating Fund." The Operating Fund will be used to pay Program Expenses of the Student Loan Program.

The amount deposited in the Operating Fund by transfer from the Revenue Fund and, if necessary, from the Restricted Yield or Acquisition Funds, and the schedule of deposits will be determined by the Authority, but Program Expenses expended in any one fiscal year will not exceed the amount budgeted by the Authority as Program Expenses for such fiscal year with respect to the Bonds.

Investment of Funds

The Trustee will invest money held for the credit of any Fund held by the Trustee hereunder as directed in writing (or orally, confirmed in writing) by the Authority or its designee, to the fullest extent practicable and reasonable, but only in Investment Securities which will mature or be redeemable at the option of the holder, in any event, prior to the respective dates when the money held for the credit of such Fund will be required for the purposes intended and in accordance with the investment and maturity limitations set forth in the Indenture.

The Investment Securities purchased will be held by the Trustee and will be deemed at all times to be part of such Fund or combination of Funds, and the Trustee will inform the Authority of the details of all such investments. The Trustee will use its best efforts to sell or present for redemption any Investment Securities purchased by it as an investment whenever it will be necessary to provide money to meet any payment from the applicable Fund.

Notwithstanding the foregoing, the Trustee will not be responsible or liable for any losses on investments made by it or sold by it under the Indenture or for keeping all Funds held by it fully invested at all times, its only responsibility being to comply with the investment instructions of the Authority or its representative in a non-negligent manner and to invest in Investment Securities.

The Trustee will determine the cash available in the Funds and Accounts established under the Indenture on the Business Day which is on or prior to the five Business Days prior to any Bond Payment Date. If at such time, the Trustee determines that the available moneys in the Funds and Accounts established with it are insufficient for the respective purpose for which the Funds and Accounts were established, taking into consideration the obligations of payment from each Fund or Account as of such Bond Payment Date, the Trustee will so notify the Authority or its agent, and, after the expiration of two Business Days, unless otherwise directed, the Trustee may sell, to the extent possible on the open market, an amount of Investment Securities as may be required to meet such deficiency or anticipated deficiency and due notice of such sale will be given to the Authority and each Credit Provider within 15 calendar days after making such sale, and the Trustee will not be liable for any loss resulting from such sale.

When reference is made to the amount on deposit or required to be on deposit at any one time in any Fund established under the Indenture, such reference will include (a) cash on deposit in such fund and (b) the value of Investment Securities held in such fund.

COVENANTS

The Authority has covenanted and agreed with the Trustee and the Owners of the Bonds as follows:

Student Loan Program

The Authority has made the following specific covenants regarding its Student Loan Program:

(a) It will at all times permit only an eligible lender under the Higher Education Act to act as Trustee under the Indenture; that it will cause the Trustee to acquire and hold Student Loans (and a security interest therein) in its own name as Trustee under the Indenture and in the capacity of an eligible lender; that it will not cause or permit the Trustee to dispose of or deliver any Student Loans or any security interest in any such Student Loans to any party who is not an eligible lender so long as the Higher Education Act or Regulations require an Eligible Lender to be the owner or holder of Student Loans.

(b) It will cause the Trustee to maintain the “Lender Participation Agreement,” “Agreement to Participate” and the “Contract of Insurance” required under the “Student Loan Program” (as such terms are defined in the Higher Education Act), and, through the Trustee, will materially and diligently enforce its rights thereunder, and will not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection therewith which in any manner will adversely affect the rights of the Owners and any Credit Provider or Liquidity Provider.

(c) It will, or through its Servicer and Subservicers will, diligently collect all principal and interest payments on all the Student Loans held under the Indenture (except to the extent loans are forgiven in lieu of making payments of Excess Interest to the federal government), and all Interest Subsidy Payments, insurance and guarantee claims and Special Allowance Payments, if any, which relate to such Student Loans. The Authority, or through its Servicer or Subservicers, will cause the filing and assignment of such claims (within the time prescribed by the Higher Education Act and the Regulations) by the Trustee. The Authority will comply with the Higher Education Act and the Regulations, which apply to the Student Loan Program and to such Student Loans.

(d) No amount in the Acquisition Fund, the Revenue Fund or the Restricted Yield Fund will be expended or applied for the purpose of financing an Eligible Student Loan, and no Eligible Student Loan will be financed under the Indenture, 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 such Eligible Student Loan) the Authority has determined that:

(i) the payment of the principal of and interest on the Eligible Student Loan is either (A) insured by the Secretary as evidenced by a certificate of insurance issued under the provisions of the Higher Education Act, or (B) guaranteed by a Guarantor and the Secretary is required, at the time of financing, by the Higher Education Act to reimburse such Guarantor in accordance with the Higher Education Act for amounts expended by such Guarantor in discharge of its insurance obligation on such Eligible Student Loan;

(ii) the interest rate on such Eligible Student Loan at the time of acquisition is the maximum rate of interest then permitted under the Higher Education Act, as evidenced by its related promissory note (unless the Authority accepts a lower interest rate after the Authority delivers a Rating Confirmation to the Trustee prior to instituting the authorization for such lesser charges under the Student Loan Program); and

(iii) the Eligible Student Loan is subject to being repurchased by the seller if such Eligible Student Loan does not comply with the standards of the Authority under its Student Loan Purchase Agreements.

(e) It will duly and properly service all Student Loans and enforce the payment and collection of all payments of principal and interest (except to the extent loans are forgiven in lieu of making payments of Excess Interest to the federal government) or will cause such servicing to be done by the Servicer or any successor Servicer evidencing, in the judgment of the Authority, the capability and experience necessary to adequately service Eligible Student Loans in accordance with regulations issued under the Higher Education Act, provided a Servicer may contract out part of its duties.

(f) All moneys deposited into the Acquisition Fund on the Issue Date for the Series 2003-2 Bonds will be applied on or before April 1, 2004, to the acquisition of Eligible Loans, except that such date may be extended if a Rating Confirmation is obtained. Student Loans will not be purchased after April 1, 2006, except that such date may be extended if a Rating Confirmation is obtained.

The Authority may at any time sell, assign, transfer or otherwise dispose of a Student Loan at a price (i) in excess of the principal amount thereof (plus accrued borrower interest) or in excess of the purchase price paid by the Authority for such Student Loan (less principal amounts received with respect to such Student Loan); (ii) equal to the principal amount thereof (plus accrued borrower interest), when the amounts on deposit in the Funds and Accounts and the Student Loans in the Student Loan Fund, are at least equal to the principal amount of the Outstanding Bonds plus accrued interest or in order to pay current Debt Service on the Bonds or to avoid any default in the payment obligations of the Authority under any Reimbursement Agreement or otherwise; or (iii) lower than the principal amount thereof (plus accrued borrower interest) when the Authority delivers to the Trustee and the Credit Provider a Rating Confirmation.

The Authority may exchange with any purchaser one or more Eligible Student Loans for one or more Eligible Loans (of approximately the same aggregate principal amount and accrued interest) of a borrower who is the obligor on other Eligible Student Loans. The Authority may at any time and from time to time exchange Eligible Student Loans for other Eligible Student Loans having an aggregate principal amount and interest rate not less than the aggregate principal amount and interest rate of the Eligible Student Loans being exchanged, for the purpose of consolidating Student Loans of a single borrower within one indenture.

Program Expenses under the Indenture are limited to the amounts set forth in the Closing Cash Flow Projection, although the Authority may increase Program Expenses beyond such limit with a new Cash Flow Certificate, a Rating Confirmation, and compliance with any requirements contained in a Reimbursement Agreement, if any.

Accounts and Reports

The Authority has covenanted to keep or cause to be kept, proper books of record and account in which complete and accurate entries will be made of all of its transactions relating to the Student Loans and all Funds established by the Indenture which will at all reasonable times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 25% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing. The Authority will annually, within 120 days after the close of each fiscal year, file with the Trustee and Moody's audited financial statements for such fiscal year.

Compliance with Reimbursement Agreements

The Authority has covenanted to comply with the conditions of any Reimbursement Agreement with a Credit Provider or Liquidity Provider and that such agreement will control in the event of any conflict with the Indenture, if it restricts the rights and powers of the Authority to a greater extent than the Indenture.

SUPPLEMENTAL INDENTURES NOT REQUIRING THE CONSENT OF OWNERS

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture not requiring the consent of Owners but requiring the consent of each Credit Provider or Liquidity Provider, if the applicable Reimbursement Agreement so requires, may be executed and delivered by the Authority and the Trustee for the following purposes:

- (a) to close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (b) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (d) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture;
- (e) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the Net Revenues or of any other revenues or assets;
- (f) to modify any of the provisions of the Indenture in any respect whatever, but only if (i) such modification will be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Indenture will cease to be Outstanding, and (ii) such Supplemental Indenture will be specifically referred to in the text of all Bonds authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(g) to authorize the issuance of one or more Series of Bonds and to prescribe the terms and conditions upon which such Bonds may be issued;

(h) to create additional special trust accounts for the further securing of all Bonds or all Bonds of a Class or Series issued pursuant to the Indenture if along with such Supplemental Indenture there is filed an Opinion of Bond Counsel to the effect that the creation and operation of such account will in no way impair the existing security of the Owner of any Outstanding Bond;

(i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the Indenture;

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

(k) to provide for additional duties of the Trustee in connection with the Student Loans;

(l) to satisfy the requirements of a Rating Agency in order to obtain, maintain or improve the rating on any of the Bonds;

(m) to provide for the orderly sale or remarketing of Bonds;

(n) to make any other change which, in the judgment of the Trustee acting in reliance on an Opinion of Bond Counsel is necessary or desirable to maintain the tax status of the Bonds (other than Federally Taxable Bonds);

(o) to make any change which, in the judgment of the Trustee acting in reliance upon an Opinion of Counsel, to the extent the Trustee deems such opinion desirable, is not to the prejudice of the Trustee or the Owners; or

(p) to make any change that affects only the rights of a Credit Provider or Liquidity Provider which has issued a Credit Facility or Liquidity Facility with respect to any of the Bonds, with the prior written consent of such Credit Provider or Liquidity Provider.

SUPPLEMENTAL INDENTURES EFFECTIVE UPON CONSENT OF OWNERS

Except for the supplemental indentures which may be issued without Owner consent, as described in the preceding section, any modification of or amendment to the Indenture and of the rights and obligations of the Authority, a Credit Provider or Liquidity Provider under a Supplemental Indenture, and of the Owners of the Bonds of any particular Series, may be made by a Supplemental Indenture, with the written consent: (a) of the Owners of 51% in principal amount of the Bonds by Class in Descending Priority Outstanding at the time such consent is given; (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least 51% in aggregate principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; and (c) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the Owners of at least 100% in principal amount of the Bonds of the particular Class, Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given.

In the event that a Credit Provider has issued a Credit Facility or a Liquidity Provider has issued a Liquidity Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Credit Provider or Liquidity Provider is then in receivership, bankruptcy, or reorganization or is then continuing wrongfully to dishonor drawings under the Credit Facility or Liquidity Facility, the Credit Provider or, in the event there is no Credit Provider, the Liquidity Provider will be considered as the Owner of 100% of such Series of Bonds or Class within that Series of Bonds for the purpose of consenting to any modification of or amendment to the Indenture, if so required by the applicable Reimbursement Agreement.

If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds.

No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond 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 Owner of such Bond (which consent will not be deemed to be effected by a Credit Provider or Liquidity Provider), or will 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 will change or modify any of the rights or Obligations of any Indenture Agent without its written assent thereto. For the purposes of this paragraph, a Series will be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment and any such determination will be binding and conclusive on the Authority, any Credit Provider or Liquidity Provider, and all Owners of Bonds.

EVENTS OF DEFAULT

Each of the following events is an “Event of Default”:

- (a) payment of the principal, purchase price or Redemption Price, if any, on any Bond when and as the same becomes due, whether at maturity or upon call for redemption or otherwise, is not made; or
- (b) payment of any installment of interest on any of the Bonds is not made when and as the same becomes due; or
- (c) the Authority fails or refuses to comply with the provisions of the Indenture, or defaults in the performance or observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or the Bonds, other than those described in (a) or (b) above and such failure, refusal or default continues for a period of 45 days after written notice thereof has been delivered to the Authority by the Trustee or the Owners of not less than 25% in principal amount of the Outstanding Bonds; or
- (d) with respect to any Series of Bonds, any Event of Default pursuant to the Supplemental Indenture authorizing such Series occurs; or
- (e) with respect to any Series of Bonds secured by a Credit Facility or Liquidity Facility, the related Credit Provider or Liquidity Provider delivers written notice to the Trustee to

the effect that the Authority has failed to reimburse or otherwise pay such Credit Provider or Liquidity Provider pursuant to the terms of its Reimbursement Agreement as and when such reimbursement or payment becomes due and payable, and pursuant to the terms of the applicable Reimbursement Agreement, it is requiring that such Bonds be accelerated.

Remedies

Upon the occurrence and continuance of any Event of Default specified in paragraphs (a), (b) or (e) of “Events of Default” above, the Trustee will promptly notify the Authority, the Credit Provider, any Liquidity Provider, any counterparty to an Interest Rate Exchange Agreement and each Indenture Agent of the existence of such Event of Default and is required to proceed in its own name to protect and enforce the rights of the Owners by such of the following remedies, as the Trustee, being advised by counsel will deem most effective to protect and enforce such rights. Upon the occurrence and continuance of an Event of Default specified in paragraphs (c) or (d), the Trustee will promptly notify the Authority, the Credit Provider, any Liquidity Provider, any counterparty to an Interest Rate Exchange Agreement and each Indenture Agent of the existence of such Event of Default and may (or, if instructed by the Owners of Bonds of the requisite class and principal amount will) proceed in its own name, subject to the provisions of the Indenture, to protect and enforce the rights of the Owners by such of the following remedies, as the Trustee, being advised by counsel, will deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners, including the right to require the Authority to carry out the covenants and agreements as to, and the assignment of, the Student Loans and to require the Authority to carry out any other covenants or agreements with Owners and to perform its duties as prescribed by law;

(b) by bringing suit upon the Bonds;

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

(d) 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

(e) upon the occurrence of an Event of Default specified in paragraphs (a) or (b) or (e) of “Events of Default” above, the Trustee will if such Event of Default occurs with respect to the most senior Class of Bonds then Outstanding, and in the case of any Event of Default specified in (c) or (d), the Trustee may, upon the written direction of the Owners of Bonds of the requisite Class and principal amount, after written notice to the Authority, to the extent required by law, declare the principal of the most senior Class of the Bonds then Outstanding to be immediately due and payable, whereupon the principal and the accrued interest on such Bonds will, without further action, become and be immediately due and payable. If all defaults have been cured, then, the Trustee may annul such declaration and its consequences; provided each Credit Facility or Liquidity Facility for the Bonds previously in effect is fully reinstated and in full force and effect.

If Bonds secured by a Credit Facility are accelerated, the Trustee will make a drawing on the Credit Facility concurrently with such acceleration for the principal and accrued interest on such Bonds then due. Such drawing will be made notwithstanding any right of the Credit Provider to control

remedies provided in the Indenture, and the Trustee will not require any indemnity for making such drawing.

In the enforcement of any rights and remedies under the Indenture, the Trustee will 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 Authority for principal, interest or otherwise, under any provisions of the Indenture 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 Owners, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pretrial, trial and appellate attorney fees), and to collect from the Authority any moneys adjudged or decreed to be payable, provided, however any recovery against the Authority is limited to the Trust Estate.

Upon the occurrence of any Event of Default, and on the filing of suit or other commencement of judicial proceedings to enforce the rights of the Owners under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and of the assets of the Authority relating to the Student Loan Program, pending such proceedings, with such powers as the court making such appointment will confer.

Except upon the occurrence and during the continuance of an Event of Default under the Indenture, the Authority expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Indenture, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Student Loans and the proceeds of any collections therefrom, and neither the Trustee nor any Owner will in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

In the selection of Trust Estate assets to be used in the payment of Bonds (whether upon default, redemption or mandatory tender) or the payment of Trust Estate obligations to any Credit Provider or Liquidity Provider (except as provided in the following sentence) the Authority will determine, in its absolute discretion, and will instruct the Trustee by Authority Order, which Trust Estate assets will be applied to such payment and will not be liable to any Owner or Credit Provider or Liquidity Provider by reason of such selection and application. In the event that the Authority fails to deliver to the Trustee such Authority Order, the Trustee will select and liquidate or sell Trust Estate assets as provided in the following paragraph, and will not be liable to any Owner, Credit Provider, Liquidity Provider or the Authority by reason of such selection, liquidation and sale.

Whenever moneys are to be applied, irrespective of and whether other remedies authorized under the Indenture will have been pursued in whole or in part, the Trustee may cause any or all of the assets of the Trust Estate to be sold. The Trustee may so sell the assets of the Trust Estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, in one or more parts, at any such place or places, and at such time or times and upon such notice and terms as the Trustee may deem appropriate and as may be required by law and apply the proceeds thereof in accordance with the provisions of this Section. Upon such sale, the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale will be a perpetual bar both at law and in equity against the Authority, each Credit Provider, each Liquidity Provider, the Owners and all other persons claiming such properties. No purchaser at any sale will be bound to see to the application of the purchase money proceeds thereof or to inquire as to the authorization, necessity, expediency or regularity of any such sale. Nevertheless, if so requested by the Trustee, the Authority will ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or

purchasers all such instruments as may be necessary or, in the judgment of the Trustee, proper for the purpose which may be designated in such request.

To the extent that funds are not otherwise available to pay amounts due to a Credit Provider or Liquidity Provider under its Reimbursement Agreement, and unless otherwise provided in a Supplemental Indenture, the Trustee, at the request and in the sole discretion of the Authority, will convey or sell and deliver Student Loans purchased with assets of the Trust Estate to the Credit Provider in partial or complete satisfaction of such obligations of the Authority, subject to the acceptance of such Student Loans by the Credit Provider or Liquidity Provider at a purchase price equal to the principal outstanding plus accrued interest and accrued Special Allowance Payments.

Direction of Proceedings

Whenever it is provided in the Indenture that the Owners of the Bonds will enjoy certain rights, be permitted to exercise certain remedies or to direct the Trustee to take certain actions, the following provisions will control. Upon the occurrence of an Event of Default described in (c) or (d), under “Events of Default,” the Owners of not less than 100% in principal amount of the Bonds of the most senior Class then Outstanding, or, upon the occurrence of an Event of Default described in (a), (b) or (e) under “Events of Default,” the Owners of the majority of the principal amount of the Bonds of the most senior Class then Outstanding, will have the right to direct the Trustee to take all or any of the actions described under the caption “Remedies.” In the event that such Owners have previously given to the Trustee notice of an Event of Default and have afforded the Trustee a reasonable opportunity, following the offer to the Trustee of security and indemnity satisfactory to it against the fees, costs, expenses and liabilities to be incurred therein or thereby, either to proceed to exercise the powers granted in the Indenture, or to pursue a remedy described therein, and the Trustee has refused or neglected to comply with such request, then the Owners of the requisite percentage in principal amount of the Bonds of the most senior Class then Outstanding may exercise such rights.

In the event that a Credit Provider has issued a Credit Facility or a Liquidity Provider has issued a Liquidity Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Credit Provider or Liquidity Provider is then in receivership, bankruptcy, or reorganization or is then continuing wrongfully to dishonor drawings under the Credit Facility or Liquidity Facility, upon the occurrence of any Event of Default or any other event described below, the Credit Provider or, in the event there is no Credit Provider, the Liquidity Provider (provided amounts are owing to the Liquidity Provider under the applicable Reimbursement Agreement) will be considered as the owner of 100% of such Series of Bonds or Class within that Series of Bonds solely for the purpose of directing the actions of the Trustee. All rights and remedies described in this paragraph will apply not only following the occurrence of an Event of Default, but also following the occurrence of any event which gives rights to a Credit Provider or Liquidity Provider upon the occurrence of an event of default under the Reimbursement Agreement with that Credit Provider or Liquidity Provider. Notwithstanding anything else herein, if the Trustee receives contrary direction from the Owners, the Credit Provider and the Liquidity Provider for the same Class or Series of Bonds, it will act on the direction of the Credit Provider provided (a) the direction complies with the requirements of the Indenture (including the provisions of satisfactory indemnity); and (b) the Credit Provider is not then in receivership, bankruptcy or reorganization or continuing to dishonor wrongfully a drawing on the Credit Facility. If the conditions for direction by the Credit Provider are not met, the Trustee will act on the direction of the Liquidity Provider provided (i) the direction complies with the requirements of the Indenture (including the provisions of satisfactory indemnity); (ii) the Liquidity Provider is not then in receivership, bankruptcy or reorganization or continuing to dishonor wrongfully a drawing on the Liquidity Facility; and (iii) amounts are owing to the Liquidity Provider under the applicable Reimbursement Agreement. If the conditions for

direction by the Credit Provider and Liquidity Provider are not met, the Trustee will act on the direction of the Owners, provided the direction complies with the requirements of the Indenture.

Priority of Payments After Default

In the event that upon the occurrence and during the continuance of any Event of Default, the funds held by the Trustee and Paying Agents are insufficient for the payment of principal, Redemption Price of and interest then due on the Bonds, such funds (other than funds held for the payment of particular Bonds pursuant to the provisions in the Indenture for defeasance of Bonds or Bonds which have theretofore become due at maturity) and any other amounts received or collected by the Trustee, after providing for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or another Indenture Agent in the performance of their respective duties under the Indenture (except that no lien will attach to the proceeds of any drawing under a Credit Facility or Liquidity Facility or on any remarketing proceeds for the payment of such fees, charges and expenses), will be applied as follows:

(a) Unless the principal of all of the Bonds will have become or have been declared due and payable:

FIRST, to the payment to the persons entitled thereto of all installments of interest then due on Class I Bonds in the order of the maturity of such installments, and, if the amounts available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

SECOND, to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Class I Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Class I Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

THIRD, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class I Bonds not paid pursuant to the Indenture.

FOURTH, except as provided by Supplemental Indenture, to the payment to the persons entitled thereto of the unpaid interest, principal or Redemption Price of any Class II Bonds and of the unpaid amounts on any Interest Rate Exchange Agreements and, if the amounts available are not sufficient to pay in full all Interest Rate Exchange Agreement amounts owing and Class II Bonds due, then to the payment thereof ratably, according to the amounts due on such date, to the persons entitled thereto (interest on Class II Bonds being paid prior to principal), without any discrimination or preference.

FIFTH, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class II Bonds not paid pursuant to the Indenture.

SIXTH, to the payment to the persons entitled thereto of all installments of interest then due on Class III Bonds in the order of maturity of such installments, and, if the amount available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

SEVENTH, to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Class III Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Class III Bonds due, then to the payment thereof ratably, according to the amounts of the principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

EIGHTH, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class III Bonds not paid pursuant to the Indenture.

NINTH, to the payment to the persons entitled thereto of all installments of interest then due on Class IV Bonds in the order of the maturity of such installments, and if the amount available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

TENTH, to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Class IV Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Class IV Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

ELEVENTH, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class IV Bonds not paid pursuant to the Indenture.

TWELFTH, with respect to Bonds by Class in Descending Priority, commencing with Class V, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments (and if the amount available will not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference) and then to the payment of the unpaid principal or Redemption Price which will have become due and, if the amounts available will not be sufficient to pay such principal or Redemption Price in full, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds has become or has been declared due and payable, first to the payment of the principal and interest then due and unpaid upon the Class I Bonds without preference of priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Class I Bonds over any other Class I Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Class I Bonds; second, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class I Bonds not paid pursuant to the Indenture; third, except as otherwise provided by Supplemental Indenture, to the payment of amounts then due and unpaid upon Interest Rate Exchange Agreements and principal and interest then unpaid on any Class II Bonds, without preference of priority of principal over interest or Interest Rate Exchange Agreement amounts over principal and interest, ratably, according to the amounts due to the persons entitled thereto without any discrimination or preference; fourth, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class II Bonds not paid pursuant to the Indenture, and, finally, to the payment of the principal and interest then due and unpaid upon the remaining

Bonds by Class in Descending Priority without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of one Class over any other Bond of that same Class, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds within a Class; provided a Credit Provider or Liquidity Facility for a class of Bonds will be paid all amounts due and owing to it prior to any payment on Bonds subordinate to the Bonds secured by such Credit Facility or Liquidity Facility.

(c) If the principal of all the Bonds has been declared immediately due and payable, and if such declarations thereafter have been rescinded and annulled, then, subject to the provisions of the Indenture, the moneys will be applied in accordance with the provisions of the Indenture.

(d) With respect to any payment made under the Indenture, in the event the Bonds on which a payment is to be made are secured by a Credit Facility, payment of principal and interest on such Bonds will be made from a drawing on the Credit Facility as set forth in the Indenture and the Credit Provider will be reimbursed for the drawing in the priority given to such Bonds in paragraphs (a) and (b) above.

Whenever moneys are to be applied by the Trustee, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion determines, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, will constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Authority, to any Owner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such moneys, it will fix the date (which will be an Interest Payment Date unless the Trustee deems another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will not be required to make payment to the Owner of any unpaid Bond unless such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Limitation on Rights of Bondholders

Except as otherwise specifically provided under the caption “Events of Default-Direction of Proceedings,” no Owner of any Bond will have any right to institute any suit, action, mandamus or other proceeding in equity or at law or for the protection or enforcement of any right under the Indenture. It is understood and intended that, except as otherwise above provided, no one or more Owners of the Bonds have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right with respect to the Bonds or the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity will be instituted, had and maintained in the manner provided and for the benefit of Owners of the Outstanding Bonds.

Each Owner of any Bond by his acceptance thereof will 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 Indenture, 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 an 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 will not apply to any suit instituted by the Trustee.

Notice of Event of Default, Acceleration

The Trustee will give to all of the Owners, the Authority and each Credit Provider and Liquidity Provider notice of each Event of Default known by a trust officer in the corporate trust department of the Trustee within 90 days after actual knowledge of the occurrence thereof, unless such Event of Default has been remedied or cured before the giving of such notice; provided, that, the Trustee will be protected in withholding such notice from the Owners if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners. Each such notice of Event of Default will be given by the Trustee by mailing written notice thereof: (a) to all Owners of Bonds, as the names and addresses of such Owners appear upon the books for registration and transfer of Bonds as kept by the Trustee, and (b) to such other persons at the addresses given in the related Supplemental Indenture.

The Trustee will give to all Owners, the Authority and each Credit Provider and Liquidity Provider notice of acceleration of the Bonds as soon as possible, but in any event no later than the second Business Day after an acceleration.

TRUSTEE AND OTHER INDENTURE AGENTS

Wells Fargo Bank, National Association, has been appointed as Trustee. By executing the Indenture, the Trustee has accepted the trusts and obligations imposed upon it by the Indenture and has agreed to perform such trusts and obligations, but only upon and subject to the express terms of the Indenture.

The Indenture contains various limitations on the liability of the Trustee. The Trustee is not liable for reliance in good faith on certificates, reports or opinions furnished to it under the Indenture, and the Trustee is under no obligation or duty to perform any act at the request of a Credit Provider or the Owners of the Bonds or to institute or defend any suit in respect thereof unless indemnified to its satisfaction. The Indenture provides that the Trustee may rely on the Authority and the Servicer in connection with the performance of certain of its duties as the owner of Student Loans. The Trustee has covenanted that it is an Eligible Lender and will remain so during the time it has legal title to any Financed Eligible Loans, that it will comply with the Act, and that it will comply with all its contractual obligations under contracts with the Secretary and the Guarantors.

The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than 60 days' written notice to the Authority and each Credit Provider, and mailing notice thereof specifying the date when such resignation will take effect, to the registered Owners, and such resignation will take effect upon the day specified in such notice unless a successor has been appointed prior to such date, in which event such resignation will take effect immediately on the appointment of such successor. Notwithstanding the foregoing, no resignation of the Trustee will become effective until a successor Trustee has been appointed to and accepted its appointment and each Credit Facility and Liquidity Facility has been properly transferred to the successor Trustee in accordance with their respective terms.

The Authority is required to remove the Trustee if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority and signed by the Owners of a

majority in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority, provided that consent of the Credit Provider has been obtained if required by the terms of the related Reimbursement Agreement. The Authority may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as is determined in the sole discretion of the Authority by filing with the Trustee an instrument signed by an Authorized Representative. The Authority is required to remove the Trustee if directed to do so by a Credit Provider providing a Credit Facility for the most senior Class of Bonds which has such right pursuant to the applicable Reimbursement Agreement, by filing with the Trustee an instrument signed by an Authorized Representative and the Credit Provider. Notwithstanding the foregoing, no removal of the Trustee will become effective until a successor has been appointed and has accepted such appointment, and each Credit Facility and Liquidity Facility then in effect has been properly transferred to a successor Trustee in accordance with their respective terms.

DEFEASANCE

If the Authority pays or causes to be paid to the Owners of the Bonds, the principal or Redemption Price and interest to become due thereon at the times and in the manner stipulated in the Bonds and in the Indenture, and pays or causes to be paid (a) to each Indenture Agent its fees, costs and expenses; (b) to each Credit Provider and Liquidity Provider all amounts owing under each Credit Facility or Liquidity Facility or Reimbursement Agreement relating thereto; (c) to each remarketing agent all amounts owing under each remarketing agreement; and (d) to each party to any Interest Exchange Agreement all amounts owing to it, then the pledge of the Trust Estate, including any Net Revenues and other moneys, securities, funds and property pledged and all other rights granted will be discharged and satisfied. In such event, the Trustee will, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Indenture Agents will pay over or deliver to the Authority all moneys or securities held by them pursuant to the Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment.

Except as otherwise provided in any Supplemental Indenture, all Bonds will, prior to the maturity or Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption on said date of such Bonds, (ii) there has been deposited with the Trustee either moneys in an amount which will be sufficient, or noncallable and nonprepayable Governmental Obligations (including any Governmental Obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) the principal of and interest on which when due, without reinvestment, will provide moneys which together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal of and interest to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, verified as to sufficiency by a report of an accountant; (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority has given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a 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 or Redemption Price, if any, on said Bonds; and (iv) an opinion of Bond Counsel to the effect that such defeasance is authorized under the terms of the Indenture, and, if the Indenture is to be discharged, all conditions precedent to a discharge of the Indenture have been satisfied, and (v) an Opinion of Counsel acceptable to each Rating Agency with respect to bankruptcy matters to the effect that payments to the Owners from such moneys and Governmental Obligations will not constitute an avoidable preference under Sections 547 and 550 of the Bankruptcy Code in the event a petition for relief

is filed by or against the Authority, and such other matters as may be required by such Rating Agency. Neither Governmental Obligations or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Governmental Obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Bonds; but any cash received from such principal or interest payments on such Governmental Obligations deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in Governmental Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments will be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge; provided, however, that such reinvestment may be effected only upon receipt by the Trustee of a Favorable Opinion.

Except as otherwise provided in any Supplemental Indenture, all Bonds, will, prior to the Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) the Credit Facility with respect of such Bonds remains in effect through the Redemption Date; (ii) the Authority has given notice of redemption of the Bonds, which redemption will take place no later than 45 days from the date the Bonds are deemed to have been paid, and (iii) there has been deposited with the Trustee moneys in an amount which, when added to the other moneys in the Indenture certified to be available by the Authority, is certified by the Authority to be sufficient to pay the principal and interest on the Bonds to the Redemption Date. In the event the Bonds are Adjustable Rate Bonds, for periods in which the interest rate has not been determined, a 15% rate will be assumed. The Trustee will deposit the moneys to be set aside for payment of the Redemption Price of the Bonds in a separate redemption account or pursuant to a separate escrow agreement, if the Authority so designates, and will use the money for the purpose of reimbursing the Credit Provider for a drawing on the Credit Facility. The money will be invested only in Governmental Obligations which mature prior to the Redemption Date. The Trustee will not terminate the Credit Facility or release the money in the redemption account until the Bonds have been redeemed in full with either a drawing on the Credit Facility or, if there is a failure to pay under the Credit Facility, the moneys in the redemption account.

The deposit required by the preceding two paragraphs may be made with respect to any Series or Class of Bonds, or a portion thereof, within any particular maturity, in which case such maturity of Bonds will no longer be deemed to be Outstanding under the terms of the Indenture, and the Owners of such defeased Bonds will be secured only by such trust funds and not by any other part of the Trust Estate, and the Indenture will remain in full force and effect to protect the interests of the Owners of Bonds remaining Outstanding thereafter. Notwithstanding the foregoing and the definition of "Bondholder," "Owner" or "owner," the provisions of the Indenture relating to optional purchases with respect to Adjustable Rate Bonds and to payment, registration, transfer and redemption of Bonds will remain in effect until final maturity or the Redemption Date of the Bonds.

In addition to the foregoing provisions, bonds or interest installments for the payment of which moneys have been set aside and are held in trust by the Indenture Agents (through deposits by the Authority of funds for such payment or otherwise) will, upon maturity or upon the Redemption Date established therefor, be deemed to have been paid and no longer Outstanding. Should any of the Bonds not be presented for payment when due, the Trustee will retain from any moneys transferred to it for the purpose of paying said Bonds so due, for the benefit of the Owners thereof, a sum of money sufficient to pay such Bonds when the same are presented by the Owners thereof for payment (upon which sum the Trustee will not be required to pay interest). All liability of the Authority to the Owners of such Bonds and all rights of such Owners against the Authority under the Bonds or under the Indenture will thereupon be and become limited to amounts on deposit with the Trustee and set aside for such payment, and the sole right of such Owners will thereafter be against such deposit. The Trustee will bear no duty or

liability to the Owners of such nonpresented Bonds other than to disburse funds from such deposit upon presentation of the appropriate Bond. If any Bond is not presented for payment within the period of three years following its maturity, the Trustee will turn over the money theretofore held by it for payment of such Bond to the State pursuant to Tex. Prop. Code § 72 and § 74 (Vernon Supp. 1989).

From and after the date of payment in full of all Bonds Outstanding, the Authority will have the right to receive payments with respect to all Student Loans.

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APPENDIX C

AUCTION PROCEDURES

The Auction Procedures for the Series 2003-2 Bonds are as set forth below and apply separately to each series of the Series 2003-2 Bonds. All of the terms used in this APPENDIX C are defined herein or in other parts of this Official Statement.

Definitions

“*Administration Fee*” means a fee equal to or less than the amount shown in the Closing Cash Flow Projection for the Series 2003-2 Bonds, which fee may be adjusted in the manner specified in any subsequent Cash Flow Certificate for which a Rating Confirmation has been obtained.

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

“*Applicable Interest Rate*” means the interest rate on the ARCs which shall be (a) during the Initial Interest Period, the Initial Interest Rate and (b) the rate of interest determined in accordance with the Indenture.

“*Applicable LIBOR-Based Rate*” means (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*” 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.

“*ARCs*” means the Bonds of each series of Series 2003-2 Bonds outstanding as Auction Rate Certificates.

“*Auction*” means each periodic implementation of the Auction Procedures, as described herein.

“*Auction Agent*” means The Bank of New York or any successor bank or trust company or other entity entering into a similar agreement with the Trustee. See the caption “AUCTION RATE CERTIFICATES—Auction Participants—*Auction Agent*” in the body of the Official Statement.

“*Auction Agent Agreement*” means the Auction Agent Agreement, dated as of December 1, 2003, by and among the Trustee, the Authority and the Auction Agent, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

“*Auction Date*” means January 7, 2004 with respect to the Series 2003-2A-1 Bonds, January 14, 2004 with respect to the Series 2003-2A-2 Bonds and January 14, 2004 with respect to the Series 2003-2B Bonds and thereafter the Business Day immediately preceding the first day of each respective Auction Period, other than:

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

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Indenture. See the caption “AUCTION RATE CERTIFICATES—Changes in Auction Periods or Auction Dates” in the body of the Official Statement.

“*Auction Period*” means the Interest Period applicable to the ARCs which Auction Period (after the Initial Interest Period) shall consist generally of 28 days, as the same may be changed pursuant to the Indenture.

“*Auction Procedures*” means the procedures set forth in this APPENDIX C.

“*Auction Rate*” means the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures and determined as described in the Indenture. See the caption “AUCTION RATE CERTIFICATES—Auctions” in the body of the Official Statement.

“*Authorized Denominations*” means \$50,000 and any integral multiple thereof.

“*Broker-Dealer*” means with respect to the Series 2003-2 Bonds UBS Financial Services Inc., or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), 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 Authority 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. See the caption “AUCTION RATE CERTIFICATES—Auction Participants—Broker-Dealer” in the body of this Official Statement.

“*Broker-Dealer Agreement*” means the Broker-Dealer Agreement dated as of December 1, 2003 between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and each Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

“*Business Day*” means, with respect to the ARCs, any day other than (a) April 14, April 15, December 30, December 31, and such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the Authority, and (b) 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*” means the excess, if any, of (a) the amount of interest on a Series 2003-2 Bond that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on such Series 2003-2 Bond actually accrued with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to “principal” or “interest” in the Fifth Supplemental Indenture and

in the Series 2003-2 Bonds shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount. The Carry-over Amount for an Interest Period will be limited to the extent necessary so that such Carry-over Amount, calculated as a percentage per annum, when added to the Maximum Rate for such Interest Period, does not exceed the Maximum Interest Rate.

“*CP Rate*” means, for each month, the rate as will be in effect on the second Business Day preceding the 25th day of such month (such date, the “Reset Date”) that is the bond equivalent yield of the rate set forth in H.15(519) for that Reset Date opposite the 90 day maturity and under the caption “Commercial paper-financial.” If, by 5:00 p.m., New York City time, on the Business Day immediately following the Reset Date, such rate for the Reset Date is not yet published in H.15(519), the CP Rate for such month will be the bond equivalent yield of the rate for the first preceding day for which such rate is set forth in H.15(519) opposite the 90 day maturity and under the caption “Commercial paper-Financial.”

“*Eligible Carry-Over Make-Up Amount*” means, with respect to each Interest Period relating to a series of Series 2003-2 Bonds as to which, as of the first day of such Interest Period, there is any unpaid Carry-Over Amount, an amount equal to the lesser of (a) interest computed on the principal balance of such Series in respect of such Interest Period at a per annum rate equal to the excess, if any, of the Maximum Rate over the Applicable Interest Rate, and (b) the aggregate Carry-Over Amount remaining unpaid as of the first day of such Interest Period together with interest accrued and unpaid thereon through the end of such Interest Period. The Eligible Carry-Over Make-Up Amount shall be \$0.00 for any Interest Period with respect to which the Auction Rate equals or exceeds the Maximum Rate.

“*Existing Owner*” means (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 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.

“*Fifth Supplemental Indenture*” means the Supplemental Indenture governing the issuance of the Series 2003-2 Bonds.

“*Initial Interest Payment Date*” means with respect to the Series 2003-2A-1 Bonds, January 8, 2004, with respect to the Series 2003-2A-2 Bonds, January 15, 2004 and with respect to the Series 2003-2B Bonds, January 15, 2004.

“*Initial Interest Period*” means (i) with respect to the Series 2003-2A-1 Bonds, the period from the date of delivery of the Series 2003-2A-1 Bonds and ending on and including January 7, 2004, (ii) with respect to the Series 2003-2A-2 Bonds, the period from the date of delivery of the Series 2003-2A-2 Bonds and ending on and including January 15, 2004, and (iii) with respect to the Series 2003-2B Bonds, the period from the date of delivery of the Series 2003-2B Bonds and ending on and including January 15, 2004.

“*Initial Interest Rate*” means the initial rate of interest on each series of the Series 2003-2 Bonds as set forth in the Fifth Supplemental Indenture.

“*Interest Payment Date*” means (a) each regularly scheduled interest payment date on the Series 2003-2 Bonds, which for each series of Series 2003-2 Bonds shall be the Business Day immediately following the expiration of the Initial Interest Period for such series and each related Interest Period thereafter; provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Dates therefor shall be each April 1 and October 1 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the first Business Day

immediately following the end of such Interest Period; and shall also mean the maturity date of any of the Series 2003-2 Bonds; or if any such 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); or (b) with respect to the payment of interest upon redemption or acceleration of the Series 2003-2 Bonds or the payment of defaulted interest, such date on which such interest is payable under the Fifth Supplemental Indenture.

“*Interest Period*” means, with respect to each series of Series 2003-2 Bonds, (a) unless otherwise changed as provided in the Fifth Supplemental Indenture, the respective Initial Interest Periods 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 in the Indenture, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

“*Interest Rate Determination Date*” means the Auction Date for a series of Series 2003-2 Bonds, or, if no Auction Date is applicable to such series, the Business Day immediately preceding the date of commencement of an Auction Period.

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

“*Market Agent*” means the market agent or market agents appointed pursuant to the Indenture, and its or their successors or assigns. See the caption “AUCTION RATE CERTIFICATES—Auction Participants—*Market Agent*” in the body of the Official Statement.

“*Market Agent Agreement*” means the Market Agent Agreement dated as of December 1, 2003, between the Trustee and the Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

“*Maximum Auction Rate*” means, for any Auction, the per annum interest rate on a series of the ARCs which, when taken together with the average per annum interest rate on such series of 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 being the highest per annum rate (i) 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 any one of the ratings assigned by the Rating Agencies to the ARCs is “Aa3” or “AA-” or better), (ii) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.50% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARCs is less than “Aa3” or “AA-” but both are at least any category of “A”), or (iii) 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 further, however, that for any Auction with respect to any ARCs rated any category of “A” or better by Moody’s and S&P, respectively, the Maximum Auction Rate shall not exceed the Applicable LIBOR-Based Rate plus 1.50%; and provided further, however, that this definition may be modified at the direction of the Authority upon receipt by the Trustee of (A) written consent of the Market

Agent and (B) written consent from each Rating Agency then rating the Series 2003-2 Bonds that such change will not in and of itself result in a reduction of the rating on any Series 2003-2 Bonds. For purposes of the Auction Agent Agreement and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given notice pursuant to the Auction Agent Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of (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 Authority directing such increase, together with a Rating Confirmation with respect to such increase.

“*Maximum Interest Rate*” means the lesser of (a) 17% per annum or (b) the highest rate the Authority may legally pay, from time to time, as interest on the Series 2003-2 Bonds. Presently, under Texas law, the “Net Effective Interest Rate” on the Series 2003-2 Bonds may not exceed 15%. See “CERTAIN DEFINITIONS—Net Effective Interest Rate” in Appendix B to this Official Statement.

“*Maximum Rate*,” on any date of determination, means the interest rate per annum equal to the least of: (a) the Maximum Auction Rate, (b) the Maximum Interest Rate and (c) during the occurrence of a Net Loan Rate Restriction Period, the Net Loan Rate.

“*Net Loan Rate*” means, with respect to any Auction Period for the Series 2003-2 Bonds, the rate of interest per annum (rounded to the next highest 0.01%) equal to the amount determined by dividing (a) the product of 12 times the sum of the following amounts accrued during the most recent calendar month immediately preceding such Auction Period: (i) interest (including Interest Subsidy Payments), assumed Special Allowance Payments and collected late fees with respect to the Eligible Student Loans financed with proceeds from the Series 2003-2 Bonds, after giving effect to borrower incentive and similar programs, plus (ii) investment earnings on amounts in the Funds and Accounts related to the Series 2003-2 Bonds, plus (iii) any payments to the Authority related to an Interest Rate Exchange Agreement with respect to the Series 2003-2 Bonds, minus (iv) any rebate fees due to the U.S. Department of Education with respect to Eligible Student Loans that are Consolidation Loans, minus (v) any payments from the Authority related to an Interest Rate Exchange Agreement with respect to the Series 2003-2 Bonds, minus (vi) the interest accrued on all Outstanding Series 2003-2 Bonds other than those that bear interest based upon an auction mode, minus (vii) the Series 2003-2 Bond Fees, Administration Fees and Servicing Fees; by (b) the aggregate principal balance of all Series 2003-2 Bonds bearing interest based upon an auction mode that are Outstanding on the date of such calculation. For this purpose, the Special Allowance Payment shall be computed based upon the bond equivalent yield of 91-day United States Treasury Bills most recently auctioned, or the CP Rate, as applicable (whether or not the actual Special Allowance Payment rate could then be determined); provided, however, that this definition may be modified at the direction of the Authority upon receipt by the Trustee of (A) written consent of the Market Agent and (B) a Rating Confirmation that such change will not in and of itself result in a reduction of the rating on any Series 2003-2 Bonds.

“*Net Loan Rate Restriction Period*” means, with respect to any Series of the Series 2003-2 Bonds, the period of time from and including a Net Loan Rate Trigger Date to but excluding a Net Loan Rate Termination Date.

“*Net Loan Rate Termination Date*” means, for a Series of Series 2003-2 Bonds for which the Net Loan Rate Trigger Date has occurred, the first day of an Auction Period which immediately follows two consecutive Auction Dates for such Series of the Series 2003-2 Bonds where both (a) the Auction Rate established on each such Auction Date for such Series was equal to or less than a per annum rate equal to the sum of (i) the Ninety-One Day United States Treasury Bill Rate in effect as of each such Auction Date plus (ii) 1.0%, and (b) the most recently available Three-Month LIBOR as of the Reset Date for the CP

Rate in the month for which such calculation is being made is less than the sum of (i) the CP Rate for the month for which such calculation is being made plus (ii) 0.25%.

“*Net Loan Rate Trigger Date*” means, for a series of the Series 2003-2 Bonds, the first day of an Auction Period which immediately follows three consecutive Auction Dates for such Series 2003-2 Bonds where either (a) the Auction Rate established on each such Auction Date for such Series exceeded a per annum rate equal to the sum of (i) the Ninety-One Day United States Treasury Bill Rate in effect as of each such Auction Date plus (ii) 1.0%, or (b) the most recently available Three-Month LIBOR as of the Reset Date for the CP Rate in the month for which such calculation is being made is equal to or greater than the sum of (i) the CP Rate for the applicable month plus (ii) 0.25%.

“*Ninety-One Day United States Treasury Bill Rate*” means 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*” means for any determination date, a rate per annum equal to the lesser of (a) the sum of (i) One-Month LIBOR and (ii) 150 basis points and (b) the Maximum Interest Rate each 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 as such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one hundredth of one percent.

“*Participant*” means a member of or participant in the Securities Depository.

“*Payment Default*” means failure to make payment of interest on, premium, if any, and principal of the auction rate certificates when due by the Authority.

“*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). See the caption “AUCTION RATE CERTIFICATES—Auction Participants—*Existing Owners and Potential Owners*” in the body of the Official Statement.

“*Principal Balance*” means, with respect to the Series 2003-2 Bonds, an amount equal to the aggregate principal balance of the Eligible Student Loans allocable to the Series 2003-2 Bonds (including accrued interest thereon capitalized through such date).

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

“*Registrar*” means the Trustee or any separate registrar appointed under the Indenture.

“*Regular Record Date*” means, with respect to any series of the Series 2003-2 Bonds, (a) 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 on such series of Series 2003-2 Bonds is payable semiannually, one Business Day prior to each Interest Payment Date.

“*Securities Depository*” means Cede & Co., as nominee of The Depository Trust Company and its successors and assigns and any other securities depository selected or approved by the Authority.

“*Securities Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Servicing Fees*” means the fees of the Servicer, any Subservicers and Custodians directly related to servicing of Student Loans financed by the Series 2003-2 Bonds, and not including Administration Fees.

“*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.

“*Winning Bid Rate*” has the meaning set forth in this APPENDIX C under the caption “Introduction—*Determination of Sufficient Bids, Auction Rate and Winning Bid Rate.*”

Introduction

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 a Securities Depository; (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 be applied separately to each series of the ARCs).

(a) *Submissions 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 Auction 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 Auction 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 Auction 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 Auction 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) 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) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (A) 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 (B) 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 (C) 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) *Submissions 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 Authority, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing 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 so that the aggregate principal amount of Outstanding ARCs subject to such Hold Order equals the aggregate principal amount of ARCs held by such Existing Owner;

(B) (1) any Bid shall be considered valid up to an amount equal to the excess of the principal amount of Outstanding ARCs owned by such Existing

Owner over the aggregate principal amount of ARCs subject to any Hold Order 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 equal to 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 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 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 (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 Bids”); and

(C) if Sufficient 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, the Broker-Dealers and the Authority 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 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 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 Interest Rate for such Interest Period shall be equal to the Maximum Rate. If the Auction Agent has not received Sufficient Bids (other than because all of the Outstanding Series 2003-2 Bonds are subject to Submitted Hold Orders), the Applicable Interest Rate will be the Maximum 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 (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 Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) and (v) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

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

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

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

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

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

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal

amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination.

(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 Series 2003-2 Bonds, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Series 2003-2 Bonds for purchase among Potential Owners so that only Series 2003-2 Bonds 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 Series 2003-2 Bonds.

(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.

APPENDIX D

SETTLEMENT PROCEDURES

Capitalized terms used herein shall have the respective meanings specified in APPENDIX C of this Official Statement.

(a) Not later than 3:00 p.m. New York City time, on each Auction Date if the Applicable Interest Rate is the Auction Rate, 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 Seller’s 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 Buyer’s 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 Seller’s 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 Buyer’s Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Owners on whose behalf such Seller’s Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller’s Broker-Dealers (and the 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 Buyer’s 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 Interest 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) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

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

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

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

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

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

(d) On each Auction Date:

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

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

identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

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

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

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

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

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

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

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APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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***North Texas Higher
Education Authority, Inc.***

*Financial Statements for the
Year Ended August 31, 2002, and
Independent Auditors' Report*

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Texas Higher Education Authority, Inc.:

We have audited the accompanying statement of net assets of the North Texas Higher Education Authority, Inc. (the "Authority") as of August 31, 2002, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of August 31, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6, the Authority recorded an adjustment to its beginning net assets on August 31, 2001.

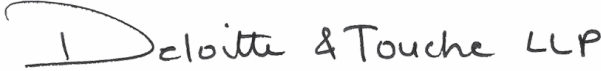
As discussed in Note 1, the Authority adopted Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, for the year ended August 31, 2002.

The management's discussion and analysis on pages 3 to 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information of the combining statement of net assets and combining statement of revenues and expenses and changes in net assets is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is

the responsibility of the Authority's management. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That 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.

Deloitte & Touche LLP

December 13, 2002

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2002 (UNAUDITED)

The North Texas Higher Education Authority, Inc. (the "Authority"), a nonprofit corporation acting on behalf of the Cities of Arlington and Denton, Texas, was originally created under the Texas Non-Profit Corporation Act in 1971 under the name of Dallas Schools Foundation. That corporation was dormant from its incorporation in 1971 until 1978 when it was reorganized and its Articles of Incorporation were amended to change its name and purpose to the present name and purpose. The Authority's present purpose is to promote student access to higher education.

The Authority is authorized to provide funds for the acquisition of eligible loans made to students as post-secondary educational institutions and provide procedures for the servicing of such loans. The Authority currently owns student loans established by the Higher Education Act under the Federal Family Education Loan Program ("FFELP"). Loans provided under FFELP include Subsidized and Unsubsidized Stafford ("Stafford"), Supplemental Loans for Students ("SLS"), Parent Loans for Undergraduate Students ("PLUS"), and Consolidation Loans ("Consolidated").

This report includes three financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as defined by the Governmental Accounting Standards Board. The statement of net assets presents the financial position of the Authority at the end of the fiscal year and includes all assets and liabilities of the Authority. The statement of revenues, expenses, and changes in net assets presents the Authority's results of operations. The statement of cash flows provides a view of the sources and uses of the Authority's cash resources.

During fiscal year 2002, the Authority purchased \$150.8 million in student loan principal from a variety of financial institutions. The Authority also originated a net amount of \$29.1 million in Consolidated loans. During fiscal year 2001, the Authority purchased \$ 83.7 million in student loans and originated a net amount of \$22.9 million in Consolidated loans. This equates to an increase of 80% in purchases and 27% in Consolidated originations from the previous fiscal year.

Financing for the program is provided through the issuance of tax-exempt, taxable debt; lines of credit; and the recycling of funds. The Authority issued \$155 million in taxable auction rate securities during 2002. For fiscal year 2001, the Authority issued \$74.5 million in tax-exempt bonds. The Authority also has two taxable lines of credit available totaling \$125 million.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2002 (UNAUDITED)

CONDENSED FINANCIAL POSITION	2002	2001
Cash, cash equivalents, and investments	\$ 113,258,425	\$ 84,261,683
Accrued interest receivable	24,549,852	19,951,560
Student loans receivable	681,620,983	575,094,142
Other	<u>2,057,346</u>	<u>2,286,644</u>
TOTAL ASSETS	<u>\$ 821,486,606</u>	<u>\$ 681,594,029</u>
Current liabilities	\$ 17,547,222	\$ 5,650,745
Long-term liabilities	<u>708,065,792</u>	<u>598,546,142</u>
TOTAL LIABILITIES	<u>\$ 725,613,014</u>	<u>\$ 604,196,887</u>
Unrestricted	\$ 28,392,170	\$ 27,472,489
Restricted	<u>67,481,422</u>	<u>49,924,653</u>
TOTAL NET ASSETS	<u>\$ 95,873,592</u>	<u>\$ 77,397,142</u>
CONDENSED REVENUES, EXPENSES, AND CHANGE IN NET ASSETS	2002	2001
Interest on student loans	\$ 28,613,205	\$ 32,537,869
Interest on investments	3,173,218	4,574,740
Government interest and special allowance	<u>15,020,094</u>	<u>12,641,871</u>
TOTAL REVENUE	<u>\$ 46,806,517</u>	<u>\$ 49,754,480</u>
Interest expense	\$ 13,810,370	\$ 23,960,002
Administrative and general expense	10,471,339	13,382,655
Provision for excess earnings and arbitrage liabilities	<u>4,048,358</u>	<u>7,272,123</u>
TOTAL EXPENSES	<u>\$ 28,330,067</u>	<u>\$ 44,614,780</u>
CHANGE IN NET ASSETS	<u>\$ 18,476,450</u>	<u>\$ 5,139,700</u>

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2002 (UNAUDITED) FINANCIAL ANALYSIS

FINANCIAL POSITION

Total assets for the fiscal year 2002 increased \$139.9 million, or 21%, from fiscal year 2001. The liabilities increased \$121.4 million, or 20%, from fiscal year 2001. The Authority's net assets grew by \$18.5 million, or 24%, from last year.

To further evaluate the financial categories, the Authority's cash, cash equivalents, and investments grew by \$29.0 million, or 34%. Student loans outstanding increased \$109.8 million for a 19% increase. These changes are due largely to the issuance of \$155 million in bonds during the second quarter of the fiscal year. The net long-term debt increased \$109.5 million, or 18%, from fiscal year 2001.

The total net assets were restated at the beginning of the year due to adjustments. The first item related to the timing of the issuance of reports on projected liability for excess interest earnings. The beginning balance for the excess interest earnings liability increased by \$6.5 million. The Authority has enhanced several programs to benefit the borrowers and subsequently reduce the projected liability due at bond maturity. The second item of \$4 million related to a covenant in the Bond Series 1991. A pledge for additional trust coverage was reduced since the collateral ratio of the bonds at the beginning of the year was more than 100%. While the covenant remains in the indenture, the pledge has been removed from the financials due to the improved collateral ratio of the bonds.

OPERATING ACTIVITIES

Revenue decreased by \$2.9 million primarily due to the drop in interest rates. The variable rates on student loans as of August 31, 2002, are between 3.46% and 5.23%. The variable rates on student loans as of August 31, 2001, were between 5.39% and 6.79%. The variable loan rates are set based on the 91-day T-Bill rate. Rates reset annually on July 1.

The decrease in interest rates resulted in lower bond interest expense. The average tax-exempt bond rate for fiscal year 2002 was 1.60%. The average tax-exempt bond rate for fiscal year 2001 was 3.50%. This environment provides for an increase in excess interest liability as well as the propensity for arbitrage rebate liability increases on additional activity associated with tax-exempt issues. The administrative and general expense decreased by \$2.9 million due to the \$4 million beginning balance restatement related to the Bond Series 1991, which was adjusted to the administrative and general expense. The decrease is partially offset by the \$1.1 million expenses related to the issuance of the Series 2002 Bonds.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENT OF NET ASSETS AUGUST 31, 2002

ASSETS

CURRENT ASSETS:

Cash and cash equivalents - restricted (Note 2)	\$ 419,525
Investments (Note 2)	699,000
Investments - restricted (Note 2)	60,024,243
Accrued interest and other accounts receivable	275,835
Accrued interest and other accounts receivable - restricted	24,274,017
Prepaid expenses	266,691
Bond issue costs - net of accumulated amortization (Note 4)	1,790,655
Student loans receivable - restricted (Note 3)	<u>67,788,438</u>

Total current assets 155,538,404

LONG-TERM ASSETS:

Investments (Note 2)	20,117,884
Investments - restricted (Note 2)	31,997,773
Student loans receivable - restricted (Note 3)	<u>613,832,545</u>

Total long-term assets 665,948,202

TOTAL ASSETS \$ 821,486,606

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS:

Accounts payable	\$ 586,912
Accrued interest payable	2,703,219
Accrued other liabilities	452,091
Bonds payable (Note 6)	<u>13,805,000</u>

Total current liabilities payable from restricted assets 17,547,222

LONG-TERM LIABILITIES - PAYABLE FROM RESTRICTED ASSETS:

Lines of credit	49,171,000
Bonds payable, less unamortized original issue discounts of \$2,349,977 (Note 4)	644,290,022
Excess earnings and arbitrage liabilities (Note 6)	<u>14,604,770</u>

Total long-term liabilities payable from restricted assets 708,065,792

Total liabilities 725,613,014

NET ASSETS:

Restricted	67,481,422
Unrestricted	<u>28,392,170</u>

Total net assets 95,873,592

TOTAL LIABILITIES AND NET ASSETS \$ 821,486,606

See notes to financial statements.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED AUGUST 31, 2002

OPERATING REVENUES:	
Interest on student loans	\$ 28,613,206
Interest on cash equivalents and investments	<u>3,173,219</u>
Total operating revenues	<u>31,786,425</u>
OPERATING EXPENSES:	
Interest on bonds and line of credit	13,810,373
Provision for excess earnings and arbitrage liabilities	4,048,357
Loan servicing fees paid to Higher Education Servicing Corporation (Note 1)	2,985,727
Payments for administrative and operating costs to Higher Education Servicing Corporation (Note 1)	3,986,665
Trustee fees	180,659
Letter of credit fees	1,988,497
Remarketing, broker/dealer fees	749,000
Bond insurance expense	204,600
Miscellaneous expense	<u>376,191</u>
Total operating expenses	<u>28,330,069</u>
OPERATING INCOME	3,456,356
NONOPERATING REVENUES AND EXPENSES:	
Government subsidy on student loans	6,159,941
Special allowance income	<u>8,860,153</u>
Total nonoperating revenues and expenses	<u>15,020,094</u>
CHANGE IN NET ASSETS	<u>18,476,450</u>
NET ASSETS, BEGINNING OF YEAR - As originally reported	87,891,258
RESTATEMENTS (Note 1)	<u>(10,494,116)</u>
NET ASSETS, BEGINNING OF YEAR - As restated	<u>77,397,142</u>
NET ASSETS, END OF YEAR	<u>\$ 95,873,592</u>

See notes to financial statements.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Student loan and interest purchases	\$(211,417,860)
Student loan repayments	105,650,202
Payment to vendors	(12,597,793)
Interest paid on bonds and line of credit	(15,045,581)
Cash received for interest	31,960,107
Deferred loan acquisition premiums paid	(3,763,498)
Other	<u>(33,370)</u>
Net cash used in operating activities	<u>(105,247,793)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from maturities of investments held by Trustee	674,715,081
Purchases of investments	<u>(703,381,974)</u>
Net cash used in investing activities	<u>(28,666,893)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Proceeds from issuance of bonds	155,000,000
Proceeds from line of credit	30,885,000
Repayment of bonds	(7,645,000)
Payments on line of credit	(58,000,000)
Proceeds from government subsidy on student loans	6,159,941
Proceeds from special allowance	8,860,153
Deferred bond issue cost paid	<u>(1,015,557)</u>
Net cash from noncapital financing activities	<u>134,244,537</u>

CHANGE IN CASH AND CASH EQUIVALENTS	329,851
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>89,674</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 419,525</u>

(Continued)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2002

RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:

Operating income	\$ 3,456,356
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Amortization of deferred bond issue costs and original issue discounts	778,445
Change in assets and liabilities:	
Increase in accrued interest and other accounts receivable	(4,598,292)
Increase in student loan notes receivable, net	(106,526,841)
Increase in prepaid expenses	(33,370)
Increase in accounts payable	42,931
Increase in accrued and other liabilities	75,376
Decrease in accrued interest payable	(2,026,835)
Increase in excess earnings and arbitrage liabilities	<u>3,584,437</u>
Net cash used in operating activities	<u><u>\$ (105,247,793)</u></u>

See notes to financial statements.

(Concluded)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The North Texas Higher Education Authority, Inc. (the "Authority") is a nonprofit corporation organized on September 28, 1978, under the laws of the State of Texas and reports as a governmental entity. The Authority's Board of Directors is composed of nine members appointed by the city councils of Arlington and Denton, Texas. The purpose of the Authority is to provide funds for the purchase of student loans from participating lenders at the post-secondary educational level, and to provide procedures for the servicing of such loans as required for continued participation in the Federal Family Education Loan Program ("FFELP") under the Higher Education Act of 1965, as amended. Funding for the Authority has been provided by the sale of tax-exempt bonds and through other forms of indebtedness. Proceeds of the bonds are used to purchase student loans, originated by eligible lenders under the FFELP made to eligible students for attendance at eligible institutions.

Related Entities - The Higher Education Servicing Corporation ("HESC"), a tax-exempt, nonprofit Texas corporation, services the student loans for the Authority. HESC is responsible for student loan processing, collecting, accounting and reporting, as well as providing corporate office space and administrative support functions for the Authority under the terms of a servicing agreement. The Authority has no employees. HESC and the Authority have separate Boards of Directors.

A computer service bureau performs many of the duties involving student loan processing and collecting for HESC under the terms of a servicing agreement. The Authority remits to HESC stipulated amounts for services rendered in the administration of the agreement and for providing services as described above.

Measurement Focus, Basis of Accounting, and Basis of Presentation - The Authority applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements for enterprise funds as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. Enterprise funds are used to account for the operations and financial position of a governmental entity that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the expenses of providing goods and services on a continuing basis be financed or recovered primarily through user charges.

New Accounting Pronouncements - During fiscal year 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statements No. 34, 37, and 38, commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effect on the Authority's annual financial statements was the addition

of Management's Discussion and Analysis as required supplementary information, a change in the presentation of the cash flow statement to the indirect method, and some additional footnote requirements.

Restatements - The Authority restated beginning net assets with the following adjustments:

Correction of arbitrage liability as of August 31, 2001 (Note 6)	\$ 6,494,116
Write-off of receivable from trustee	<u>4,000,000</u>
	<u>\$ 10,494,116</u>

In connection with the issuance of the 1991 debt, the Authority had recorded a receivable from the bond insurer representing a pledge for additional estate coverage to pay the Authority a maximum of \$4 million in the event the net realizable value of the portfolio fell below certain levels. Since the net realizable value of these loans exceeded those levels, the receivable was reduced to zero.

Description of Funds - The accounts of the Authority are organized on the basis of funds, which are set up in accordance with the related bond indentures. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues, and expenses. These requirements do not result in any restrictions on the use of assets for the general purpose of the respective bond issues. Accordingly, separate funds are not considered necessary for financial reporting purposes. At the time that a bond series has been fully repaid or is permitted by the bond indentures, assets can be transferred to another series with outstanding debt or to a "surplus" fund. The clearing fund is used to process student loan collections among debt issues. Amounts due from and to other debt issues have been eliminated. Unless specifically authorized by the Board of Directors, the amounts due from and to other debt issues are payable without interest.

Cash and Cash Equivalents - The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investment Policy - In accordance with the Authority's investment policy and its bond indentures, funds not invested in student loans are generally required to be invested in investment securities and/or interest-bearing time deposits of one or more banks located within the State of Texas. The majority of these investments represents collateralized nonparticipating repurchase agreements whose fair values are not affected by impairment or the credit rating of the issuer and therefore are recorded at cost.

Allowance for Loan Losses - The guarantee of student loans is contingent upon the loans being serviced within the "due diligence" requirements of the guarantors. The Authority has established cure and recovery procedures to be applied to loans that have lost their guarantee. The allowance for loan losses is a provision for the loans for which cure and recovery are expected to be unsuccessful.

Deferred Loan Acquisition Premiums - The Authority normally pays a loan acquisition premium and transfer fee when acquiring loans from financial institutions. These premiums and fees are capitalized and amortized using the sum of the months digits method, which approximates the interest method, over the life of the related loans, which have been estimated by the Authority to be 43 months. The amortization expense has been recorded as an adjustment to the yield of the loans purchased. These premiums and fees are included with student loan notes receivable in the accompanying balance sheets.

Bond Issue Costs and Original Issue Discounts - Bond issue costs and original issue discounts are capitalized and are being amortized over the term of the bonds using the straight-line method, which approximates the interest method. The amortization expense has been recorded as an adjustment to

interest expense on the bonds payable. Losses incurred on advance refundings are deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Trustee - Bank One, Texas, as trustee, performs the duties involving the acquisition and holding/limited servicing of student loans in the Authority's name, the investment and disbursement of funds as directed by the Authority, and the servicing and redemption of the bonds under each of the trust indentures.

Excess Income - All income of the Authority after payment of expenses, debt service, and the creation of reserves will be utilized for the purchase of additional student loan notes, the purpose permitted by Section 148 of the Internal Revenue Code ("IRC") or, upon dissolution or liquidation of the Authority, will be transferred to the U.S. Treasury. The Authority has no plan to liquidate or dissolve.

Collections on Student Loans Not Yet Applied - Collections on student loans for claims not yet applied represent cash received by the Authority but not yet credited to individual accounts.

Income Taxes - As an organization described in IRC Section 501(c)(3), the Authority is exempt from federal income taxes under IRC Section 501(a). However, income generated by activities unrelated to the purposes for which the Authority was created will be subject to tax. The Authority had no material unrelated business income in 2001 and 2000.

Capitalization of Interest - Students have the option of deferring the interest payments on unsubsidized loans, while in-school, grace, or deferment periods. Therefore, the Authority capitalizes interest on some student loan notes receivable.

Interest Subsidy and Special Allowance - During the in-school, grace, and deferment periods, the U.S. government pays the Authority interest on subsidized Stafford student loans on behalf of the borrower. Additionally, some consolidation loans are eligible for subsidy during periods of deferment. When the repayment period begins, the borrower is responsible for interest payments. No interest is paid on behalf of the borrower for the Unsubsidized Stafford and PLUS programs. Interest on student loans in the accompanying financial statements includes approximately \$6,159,940 of interest subsidy from the U.S. government for the year ended August 31, 2002. In addition, for certain eligible loans, the U.S. government pays a special allowance to lenders participating in the FFELP loan program at the end of each quarter, representing supplemental interest on the average outstanding principal balance of insured loans at an annual rate that is determined periodically and is based on certain current interest rates exceeding a predetermined rate. The interest subsidy and special allowance are accrued as earned.

Net Assets - The net assets of the Authority are classified into two categories: unrestricted and restricted. Unrestricted net assets include net assets available for the operations of the Authority and activities not accounted for in the bond funds. Restricted net assets consist of the bond funds and the clearing account.

Operating Revenues and Expenses - Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are to originate and acquire student loans. The Authority's revenue is derived primarily from income on student loans, and secondarily, from investment income. The primary cost of the program is interest expense on bonds and notes outstanding. Therefore loan income, net investment income, and interest expense are shown as operating revenues and expenses in the statements of revenue, expenses, and changes in net assets. Federal funds received consisting of interest subsidies and special allowance income is considered nonoperating revenue.

Risk Management - The Authority is exposed to various risks of loss related to errors and omissions. Coverage for these various risks of loss is obtained through commercial insurance. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Commercial insurance is purchased in an amount that is sufficient to cover the Authority's risk of loss.

2. CASH AND INVESTMENTS

Certificates of deposit are presented as cash and cash equivalents and money market mutual funds are presented as investments for GASB Statement No. 3 disclosure purposes. At August 31, 2002, the carrying amount and bank balances of the Authority's cash and deposits was approximately \$1,118,525, of which \$699,000 is investments in certificates of deposit. Of the bank balances, \$1,118,525 was covered by federal depository insurance or collateralized with securities held by the Authority's agent in the Authority's name.

The Authority may purchase investments as authorized by indentures and as authorized by their investment policy approved annually by the Board of Directors as a result of passage of House Bill 2459 of the 1995 legislature. These investments include but are not limited to direct obligations of the United States and certain U.S. government agencies, obligations guaranteed by the United States and certain U.S. government agencies, bank demand deposits and interest bearing bank time deposits with a maturity of one year or less that are secured by pledges of government securities or are issued by banks rated Aa or AA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively. Repurchase agreements entered into must have a defined termination date, be secured by a pledge of U.S. government obligations, be held in the Authority's name and deposited with a third party, and be placed through a securities dealer or a financial institution doing business in Texas. Money market mutual funds are authorized investments if they are regulated by the SEC, have a dollar-weighted average stated maturity of 90 days or less, and include in their investment objective the maintenance of a stable net asset value of \$1 for each share. The Authority does not invest in investments other than those authorized by its investment policy, and it does not invest in any state or local government investment pools.

Investments of the Authority are categorized by level of credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligations) under GASB Statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*. Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority's investments as of August 31, 2002, are classified as follows:

	Category			Total Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ 51,520,522	\$ -	\$ -	\$ 51,520,522	\$ 51,520,522
Investment contract	-	595,134	-	595,134	595,134
Mutual funds (1)	-	-	-	60,024,244	60,024,244
Total investments	<u>\$ -</u>	<u>\$ 595,134</u>	<u>\$ -</u>	<u>\$ 112,139,900</u>	<u>\$ 112,139,900</u>

- (1) These money market mutual funds primarily invest in U.S. Treasury Repurchase agreements, AAA rated, which are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The investments in repurchase agreements are held with a major commercial bank. Collateral, valued at 102% to 105% of the investments, is required. The Trustee periodically reviews the ratings of these banks. The repurchase agreements bear interest at variable rates currently ranging from 1.56% to 8.24% per annum.

The investment contract represents the balance outstanding on a revolving financing agreement with the HESC, whereby the Authority agreed to grant advances of up to \$3,000,000 to HESC to be used by HESC to originate, acquire, and finance certain education loans. This agreement is collateralized by the trust estate consisting of education loans financed or refinanced by the proceeds, eligible investments held under fund and security amounts, and any related proceeds. The total interest earned during the year on this investment was \$3,388.

3. STUDENT LOAN NOTES RECEIVABLE

Student loan notes receivable consist of the following at August 31, 2002:

	Student Loans Notes Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums, Less Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2002	\$ 139,243,833	\$ -	\$ 2,346,151	\$ -	\$ 141,589,984
2001	34,819,060	-	486,706	-	35,305,766
2000	87,420,213	-	262,857	(67,483)	87,615,587
1998	38,783,666	-	28,733	-	38,812,399
1996 A-D	39,997,588	-	88,200	-	40,085,788
1993 A-D	102,939,440	-	249,824	-	103,189,264
1991 ABC	21,656,204	-	126,550	(139,997)	21,642,757
1991 DEF	24,888,402	-	93,671	(139,998)	24,842,075
1990	46,534,446	-	-	-	46,534,446
1987	94,530,926	-	-	-	94,530,926
SLMA Line of Credit	6,782,642	-	210,453	-	6,993,095
BOA Line of Credit	41,062,682	-	433,603	-	41,496,285
Clearing	-	(850,182)	-	(167,207)	(1,017,389)
Total	<u>\$ 678,659,102</u>	<u>\$ (850,182)</u>	<u>\$ 4,326,748</u>	<u>\$ (514,685)</u>	<u>\$ 681,620,983</u>

All student loans currently held were made in accordance with Title IV, Part B of the Higher Education Act of 1965, as amended. Five types of loans, Stafford, Unsubsidized Stafford, SLS, PLUS, and Consolidated are purchased by the Authority. PLUS loans are made to parents of dependent undergraduate students. SLS loans (no longer available, effective July 1, 1994) were made to graduate and professional students. Consolidated loans are made to borrowers for the purpose of consolidating their repayment obligations.

The student loan notes receivable represent loans to students who, when the loans were originated by lending institutions, were enrolled in post-secondary institutions. In general, the notes bear interest at fixed and variable rates ranging from 3.46% to 12% depending upon the type and date of origination of the individual loan and are payable by the student following a specified grace period after graduation or

termination from the institution. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over an average period of five to 10 years.

Installment repayment of Stafford and Unsubsidized Stafford loans begins after a grace period of six or nine months following the date that the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. Repayment of PLUS loans begins within 60 days of disbursement (no grace period). Repayment of Consolidated loans begins within 60 days after the borrower's liability on all loans being consolidated has been discharged. The repayment period is generally 10 years for all FFELP loans (excluding consolidated loans, which may be repaid up to a maximum of 30 years).

Student loan notes receivable purchased by the Authority have been either insured or reinsured by the U.S. government or guaranteed by the Texas Guaranteed Student Loan Corporation and United Student Aid Funds, Inc. Student loan notes that do not conform to the terms of the purchase agreement between the Authority and the original lender may be returned to the lending institution for reimbursement of principal, interest, and costs incurred while held by the Authority. The guarantors are protected by federal reinsurance from the Federal Guaranteed Student Loan Program under the Department of Education. Generally, the Department of Education pays the guarantor 98% of the balance of the defaulted student loans. However, that rate is graduated downward to 78% as the guarantor's annual payments of defaulted loans increase. The federal reinsurance percentage is restored to 100% at the beginning of each annual reporting period. The loans are guaranteed provided that applicable program requirements have been met by the original lender with respect to such loans. Owned loans that lost their U.S. Department of Education guarantee due to the failure of the original lender, the Authority, or their servicer to follow prescribed collection (due diligence) procedures can reacquire their guaranteed status if they are subsequently returned to a repayment status. Original lenders have warranted to the Authority that the student loan notes have met these requirements and are valid obligations of the student borrowers.

In previous years, numerous loans purchased from West Texas Higher Education Authority ("WTHEA") went into default and when submitted for payment to the guarantor were rejected due to alleged servicing violations that occurred prior to the Authority's ownership. As a result, the Authority has established an allowance for possible loan losses with respect to such loans. For the year ended August 31, 2002, the allowance for possible loan losses, which includes WTHEA loans, was approximately \$514,685. In the opinion of management, this allowance is considered adequate.

Net student loan notes receivable approximate fair value as the loans are guaranteed payment at the carrying value and a special allowance payment is received for loans below the current market rate of interest.

A summary of current-year activity is as follows:

Loans purchased	\$ 220,628,104
Amounts collected	(115,874,036)

4. BONDS PAYABLE

The following table summarizes the balances due, interest mode, interest rate, and date of maturity on the bonds payable as of August 31, 2002:

Bond Series	2002	Interest Mode	Interest Rate	Date of Maturity
1987	\$ 87,750,000	Variable	1.59%	December 2005
1990	41,000,000	Variable	1.62	March 1, 2005
1991 Series C	25,000,000	Variable	1.62	April 1, 2020
1991 Series F	25,000,000	Variable	1.62	April 1, 2020
1993 Series A	39,500,000	Variable	1.62	April 1, 2005
1993 Series A	30,500,000	Variable	1.62	April 1, 2020
1993 Series B	7,305,000	Fixed	5.55	April 1, 2003
1993 Series B	3,950,000	Fixed	5.65	April 1, 2004
1993 Series C	6,500,000	Fixed	6.10	April 1, 2008
1993 Series D	6,500,000	Fixed	6.30	April 1, 2009
1993 Series D	6,500,000	Fixed	6.30	April 1, 2010
1996 Series A and C	35,000,000	Variable	1.62	April 1, 2036
1996 Series B and D	8,000,000	Variable	1.62	December 1, 2003
1998 Series B	5,815,000	Variable	1.62	December 1, 2005
1998 Series A	35,000,000	Variable	1.62	December 1, 2032
2000 Series A	6,500,000	Variable	1.62	September 1, 2002
2000 Series A	43,000,000	Variable	1.62	December 1, 2003
2000 Series A	18,080,000	Variable	1.62	December 1, 2005
2000 Series B	35,000,000	Variable	1.62	December 1, 2035
2001 Series A	7,705,000	Variable	1.62	December 1, 2005
2001 Series A	31,840,000	Variable	1.62	June 1, 2036
2002	<u>155,000,000</u>	Variable	1.98	April 1, 2041
	<u>\$ 660,445,000</u>			

1987 Debt Issue - On November 4, 1987, the Authority issued \$98,000,000 of Student Loan Revenue Bonds, including \$10,250,000 of Serial Maturity Bonds and \$87,750,000 in Term Maturity Bonds. The Serial Maturity Bonds were paid in 1988 and 1989.

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rates ranged from 1.15% to 2.35%.

Interest is payable on March 1, June 1, September 1, December 1, and at stated maturity.

1990 Debt Issue - On April 2, 1990, the Authority issued \$50,000,000 of Student Loan Revenue Refunding Bonds, which were used to refund the 1985A Series Bonds. The Series included \$9,000,000 in Serial Maturity Bonds, which were paid in 1999, and \$41,000,000 in Term Maturity Bonds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rates ranged from 1.10% to 2.40%.

Interest is payable on March 1, June 1, September 1, December 1, and at stated maturity.

1991 Debt Issue - On April 25, 1991, the Authority issued \$153,500,000 of Student Loan Revenue Bonds, including the \$103,500,000 purchase of student loans from West Texas Higher Education

Authority, Inc. 85 and 86 Series (Series A, B, D, and E) and \$50,000,000 of new proceeds (Series C and F). Additionally, on June 13, 1991, the Authority issued \$90,000,000 of Student Loan Revenue Bonds to purchase student loans from West Texas Higher Education, Inc. 88 Series (1991G). Series 1991 B and E have each repaid principal amounts of \$27,000,000 in years 1994 through 1999, of which \$8,000,000 was refunded by the 1996 Series. Series 1991G was refunded by Series 1993. Series 1991 B and E have each repaid principal amounts of \$3,000,000 in 2000, and each was refunded by Series 2000A, and \$21,750,000 each of 1991 Series A and D were advance-refunded by Series 2000A.

The interest rate on the variable rate bonds represents the average rate for the year ended August 31, 2002. The actual rates on the variable rate bonds ranged from 1.10% to 2.40%.

Interest is payable on January 1, April 1, July 1, October 1, and at stated maturity.

1993 Debt Issue - On May 1, 1993, the Authority issued \$140,000,000 of Student Loan Revenue Bonds, including \$90,000,000 refunding of the 1991G Series (Series B and \$39,500,000 of Series A) and \$50,000,000 of new proceeds (Series C, D, and \$30,500,000 of Series A). The \$5,815,000 portion of Series B that matured on April 1, 1998, was refunded by the 1998 Series. The \$8,455,000 portion of Series B that matured on April 1, 1999, and the \$9,625,000 portion of Series B that matured on April 1, 2000, were refunded by the 2000A Series. The \$7,705,000 portion of Series B that matured on April 1, 2001, was refunded by the 2001A Series. The \$7,645,000 portion of Series B that matured on April 1, 2002, was refunded by the 2002 Series.

The interest rate on the variable bonds represents the average rate for the year ended August 31, 2002. The actual rates on the variable rate bonds ranged from 1.10% to 2.40%.

Interest is payable on January 1, April 1, July 1, October 1, and at stated maturity.

1996 Debt Issue - On March 28, 1996, the Authority issued \$43,000,000 of Student Loan Revenue Bonds, including the \$8,000,000 refunding of the 1991 B and E Series (Series B and D) and \$35,000,000 in new proceeds (Series A and C).

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rates ranged from 1.10% to 2.40%.

Interest is payable on April 1, October 1, and at stated maturity dates.

1998 Debt Issue - On May 21, 1998, the Authority issued \$40,815,000 of Student Loan Revenue Bonds, of which \$35,000,000 was new proceeds and \$5,815,000 was refunding of the 1993B Series.

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rates ranged from 1.10% to 2.40%.

Interest is payable on June 1, December 1, and at stated maturity dates.

2000 Debt Issue - On April 27, 2000, the Authority issued \$67,580,000 of Student Loan Revenue Bonds, including \$43,500,000 refunding of the 1991 A and B Series, \$6,000,000 from the 1991 D and E Series, and \$18,080,000 from the 1993 B Series. As a result of extinguishing the 1991 A and B bonds prior to scheduled maturity, the Authority recognized a loss on refunding for financial reporting purposes of \$870,000. Since the refunding bonds accrue interest on a variable basis, no economic gain/loss can be reported for this refunding. Additionally, on December 28, 2000, the Authority issued \$35,000,000 of Student Loan Revenue Bonds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rates ranged from 1.10% to 2.40%.

Interest is payable on June 1, December 1, and at stated maturity dates.

2001 Debt Issue - On June 1, 2001, the Authority issued \$39,545,000 of Student Loan Revenue Bonds, including \$7,705,000 refunding of the 1993 B Series Bonds and \$31,840,000 in new proceeds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rate ranged from 1.10% to 2.40%.

Interest is payable on June 1, December 1, and at stated maturity dates.

2002 Debt Issue - On March 4, 2002, the Authority issued \$155,000,000 of Student Loan Revenue Bonds, including \$7,645,000 refunding of the 1993 B Series Bonds and \$147,355,000 in new proceeds. The Series 2002 Bonds were issued as Auction Rate Certificates and interest on the Series 2002 Bonds are not exempt from gross income of the certificate owners for federal income tax purposes.

The interest rate for the bonds represents the average rate for the year ended August 31, 2002. The actual rate ranged from 1.90% to 2.10%.

Interest is payable on a generally 28-day cycle and at stated maturity dates.

The following is a summary of debt service requirements at August 31:

Fiscal Year	Principal	Interest	Total
2003	\$ 13,805,000	\$ 12,315,287	\$ 26,120,287
2004	54,950,000	11,365,287	66,315,287
2005	80,500,000	10,478,259	90,978,259
2006	119,350,000	8,291,250	127,641,250
2007	-	7,822,408	7,822,408
2008-2012	19,500,000	34,965,034	54,465,034
2013-2017	-	33,034,540	33,034,540
2018-2022	80,500,000	29,879,690	110,379,690
2023-2027	-	26,514,040	26,514,040
2028-2032	-	26,514,040	26,514,040
2033-2037	136,840,000	21,391,072	158,231,072
2038-2042	155,000,000	11,067,326	166,067,326
	<u>\$ 660,445,000</u>	<u>\$ 233,638,233</u>	<u>\$ 894,083,233</u>

The following is a summary of changes in revenue bonds payable of the Authority:

	Balance August 31, 2001	Issued	Repaid or Defeased	Balance August 31, 2001
Revenue bonds	\$ 513,090,000	\$ 155,000,000	\$ (7,645,000)	\$ 660,445,000

The bonds may be redeemed prior to their stated maturity only in authorized denominations. Upon proper notice, bonds may be redeemed in whole or part by lot, at par plus accrued interest to the date of redemption, without premium, at the option of the Authority and with the permission of the credit provider.

The Authority is subject to financial covenants imposed by the various bond indentures requiring such things as compliance with certain ratios. Management believes that the Authority was in compliance with all significant financial covenants and bond indentures during 2002.

5. LINES OF CREDIT

The Authority has a line of credit with Student Loan Marketing Association (referred to in the accompanying schedules as “SLMA Line of Credit”) of \$50,000,000. The line of credit has a stated maturity of May 1, 2007. The outstanding balance on the line of credit at August 31, 2002, was \$6,900,000. The line of credit is to be used to purchase student loans from eligible lenders. Borrowings under the line of credit generally bear a variable interest rate based on the 13-week U.S. Treasury bill, subject to modifications as provided in the line of credit agreement. The Authority must pay a quarterly commitment fee on any unused portion of the line of credit.

A revolving line of credit agreement with Bank of America for \$75,000,000 was issued July 25, 2002. The line of credit has a stated maturity of July 28, 2005. The line of credit is to be used to purchase student loans from eligible lenders. Borrowings under the line of credit generally bear a variable interest rate based on the 90-day LIBOR, subject to modification as provided in the line of credit agreement. The outstanding balance on the line of credit at August 31, 2002, was \$42,271,000. The Authority must pay a quarterly commitment fee on any unused portion of the line of credit.

The following table displays the aggregate changes in the line of credit borrowings for the fiscal year ended August 31, 2002:

Beginning balance	\$ 76,286,000
Additional borrowings	30,885,000
Repayments	<u>(58,000,000)</u>
Ending balance	<u>\$ 49,171,000</u>

6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES

A liability for excess earnings over the allowable spread between the loan yield and bond yield has been included in the bonds. For the year ending August 31, 2002, the Authority has made a provision for excess interest of \$3,940,243. The indentures require such excess earnings to be placed in an “excess earnings account” and held until the amount is due to the U.S. Treasury. Federal government excess earnings rebate laws allow for loan forgiveness programs to be employed to reduce the excess earnings amounts that must be remitted to the U.S. Treasury when the bonds are redeemed. The Authority has an aggressive loan forgiveness program in which borrowers debt is “forgiven” when the debt is reduced to a threshold amount and the borrowers meet all other requirements of the program. The excess earnings are periodically adjusted when the calculations reveal the current amount of student loans to be forgiven if the bonds were redeemed.

All of the Authority’s outstanding bonds except the Series 2002 bonds are subject to federal government arbitrage rebate laws. These laws limit the earnings rate on funds received by an organization that issues tax exempt bonds. For the year ended August 31, 2002, the Authority has made a provision for arbitrage of \$108,115 for revenues above the rebate limit, which must be remitted to the federal government. The indentures require such arbitrage earnings to be placed in an “arbitrage rebate account” and held until the amount is paid to the U.S. Treasury.

The excess earnings liability and arbitrage liability are calculated annually on the date of bond issuance. The following table displays the aggregate changes in the excess earnings and arbitrage rebate payable for the fiscal year ended August 31, 2002:

Beginning balance, as restated	\$ 11,020,335
Additional liability	4,048,358
Student loan forgiveness	<u>(462,923)</u>
Ending balance	<u>\$ 14,605,770</u>

During the year, the Authority determined that the provision for arbitrage liabilities reported as of August 31, 2001, was understated by \$6,494,116. As a result, a correction was recorded to the current-year financial statements to restate beginning net assets by \$6,494,116.

7. COMMITMENTS

Under the terms of the Series 1987, 1998, and 2000 bond indentures, the Authority has a letter of credit agreement with Bank of America and Credit Communal de Belgique under which participants to the agreement issued an irrevocable transferable letter of credit until September 5, 2002. Under the agreement, the Authority may borrow up to \$246,783,335 to fund amounts needed to pay principal and accrued interest of any Series 1987, 1998, and 2000 bonds that mature in accordance with the terms of the indenture. The Authority is required to pay a quarterly commitment fee based on a percentage of the amount available. No amount is outstanding as of August 31, 2002.

Under the terms of the Series 1990 bond indenture, the Authority has entered into a letter of credit agreement with Sallie Mae under which Sallie Mae has issued an irrevocable direct pay letter of credit until May 1, 2007. Under the agreement, the Authority may borrow up to \$42,839,178 to fund any amounts needed to pay principal and accrued interest of any Series 1990 bonds that mature in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on a percentage of the amount available. No amount is outstanding as of August 31, 2002.

Under the terms of the Series 1991 ABC and 1991 DEF bond indentures, AMBAC Indemnity issued a municipal bond insurance policy relating to each series of the bonds. Under the terms of the municipal bond insurance policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of Series 1991 C and F bonds, the Authority entered into a Standby Bond Purchase Agreement with the Student Loan Marketing Association (Sallie Mae). Under the agreement, the Authority may borrow up to \$52,013,698 to pay principal and accrued interest of Series 1991 C and F bonds that mature in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on the amount available through May 1, 2004. No amount is outstanding as of August 31, 2002.

Under the terms of the 1993 A-D bond indenture, the Authority has entered into a letter of credit agreement with Sallie Mae under which Sallie Mae has issued an irrevocable direct pay letter of credit until May 1, 2003. Under the agreement, the Authority may borrow up to \$73,452,055 to fund any amounts needed to pay principal and accrued interest of any Series 1993A bonds that mature in accordance with the indenture. The Authority is required to pay a quarterly letter of credit commission fee on the amount available. No amount is outstanding as of August 31, 2002.

Under the terms of the Series 1996 A-D bond indentures, AMBAC Indemnity issued a municipal bond insurance policy relating to each series of the bonds. Under the terms of the municipal bond insurance

policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of Series 1996 A-D bonds, the Authority entered into a Standby Bond Purchase Agreement with Sallie Mae. Under the agreement, the Authority may borrow up to \$46,233,836 to pay principal and accrued interest of any Series 1996 bonds that mature in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on the available amount of the agreement through May 1, 2004. No amount is outstanding as of August 31, 2002.

Under the terms of the 2001A bond indenture, the Authority has entered into a letter of credit agreement with Sallie Mae under which Sallie Mae has issued an irrevocable direct pay letter of credit until May 1, 2007. Under the agreement, the Authority may borrow up to \$42,681,514 to fund any amounts needed to pay principal and accrued interest of any Series 2001A bonds that mature in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on a percentage of the amount available. No amount is outstanding as of August 31, 2002.

The Series 2002A-1 Bonds, the Series 2002A-2 Bonds, and the Series 2002A-3 Bonds were rated "Aaa" by Moody's Investors Service, and the Series 2002B Bonds are rated "A2" by Moody's. The bonds were issued as taxable Auction Rate Certificates. Moody's is expected to review its rating on an ongoing basis.

The bonds are limited obligations of the Authority payable solely from revenue received by the Authority and secured by a pledge of the rights of the Authority under and pursuant to the loan agreements with and the notes receivable from borrowers and related letters of credit, security agreements, or other related documents. Such amounts include, without limitation, all payments of principal and investment earnings thereon.

Neither the faith and credit, the taxing power nor any revenue of the State of Texas or any political subdivision thereof, including the Authority (other than the revenue pledged under the trust indentures), are pledged to the payment of the bond principal and interest thereon. The bonds are not a general obligation of the Authority, and the individual board members are not liable.

The Authority has commitment agreements with certain financial institutions to purchase eligible student loans up to but not in excess of various commitment amounts. These commitment amounts are often based upon the institution's current portfolio of student loans or the expected volume of student loans to be originated during the year.

The Federal Family Education Loan programs in which the Authority participates are subject to audit in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, as revised April 26, 1996. Pursuant to the provisions of Circular A-133, the major federal financial assistance programs were tested for compliance with applicable grant requirements through August 31, 2002. The provisions of this circular do not limit the Authority or federal agencies or other federal audit officials to make or contract for audits and evaluations of federal financial assistance programs. As a result, final expenditure reports of grants and contracts submitted to granting agencies in current and prior years are subject to audit and adjustment by such agencies. The effect of such adjustments, if any, is not determinable at this time.

8. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The Authority has one segment that meets the reporting requirements of GASB Statement No. 34.

The outstanding bonds payable of the Authority consist of Student Loan Revenue Bonds, Auction Rate Securities, and Lines of Credit. Related debt covenants provide that the outstanding debt is payable from the eligible loans pledged under the debt covenants, amounts deposited in the accounts pledged under the debt covenants, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds.

Summary financial information for the Student Loan Revenue Bonds as of August 31, 2002, are as follows:

Condensed Statements of Net Assets	Surplus Fund	Bond Funds	Total
Assets:			
Current assets	\$ 8,281,867	\$ 147,256,537	\$ 155,538,404
Noncurrent assets	<u>20,117,884</u>	<u>645,830,318</u>	<u>665,948,202</u>
Total assets	28,399,751	793,086,855	821,486,606
Liabilities:			
Current liabilities	7,581	17,539,641	17,547,222
Noncurrent liabilities	<u>-</u>	<u>708,065,792</u>	<u>708,065,792</u>
Total liabilities	7,581	725,605,433	725,613,014
Net assets:			
Restricted	-	67,481,422	67,481,422
Unrestricted	<u>28,392,170</u>	<u>-</u>	<u>28,392,170</u>
Total net assets	<u>28,392,170</u>	<u>67,481,422</u>	<u>95,873,592</u>
Total liabilities and net assets	<u>\$28,399,751</u>	<u>\$793,086,855</u>	<u>\$821,486,606</u>
Operating revenues	\$ 1,013,385	\$ 30,773,040	\$ 31,786,425
Operating expenses	<u>93,704</u>	<u>28,236,365</u>	<u>28,330,069</u>
Total operating income	919,681	2,536,675	3,456,356
Nonoperating revenue	<u>-</u>	<u>15,020,094</u>	<u>15,020,094</u>
Change in net assets	919,681	17,556,769	18,476,450
Net assets, beginning of year, as restated	<u>27,472,489</u>	<u>49,924,653</u>	<u>77,397,142</u>
Net assets, end of year	<u>\$28,392,170</u>	<u>\$ 67,481,422</u>	<u>\$ 95,873,592</u>

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NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION COMBINING SCHEDULE - STATEMENT OF NET ASSETS INFORMATION AUGUST 31, 2002

ASSETS	Debt Issue							
	2002	2001	2000B	2000A	1998	1996	1993	1991 ABC
Cash and cash equivalents	\$ -	\$ 598	\$ -	\$ -	\$ 418	\$ 748	\$ 470	\$ 326
Investments - nonrestricted, current	-	-	-	-	-	-	-	-
Investments - non restricted, long-term	-	-	-	-	-	-	-	-
Investments - restricted, current	8,392,525	3,107,434	6,775,395	9,719,937	2,745,505	3,163,481	6,879,076	1,267,909
Investments - restricted, long-term	79,469	79,469	16,106	99,673	1,524,095	4,730,304	10,964,388	3,353,801
Accrued interest and other accounts receivable	5,087,693	1,221,884	1,241,820	2,625,375	1,143,332	1,130,914	3,780,627	864,803
Unremitted student loan principal and interest collections due (to) from Clearing Fund	763,555	258,564	228,884	810,649	473,214	474,679	1,352,501	366,967
Amounts due from other funds	29,104	8,869	573	23,569	4,810	1,566	27,011	6,388
Student loan notes receivable, net	141,589,984	35,305,766	27,406,387	60,209,200	38,812,399	40,085,788	103,189,264	21,642,757
Bond issue costs, net of accumulated amortization of \$2,887,615	245,657	167,531	153,532	62,119	227,620	263,169	122,748	187,049
Prepaid expenses	19,125	14,175	5,347	12,960	14,763	75,637	28,388	37,546
TOTAL ASSETS	\$ 156,127,643	\$ 40,164,290	\$ 35,828,044	\$ 73,563,482	\$ 44,946,156	\$ 49,926,286	\$ 126,344,473	\$ 27,727,546
LIABILITIES AND NET ASSETS								
LIABILITIES:								
Accounts payable	\$ 54,052	\$ 24,139	\$ 8,424	\$ 58,572	\$ 34,503	\$ 35,604	\$ 100,495	\$ 20,786
Accrued interest payable	85,289	139,437	46,180	238,289	143,915	270,193	934,171	59,212
Accrued other liabilities	119	15,128	123,411	89,053	53,832	9,077	14,702	5,267
Amounts due to other funds	1,150,878	25,078	4,091	28,679	1,851	7,143	3,703	1,404
Lines of credit	-	-	-	-	-	-	-	-
Bonds payable, less unamortized original issue discount of \$2,349,977	154,240,947	39,291,852	34,758,362	67,445,998	40,634,566	42,839,203	100,497,718	24,913,046
Excess earnings and arbitrage liabilities	-	175,454	6,548	864,213	1,154,147	2,100,332	367,758	57,790
Total liabilities	155,531,285	39,671,088	34,947,016	68,724,804	42,022,814	45,261,552	101,918,547	25,057,505
Net assets	596,358	493,202	881,028	4,838,678	2,923,342	4,664,734	24,425,926	2,670,041
TOTAL LIABILITIES AND NET ASSETS	\$ 156,127,643	\$ 40,164,290	\$ 35,828,044	\$ 73,563,482	\$ 44,946,156	\$ 49,926,286	\$ 126,344,473	\$ 27,727,546

(Continued)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE - STATEMENT OF NET ASSETS INFORMATION

AUGUST 31, 2002

ASSETS	Debt Issue			SLMA	BOA	Surplus Funds	Clearing Fund	Total Issues and Other Funds
	1991 DEF	1990	1987	Line-of- Credit Fund	Line-of- Credit Fund			
Cash and cash equivalents	\$ 326	\$ -	\$ 1	\$ -	\$ -	\$ 2	\$ 416,636	\$ 419,525
Investments - nonrestricted, current	-	-	-	-	-	699,000	-	699,000
Investments - non restricted, long-term	-	-	-	-	-	20,117,884	-	20,117,884
Investments - restricted, current	1,718,857	1,782,125	3,231,868	2,445,297	2,130,053	-	6,664,781	60,024,243
Investments - restricted, long-term	2,033,996	2,133,051	5,993,952	271,968	796,970	-	-	31,997,773
Accrued interest and other accounts receivable	991,010	1,461,399	2,921,308	151,855	960,359	275,835	691,638	24,549,852
Unremitted student loan principal and interest collections due (to) from Clearing Fund	227,510	471,367	803,072	1,094	506,273	-	(6,738,329)	-
Amounts due from other funds	9,476	1,237	9,150	122,405	27,128	7,307,030	-	7,578,316
Student loan notes receivable, net	24,842,075	46,534,446	94,530,926	6,993,095	41,496,285	-	(1,017,389)	681,620,983
Bond issue costs, net of accumulated amortization of \$2,887,615	187,049	57,001	117,180	-	-	-	-	1,790,655
Prepaid expenses	37,546	-	-	2,970	18,234	-	-	266,691
TOTAL ASSETS	<u>\$ 30,047,845</u>	<u>\$ 52,440,626</u>	<u>\$ 107,607,457</u>	<u>\$ 9,988,684</u>	<u>\$ 45,935,302</u>	<u>\$ 28,399,751</u>	<u>\$ 17,337</u>	<u>\$ 829,064,922</u>
LIABILITIES AND NET ASSETS								
LIABILITIES:								
Accounts payable	\$ 32,739	\$ 72,126	\$ 102,942	\$ 2,628	\$ 32,210	\$ 7,581	\$ 111	\$ 586,912
Accrued interest payable	59,212	144,567	296,307	17,057	269,390	-	-	2,703,219
Accrued other liabilities	5,267	8,661	114,646	6,965	5,833	-	130	452,091
Amounts due to other funds	-	-	79,577	2,577,942	3,680,874	-	17,096	7,578,316
Lines of credit	-	-	-	6,900,000	42,271,000	-	-	49,171,000
Bonds payable, less unamortized original issue discount of \$2,349,977	24,913,046	40,965,642	87,594,642	-	-	-	-	658,095,022
Excess earnings and arbitrage liabilities	267,004	4,007,811	5,603,713	-	-	-	-	14,604,770
Total liabilities	25,277,268	45,198,807	93,791,827	9,504,592	46,259,307	7,581	17,337	733,191,330
Net assets	<u>4,770,577</u>	<u>7,241,819</u>	<u>13,815,630</u>	<u>484,092</u>	<u>(324,005)</u>	<u>28,392,170</u>	<u>-</u>	<u>95,873,592</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,047,845</u>	<u>\$ 52,440,626</u>	<u>\$ 107,607,457</u>	<u>\$ 9,988,684</u>	<u>\$ 45,935,302</u>	<u>\$ 28,399,751</u>	<u>\$ 17,337</u>	<u>\$ 829,064,922</u>

(Concluded)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION

YEAR ENDED AUGUST 31, 2002

	Debt Issue							
	2002	2001	2000B	2000A	1998	1996 A-D	1993 A-D	1991 ABC
REVENUES:								
Interest on student loans	\$ 1,418,624	\$ 884,378	\$ 841,089	\$ 2,727,750	\$ 1,796,719	\$ 2,181,316	\$ 5,409,012	\$ 1,009,864
Interest on investments	246,017	38,413	58,181	104,593	54,963	119,825	641,299	191,304
Government subsidy on student loans	1,015,010	633,958	607,401	664,298	485,142	311,153	720,102	177,729
Special allowance income	<u>18,214</u>	<u>191,336</u>	<u>(466,621)</u>	<u>2,105,284</u>	<u>204,314</u>	<u>249,831</u>	<u>3,002,050</u>	<u>689,897</u>
Total revenues	2,697,865	1,748,085	1,040,050	5,601,925	2,541,138	2,862,125	9,772,463	2,068,794
EXPENSES:								
Interest on bonds and lines of credit	1,451,821	669,586	577,590	1,230,788	689,799	719,429	3,293,669	568,825
Loan servicing fees	295,492	106,889	97,436	350,812	179,367	255,404	553,921	140,366
Payments for administrative and operating costs to Higher Education Servicing Corporation	166,665	150,000	310,000	700,000	435,000	125,000	400,000	50,000
Trustee fees	149	4,984	10,206	17,969	21,224	17,924	23,684	8,038
Letter of credit fees	-	170,726	146,113	282,126	170,390	115,585	337,879	65,017
Remarketing fees	186,215	49,533	43,750	84,600	51,019	53,750	87,500	27,923
Bond insurance expense	-	-	-	-	-	94,600	-	55,000
Provision for excess earnings and arbitrage liability	-	175,488	6,548	846,276	1,041,885	574,970	368,224	(190,557)
Miscellaneous expense	<u>1,165</u>	<u>17,171</u>	<u>17,261</u>	<u>20,638</u>	<u>21,669</u>	<u>20,162</u>	<u>56,009</u>	<u>16,445</u>
Total expenses	<u>2,101,507</u>	<u>1,344,377</u>	<u>1,208,904</u>	<u>3,533,209</u>	<u>2,610,353</u>	<u>1,976,824</u>	<u>5,120,886</u>	<u>741,057</u>
CHANGE IN NET ASSETS	596,358	403,708	(168,854)	2,068,716	(69,215)	885,301	4,651,577	1,327,737
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED	<u>-</u>	<u>89,494</u>	<u>1,049,882</u>	<u>2,769,962</u>	<u>2,992,557</u>	<u>3,779,433</u>	<u>19,774,349</u>	<u>1,342,305</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 596,358</u>	<u>\$ 493,202</u>	<u>\$ 881,028</u>	<u>\$ 4,838,678</u>	<u>\$ 2,923,342</u>	<u>\$ 4,664,734</u>	<u>\$ 24,425,926</u>	<u>\$ 2,670,042</u>

(Continued)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION

YEAR ENDED AUGUST 31, 2002

	Debt Issue			S.L.M.A.	BOA	Surplus Funds	Total Funds
	1991 DEF	1990	1987	Line-of- Credit Fund	Line-of- Credit Fund		
REVENUES:							
Interest on student loans	\$ 1,208,597	\$ 2,847,628	\$ 6,022,520	\$ 1,146,285	\$ 1,119,424	\$ -	\$ 28,613,206
Interest on investments	158,185	90,621	366,166	44,834	45,433	1,013,385	3,173,219
Government subsidy on student loans	184,338	230,859	464,200	213,925	451,826	-	6,159,941
Special allowance income	<u>722,941</u>	<u>616,529</u>	<u>1,520,415</u>	<u>(150)</u>	<u>6,113</u>	<u>-</u>	<u>8,860,153</u>
Total revenues	2,274,061	3,785,637	8,373,301	1,404,894	1,622,796	1,013,385	46,806,519
EXPENSES:							
Interest on bonds and lines of credit	568,825	699,226	1,486,452	718,187	1,136,176	-	13,810,373
Loan servicing fees	142,176	227,032	327,778	137,245	171,809	-	2,985,727
Payments for administrative and operating costs to Higher Education Servicing Corporation	50,000	200,000	1,350,000	25,000	25,000	-	3,986,665
Trustee fees	8,041	28,834	25,229	3,467	10,910	-	180,659
Letter of credit fees	65,017	197,060	390,075	23,905	24,604	-	1,988,497
Remarketing fees	31,973	51,250	81,487	-	-	-	749,000
Bond insurance expense	55,000	-	-	-	-	-	204,600
Provision for excess earnings and arbitrage liability	(165,115)	478,613	912,025	-	-	-	4,048,357
Miscellaneous expense	<u>25,702</u>	<u>19,579</u>	<u>53,669</u>	<u>5,054</u>	<u>7,965</u>	<u>93,702</u>	<u>376,191</u>
Total expenses	<u>781,619</u>	<u>1,901,594</u>	<u>4,626,715</u>	<u>912,858</u>	<u>1,376,464</u>	<u>93,702</u>	<u>28,330,069</u>
CHANGE IN NET ASSETS	1,492,442	1,884,043	3,746,586	492,036	246,332	919,683	18,476,450
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED	<u>3,278,134</u>	<u>5,357,776</u>	<u>10,069,045</u>	<u>(7,944)</u>	<u>(570,340)</u>	<u>27,472,489</u>	<u>77,397,142</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 4,770,576</u>	<u>\$ 7,241,819</u>	<u>\$ 13,815,631</u>	<u>\$ 484,092</u>	<u>\$ (324,008)</u>	<u>\$ 28,392,172</u>	<u>\$ 95,873,592</u>

(Concluded)

APPENDIX F

UNAUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF NET ASSETS

YEARS ENDED AUGUST 31, 2003 AND 2002

ASSETS	<u>Year 2003</u>	<u>Year 2002</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 68,913	419,525
Investments - Non Restricted, Current	10,642,897	699,000
Investments - Restricted, Current	85,183,090	60,024,243
Accrued interest and other accounts receivable	256,606	275,835
Accrued interest and other accounts receivable - restricted	21,765,643	24,274,017
Prepaid expenses	226,623	266,691
Bond issue costs, net of accumulated amortization	2,163,742	1,790,655
Student loan notes receivable - restricted	<u>95,976,248</u>	<u>67,788,438</u>
Total current assets	216,283,762	155,538,404
LONG-TERM ASSETS		
Investments - Non Restricted, Long Term	8,615,863	20,117,884
Investments - Restricted, Long Term	6,819,729	31,997,773
Student loan notes receivables - restricted	<u>655,983,748</u>	<u>613,832,545</u>
Total long-term assets	<u>671,419,340</u>	<u>665,948,202</u>
TOTAL ASSETS	\$ <u>887,703,102</u>	<u>821,486,606</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	\$ 648,296	586,912
Accrued interest payable	1,549,334	2,703,219
Accrued other liabilities	420,509	452,091
Bonds payable	<u>16,000,000</u>	<u>13,805,000</u>
Total current liabilities payable from restricted assets	18,618,139	17,547,222
LONG-TERM LIABILITIES - PAYABLE FROM RESTRICTED ASSETS		
Lines of credit	63,526,000	49,171,000
Bonds payable, less unamortized original issue discounts of \$2,572,088	673,017,912	644,290,022
Excess earnings and arbitrage liabilities	<u>18,270,152</u>	<u>14,604,770</u>
Total long-term liabilities payable from restricted assets	754,814,064	708,065,792
Total liabilities	773,432,203	725,613,014
NET ASSETS		
Restricted	86,158,639	67,481,422
Unrestricted	<u>28,112,260</u>	<u>28,392,170</u>
Total net assets	114,270,899	95,873,592
TOTAL LIABILITIES AND NET ASSETS	\$ <u>887,703,102</u>	<u>821,486,606</u>

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2003 AND 2002

	<u>Year 2003</u>	<u>Year 2002</u>
OPERATING REVENUES:		
Interest on student loans	\$ 23,967,477	28,613,205
Interest on cash equivalents and investments	2,297,463	3,173,218
Total operating revenues	<u>26,264,940</u>	<u>31,786,423</u>
OPERATING EXPENSES:		
Interest on bonds and lines of credit	11,445,634	13,810,370
Loan servicing fees paid to Higher Education Servicing Corp.	3,406,051	2,985,727
Payments for administrative and operating costs to Higher Education Servicing Corporation	3,763,331	3,986,665
Trustee fees	215,414	180,659
Letter of credit fees	1,895,910	1,988,496
Remarketing fees	533,980	562,785
Broker \ Dealer fees	563,057	186,215
Bond insurance expense	204,600	204,600
Provision for excess earnings and arbitrage liability	3,837,783	4,048,358
Miscellaneous expense	1,259,667	376,192
Total operating expenses	<u>27,125,427</u>	<u>28,330,067</u>
OPERATING INCOME	(860,487)	3,456,356
NONOPERATING REVENUES AND EXPENSES		
Government subsidy on student loans	5,363,314	6,159,941
Special allowance income	13,894,480	8,860,153
Total nonoperating revenues and expenses	<u>19,257,794</u>	<u>15,020,094</u>
CHANGE IN NET ASSETS	<u>18,397,307</u>	<u>18,476,450</u>
NET ASSETS, BEGINNING OF YEAR	95,873,592	77,397,142
NET ASSETS, END OF YEAR	<u>\$ 114,270,899</u>	<u>95,873,592</u>

NORTH TEXAS HIGHER EDUCATION AUTHORITY

STATEMENT OF CASH FLOWS

YEARS ENDED AUGUST 31, 2003 AND 2002

	Year 2003	Year 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	\$ (210,141,191)	(211,417,860)
Deferred loan acquisition premiums paid	(4,826,587)	(3,763,498)
Student loan repayments	153,705,430	105,650,202
Cash received for student loan and investment Interest	22,501,980	31,960,107
Interest paid on bonds and lines of credit	(11,780,939)	(15,045,581)
Payment to vendors	(14,770,712)	(12,597,793)
Reduction of prepaid expenses	40,068	(33,370)
Net cash from operating activities	(65,271,951)	(105,247,793)
CASH FLOW FROM NON CAPITAL FINANCING:		
Proceeds from issuances of bonds	103,400,000	155,000,000
Proceeds from lines of credit	35,000,000	30,885,000
Repayment of Bonds	(72,255,000)	(7,645,000)
Payments on line of credit	(20,645,000)	(58,000,000)
Proceeds from government subsidy on student loans	5,363,315	6,159,941
Proceeds from special allowance	13,894,480	8,860,153
Deferred bond & line of credit issue cost paid	(1,413,777)	(1,015,557)
Net cash from noncapital financing activities	63,344,018	134,244,537
CASH FLOW FROM CAPITAL FINANCING:		
Purchase of capital assets	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	(828,478,881)	(703,381,974)
Proceeds from maturities of investments held by Trustee	830,056,202	674,715,081
Net cash from investing activities	1,577,321	(28,666,893)
CHANGE IN CASH AND CASH EQUIVILANTS	(350,612)	329,851
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	419,525	89,674
CASH & CASH EQUIVALENTS, AT END OF YEAR	\$ 68,913	419,525
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income:	\$ (860,487)	3,456,356
Adjustments to reconcile change in net assets to net cash used in operating activities		
Amortization of deferred bond issue costs and original issue discounts	818,579	778,445
Changes in assets and liabilities		
Decrease in accrued interest and other accounts receivable	2,527,603	(4,598,292)
increase in student loan notes receivable, net	(70,339,013)	(106,526,841)
Decrease in prepaid expenses	40,068	(33,370)
Increase in accounts payable	61,384	42,931
Decreased in accrued and other liabilities	(31,582)	75,376
Decreased in accrued interest payable	(1,153,885)	(2,026,835)
Increase in excess earnings and arbitrage liabilities	3,665,382	3,584,437
NET CASH USED IN OPERATING ACTIVITIES:	\$ (65,271,951)	(105,247,793)

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APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

Fulbright & Jaworski I.I.p.

A Registered Limited Liability Partnership
1301 McKinney, Suite 5100
Houston, Texas 77010-3095
www.fulbright.com

telephone: (713) 651-5151

facsimile: (713) 651-5246

December 3, 2003

Re: North Texas Higher Education Authority, Inc. Student Loan Revenue Bonds
Taxable Series 2003-2A-1 (the "Series 2003-2A-1 Bonds")
Taxable Series 2003-2A-2 (the "Series 2003-2A-2 Bonds")
Taxable Series 2003-2B (the "Series 2003-2B Bonds")

WE HAVE ACTED AS BOND COUNSEL for the North Texas Higher Education Authority, Inc. (the "Authority") for the purpose of rendering our opinion as to the legality and validity of the issuance of the bonds described above (collectively, the "Bonds") under the laws of the State of Texas, and for no other purpose. The Bonds are issued in three separate series pursuant to and secured under a General Indenture dated as of May 1, 1993, as supplemented by an Amended and Restated First Supplemental Indenture dated as of April 1, 2003, a Second Supplemental Indenture dated as of March 1, 2002, a Third Supplemental Indenture dated as of January 1, 2003, a Fourth Supplemental Indenture dated as of January 1, 2003, and a Fifth Supplemental Indenture dated as of December 1, 2003 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as successor trustee.

WE HAVE NOT BEEN REQUESTED to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the Authority. Our examinations into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the laws of the State of Texas; a transcript of certified proceedings of the Authority relating to the authorization and issuance of the Bonds, including the Resolution authorizing the issuance of the Bonds; the Indenture; customary certifications and opinions of officials of the Authority and other pertinent showings; and an examination of the Bonds executed and delivered initially by the Authority, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that the Bonds have been duly authorized by the Authority in compliance with the laws of the State of Texas now in force, including particularly Chapter 53 of the Texas Education Code, as amended, and the Bonds issued in compliance with the provisions of the Indenture are valid and legally binding obligations of the Authority, payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, or the exercise of judicial discretion in accordance with general principles of equity.

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