

REMARKETING MEMORANDUM

Conversion of the Remarketed Bonds to bear interest at a variable rate is subject to the delivery of an opinion by Bond Counsel to the effect that such conversion will not adversely affect the excludability of the interest on the Remarketed Bonds from the gross income of the owners thereof for federal income tax purposes. In rendering such opinion, Bond Counsel has made no investigation of, and will render no opinion with respect to, the current status of the interest on the Remarketed Bonds under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), or any other federal tax matter, except to note that interest on the Remarketed Bonds is included in computing the alternative minimum taxable income of the owners thereof which are individuals, corporations, trusts or estates. On January 16, 2003, the date of original issuance and delivery of the Remarketed Bonds, Bond Counsel rendered its opinion that interest on the Remarketed Bonds was excludable from gross income for federal income tax purposes, pursuant to Section 103 of the Code, under then existing statutes, regulations, published rulings, and court decisions. See the caption "Tax Exemption" herein for discussion of Bond Counsel's opinion rendered on January 16, 2003.

Remarketed Issue

**Ratings – Moody's: Series 2003A: Aaa/VMIG 1
Series 2003B: Aa1/VMIG 1
(See "Ratings" herein.)**

North Texas Higher Education Authority, Inc.

Student Loan Revenue Bonds

\$20,000,000 Series 2003A-1 (Class II)

\$19,500,000 Series 2003A-2 (Class II)

\$15,000,000 Series 2003B (Class IV)

Remarketing Date: March 31, 2006

Remarketing Price: 100%

Due: Series 2003A-1: October 1, 2037

Original Issuance Date: January 16, 2003

Series 2003A-2: April 1, 2010

Series 2003B: October 1, 2037

This Remarketing Memorandum is furnished by North Texas Higher Education Authority, Inc. (the "Authority") in connection with the remarketing of its Student Loan Revenue Bonds, Series 2003A-1 (Class II) (the "Series 2003A-1 Bonds"), Student Loan Revenue Bonds, Series 2003A-2 (Class II) (the "Series 2003A-2 Bonds") and Student Loan Revenue Bonds, Series 2003B (Class IV) (the "Series 2003B Bonds" and together with the Series 2003A-1 Bonds and the Series 2003A-2 Bonds, the "Remarketed Bonds") as a result of the conversion of the interest rate on the Remarketed Bonds to a variable rate, as described in this Remarketing Memorandum. The Remarketed Bonds were issued on January 16, 2003 as Auction Rate Certificates. In connection with the conversion of the Remarketed Bonds to bear interest at a variable rate, the Remarketed Bonds are subject to mandatory tender on March 31, 2006, and are being remarketed as of such date.

The Remarketed Bonds were issued by the Authority pursuant to a General Indenture, dated as of May 1, 1993, which has been amended and restated by an Amended and Restated General Indenture, dated as of February 3, 2006, between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and supplemented by five supplements, including by an Amended and Restated Third Supplemental Indenture, dated as of February 3, 2006, between the Authority and the Trustee (collectively, the "Indenture"). There are currently outstanding under the Indenture \$420,000,000 of Bonds, including the Authority's Student Loan Revenue Bonds, Series 1993A (the "Series 1993 Bonds"), the Authority's Student Loan Revenue Bonds, Series 2002A-1, A-2, A-3 and B (the "Series 2002 Bonds"), the Authority's Student Loan Revenue Bonds, Series 2003A-3 (the "Series 2003A-3 Bonds"), the Authority's Student Loan Revenue Bonds, Series 2003-2A-1, 2003-2A-2 and 2003-2B (the "Series 2003-2 Bonds") and the Remarketed Bonds. The Indenture also permits the issuance of Additional Bonds in the future. The Series 2003A-1 Bonds and the Series 2003A-2 Bonds (collectively, the "Series 2003A Bonds") constitute Class II Bonds under the Indenture and the Series 2003B Bonds constitute Class IV Bonds under the Indenture. See the caption "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Payment Priorities" herein.

Each series of the Remarketed Bonds will initially bear interest to (but not including) April 2, 2007 at a rate to be determined prior to the remarketing of the Remarketed Bonds (the "Initial Interest Rate"). Thereafter, the Remarketed Bonds will bear interest at a Weekly Rate and the interest rate on each series of Remarketed Bonds will be adjusted on Tuesday of each week by UBS Securities LLC, as the Remarketing Agent. Each series of the Remarketed Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the Authority and subject to the satisfaction of certain conditions precedent described in the Indenture, the interest rate on a series of the Remarketed Bonds is changed to another type of interest rate. **This Remarketing Memorandum describes terms and provisions applicable to the Remarketed Bonds only while they bear interest at an Initial Interest Rate or a Weekly Rate. In the event of a conversion to a fixed rate or auction rate, or if the interest period for a series of Remarketed Bonds is changed from a weekly period following the initial interest period, such Remarketed Bonds will be subject to mandatory tender and potential purchasers of the Remarketed Bonds will be provided with separate offering materials containing descriptions of the terms applicable to such Remarketed Bonds in the interest rate mode to which the Remarketed Bonds are being converted or with respect to the change in interest period.** The Remarketed Bonds are subject to optional and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "THE REMARKETED BONDS" herein.

Upon the remarketing of the Remarketed Bonds, principal of and interest on the Remarketed Bonds and the Purchase Price upon tender of the Remarketed Bonds is payable from two irrevocable direct-pay Letters of Credit (one with respect to the Series 2003A Bonds and one with respect to the Series 2003B Bonds) issued by DEPFA BANK plc, acting by and through its New York Branch.



The Letters of Credit to be issued by DEPFA BANK plc will expire, unless otherwise extended or renewed or earlier terminated in accordance with their terms, on October 8, 2037. See "THE LETTERS OF CREDIT" and "THE CREDIT PROVIDER" herein.

The Remarketed Bonds are issued as fully registered bonds in the denomination of \$100,000 or any integral multiple thereof, and 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 Remarketed Bonds. Purchasers of the Remarketed Bonds will not receive certificates representing their beneficial ownership interests in the Remarketed Bonds. Purchases and sales by the beneficial owners of the Remarketed Bonds will be made in book entry form. Payments of principal, redemption price and interest with respect to the Remarketed Bonds are to be made directly to DTC by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Remarketed 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. See the caption "THE REMARKETED BONDS—Book-Entry Only System" herein.

THE REMARKETED BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE DESCRIBED HEREIN 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.

On the date of original issuance and delivery of the Remarketed Bonds, certain legal matters were passed upon by the Attorney General of the State of Texas and by Fulbright & Jaworski L.L.P., Houston, Texas, Bond Counsel. The conversion of the Remarketed Bonds to bear interest at a Variable Rate is subject to the receipt of an opinion of Bond Counsel meeting the requirements of the Indenture. Certain legal matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., Houston, Texas, general counsel to the Authority and for DEPFA BANK plc by its United States counsel, Kutak Rock LLP, Atlanta, Georgia, and by its General Counsel in Ireland.

UBS Investment Bank
as Remarketing Agent

Dated: March 17, 2006

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

This Remarketing Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Remarketed 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 Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in this Remarketing Memorandum 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 Remarketing Agent 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 Remarketing Memorandum 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 Remarketing Agent to give any information or make any representations, other than those contained in this Remarketing Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISK INVOLVED. THE REMARKETED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS REMARKETING MEMORANDUM.

The price and other terms respecting the remarketing of the Remarketed Bonds may be changed from time to time by the Remarketing Agent after such Remarketed Bonds are remarketed, and such Remarketed Bonds may be offered and sold to certain dealers (including dealers depositing Remarketed Bonds into investment accounts) and others at prices lower than the initial remarketing price. In connection with the offering of the Remarketed Bonds, the Remarketing Agent may over allot or effect transactions which stabilize or maintain the market prices of the Remarketed 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 neither has nor assumes any responsibility with respect to the information in this Remarketing Memorandum and has not reviewed or undertaken to verify any information contained herein.

TABLE OF CONTENTS

	Page
SUMMARY STATEMENT	i
INTRODUCTION	1
THE REMARKETED BONDS	3
General Description	3
Interest Payments	4
Redemption Provisions	4
Establishment of Interest Rates for Remarketed Bonds	6
Determination of Subsequent Rate Periods	7
Optional Tender at the End of the Initial Interest Period	7
Optional Tender of Weekly Rate Bonds	7
Mandatory Tender of Remarketed Bonds	8
Purchase Fund	9
Remarketing of Tendered Remarketed Bonds	9
Credit Facility; Substitution of Credit Facility	9
Book-Entry Only System	10
References to Owners	12
SECURITY AND SOURCE OF PAYMENT FOR THE BONDS	12
General	12
Student Loans	12
Net Revenues	13
Funds and Accounts	13
Payment Priorities	13
Cashflow Assumptions	14
Collateralization	14
Additional Bonds and Other Obligations	14
Debt Service Reserve Fund	14
Letters of Credit	15
Withdrawal of Excess Coverage	15
PORTFOLIO INFORMATION	15
RISK FACTORS	16
The Credit Provider	16
Limited Liability of Authority	17
Factors Affecting Sufficiency and Timing of Receipt of Revenues and Prepayment Considerations	17
Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program	18
Financial Status of the Guarantors	20
Noncompliance with the Higher Education Act	20
Certain Factors Relating to Security	21
Uncertainty as to Available Remedies	21
General Economic Conditions	21
Servicemembers Civil Relief Act	21
Higher Education Relief Opportunities for Students Act of 2003	22
THE LETTERS OF CREDIT	22
General	22
Events of Default and Remedies Under Each Reimbursement Agreement	25
Mandatory Redemption of Remarketed Bonds Owned by the Credit Provider During the Term-Out Period	25

THE CREDIT PROVIDER	25
THE AUTHORITY	26
General	26
Board of Directors.....	28
Eligible Lenders	29
Authority Financing Activities 1979 to Present.....	29
THE GUARANTOR.....	29
General	29
Texas Guaranteed Student Loan Corporation.....	29
SERVICING OF THE LOANS	31
Higher Education Servicing Corporation.....	31
Educational Services of America, Inc.....	35
Nelnet, Inc.....	37
Custody of Student Loan Documents	37
Further Information Regarding Servicing Issues	38
LEGAL INVESTMENTS IN TEXAS.....	38
TAX EXEMPTION	38
Tax Matters Relating to the Remarketed Bonds	38
THE REMARKETING AGENT	40
RATINGS	40
FINANCIAL STATEMENTS	40
LEGAL MATTERS.....	40
CERTAIN LEGAL PROCEEDINGS.....	40
CONTINUING DISCLOSURE.....	41
General	41
Annual Financial Information.....	42
Event Notices.....	43
Definitions	44
OTHER MATTERS.....	44
APPENDIX A BOND COUNSEL OPINION DELIVERED IN CONNECTION WITH THE CONVERSION OF THE INTEREST RATE ON THE REMARKETED BONDS	
APPENDIX B BOND COUNSEL OPINION DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE REMARKETED BONDS	
APPENDIX C DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	
APPENDIX D AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY	
APPENDIX E SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Remarketing Memorandum. The reoffering of the Remarketed Bonds to potential investors is made only by means of this entire Remarketing Memorandum. Capitalized terms used in this Summary Statement are defined elsewhere in this Remarketing Memorandum. No person is authorized to detach this Summary Statement from this Remarketing Memorandum or to otherwise use it without this entire Remarketing Memorandum.

- Conversion to Variable Rate**..... This Remarketing Memorandum is furnished by the Authority in connection with the remarketing of the Remarketed Bonds as a result of the conversion of the interest rate on the Remarketed Bonds to a variable rate. The Remarketed Bonds were issued on January 16, 2003 as Auction Rate Certificates. In connection with the conversion of the Remarketed Bonds to bear interest at a variable rate, the Remarketed Bonds are subject to mandatory tender on March 31, 2006, and are being remarketed as of such date.
- Issuer** North Texas Higher Education Authority, Inc., a nonprofit corporation organized pursuant to the laws of the State of Texas.
- The Remarketed Bonds** The Remarketed Bonds were issued pursuant to a General Indenture, dated as of May 1, 1993, which has been amended and restated by an Amended and Restated General Indenture, dated as of February 3, 2006, between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and supplemented by five supplements, including by an Amended and Restated Third Supplemental Indenture, dated as of February 3, 2006, between the Authority and the Trustee (collectively, the "Indenture").
- The Series 2003A-1 Bonds are outstanding in the principal amount of \$20,000,000 and mature on October 1, 2037. The Series 2003A-2 Bonds are outstanding in the principal amount of \$19,500,000 and mature on April 1, 2010. The Series 2003B Bonds are outstanding in the principal amount of \$15,000,000 and mature on October 1, 2037. Each series of the Remarketed Bonds will initially bear interest to (but not including) April 2, 2007 at a rate to be determined prior to the remarketing of the Remarketed Bonds (the "Initial Interest Rate"). Thereafter the rate on each series of the Remarketed Bonds will be a variable rate for a weekly interest period (a "Weekly Rate"), determined as set forth herein, but may be converted to a fixed rate or an auction rate. The interest period for each series of the Remarketed Bonds bearing interest at a Weekly Rate may be changed to a different interest period selected by the Authority. Upon a conversion to a fixed

rate or auction rate, or upon a change in interest period from a weekly interest period, the Remarketed Bonds will be subject to mandatory tender. While Remarketed Bonds bear interest at the Initial Interest Rate or a Weekly Rate, interest is payable on April 1 and October 1 of each year, commencing October 1, 2006.

There are currently outstanding under the Indenture \$420,000,000 of Bonds, including the Remarketed Bonds. The Series 2003A Bonds constitute Class II Bonds under the Indenture and the Series 2003B Bonds constitute Class IV Bonds under the Indenture. The Indenture permits the issuance of Additional Bonds in the future. See “THE REMARKETED BONDS—Additional Bonds” herein.

Letters of Credit.....

While each series of the Remarketed Bonds bears interest at the Initial Interest Rate or a Weekly Rate, the principal of and interest on the Remarketed Bonds of such series, and the purchase price thereof upon optional or mandatory tender, will be paid by amounts drawn on one of two irrevocable direct pay letters of credit issued by DEPFA BANK plc (one with respect to the Series 2003A Bonds and one with respect to the Series 2003B Bonds). See “THE LETTERS OF CREDIT” and “THE CREDIT PROVIDER” herein.

Purchase of Remarketed Bonds at End of Initial Interest Period

Each series of the Remarketed Bonds bearing interest at the Initial Interest Rate is subject to purchase on demand of the Owner thereof on April 2, 2007 (the first Business Day following the end of the Initial Interest Period) on seven days of notice to the Tender Agent and subject to the conditions described herein. **During the Initial Interest Period, no Owner may have its Remarketed Bond purchased.** See “THE REMARKETED BONDS—Purchase of Remarketed Bonds on Demand of Owner” herein.

Purchase of Remarketed Bonds on Demand of Bondowners during Weekly Rate Period

While each series of the Remarketed Bonds bears interest at a Weekly Rate and the Letter of Credit with respect to such series is in effect, any Remarketed Bond is subject to purchase on demand of the Owner thereof on any Business Day on seven days of notice to the Tender Agent and subject to the conditions described herein. See “THE REMARKETED BONDS—Purchase of Remarketed Bonds on Demand of Owner” herein.

Mandatory Tender and Purchase of Remarketed Bonds during Initial Interest Period and Weekly Rate Period

Each series of the Remarketed Bonds bearing interest at an Initial Interest Rate or a Weekly Rate is subject to

mandatory tender to the Tender Agent for purchase (a) upon a change in the interest period for Remarketed Bonds bearing interest at a Weekly Rate, (b) on the date of substitution of the Letter of Credit with respect to such series of Bonds with a new credit facility, (c) on the fifth Business Day prior to the expiration of the Letter of Credit with respect to such series of Bonds, (d) on any date no more than 18 days following notice from the Credit Provider of certain events relating to the credit facility with respect to such series of Bonds, and (e) upon conversion of the interest rate on such Remarketed Bonds to a Fixed Rate or an Auction Rate. See “THE REMARKETED BONDS—Mandatory Tender for Purchase” herein.

Purchase of Remarketed Bonds during Weekly Rate Period

The Tender Agent is to purchase properly tendered Remarketed Bonds at a price equal to the principal amount thereof plus accrued and unpaid interest, if any (unless the date of tender is an Interest Payment Date, in which case interest shall be paid in the ordinary course), with first, proceeds from the remarketing of the Remarketed Bonds which have been tendered, and second, from funds provided by a drawing under the applicable Letter of Credit. The Authority has no obligation to purchase tendered Remarketed Bonds.

Redemption.....

While each series of the Remarketed Bonds bears interest at an Initial Interest Rate or a Weekly Rate, the Bonds of such series are subject to redemption prior to maturity under certain specified circumstances as described herein under the heading “THE REMARKETED BONDS—Redemption of Remarketed Bonds.”

Sources of Revenue and Security.....

The Remarketed Bonds, the Series 2003-2 Bonds, the Series 2003A-3 Bonds, the Series 2002 Bonds, the Series 1993 Bonds and any Additional Bonds issued in the future (collectively, the “Bonds”) and any obligations to a Credit Provider or Liquidity Provider 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, and the rights of the Authority in and to various agreements relating to the Student Loans.

Student Loan Insurance, Guarantee and Reinsurance.....

All Student Loans financed by the Authority with the proceeds of the Remarketed Bonds are required to be:

(a) guaranteed as to principal and accrued interest by a guarantor and reinsured by the Secretary of the United States Department of Education in the amount and to the extent provided in the Higher Education Act; or

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

Limited Obligations The Remarketed Bonds are special, limited obligations of the Authority secured by and payable solely from the Trust Estate. **The Remarketed 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 that have resulted in material modifications to such programs. No assurance can be given that relevant federal laws, including the Higher Education Act, will not be further changed in the future in a manner which might adversely affect the characteristics, availability or volume of Eligible Loans which can be acquired by the Authority. See APPENDIX C “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.” See also “RISK FACTORS—Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program” herein.

Certain Risk Factors..... Investment in the Remarketed Bonds entails certain investment risks which are summarized in this Remarketing Memorandum under the heading “RISK FACTORS.”

Definitions..... Certain terms used in this Remarketing Memorandum but not otherwise defined are used as defined in the Indenture. See APPENDIX E “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” for the definitions of many of these terms as well as a more detailed explanation of the principal provisions of the Indenture.

REMARKETING MEMORANDUM

North Texas Higher Education Authority, Inc.
Student Loan Revenue Bonds
\$20,000,000 Series 2003A-1 (Class II)
\$19,500,000 Series 2003A-2 (Class II)
\$15,000,000 Series 2003B (Class IV)

This Remarketing Memorandum, including the cover page and the Appendices hereto, provides certain information in connection with the remarketing by North Texas Higher Education Authority, Inc. (the “Authority”) of its Student Loan Revenue Bonds, Series 2003A-1 (Class II) (the “Series 2003A-1 Bonds”), its Student Loan Revenue Bonds, Series 2003A-2 (Class II) (the “Series 2003A-2 Bonds”) and its Student Loan Revenue Bonds, Series 2003B (Class IV) (the “Series 2003B Bonds” and, together with the Series 2003A-1 Bonds and the Series 2003A-2 Bonds, the “Remarketed Bonds”) as a result of the conversion of the interest rate on the Remarketed Bonds to a variable rate. The Remarketed Bonds were issued as Auction Rate Certificates on January 16, 2003. In connection with the conversion of the Remarketed Bonds to bear interest at a variable rate, the Remarketed Bonds are subject to mandatory tender on March 31, 2006, and are being remarketed as of such date.

The Remarketed Bonds were authorized pursuant to the laws of the State of Texas, including Chapter 53B of the Texas Education Code, as amended (the “Education Code”), and were issued under a General Indenture, dated as of May 1, 1993, which has been amended and restated by an Amended and Restated General Indenture, dated as of February 3, 2006, between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”), and supplemented by five supplements, including by an Amended and Restated Third Supplemental Indenture, dated as of February 3, 2006, between the Authority and the Trustee (collectively, the “Indenture”). The Remarketed Bonds, together with all bond previously issued and all Additional Bonds to be issued pursuant to the Indenture are referred to herein as the “Bonds.” There are currently outstanding under the Indenture \$420,000,000 of Bonds, including the Authority’s Student Loan Revenue Bonds, Series 1993A (the “Series 1993 Bonds”), the Authority’s Student Loan Revenue Bonds, Series 2002A-1, A-2, A-3 and B (the “Series 2002 Bonds”), the Authority’s Student Loan Revenue Bonds, Series 2003A-3 (the “Series 2003A-3 Bonds”), the Authority’s Student Loan Revenue Bonds, Series 2003-2A-1, 2003-2A-2 and 2003-2B (the “Series 2003-2 Bonds”) and the Remarketed Bonds. The Series 2003A-1 Bonds and the Series 2003A-2 Bonds (collectively, the “Series 2003A Bonds”) constitute Class II Bonds under the Indenture and the Series 2003B Bonds constitute Class IV Bonds under the Indenture. See the caption “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Payment Priorities” herein.

All capitalized terms used in this Remarketing Memorandum and not otherwise defined herein have the meanings assigned to them in the Indenture. See APPENDIX E “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions.”

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 or, in certain circumstances, 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 student loans satisfying the requirements of the Higher Education Act and the Indenture which are 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 Authority’s Student Loan Program and, with respect to student loans acquired with proceeds of Bonds issued after the Series 1993 Bonds or recycling proceeds of loans originally acquired with proceeds of Bonds issued after the Series 1993 Bonds, which qualify under Section 53B.47(c) of the Texas Education Code. 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.

It is possible that relevant federal laws, including the Higher Education Act, will 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 characteristics, availability or volume of Eligible Loans which can be acquired by the Authority. See “RISK FACTORS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program.”

In order to ensure the availability of funds for the timely payment of the Remarketed Bonds, the Authority and DEPFA BANK plc, acting through its New York Branch (the “Credit Provider”), have entered into a Letter of Credit and Reimbursement Agreement (Tax-Exempt Class II), dated as of February 1, 2006, relating to the Series 2003A Bonds (the “2003A Reimbursement Agreement”), under which the Credit Provider will issue an irrevocable direct pay letter of credit (the “2003A Letter of Credit”), and a Letter of Credit and Reimbursement Agreement (Tax-Exempt Class IV), dated as of February 1, 2006, relating to the Series 2003B Bonds (the “2003B Reimbursement Agreement”), under which the Credit Provider will issue an irrevocable direct pay letter of credit (the “2003B Letter of Credit”). See “THE LETTERS OF CREDIT” herein. Each Letter of Credit will expire on October 8, 2037 unless extended pursuant to its terms or earlier terminated in accordance with its terms. Subject to certain conditions, an alternate letter of credit or other credit facility may be delivered, in which event “Letter of Credit” as used herein means the substitute letter of credit or other credit facility with such extended date of expiration as provided therein.

The Bonds, including the Remarketed Bonds, are limited obligations of the Authority, secured by and payable from, after deduction of Trustee fees, all revenue and income received by the Trustee or the Authority from the operation of the Student Loan Program under the Indenture, including but not limited to repayments of the principal and interest on Student Loans, Interest Subsidy Payments, Special Allowance Payments, investment income from all Funds, insurance claim payments and any proceeds from the sale or other disposition of such Student Loans.

THE REMARKETED BONDS ARE SPECIAL, 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 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 Remarketed Bonds and of the statutes and documents authorizing and securing the Remarketed 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 Remarketed Bonds may be directed to, the Authority or the Trustee.

THE REMARKETED BONDS

General Description

The Remarketed Bonds were issued on January 16, 2003 and, subject to the redemption provisions set forth below and in APPENDIX E “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE,” mature on the dates shown on the cover page hereof. The Remarketed Bonds are issuable only in fully registered form and in denominations of \$100,000 plus integral multiples of \$5,000 in excess thereof (the “Authorized Denominations”).

Except with respect to any Remarketed Bond purchased with proceeds from a Letter of Credit and held by the Credit Provider, the Remarketed Bonds are to bear interest at the Initial Interest Rate to (but excluding) April 2, 2007, and thereafter at the Weekly Rate to maturity, all as described below, unless the Authority converts one or more series of the Remarketed Bonds to a Fixed Rate or Auction Rate on a Conversion Date, or the Authority changes the interest period for one or more series of the Remarketed Bonds, as described below.

Capitalized terms not otherwise defined in this section have the meanings ascribed to them in APPENDIX E “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions.”

This Remarketing Memorandum describes terms and provisions applicable to the Remarketed Bonds only while they bear interest at an Initial Interest Rate or a Weekly Rate. In the event of a conversion to a Fixed Rate or an Auction Rate, or if the Interest Period for a series of Remarketed Bonds is changed from a Weekly Rate Period following the Initial Interest Period, such Remarketed Bonds will be subject to mandatory tender and potential purchasers of the Remarketed Bonds will be provided with separate offering materials containing descriptions of the terms applicable to such Remarketed Bonds in the interest rate mode to which the Remarketed Bonds are being converted or with respect to the change in Interest Period. See “THE REMARKETED BONDS—Mandatory Tender.”

The Remarketed Bonds will be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (“DTC”). In the event the book-entry-only system is discontinued for the Remarketed Bonds, the beneficial owners of such Remarketed Bonds should be aware of the following restrictions on transfer and exchange which will then apply: the Authority will not be obligated to (i) register the transfer of or exchange any Remarketed Bond during a period beginning on the date Remarketed Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of Remarketed Bonds selected for redemption; (ii) register the transfer of or exchange any Remarketed Bond selected for redemption in whole or in part, except the unredeemed portion of a Remarketed Bond being redeemed in part; or (iii) make any such exchange or transfer of any Remarketed Bond during the period beginning on the Record Date and ending on the Interest Payment Date.

The principal of each Remarketed Bond is payable to the Bondholder (initially Cede & Co. as nominee for DTC) upon presentation and surrender of the Remarketed Bond at the principal corporate trust office of the Trustee. Interest on the Remarketed Bonds is payable by the Trustee to Cede & Co. as nominee for DTC, as Bondholder of record. Interest on the Remarketed Bonds is payable to beneficial owners of the Remarketed Bonds according to the procedures described under the caption “THE

REMARKETED BONDS—Book-Entry-Only System” in this Remarketing Memorandum. Should the Authority discontinue the book-entry-only system for the Remarketed Bonds and issue certificates to the beneficial owners, then interest will be payable by check or draft of the Trustee mailed to the person in whose name such Remarketed Bond is registered at the close of business on the Record Date, or at the written request of the registered owner of \$1,000,000 or more in aggregate principal amount of any Remarketed Bonds, which request must be delivered at least 10 days prior to the applicable Interest Payment Date and may provide that it will remain in effect unless and until changed or revoked in writing, by wire transfer.

Interest Payments

Interest on the Remarketed Bonds is payable on each April 1 and October 1, commencing October 1, 2006, and on any day on which a series of the Remarketed Bonds is subject to mandatory tender for purchase pursuant to the Indenture or redemption pursuant to the Indenture. Interest on Variable Rate Bonds will be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed, during the Initial Interest Period and the Weekly Rate Period.

In the case of any Interest Payment Date which is not a Business Day, interest accrued to such Interest Payment Date is payable on the next succeeding Business Day. In such event, no additional interest will accrue as a result of any such delay.

Redemption Provisions

The Variable Rate Bonds are subject to redemption prior to their stated maturities as described below. The Variable Rate Bonds to be redeemed shall, 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 (i) nor (ii) is utilized, then in any such order as the Authority shall determine, subject to receipt by the Trustee of a certificate of the Authority to the effect that the value of 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 a Rating Confirmation is obtained in conjunction with such redemption) after giving effect to such redemption: (a) with respect to Class I Bonds and Class II Bonds, at least 107% of the aggregate principal amount of such Bonds then Outstanding, (b) with respect to the Class I Bonds, Class II Bonds and Class III Bonds at least 105% of the aggregate principal amount of such Bonds then Outstanding and (c) with respect to Class I Bonds, Class II Bonds, Class III Bonds and Class IV Bonds, at least 102% of the aggregate principal amount of such Bonds then Outstanding; provided, however, if a Rating Confirmation is obtained and the Credit Provider consents, each of the ratios described may be reduced to a lower level, so long as such reduction does not cause a reduction in the rating on any Bond. While the Variable Rate Bonds are book-entry only, the Trustee shall notify DTC if any Class or maturity is to be partially redeemed, and DTC will follow its procedures for effecting a partial redemption. Should the Authority or DTC discontinue the book-entry system and certificated bonds are issued to the Beneficial Owners, the Variable Rate Bonds to be redeemed within any Class or maturity shall be selected by the Trustee, using such method as the Trustee deems fair and reasonable in its sole discretion.

(A) *Optional Redemption.* Weekly Rate Bonds are subject to optional redemption prior to their scheduled maturity dates, in whole or in part, at the direction of the Authority and from any source of funds, on any date at a Redemption Price equal to 100% of the principal amount of Bonds to be so redeemed plus accrued interest thereon to the Redemption Date. During the Initial Interest Period, no Remarketed Bond may be optionally redeemed.

(B) *Term-Out Redemption.* Variable Rate Bonds which are Credit Provider Bonds are subject to mandatory sinking fund redemption following their mandatory tender upon the occurrence of a Term-Out Event in accordance with the requirements of the applicable Reimbursement Agreement. In addition, on each April 1 following a Term-Out Event, after having taken into account any required mandatory sinking fund payments described in the applicable Reimbursement Agreement, the Trustee must pay over to the Credit Provider the amount then available in the Refunding Series 2003 Account of the Restricted Yield Fund under the General Indenture, as and for the redemption of additional Credit Provider Bonds.

(C) *Mandatory Redemption.* Each series of the Remarketed Bonds is subject to mandatory redemption, in whole or in part, at a Redemption Price of par plus accrued interest to the date of redemption, without premium, no later than 18 days following receipt by the Trustee of written notice from the Credit Provider, specifying that an event of default described in the Reimbursement Agreement relating to such series has occurred and is continuing and direction that all of the Remarketed Bonds of such series be redeemed.

Redemption of Bonds if Credit Provider Bonds are Outstanding. No redemption of Variable Rate Bonds which are not Credit Provider Bonds may be effected if there are then Credit Provider Bonds Outstanding. Credit Provider Bonds may be redeemed upon such notice as may be permitted under the terms of the Reimbursement Agreement, notwithstanding the general notice requirements to other Owners described herein.

Procedure for and Notice of Redemption. When the Trustee receives notice from the Authority (or in certain instances the Credit Provider) of its election or direction to redeem Remarketed Bonds pursuant to optional or mandatory redemption, but in each case, on the dates and at the Redemption Prices specified in the Indenture, the Trustee will give notice, in the name of the Authority, of the redemption of such Remarketed Bonds. Such notice will specify the Series, Class and maturities of the Remarketed Bonds to be redeemed, the Redemption Date and, if less than all the Remarketed Bonds of any Series, Class and maturity are to be redeemed the respective portions of the principal amount thereof to be redeemed. Such notice will further state that on such date there will become due and payable upon each Remarketed Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Remarketed Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon will cease to accrue and be payable. Such notice will be given by first-class mail, not less than 10 days nor more than 30 days before the Redemption Date. Failure so to mail any such notice will not affect the validity of the proceedings for the redemption of Remarketed Bonds with respect to which no such failure occurred. Such notice will be given to DTC so long as it is the registered owner of the Remarketed Bonds.

Payment of Redeemed Remarketed Bonds. Remarketed Bonds or portions thereof so called for redemption will become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date. So long as the Remarketed Bonds are book-entry only, the Trustee will pay the Redemption Price to DTC, which will follow its procedures for payment to Beneficial Owners. See the caption "Book-Entry-Only System" below. If the Authority or DTC discontinues the book-entry system and certificated bonds are issued to the Beneficial Owners, the Remarketed Bonds must be presented and surrendered at the office of the Trustee on the Redemption Date. If less than the entire principal amount of a Remarketed Bond is called for redemption, the Authority will execute, the Authenticating Agent will authenticate and the Paying Agent will deliver, upon the surrender of such Remarketed Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Remarketed Bond so surrendered at the option of the Owner, Remarketed Bonds of like Class, Series and maturity in any Authorized Denominations. If, on the

Redemption Date, moneys for the redemption of all the Remarketed Bonds or portions thereof of any like Series, Class and maturity to be redeemed, together with interest to the Redemption Date, is wired to DTC (while the Bonds are book-entry only) or held by the Paying Agent so as to be available therefor on said date and if notice of redemption has been mailed as aforesaid, then, from and after the Redemption Date, interest on the Remarketed Bonds or portions thereof of such Class, Series and maturities so called for redemption will cease to accrue and become payable. If said moneys are not available on the Redemption Date, such Remarketed Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Establishment of Interest Rates for Remarketed Bonds

The Remarketed Bonds will initially bear interest at rates to be determined prior to the date of remarketing of the Remarketed Bonds and to be in effect during the Initial Interest Period, which will commence on March 31, 2006 and continue to (but not include) April 2, 2007. After the Initial Interest Period, the Remarketed Bonds shall bear interest at a Weekly Rate unless converted after a mandatory tender. Each Weekly Rate Period will commence on a Wednesday and end on Tuesday of the following week, except that the first Weekly Rate Period following the Initial Interest Period will begin on Monday, April 2, 2007 and end on Tuesday, April 10, 2007. The Remarketing Agent will determine each Weekly Rate on the Business Day preceding the first day of each Weekly Rate Period (generally on each Tuesday). Upon request, the Trustee will make the Weekly Rate available to Owners.

The Adjusted Interest Rate for any Weekly Rate Period will be the lesser of (1) 15% per annum, unless the terms of the applicable Letter of Credit are changed, or (2) the rate which, in the judgment of the Remarketing Agent on the date of determination, would produce as nearly as possible a par bid in the secondary market on the Adjustment Date for a particular Interest Period. In the event that the Remarketing Agent for any reason fails to determine the Adjusted Interest Rate, or the rate established by the Remarketing Agent is held to be invalid or unenforceable by a court of law for any Interest Period, the rate of interest borne by the Remarketed Bonds for such Interest Period will be equal to 150 percent of the BMA Municipal Swap Index (or if such index is no longer available, then such other similar index as shall be permitted by the Indenture), as the same may be adjusted from time to time, until such time as a new Adjusted Interest Rate is set by the Remarketing Agent.

No Series of Remarketed Bonds may bear interest at a net effective interest rate greater than 15%, as determined under Texas law.

During any Weekly Rate Period, the Remarketing Agent may give notice to the Authority, the Trustee, the Tender Agent and the Credit Provider to the effect that, in its judgment, as a result of changes in the general market practices with respect to the adjustment of interest rates on instruments comparable to the Variable Rate Bonds, it would be more advantageous to the Authority to have Weekly Rate Periods start on a different weekday. The Remarketing Agent will specify the first Weekly Rate Period for which such change would be effective and will specify the Weekly Rate Period preceding the first Weekly Rate Period for which such change will be effective (between one and thirteen days as the Remarketing Agent determines is necessary in order to effectuate a change in the Weekly Rate Period). Following receipt of such notice and an Authority Order confirming such proposed change, the Authority will provide for the delivery of a Favorable Opinion to the Authority, the Trustee, the Tender Agent, the Credit Provider and the Remarketing Agent respecting the effect of such change in the first and last weekdays of Weekly Rate Periods on the Variable Rate Bonds, and the Trustee will then promptly give notice to each Owner (attaching to the notice a copy of the written notice from the Remarketing Agent specified above) of the weekday selected by the Remarketing Agent for the commencement of subsequent Weekly Rate Periods, of the first Weekly Rate Period for which such change will be effective and of the length of the Weekly Rate Period preceding the first Weekly Rate Period for which such change will be effective.

Determination of Subsequent Rate Periods

After the Initial Interest Rate Period, unless changed as described below, the Interest Period shall be a Weekly Rate Period and each subsequent Interest Period will be a Weekly Rate Period. If a change is proposed, the Authority will deliver to the Trustee, the Credit Provider and the Remarketing Agent, at least 20 days before the Proposed Conversion Date, an Authority Order, setting forth (i) the Interest Period or Periods for the Variable Rate Bonds then subject to adjustment, (ii) the length of each such Interest Period, and (iii) the aggregate principal amount of Variable Rate Bonds to which each such Interest Period will pertain. If fewer than all of the then Variable Rate Bonds are to have a new Adjustment Date or are to have the same subsequent Interest Period, the Trustee shall notify DTC in the event the Remarketed Bonds are book-entry only and DTC will follow its procedures to assign particular Variable Rate Bonds to be converted and, in the event the Authority or DTC has discontinued the book-entry only system and certificated bonds are issued to the Beneficial Owners, the Trustee shall select by any fair and reasonable means the Variable Rate Bonds to be assigned a particular Adjustment Date, Interest Period and/or interest rate mode, taking into consideration the interest of the Authority that, to the extent possible, no individual Owner shall be required to surrender less than the entire principal amount of a single Variable Rate Bond held by such Owner.

On a Business Day no more than 21 days and no less than one day prior to the Proposed Conversion Date, the Remarketing Agent will determine the Adjusted Interest Rate with respect to each new Interest Period. In the event that all of the Variable Rate Bonds designated for conversion are sold or remarketed on the Proposed Conversion Date and if the Favorable Opinion and the Rating Confirmation described below are delivered on the Proposed Conversion Date, the Proposed Conversion Date shall become the Conversion Date. If all the Variable Rate Bonds designated for conversion to an Intermediate Rate are not sold or remarketed by the Proposed Conversion Date, the conversion of the principal amount of the Variable Rate Bonds designated for conversion to an Intermediate Rate shall not occur, and the affected Bonds will bear interest at a Weekly Rate determined by the Remarketing Agent on the failed Proposed Conversion Date in the same manner as the interest rate with respect to Weekly Rate Bonds is determined, as set forth above, and such Variable Rate Bonds shall nonetheless be subject to mandatory tender on such date.

No change to a new Interest Period following the Initial Interest Period (other than Weekly Rate Periods following the Initial Interest Period without interruption) will become effective unless (1) the Authority has delivered to the Trustee, the Credit Provider and the Remarketing Agent a Favorable Opinion, (2) the Credit Facility in effect on the Proposed Conversion Date has an interest component at least adequate to cover interest on the Variable Rate Bonds for the period required by the Rating Agency, and (3) the Authority has obtained a Rating Confirmation.

Optional Tender at the End of the Initial Interest Period

Owners of Remarketed Bonds bearing interest at the Initial Interest Rate may request that their Remarketed Bonds be purchased on Monday, April 2, 2007, the Business Day following the Initial Interest Period, at the Purchase Price. To exercise the option to have a Bond so purchased, such Owner must deliver a properly executed and completed Tender Notice to the Tender Agent no later than 10:00 A.M., New York City time, on March 26, 2007. **DURING THE INITIAL INTEREST PERIOD, NO OWNER MAY HAVE ITS BOND PURCHASED.**

Optional Tender of Weekly Rate Bonds

Each Weekly Rate Bond is subject to purchase, in whole or in part, at the request of the Owner thereof, on any Optional Tender Date, at the Purchase Price. While the Remarketed Bonds are in book-

entry-only form, tenders must be effected through DTC upon no less than seven (7) days notice to the Tender Agent. See the caption “Book-Entry-Only System” below. If the Authority or DTC discontinues the book-entry only system and certificated bonds are issued to the Beneficial Owners, to exercise the option to have a Weekly Rate Bond so purchased, such Owner must deliver a properly executed and completed Tender Notice to the Tender Agent, no later than 10:00 a.m., New York City time, on a Business Day which is no less than the seventh (7th) calendar day preceding the Optional Tender Date. Optionally Tendered Bonds will be delivered to the Tender Agent on or prior to the Optional Tender Date. Such delivery shall be a condition precedent to payment of the Purchase Price for such Weekly Rate Bond. The exercise of an option by an Owner of a Weekly Rate Bond to have such Bond purchased is irrevocable and binding on such Owner and cannot be withdrawn. The Tender Agent’s determination as to whether a Tender Notice has been properly completed, executed and delivered will be binding upon the Owner of such Bond. In the event of a failure of an Owner of Weekly Rate Bonds to deliver its Weekly Rate Bonds on or before the Optional Tender Date, the Owner will not be entitled to any payment (including any interest to accrue subsequent to the required purchase date) other than the Purchase Price for such undelivered Weekly Rate Bonds. Optionally Tendered Bonds will be purchased as of the applicable Optional Tender Date from remarketing proceeds or a drawing on the applicable Letter of Credit. Payment of the Purchase Price of any Optionally Tendered Bonds will be made in immediately available funds on the applicable Purchase Date. See the caption “Book-Entry-Only System” below.

Mandatory Tender of Remarketed Bonds

All affected Remarketed Bonds must be tendered by the Owners thereof for repurchase at their Purchase Price under the circumstances set forth below.

Except as otherwise provided, affected Owners are required to tender their Remarketed Bonds for purchase as follows:

- (a) On each Proposed Conversion Date.
- (b) On the date of substitution of a Credit Facility and on the fifth Business Day prior to the expiration of a Credit Facility; provided, that upon such mandatory tender, the affected Owners will be paid from the proceeds of a draw on the then-held Credit Facility and not from the proceeds of a draw on the substitute Credit Facility.
- (c) On any date established by the Trustee no more than 18 days following its receipt of a Term-Out Notice from the Credit Provider.

The Trustee will give the registered owners (initially Cede & Co. as nominee of DTC) fifteen days notice of any mandatory tender. If notice is given to DTC, DTC will provide notice to Beneficial Owners in accordance with its procedures, and payment of the purchase price of the Remarketed Bonds will be made to DTC and distributed to Beneficial Owners in accordance with its procedures. See the caption “Book-Entry-Only System” below.

If the Authority or DTC discontinues the book-entry system and certificated bonds are issued to the Beneficial Owners, notice will be given to such owners by first-class mail and they will be required to deliver their Remarketed Bonds for purchase to the Tender Agent at an office designated by the Tender Agent on the date on which such Remarketed Bonds are required to be purchased and any Remarketed Bonds required to be tendered for purchase that are not delivered and for which there has been irrevocably deposited with the Tender Agent in the Purchase Fund an amount of money sufficient to pay the Purchase Price thereof will be deemed to have been purchased by the Tender Agent and will constitute Undelivered Bonds. In the event of a failure by an Owner of Remarketed Bonds to deliver its

Remarketed Bonds on or prior to the required date, said Owner will not be entitled to any payment (including any interest to accrue subsequent to the required Purchase Date) other than the Purchase Price for such Undelivered Bonds, and any Undelivered Bonds will no longer be entitled to the benefits of the Indenture, except for the payment of the Purchase Price therefor from amounts on deposit in the Undelivered Bond Payment Account.

The tender will not constitute a redemption of such Remarketed Bonds or an extinguishment of the debt represented by such Remarketed Bonds.

Purchase Fund

The Tender Agent has established the Purchase Fund and certain accounts therein. Only the Tender Agent and the Trustee will have any right of withdrawal from the Purchase Fund for the exclusive benefit of the purchasers and sellers (including the Credit Provider) of Remarketed Bonds tendered for purchase and the Authority has no legal, beneficial or equitable right, title or interest therein. A Remarketing Account, a Liquidity Account and an Undelivered Bond Payment Account will be established by the Tender Agent as trust accounts within the Purchase Fund for the Class II Remarketed Bonds and for the Class IV Remarketed Bonds, respectively.

Any moneys received by the Tender Agent from the Remarketing Agent for the purchase of Remarketed Bonds or the sale of Credit Provider Bonds will be deposited into the applicable Remarketing Account of the Purchase Fund, and any moneys received by the Tender Agent representing proceeds of drawings under a Letter of Credit will be deposited in the applicable Liquidity Account of the Purchase Fund, and both will be paid out to tendering Owners in accordance with the Indenture. Amounts on deposit in the Purchase Fund will be held uninvested and without bearing interest.

Remarketing of Tendered Remarketed Bonds

The Remarketing Agent will use its best efforts to solicit purchases of Remarketed Bonds which have been tendered for purchase or are subject to mandatory tender, at a price of par, plus accrued interest from the most recent Interest Payment Date, if any, subject, in all respects, to the terms and conditions of the Third Supplemental Indenture. The Remarketing Agent must notify the Tender Agent of any Remarketed Bonds which it does not expect to remarket. The Trustee will make a drawing on the applicable Letter of Credit in an amount equal to the Purchase Price of unremarketed Remarketed Bonds which have been tendered and will use the proceeds of the drawing to pay the Purchase Price of tendered Remarketed Bonds.

Credit Facility; Substitution of Credit Facility

The Authority has covenanted and agreed that at all times when there are Remarketed Bonds Outstanding (unless converted to a Fixed Rate or an Auction Rate), a Credit Facility or substitute Credit Facility will be in place to secure the payment, when due, of the principal of and interest on the Remarketed Bonds.

At such time as may be permitted by the Indenture and the applicable Reimbursement Agreement, the Authority may cause to be delivered to the Trustee a substitute Credit Facility. The effective date of a substitute Credit Facility must coincide with a date established for a Mandatory Tender of the Bonds.

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 Remarketed Bonds. The Remarketed 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 Remarketed Bonds, in the aggregate principal amount of such series of the Remarketed Bonds, 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, 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. More information about DTC can be found at www.dtcc.com.

Purchases of Remarketed Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Remarketed Bonds on DTC’s records. The ownership interest of each actual purchaser of a beneficial interest in the Remarketed 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 Remarketed 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 Remarketed Bonds, except in the event that use of the book-entry system for the Remarketed Bonds is discontinued.

To facilitate subsequent transfers, all Remarketed 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 Remarketed 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 Remarketed Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Remarketed 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 Remarketed Bonds 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 Remarketed 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 Remarketed Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Remarketed 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 the 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.

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

DTC may discontinue providing its services as depository with respect to the Remarketed 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. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Remarketed bond certificates will be printed and delivered to DTC.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Remarketed 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 Remarketed 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 Remarketed Bonds.

The Authority and the Remarketing Agent of the Remarketed 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 Remarketed 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 Remarketing Memorandum. Neither the Authority nor the Remarketing Agent 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 Remarketed Bonds or any error or delay relating thereto.

References to Owners

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

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds, including the Remarketed Bonds, and any obligations to a Credit Provider or Liquidity Provider under the Indenture 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 Remarketed 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 (a) the proceeds of Additional Bonds, (b) moneys received as payments on Student Loans and (c) cash transferred from other trust estates of the Authority in connection with the refunding of outstanding obligations of the Authority with Bond proceeds. The Authority is authorized to utilize payments on Student Loans to acquire additional Eligible Loans until April 1, 2009, or a later date if the Authority obtains a confirmation from each rating agency rating the Bonds that such extension does not adversely affect the ratings on any Bonds and Credit Provider approval.

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 which are originated prior to July 1, 2006 are guaranteed at levels equal to either 98% or 100% by the Guarantor depending upon when the loan was originated. Loans acquired by the Authority which are originated on or after July 1, 2006 are guaranteed at 97% by the Guarantor. If the servicer which services any such loans has been designated as an “Exceptional Performer” by the Secretary, then so long as such designation is maintained, such loans are presently guaranteed at a level equal to 100%, and on and after July 1, 2006 will be guaranteed at a level equal to 99%. The level of federal reinsurance paid by the federal government to the Guarantor presently varies from 75% to 100%, depending upon applicable default rates and when the loan was originated. See APPENDIX C “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 E “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” hereto.

Payment Priorities

The Indenture provides that Bonds issued thereunder, including the Remarketed 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 2003A Bonds constitute Class II Bonds and the Series 2003B Bonds constitute Class IV Bonds.

There are presently Outstanding under the Indenture \$420,000,000 of Bonds, of which \$30,500,000 constitute Class I Bonds, \$342,500,000 constitute Class II Bonds and \$47,000,000 constitute Class IV Bonds. There are presently no Class III Bonds Outstanding under the Indenture. The Indenture permits the issuance of Additional Bonds which may be of any such Class in the future. Upon the remarketing of the Series 2003A Bonds and the Series 2003B Bonds, all Bonds presently Outstanding under the Indenture are either supported by a letter of credit from DEPFA BANK plc, are owned by DEPFA BANK plc or are expected to be owned by DEPFA BANK plc by April 6, 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 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 E “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 Remarketed 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 held under the Indenture, see “PORTFOLIO INFORMATION” herein.

Collateralization

As of December 31, 2005, the value of assets pledged under the Indenture was equal to approximately 127% of the aggregate principal amount of the Class I and Class II Bonds Outstanding under the Indenture, and approximately 112% of the aggregate principal amount of the Class I Bonds, the Class II bonds, the Class III Bonds and the Class IV Bonds (i.e., all Bonds) Outstanding under the Indenture.

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 Indenture, except that Additional Bonds may be issued from time to time, subject to the provisions of the Indenture, 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 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

All the Bonds issued under the Indenture (subject to priority as described in this Remarketing Memorandum) are secured by the Debt Service Reserve Fund established under the Indenture. The Indenture requires that, at the time of issuance of each Series of Bonds, the amount, if any, of the addition to the Debt Service Reserve Fund be set forth in a Supplemental Indenture. Currently, the Debt Service Reserve Requirement is an amount equal to two percent of the principal amount of the Series 1993 Bonds Outstanding from time to time, 0.75% of the principal amount of the Series 2002 Bonds Outstanding and 1.0% of the principal amount of the Series 2003-2 Bonds Outstanding, but in no event less than \$500,000. 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 Remarketed 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.

Letters of Credit

Only the Series 2003A Bonds are payable from drawings on the Series 2003A Letter of Credit, and only the Series 2003B Bonds are payable from drawings on the Series 2003B Letter of Credit.

Withdrawal of Excess Coverage

At any time, but no more frequently than once every month, the Authority may deliver to the Trustee an Authority Order, evidencing the fact that there is Excess Coverage, as defined in the Indenture, and specifying the amount thereof. Promptly upon the Trustee's receipt of that Certificate, and a Rating Confirmation on the Bonds relating to the release of such Excess Coverage, the Trustee will release such Excess Coverage to the Authority from the Restricted Yield Fund for any of its general corporate purposes. "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 pertinent Supplemental Indenture, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds) exceeds 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 and accrued interest on all Outstanding Bonds, all as evidenced in a Certificate of Authorized Representative. In addition, the Authority has covenanted in each Reimbursement Agreement to maintain, at all times, an Asset Coverage Ratio (as defined in such Reimbursement Agreement) of 103%. However, such requirement may be changed at any time with the consent of the Credit Provider and without notice to, or the consent of, the Owners.

PORTFOLIO INFORMATION

Set forth below are certain characteristics of Student Loans held under the Indenture as of December 31, 2005. Since such date and in the future, the portfolio of Student Loans existing under the Indenture may have similar characteristics, or the characteristics of such Student Loans may vary materially from the Student Loans existing under the Indenture as of the date shown herein. In any event, the characteristics of the portfolio of Student Loans under the Indenture are expected to change over the life of the Remarketed Bonds.

**Portfolio Composition
As of December 31, 2005**

Loan Type	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Subsidized Stafford Loans	\$105,080,533	24.10%
Unsubsidized Stafford Loans	85,121,990	19.52
Consolidation Loans	232,391,898	53.30
PLUS Loans/SLS Loans	13,417,457	<u>3.08</u>
Total	<u>\$436,011,878</u>	<u>100.00%</u>

Borrower Payment Status	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Repayment	\$267,706,803	61.40%
Deferment	59,476,117	13.64
Forbearance	49,537,947	11.36
In School/Grace	52,378,440	12.01
Claim	<u>6,912,571</u>	<u>1.59</u>
Total	<u>\$436,011,878</u>	<u>100.00%</u>

School Type	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Four Year	\$293,859,172	67.40%
Unknown*	109,945,056	25.22
Two Year	17,448,916	4.00
Proprietary	<u>14,758,734</u>	<u>3.38</u>
Total	<u>\$436,011,878</u>	<u>100.00%</u>

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

RISK FACTORS

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

The Credit Provider

On each date on which principal of or interest on a series of the Remarketed Bonds is payable, whether upon redemption, tender, an acceleration or stated maturity, the Trustee is required by the

Indenture to draw moneys under the applicable Letter of Credit (up to the amount available thereunder and in accordance with the terms thereof) in an amount sufficient to pay any principal of or interest due on such series of the Remarketed Bonds on such date, and is required to apply such moneys to pay such principal of and interest when due without further authorization or direction. There can be no assurance that the Credit Provider will have sufficient revenues to enable it to honor its commitments under each Letter of Credit. See the captions “THE CREDIT PROVIDER” and “THE LETTERS OF CREDIT” herein for further information concerning the Credit Provider and the Letters of Credit. Upon an event of default under the Indenture, the Credit Provider may exercise any rights of the Owners of the Remarketed Bonds to consent to, direct or control the remedies taken by the Trustee under the Indenture. See APPENDIX E “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—EVENTS OF DEFAULT.”

Limited Liability of Authority

The Authority’s obligation to reimburse the Credit Provider or to pay principal and interest on the Bonds in the event the Credit Provider fails to do so is limited to the money and other assets in the Trust Estate. The Bonds are not a general obligation of the Authority. The Bonds do not constitute or give rise to a personal or pecuniary obligation of the officers, employees, agents or directors of the Authority.

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

The Authority expects, and the cash flows indicate, 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 Remarketed Bonds, when due (or to reimburse the Credit Provider for draws on a Letter of Credit to make such payments) 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 student loan 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 Remarketed 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 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 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 Remarketed 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 Remarketed 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 Remarketed Bonds, and sell the Student Loans and all other assets comprising the Trust Estate, subject to certain rights of the Credit Provider. In such circumstances, the Owners may suffer a loss if the Trustee is unable to find purchasers willing to pay sufficient prices for the Student Loans.

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

Recent and Future Changes in Relevant Law. Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times and Congress is currently engaged in the reauthorization process. Certain of these amendments have significantly affected the federal student loan programs under the Higher Education Act. In addition, the United States Department of Education (the "Department of Education") continues to engage in the rulemaking process to revise the regulations promulgated by the Department of Education under the Higher Education Act. The Department of Education's authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act terminates on a date specified in the Higher Education Act. The United States Senate and House of Representatives have both passed, and the President has signed into law, the Deficit Reduction Act of 2005. Included in the Deficit Reduction Act of 2005 is the Higher Education Reconciliation Act of 2005 (the "2005 Higher Education Act Amendments"), which amend several provisions of the Higher Education Act governing the Federal Family Education Loan Program (the "FFEL Program"). The 2005 Higher Education Act Amendments extend various provisions of the Higher Education Act through September 30, 2012 and include, but are not limited to, provisions that (i) reduce student loan insurance from 98% to 97% for loans for which the first disbursement is made after July 1, 2006, (ii) reduce the reimbursement available for student loans serviced by servicers designated for exceptional performance from 100% to 99%, (iii) require payment by lenders to the Department of Education of any interest paid by borrowers on student loans first disbursed on or after April 1, 2006, which is in excess of the special allowance payment rate described under the caption in APPENDIX C "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments," and (iv) eliminated (or in certain limited instances phases out by the year 2010) 9.5% floor loan recycling for lenders. See APPENDIX C "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

During the continued reauthorization process of other provisions of the Higher Education Act, proposed amendments are likely. Any changes could affect the student loans held under the Indenture. It is not possible to predict whether or when any proposals may be introduced, in what form they may be adopted, or the final content of any such proposals and their effect upon the Authority's Student Loan Program.

While Congress has consistently extended the effective date of the Higher Education Act and the FFEL Program, it may elect not to reauthorize the Department of Education's ability to provide interest subsidies and federal insurance for loans. This failure to reauthorize could adversely impact the Authority's Student Loan Program. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the 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 guarantors 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. Direct Loan repayment plans, other than income contingent plans, must be consistent with requirements under the Higher Education Act for repayment plans under the FFEL Program.

The first loans under the FDSL Program were made available for the 1994-1995 academic year, and the Higher Education Act provided for phase in goals through the 1998-1999 academic year, for which direct loans were to have represented 60% of new student loan volume under the Higher Education Act (excluding Consolidation Loans). No provision was made for the size of the FDSL Program after the 1998-1999 academic year and the current size of the FDSL Program is well below the 60% goal described above. Although the goals set for the FDSL Program were never achieved and the program has decreased in volume over recent years, its introduction involved reduction over time in the volume of loans made under the FFEL Program and the continued existence of the FDSL Program may impact the volume of loans made under the FFEL Program 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 FFELP Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. The Authority cannot predict the final content of any such legislation or the effect of such legislation on its Student Loan Program. No additional representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department of Education, or the effect, if any, of any future legislation or regulations upon the Authority's Student Loan Program or other factors that could potentially affect timely payment of the Bonds, including the Remarketed 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 it has guaranteed; and (c) a reduction in revenues received in connection with FFELP Loans it has guaranteed. The Higher Education Act grants the Department broad powers over guarantors and their reserves. These provisions create a risk that the resources available to the Guarantors to meet their guaranty obligations may be reduced and no assurance can be given that exercise of such powers by the Department will not affect the overall financial condition of the Guarantors. Under Section 432(o) of the Higher Education Act, if the Department has determined that a guarantor is unable to meet its 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 a single Guarantor, the Texas Guaranteed Student Loan Corporation. See the caption "THE GUARANTOR" herein and "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" in Appendix C hereto.

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 Remarketed 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 Remarketing Memorandum 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 Remarketed 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 Student 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 Remarketed 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 remarketing of the Remarketed 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 GUARANTOR" herein.

Servicemembers Civil Relief Act

The Servicemembers Civil Relief Act (the "Relief Act") updates and replaces the Soldiers' and Sailors' Civil Relief Act of 1940. The Relief Act provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loan. The Relief Act limits the ability of a lender of Federal Family Education 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 extend the in-school status, in-school deferment status, grace period status or forbearance status of certain borrowers ordered to active duty. Further, if a

borrower is in default on a Federal Family Education Loan, the applicable Guarantor must, upon being notified that the borrower has been called to active duty and during certain time periods as from time to time designated by the Department, cease all collection activities for the expected period of the borrower's military service.

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

Higher Education Relief Opportunities for Students Act of 2003

The Higher Education Relief Opportunities for Students Act of 2003, as amended ("HEROES Act of 2003"), authorizes the Secretary of Education, until September 30, 2007, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: are serving on active military duty during a war or other military operation or national emergency, reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency, or suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, 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 Higher Education Relief Opportunities for Students Act of 2001, but the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty.

The number and aggregate principal balance of 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 Remarketed Bonds.

THE LETTERS OF CREDIT

General

The Credit Provider is providing the Letters of Credit (defined below), has previously provided a letter of credit with respect to certain of the Class I Bonds, and owns or is expected to own the remaining Bonds presently Outstanding under the Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Payment Priorities" herein.

The following is a brief description of certain provisions of the Letter of Credit relating to the Series 2003A Bonds (the "2003A Letter of Credit"), the Letter of Credit relating to the Series 2003B Bonds (the "2003B Letter of Credit," together with the 2003A Letter of Credit, the "Letters of Credit" and each a "Letter of Credit"), the Letter of Credit and Reimbursement Agreement dated as of February 1, 2006 relating to the Series 2003A Bonds (the "2003A Reimbursement Agreement") and the Letter of Credit and Reimbursement Agreement dated as of February 1, 2006 relating to the Series 2003B Bonds

(the “2003B Reimbursement Agreement,” together with the 2003A Reimbursement Agreement, the “Reimbursement Agreements” and each a “Reimbursement Agreement”), each between the Authority and the Credit Provider. The summary is not to be considered as a full statement of the provisions of the Letters of Credit and Reimbursement Agreements and is qualified by reference to and is subject to each such document. Capitalized terms used herein and not defined shall have the meanings set forth in the Reimbursement Agreements. The provisions of any substitute or replacement Letter of Credit and related Reimbursement Agreement may be different from those summarized below.

The Indenture requires the Trustee to draw upon the Letter of Credit relating to a series of the Remarketed Bonds at such times as are necessary to pay the principal or interest on such series of the Remarketed Bonds bearing interest at a Variable Rate when due, whether on any interest payment date or stated maturity date or upon redemption or acceleration. The Trustee is also required under the provisions of the Indenture to draw on the Letter of Credit relating to a series of the Remarketed Bonds under certain circumstances including mandatory or optional tender of such series of the Remarketed Bonds if remarketing proceeds are insufficient to pay the purchase price.

The maximum aggregate amount available to be drawn under the 2003A Letter of Credit is \$42,941,370 (such amount as from time to time reduced and reinstated is hereinafter referred to as the “2003A Stated Amount”). Of the 2003A Stated Amount, up to \$39,500,000 is available for the payment of the unpaid principal of, or the portion of the Purchase Price corresponding to principal of, the Series 2003A Bonds, and up to \$3,441,370 is available for the payment of the unpaid interest accrued on, or the portion of the Purchase Price corresponding to interest accrued on, the Series 2003A Bonds (212 days of interest at 15% per annum based on a year of 365 days). “Purchase Price” means, with respect to any Series 2003A Bond tendered for purchase pursuant to the Indenture, an amount equal to the principal amount of such Series 2003A Bond plus, with respect to any Series 2003A Bond tendered for purchase on a date which is not a scheduled interest payment date for such Series 2003A Bond, accrued but unpaid interest.

The maximum aggregate amount available to be drawn under the 2003B Letter of Credit is \$16,306,850 (such amount as from time to time reduced and reinstated is hereinafter referred to as the “2003B Stated Amount”). Of the 2003B Stated Amount, up to \$15,000,000 is available for the payment of the unpaid principal of, or the portion of the Purchase Price corresponding to principal of, the Series 2003B Bonds, and up to \$1,306,850 is available for the payment of the unpaid interest accrued on, or the portion of the Purchase Price corresponding to interest accrued on, the Series 2003B Bonds (212 days of interest at 15% per annum based on a year of 365 days). “Purchase Price” means, with respect to any Series 2003B Bond tendered for purchase pursuant to the Indenture, an amount equal to the principal amount of such Series 2003B Bond plus, with respect to any Series 2003B Bond tendered for purchase on a date which is not a scheduled interest payment date for such Series 2003B Bond, accrued but unpaid interest.

Upon any drawing under a Letter of Credit, the Stated Amount of such Letter of Credit will be reduced by the amount of such drawing. The Stated Amount of a Letter of Credit will also be reduced by an amount by which the Trustee, in a certificate delivered to the Credit Provider, has permanently reduced the amount of such Letter of Credit to the extent such reduction is not already accounted for by a reduction in the available amount pursuant to a drawing on such Letter of Credit.

Reductions with respect to any demand for payment of interest on a series of the Remarketed Bonds (except for that portion of the Purchase Price corresponding to unpaid interest, if any, on such Remarketed Bonds) will be reinstated automatically upon the opening of business on the eighth day after such demand for payment was honored by the Credit Provider unless the Trustee receives notice in writing from the Credit Provider on or before the close of business on the seventh day after such demand

for payment was honored stating that an Event of Default under the related Reimbursement Agreement has occurred. Reductions with respect to any demand for payment of the Purchase Price of a series of the Remarketed Bonds tendered or deemed to have been tendered pursuant to an optional tender of such series of Remarketed Bonds or a tender in connection with a conversion of the interest rate mode on a series of the Remarketed Bonds to another interest rate mode will be reinstated automatically to the extent such Remarketed Bonds are released by the Credit Provider pursuant to the related Reimbursement Agreement. Any such automatic reinstatement will be in an amount equal to the Purchase Price of such released Remarketed Bonds previously paid with proceeds of the related Letter of Credit.

Reductions with respect to any demand for payment of the (i) principal of a series of the Remarketed Bonds or (ii) Purchase Price of a series of the Remarketed Bonds tendered or deemed to have been tendered pursuant to a mandatory tender not described in the preceding paragraph will not be subject to reinstatement.

Each Reimbursement Agreement requires the Authority to reimburse the Credit Provider for the full amount of any drawings for interest or principal on the related series of Remarketed Bonds (other than for a Liquidity Drawing, as described below), including upon redemption or acceleration, on the date of payment of each such drawing. A Liquidity Drawing is a drawing in connection with payment of the Purchase Price of a series of the Remarketed Bonds tendered or deemed to have been tendered pursuant to an optional tender or mandatory tender, other than a mandatory tender in connection with a conversion of the interest rate mode on such series of the Remarketed Bonds to another interest rate mode. Each Liquidity Drawing will constitute an advance to the Authority and will be evidenced by the delivery of Remarketed Bonds of the applicable series to the Credit Provider. Each Reimbursement Agreement requires the Authority to reimburse the Credit Provider for the amount of any Liquidity Drawing, including interest thereon, on the earliest of (a) the expiration date of the related Letter of Credit; (b) the first date on which all of the Remarketed Bonds of the applicable series bear interest at a Fixed Interest Rate or at an Intermediate Term Rate; (c) the date on which the Remarketed Bonds of such series delivered to the Credit Provider in connection with such Liquidity Drawing are due and payable pursuant to the Indenture, whether at their stated maturity or upon acceleration, redemption or otherwise; (d) the date on which the Remarketed Bonds of such series are remarketed or purchased by the Authority or sold by the Credit Provider, all in accordance with the Indenture and such Reimbursement Agreement; (e) the date on which the related Letter of Credit is replaced with a substitute letter of credit; (f) the date on which the interest rate on any obligation of the Authority under such Reimbursement Agreement equals or exceeds certain rates designated in such Reimbursement Agreement; or (g) the date which is 30 days from the date of such Liquidity Drawing; provided, however, the Authority must pay to the Credit Provider the interest component of the Purchase Price, if any, on the interest payment date next succeeding the date of such Liquidity Draw; and provided further that the Authority must pay to the Credit Provider the amounts described under “Mandatory Redemption of Remarketed Bonds Owned by the Credit Provider During the Term-Out Period” below.

All of the Authority’s obligations under each Reimbursement Agreement are limited obligations of the Authority payable from moneys available therefor under the Indenture. To secure its obligations under each Reimbursement Agreement, the Authority has granted a security interest in the Trust Estate to the Trustee for the benefit of the Credit Provider.

Each Letter of Credit, by its terms, will expire on the earliest of (a) October 8, 2037 (the “Stated Expiration Date”), as such date may be extended from time to time by the Credit Provider, (b) the date of receipt by the Credit Provider of written notice from the Trustee that all Remarketed Bonds of the applicable series have been paid, a substitute Letter of Credit with respect to such series of Remarketed Bonds has been delivered to the Trustee or that all Remarketed Bonds of such series have been converted to bear interest at a Fixed Interest Rate or an Intermediate Term Rate, (c) 23 days after the Trustee has

received written notice from the Credit Provider stating that an event of default under the related Reimbursement Agreement has occurred and is continuing and directing that all of the Remarketed Bonds of the applicable series be redeemed; and (d) 23 days after the Trustee has received notice from the Credit Provider of a Term-Out Event.

Events of Default and Remedies Under Each Reimbursement Agreement

Certain events shall constitute “Events of Default” under each Reimbursement Agreement. Upon the occurrence and during the continuance of any Event of Default under a Reimbursement Agreement, the Credit Provider, may, with notice thereof to the Trustee (a) require that the Authority immediately pay the Credit Provider in immediately available funds for the full undrawn amount of the related Letter of Credit; (b) declare the principal of and interest on the obligations owing under the Reimbursement Agreement immediately due and payable; (c) give written notice to the Trustee stating an event of default has occurred and is continuing under the Reimbursement Agreement and directing that all of the Remarketed Bonds of the applicable series be redeemed, thereby causing the related Letter of Credit to expire; (d) instruct the Trustee to accelerate the Remarketed Bonds of the applicable series; (e) direct the Trustee to exercise its rights under the Indenture; and (f) pursue any other action available at law or in equity.

Mandatory Redemption of Remarketed Bonds Owned by the Credit Provider During the Term-Out Period

If the Credit Provider is not reimbursed for any drawing in accordance with the provisions of a Reimbursement Agreement, the Credit Provider may, by notice to the Trustee, at any time declare a Term-Out Event pursuant to such Reimbursement Agreement. Pursuant to the Indenture a Term-Out Event shall also occur on the date which is five business days before the Stated Expiration Date of a Letter of Credit if, as of such date, such Letter of Credit has not been extended by the Credit Provider or replaced. After the occurrence of a Term-Out Event, any Remarketed Bonds of the applicable series not previously tendered or redeemed shall be subject to mandatory tender, shall be paid from the proceeds of a drawing on the related Letter of Credit and the Remarketed Bonds of such series then owned by the Credit Provider shall be subject to mandatory redemption on an accelerated basis over approximately a four-year period. Failure to make such payments to the Credit Provider will constitute an event of default under the related Reimbursement Agreement.

THE CREDIT PROVIDER

The information included, and the reports referred to, herein pertaining to the Credit Provider have been obtained from the Credit Provider and are not guaranteed as to accuracy or completeness by the Authority or the Remarketing Agent, and are not to be construed as a representation by the Authority or the Remarketing Agent. This information has not been independently verified by the Authority or the Remarketing Agent.

DEPFA BANK plc (“DEPFA”) is the parent company of the DEPFA BANK plc group of companies comprising DEPFA and its consolidated subsidiaries (the “Group”). DEPFA will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of DEPFA BANK plc, Dublin. DEPFA is based in Dublin and has a banking license issued under the Irish Central Bank Act, 1971 (as amended) and is supervised by the Financial Regulator. It is registered in the Irish companies Registration Office with company number 348819 and its shares are listed on the Frankfurt Stock Exchange. DEPFA has a network of subsidiaries, branches and offices across many European countries, as well as in North America and Asia.

The Group provides a broad range of products and services to public sector entities, from governmental budget financing and financing of infrastructure projects to placing of public sector assets and investment banking and other advisory services. The Group has direct client contacts with many state entities and focuses on those public sector entities involved in large volume business. The Group advises individual public sector borrowers on their international capital market transactions and preparations for the ratings process.

DEPFA released preliminary 2005 results in accordance with IFRS accounting on 14 February. According to this publication DEPFA had as of December 31, 2005, total consolidated assets of Euro 229 billion, shareholders' equity of Euro 2.3 billion and consolidated net income of Euro 475 million. DEPFA maintains its records and prepares its financial statements in Euro. At December 31, 2005, the exchange rate was 1.0000 Euro equals 1.1833 United States dollars. Such exchange rate fluctuates from time to time.

DEPFA is rated "Aa3" long-term and "P-1" short-term by Moody's, "AA-" long-term and "A-1+" short-term by S&P, and "AA-" long-term and "F1+" short-term by Fitch. On January 25, 2006, Fitch confirmed DEPFA's long-term and short-term rating. On November 25, 2005, S&P confirmed DEPFA's long-term and short-term rating. On December 2, 2005, the long-term ratings of DEPFA were placed on Watch List for review for possible downgrade by Moody's, although DEPFA's short-term ratings have not been affected.

DEPFA will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: DEPFA BANK plc, New York Branch, 623 Fifth Avenue, 22nd Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date. In addition, updated financial information may be found from the DEPFA website at: www.depfa.com.

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 "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 ¹ Denton, Texas	2006
Dr. J. Lindsay Keffer Vice President	Associate Director for Administration University of North Texas ¹ Denton, Texas	2007
Dr. B. Wayne Duke Secretary/Treasurer	Vice President Student Affairs (retired) University of Texas at Arlington ¹ Arlington, Texas	2007
Ms. Floreen B. Henry	Assistant Professor Tarrant County College – South Campus ¹ Fort Worth, Texas	2006
Mr. James Brock	President (retired) B H & W Manufacturing, Inc. Grandbury, Texas	2007
Mr. Jerry Falbo	Church Administrator Denton Bible Church Denton, Texas	2007
Mr. K. Daniel Tonn	Certified Public Accountant/Partner Hankins, Powers, Eastup, Deaton & Tonn Denton, Texas	2006
Mr. Jim D. Schultz	Chief Executive Officer Breckwell Holdings, Inc. Grand Prairie, Texas	2006
Ms. Ruby Woolridge	Guidance Counselor Fort Worth Independent School District Fort Worth, Texas	2007
Ms. Diana Ortiz ²	Chief Financial Officer City of Denton Denton, Texas	N/A
Ms. Donna Swarb ²	Chief Financial Officer City of Arlington Arlington, Texas	N/A

¹ Eligible Institution

² Ex Officio Member

Eligible Lenders

The Authority purchases its loans from financial institutions and universities 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, Inc.” and “—Educational Services of America, Inc.”

The Authority makes consolidation loans.

Authority Financing Activities 1979 to Present

The Authority began issuing bonds to acquire student loans in 1979. The Authority has issued a total of \$1,508,785,000 in aggregate principal amount of bonds since 1979, \$1,023,840,000 of which was outstanding as of March 1, 2006. With the exception of the Authority’s Series 1993 Bonds, Series 2002 Bonds, Series 2003A-3 Bonds and Series 2003-2 Bonds, such bonds were issued under indentures separate and apart from the Indenture under which the Remarketed Bonds were issued, and are not cross-collateralized with the Remarketed Bonds. There are \$420,000,000 in aggregate principal amount of Bonds outstanding under the Indenture, consisting of the Remarketed Bonds, the Series 2003-2 Bonds, the Series 2003A-3 Bonds, the Series 2002 Bonds and the Series 1993 Bonds.

In addition, the Authority currently has a taxable line of credit for the purchase of student loans and refinancing of indebtedness in the aggregate amount of \$100,000,000, of which \$92,300,000 is currently in use.

THE GUARANTOR

General

The Indenture authorizes the Authority to purchase any Eligible Loans which are guaranteed by any entity which guarantees student loans under the Higher Education Act (a “Guarantor” or an “Eligible Guarantor”). The Authority expects that substantially all of the Eligible Loans purchased and held under the Indenture will be guaranteed by Texas Guaranteed Student Loan Corporation (“TGSLC”), however, the Indenture authorizes the Authority to purchase Eligible Loans which are guaranteed by other entities. A brief description of TGSLC is included in this Remarketing Memorandum immediately below. The information concerning TGSLC was provided to the Authority by TGSLC and has not been verified by the Authority or the Remarketing Agent. No representation is made by the Authority as to the accuracy or completeness of such information.

Texas Guaranteed Student Loan Corporation

Organization. TGSLC 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 301 Sundance Parkway, Round Rock, Texas 78681, TGSLC is governed by nine directors appointed by the Governor of Texas in addition to the State Comptroller, and is staffed by approximately 600 employees.

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

Federal Fiscal Year	Loan Guarantee Volume	
	Excluding Consolidation Loans	Including Consolidation Loans
2003	\$2.47	\$3.66
2004	2.99	5.39
2005	3.31	5.85

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 2005	Total Portfolio as of September 30, 2005
Four year	83%	82%
Two year	9	9
Proprietary	8	9

The Federal fiscal year 2005 portfolio is comprised of 47% four year, 5% two year, 5% proprietary, and 43% consolidation loans.

Reserves. Prior to implementation of Voluntary Flexible Agreement (“VFA”) provisions on March 31, 2001, TGSLC maintained net assets as reserves in operating FFELP 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”), TGSLC’s Federal Fund was TGSLC’s Federal Reserve.

Under provisions of the VFA, effective March 31, 2001, TGSLC escrowed all Federal Reserve assets in a joint TGSLC/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 TGSLC’s Federal Reserve upon termination of the VFA.

The Balanced Budget Act of 1997 required the return of \$1 billion in Federal reserves from the FFELP guarantee agencies, of which TGSLC’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 TGSLC’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. TGSLC’s claims rate represents the percentage of Federal reinsurance claims made by TGSLC during a Federal fiscal year relative to TGSLC’s portfolio of loans designated as “in repayment” at the end of the prior Federal fiscal year. TGSLC’s historical claims rates are as follows:

Federal Fiscal Year	Claims Rate
2001	2.75%
2002	3.24
2003	2.53
2004	2.40
2005	3.48

Voluntary Flexible Agreement. TGSLC entered into a VFA with ED, effective October 1, 2000. TGSLC’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 TGSLC’s Loans in Repayment portfolio, with performance rate increases based upon reductions in annual Default Aversion Assistance Requests; an increased base Default Aversion Fee 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 TGSLC’s Federal Reserve upon termination of the VFA. Based on comments made by ED officials, all of the VFAs with guarantors, including TGSLC’s VFA, may be renegotiated within the next year. These VFA terms are subject to renegotiation upon notice, and the VFA itself is subject to termination upon 90 days written notice from either party.

No Liability to Registered Owners. The information concerning TGSLC in this Remarketing Memorandum has been provided for the sole purpose of describing TGSLC’s function as guarantor of certain of the Student Loans. TGSLC has no obligation or liability of any kind to the Registered Owners to pay the principal of, redemption premium or interest on the Remarketed Bonds.

Miscellaneous. Liabilities created by TGSLC are not debts of the State of Texas and TGSLC may not secure any liability with funds or assets of the State of Texas except as otherwise provided in the final sentence of this paragraph. TGSLC is subject to the Texas Sunset Act (Chapter 325, Government Code) and as a result of Sunset Review completed in 2004, the Texas legislature enacted legislation to extend TGSLC’s existence until September 1, 2017. If TGSLC is abolished in a subsequent Sunset Review, 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 TGSLC and satisfy its outstanding obligations.

TGSLC has not reviewed any other section of this Remarketing Memorandum and shall have no responsibility for any information contained therein.

SERVICING OF THE LOANS

The information set forth below with respect to the Servicer, EdFinancial Services (as defined below) and Nelnet (as defined below) has been obtained from the Servicer, EdFinancial Services and Nelnet, 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 described under the captions “Educational Services of

America, Inc.” and “Nelnet, Inc.” 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 before they enter repayment. When loans are sold to the Authority, the Servicer has transferred most servicing functions to one of its subservicers, Educational Services of America, Inc. (“EdFinancial Services”) or Nelnet, Inc. (“Nelnet”). However, the Servicer, with the prior consent of the Credit Provider, plans to begin providing full servicing of the loans held by the Authority and gradually phase out its subservicing arrangements.

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 six-member Board of Directors. 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
Mrs. Judy Schneider Secretary/Treasurer	National Value Added Consultant JP Morgan Chase Bank
Mr. Governor E. Jackson ¹	Director of Student Financial Aid Texas Woman’s University Denton, Texas
Mr. Ken D. Woods	President CMW Management Corporation
Mr. Ray Boldreghini	Associate Director of Financial Aid University of Texas at Arlington

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

The current staff of the Servicer consists of 46 permanent full-time employees and six permanent part-time 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. She is also a member of the board of directors of the National Council of Higher Education Loan Programs. 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, Associate Executive Director for Industry Relations. 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 ten years' experience in the banking industry and joined the Servicer in 1998.

Lance Teinert, Associate Executive Director of Operations. Mr. Teinert is responsible for managing the College Station, Texas office of the Servicer and coordination of the servicing operations of the two locations. Mr. Teinert has been in the student loan industry since 1988, and just prior to joining the Servicer in 2006 spent 10 years at another Texas student loan servicing organization where he was responsible for initiating internal loan servicing operations and directing the day-to-day operations for the servicing of a \$1 billion portfolio. While under his management, the organization received the Department of Education's Exceptional Performer Designation. Mr. Teinert served as President of the Student Loan Servicing Alliance, a nationally recognized trade association for student loan servicers. He holds a BA degree in English from Texas A&M University.

Robert Sandlin, Director of Policy and Compliance. Mr. Sandlin's responsibility includes internal audit and oversight of regulatory and statutory compliance. Prior to joining the Servicer in 2006, he spent 20 years working in the student loan industry. He was previously employed by the Texas state guarantor and two other Texas student loan servicers. He also has provided consulting services in the areas of compliance and oversight. Mr. Sandlin has served on the Regulations Committee of the National Council of Higher Education Loan Programs for 13 years. He holds a BBA degree in Finance from Texas West A&M University.

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 Acquisitions. Ms. Walker's responsibility includes the acquisition and consolidation of student loans. She joined the Servicer in 1993 and spent thirteen years as Director of Loan Services for the Servicer. 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.

Kim Eisenhower, Director of Loan Originations. Ms. Eisenhower joined the Servicer in 2004 and directs the staff that originates loans for many of the Authority's participating lenders. She received a B.B.A. in Finance from Texas A&M University and has seventeen years of experience in the financial aid industry. Prior to joining the Servicer, she served as Director of Financial Aid at Tarrant County College, Southeast Campus.

The Servicing Agreement. Under the Servicing Agreement, the Servicer has agreed to service the Student 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 is required to 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 are required to 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 the 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 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 is required to 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 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's liability is limited to amounts it receives from the Subservicers and its own loan loss reserve, which is currently equal to \$438,091. 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 is required to pay the Servicer monthly and to 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 EdFinancial Services and Nelnet has been obtained from EdFinancial Services and Nelnet, respectively, 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.

Educational Services of America, Inc.

General. Educational Services of America, Inc. (“EdFinancial Services”) is empowered by its corporate 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. The principal office of EdFinancial Services is located at 298 North Seven Oaks 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 24 major lenders and secondary markets involving over \$5 billion of educational loans. EdFinancial Services employs a corporate staff of approximately 400 full-time and part-time personnel performing various functions, including marketing, loan and guarantee processing, disbursement services, loan servicing, regulatory compliance and internal accounting. EdFinancial Services was granted exceptional performance status for the period April 1, 2005 through April 2, 2006. These periods may be extended beyond such dates provided each servicer meets the Department of Education’s requirements to maintain such designation. So long as EdFinancial Services’ exceptional performance status remains in effect, all loans serviced by EdFinancial Services will be eligible to receive reimbursement on any claim submitted for payment as described herein under the caption “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Student Loans.” There can be no assurance that EdFinancial Services will maintain its exceptional performance status in the future. Failure to maintain exceptional performance status in the future is not a default under the servicing agreement. The Secretary of Education may revoke (including potentially on a retroactive basis) a servicer’s exceptional performance designation if, among other things, subsequent audits of servicing operations reflect a failure to meet due diligence standards, the required audits are not provided to the Secretary or the Secretary determines that an overall level of regulatory compliance has not been maintained. If a servicer fails to maintain its exceptional performance designation, reimbursement on default claims will revert to 98%, which will be effective from either (i) the annual renewal date, (ii) the date the Secretary determines the non-compliance occurred, or (iii) another date determined by the Secretary. In this event, any recoupment by the Secretary or any guarantor from the trust indenture of amounts previously reimbursed by a guarantor, which is not reimbursed by the servicer or any affiliate, will reduce funds available for distribution on any applicable distribution date.

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 Student 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 complies 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.

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 offers student loan servicing to lending institutions and secondary markets. Nelnet has offices across the country, with primary servicing operations in Aurora, Colorado, Jacksonville, Florida, Indianapolis, Indiana, Lincoln, Nebraska and Fredericksburg, Virginia, and, as of December 31, 2005, employs a total of 3,357 employees. As of December 31, 2005, Nelnet serviced more than \$26.9 billion in student loans.

The Nelnet Subservicing Agreement. The Loan Servicing Agreement, dated as of April 1, 2003 between Nelnet and the Servicer (the “Nelnet Subservicing 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 Subservicing Agreement, Nelnet will perform servicing functions for those Student 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 Subservicing Agreement.

In the event Nelnet takes any action in connection with servicing responsibilities under the Nelnet Subservicing 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 Subservicing 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 Subservicing Agreement.

Custody of Student Loan Documents

Physical custody of the documentation for each Student Loan, including the promissory note, is retained with EdFinancial Services, Nelnet or the Servicer as custodian or bailee. Such custodians or

bailees act 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 Guarantors 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, EdFinancial Services or Nelnet 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 EdFinancial Subservicing Agreement and the Nelnet Servicing 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 Remarketed 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 Remarketed Bonds are legal investments for various institutions in those states.

TAX EXEMPTION

Tax Matters Relating to the Remarketed Bonds

Conversion of the Remarketed Bonds to bear interest at a Variable Rate is subject to the delivery of an opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that such conversion is in accordance with the terms of the Indenture and will not adversely affect the excludability of the interest on the Remarketed Bonds from the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code and existing regulations, published rulings, and court decisions. IN RENDERING SUCH OPINION, BOND COUNSEL HAS MADE NO INVESTIGATION OF, AND WILL RENDER NO OPINION WITH RESPECT TO, THE CURRENT STATUS OF THE INTEREST ON THE REMARKETED BONDS UNDER SECTION 103 OF THE CODE OR ANY OTHER FEDERAL TAX MATTER. The statutes, regulations, rulings, and court decisions on which such opinion was based are subject to change. A copy of the opinion to be delivered by Bond Counsel on the date of conversion of the Remarketed Bonds to bear interest at a Variable Rate is attached to this Remarketing Memorandum as Appendix A, and a copy of the opinion rendered by Bond Counsel on the date of initial delivery of the Remarketed Bonds is attached to this Remarketing Memorandum as Appendix B.

Bond Counsel's opinion will note that interest on the Remarketed Bonds is a preference item fully includable in computing the alternative minimum taxable income of owners of the Remarketed Bonds which are individuals, corporations, trusts or estates. Alternative minimum taxable income is the basis on which is computed the alternative minimum tax imposed on individuals, corporations, trusts or estates by section 55 of the Code.

At the time the Remarketed Bonds were delivered, Bond Counsel rendered an opinion to the effect that the interest on the Remarketed Bonds was excludable from the gross income of the owners

thereof for federal income tax purposes, pursuant to Section 103 of the Code and existing regulations, published rulings and court decisions. In rendering such opinion, Bond Counsel relied upon representations and certifications of the Authority made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Remarketed Bonds and assumed continuing compliance by the Authority with the provisions of the Indenture subsequent to the issuance of the Remarketed Bonds. The Indenture contains covenants by the Authority with respect to, among other matters, the use of the proceeds of the Remarketed Bonds, the manner in which the proceeds of the Remarketed Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Remarketed Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Remarketed Bonds.

Bond Counsel’s opinion noted that the Indenture provides that prior to taking certain actions the Authority must have received an opinion of Bond Counsel to the effect that such action will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Remarketed Bonds (an “Opinion of Bond Counsel”). No opinion will be expressed as to the effect on the exclusion from gross income for federal income tax purposes of interest on the Remarketed Bonds on and after the taking of any action under the Indenture which requires that the Authority shall have received an Opinion of Bond Counsel, as such Opinion of Bond Counsel must be rendered in connection with such action and is dependent upon the occurrence of certain events in the future.

Bond Counsel’s opinions are not a guarantee of a result, but represent its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling was sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Remarketed Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners of such Remarketed Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Remarketed Bonds, the Authority may have different or conflicting interests from the owners of such Remarketed Bonds. Public awareness of any future audit of the Remarketed Bonds could adversely affect the value and liquidity of the Remarketed Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Remarketed Bonds. Prospective purchasers of the Remarketed Bonds should be aware that the ownership of tax-exempt obligations such as the Remarketed Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

THE REMARKETING AGENT

Under a Remarketing Agreement dated as of February 3, 2006, relating to the Series 2003A Bonds and a Remarketing Agreement dated as of February 24, 2006 relating to the Series 2003B Bonds, UBS Securities LLC has agreed to use its best efforts to remarket the Remarketed Bonds tendered for purchase in accordance with the provisions of the Indenture and to perform the other duties of the Remarketing Agent pursuant to the Indenture. The notice address of the Remarketing Agent is UBS Securities LLC, 15th Floor, 1285 Avenue of the Americas, New York, New York 10019, Attention: Short-Term Desk (Telephone: 212-713-4692).

RATINGS

Upon the remarketing of the Remarketed Bonds and the issuance of the Letter of Credit by DEPFA BANK plc, the Series 2003A Bonds will have been assigned the ratings of “Aaa/VMIG 1” and the Series 2003B Bonds will have been assigned the ratings of “Aa1/VMIG 1” by Moody’s Investors Service (“Moody’s”). The rating of the Remarketed Bonds by Moody’s reflects only the view of such organization at the time such ratings are given, and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue 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 the ratings may have an adverse effect on the market price of the Remarketed Bonds. Any explanation of the Moody’s rating may be obtained from Moody’s Investors Service at 99 Church Street, New York, New York 10007, Attention: Fully-Supported LOC Group.

FINANCIAL STATEMENTS

Attached as Appendix D hereto are the audited financial statements of the Authority for the fiscal years ended August 31, 2005 and 2004.

LEGAL MATTERS

On the date of original issuance and delivery of the Remarketed Bonds, certain legal matters were passed upon by the Attorney General of the State of Texas and by Fulbright & Jaworski L.L.P., Houston, Texas, Bond Counsel. The conversion of the Remarketed Bonds to bear interest at a Variable Rate is subject to the approval of Bond Counsel. A copy of the opinion to be delivered by Bond Counsel on the conversion date is attached to this Remarketing Memorandum as Appendix A, and a copy of the opinion rendered by Bond Counsel on the date of initial delivery of the Remarketed Bonds is attached to this Remarketing Memorandum as Appendix B. Certain legal matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., Houston, Texas, general counsel to the Authority, and for DEPFA BANK plc by its United States counsel, Kutak Rock LLP, Atlanta, Georgia, and by its General Counsel in Ireland. In addition, Kutak Rock LLP, Denver, Colorado, will act as counsel to the Remarketing Agent in connection with the remarketing of the Remarketed Bonds.

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 remarketing or delivery of the Remarketed 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 has entered into a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”) pursuant to the Indenture wherein the Authority has agreed to provide certain annual financial information and material events information to assist the Remarketing Agent in complying with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”).

The Authority has agreed in its Continuing Disclosure Undertaking for the benefit of Owners (including the beneficial owners) of the Remarketed 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 has also agreed for the benefit of Owners of the Remarketed 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 is required to be filed with each NRMSIR (defined below) and the SID (defined below). Event Notices and Default Notices are 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 is obligated to observe and perform the covenants specified in the Continuing Disclosure Undertaking with respect to the Authority and the Remarketed Bonds while, but only while the Authority remains an “obligated person” with respect to the Remarketed 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 Remarketed 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 Remarketed Bonds in the primary offering of the Remarketed 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 Remarketed 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 Remarketed 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 Remarketed Bonds from lawfully purchasing or selling Remarketed 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.

The Authority anticipates discontinuing its Continuing Disclosure Undertaking while the Remarketed Bonds bear interest at a Weekly Rate since the Remarketed Bonds, while bearing interest at a Weekly Rate, are exempt from the provisions, including the continuing disclosure requirements, of the Rule. The Authority has agreed that it will enter into a new undertaking for secondary market disclosure in order to satisfy the requirements of the Rule if the Remarketed Bonds are converted to bear interest at an Auction Rate or a Fixed Rate.

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 Remarketed 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 an Event of Default under the Indenture and the sole remedy of Owners (or beneficial owners) of the Remarketed Bonds shall be actions to compel performance. The rights described in this paragraph are also vested in any individual beneficial owner of the Remarketed Bonds if such beneficial owner stipulates that no challenge is made to the adequacy of any information provided in compliance with the undertakings hereunder.

The provisions of the Continuing Disclosure Undertaking are for the sole benefit of the Owners and beneficial owners of the Remarketed 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 Remarketed 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 financial information and operating data with respect to the Authority of the type included in this Remarketing Memorandum, including the following:

- (a) annual financial statements prepared in accordance with generally accepted accounting principles;
- (b) the following Indenture information:

- (i) Debt Service Reserve Fund balance and the Debt Service Reserve Fund Requirement;
 - (ii) outstanding principal amount of the Remarketed 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 D 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 has agreed 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 Remarketed 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 Remarketed Bonds;
- or
- (k) release, substitution or sale of property securing repayment of the Remarketed 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.

Definitions

“*MSRB*” means Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

“*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, 15th Floor, New York, New York 10038, Phone: (212) 771-6999, Fax: (212) 771-7390, E-mail: nrmsir@interactivedata.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 Remarketing Memorandum including matters of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact. This Remarketing Memorandum is not to be construed as an agreement or contract between the Authority and the purchasers of any of the Remarketed Bonds.

All of the summaries of the statutes, documents and resolutions contained in this Remarketing Memorandum 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, the Credit Provider, 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 Remarketing Memorandum 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 or interest on the Remarketed 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 Remarketed Bonds.

The distribution of this Remarketing Memorandum 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

**BOND COUNSEL OPINION
DELIVERED IN CONNECTION WITH THE
CONVERSION OF THE INTEREST RATE ON THE REMARKETED BONDS**

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March ____, 2006

North Texas Higher Education Authority, Inc.
1250 E. Copeland Suite 200
Arlington, Texas 76011

UBS Financial Services Inc.
1285 Avenue of the Americas
15th Floor
New York, New York 10019

Wells Fargo Bank, National Association,
as trustee
505 Main Street Suite 301
Fort Worth, Texas 76102

Re: North Texas Higher Education Authority, Inc.
Student Loan Revenue Bonds, Series 2003A-1, 2003A-2, and 2003B

Ladies and Gentlemen:

We have acted as bond counsel to North Texas Higher Education Authority, Inc. (the "Authority") in connection with the Authority's Student Loan Revenue Bonds, Series 2003A-1, Series 2003A-2, and Series 2003B (the "Refunding Series 2003 Bonds"), outstanding under an Amended and Restated General Indenture dated as of February 3, 2006 (the "General Indenture"), and a Third Supplemental Indenture dated as of January 1, 2003, as amended by an Amendment to Second Supplemental Indenture, Third Supplemental Indenture, Fourth Supplemental Indenture and Fifth Supplemental Indenture dated as of February 3, 2006 (the "Third Supplement"), between the Authority and Wells Fargo Bank, National Association, as trustee. Capitalized terms not defined herein have the meanings given to them in the Third Supplement.

The Authority proposes to convert the Refunding Series 2003 Bonds from Auction Rate Certificates to Bonds bearing interest at a Variable Rate. In our capacity as bond counsel described above, we have examined the Indenture (as defined in the General Indenture), a Notice of Proposed Variable Rate Conversion Date dated February 28, 2006, a Notice to Bondholders dated March 1, 2006, a Cash Flow Certificate, the Liquidity Facility for the Series 2003A-1 Bonds and Series 2003A-2 Bonds, the Liquidity Facility for the Series 2003B Bonds, the Remarketing Agent's preliminary determination of the Variable Rate and the Authority's consent, a confirmation from the Rating Agency that the conversion and Liquidity Facilities will not adversely affect the rating on the Series 2003 Refunding Bonds or any other Bonds issued under the Indenture, and such other agreements, documents, and certificates, and have made such investigations of law, as we have deemed necessary or appropriate in rendering the opinions set forth below. We have assumed the conformity to original copies of all documents submitted to us as copies, the genuineness of all signatures, and the accuracy of the statements contained in the documents.

Based on the foregoing, we are of the opinion that, under the terms of the Indenture and the laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. Assuming sufficient funds are available to purchase all the Refunding Series 2003 Bonds on the proposed Variable Rate Conversion Date, the proposed conversion to a Variable Rate is permitted by the Indenture and the laws of the State of Texas.

2. The proposed conversion of the Refunding Series 2003B Bonds from Auction Rate Certificates to Bonds bearing interest at a Variable Rate will not adversely affect the excludability of interest on the Refunding Series 2003 Bonds from the gross income of the owner thereof under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") for federal income tax purposes. In rendering the opinion set forth in this paragraph, we call to your attention that we have made no investigation of, and consequently render no opinion with respect to, the current status of the interest on the Refunding Series 2003 Bonds under section 103 of the Code or any other federal tax matter.

WE CALL TO YOUR ATTENTION THE FACT THAT INTEREST ON THE REFUNDING SERIES 2003 BONDS WILL BE A PREFERENCE ITEM FULLY INCLUDABLE IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS OF SUCH BONDS WHICH ARE INDIVIDUALS, CORPORATIONS, TRUSTS OR ESTATES. Alternative minimum taxable income is the basis on which is computed the alternative minimum tax imposed on individuals, corporations, trusts, and estates by Section 55 of the Code.

This opinion may be relied upon only by you and other persons whom we grant written permission to do so.

APPENDIX B

**BOND COUNSEL OPINION
DELIVERED IN CONNECTION WITH THE
ISSUANCE OF THE REMARKETED BONDS**

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FULBRIGHT & JAWORSKI L.L.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

Re: North Texas Higher Education Authority, Inc. Student Loan Revenue Bonds

Series 2003A-1 (the "Series 2003A-1 Bonds")
Series 2003A-2 (the "Series 2003A-2 Bonds")
Series 2003A-3 (the "Series 2003A-3 Bonds"), and
Series 2003B (the "Series 2003B 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 four separate series pursuant to and secured under a General Indenture dated as of May 1, 1993, as supplemented by a First Supplemental Indenture dated as of May 1, 1993, a Second Supplemental Indenture dated as of March 1, 2002, a Third Supplemental Indenture dated as of January 1, 2003 and a Fourth Supplemental Indenture dated as of January 1, 2003 (the "Indenture"), between the Authority and Bank One, 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.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the Authority with the provisions of the Indenture and in reliance upon representations

January 16, 2003

Page 2

and certifications of the Authority made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Series 2003A-1 Bonds, the Series 2003A-2 Bonds, and the Series 2003B Bonds will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for Federal income tax purposes, pursuant to Section 103 of the Code, existing regulations, published rulings, and court decisions thereunder.

WE CALL TO YOUR ATTENTION THE FACT THAT INTEREST ON THE SERIES 2003A-3 BONDS IS FULLY INCLUDABLE IN THE GROSS INCOME OF THE OWNERS THEREOF FOR FEDERAL INCOME TAX PURPOSES.

WE FURTHER CALL TO YOUR ATTENTION THE FACT THAT INTEREST ON THE SERIES 2003A-1 BONDS, THE SERIES 2003A-2 BONDS, AND THE SERIES 2003B BONDS WILL BE A PREFERENCE ITEM FULLY INCLUDABLE IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS OF SUCH BONDS WHICH ARE INDIVIDUALS, CORPORATIONS, TRUSTS OR ESTATES. Alternative minimum taxable income is the basis on which is computed the alternative minimum tax imposed on individuals, corporations, trusts, and estates by Section 55 of the Code.

WE EXPRESS NO OPINION herein as to the effect on the excludability from gross income for federal income tax purposes of any action taken under the Indenture which requires that the Authority shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on such Bonds from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes. The Indenture provides that prior to taking certain actions, including converting the interest rate on the Series 2003A-1 Bonds, the Series 2003A-2 Bonds, and the Series 2003B Bonds to a Fixed Rate (as defined in the Indenture) on a Conversion Date (as defined in the Indenture), the Authority must have received such an opinion.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Series 2003A-1 Bonds, the Series 2003A-2 Bonds, and the Series 2003B Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with "subchapter C" earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or

January 16, 2003
Page 3

supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Fulbright & Jaworski L.L.P.

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APPENDIX C

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

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

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the FFELP Loans. Generally, this Remarketing Memorandum describes only the provisions of the Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. The Higher Education Act is currently subject to reauthorization. During that process, proposed amendments to the Higher Education Act are common and numerous such bills have recently been introduced and/or passed by Congress. The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. As a part of the federal budgetary appropriation process, Congress has passed, and the President has signed into law, the Deficit Reduction Act of 2005, which extends the Secretary’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act through September 30, 2012, and amends numerous provisions of the Higher Education Act (some of which are summarized below).

The following summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

Federal Family Education Loans

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, graduate students or professional 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 (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution; (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (iii) has agreed to notify promptly the holder of the loan of any address change; (iv) is not in

default on any federal education loans; (v) meets the applicable “need” requirements; and (vi) has not committed a crime involving fraud in obtaining funds under the Higher Education Act which funds have not been fully repaid. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. With certain exceptions, an institution with a cohort (composite) default rate that is higher than certain specified thresholds in the Higher Education Act is not an eligible institution.

Subsidized Stafford Loans

The Higher Education Act provides for federal (a) insurance or reinsurance of eligible Subsidized Stafford Loans, (b) interest subsidy payments for borrowers remitted 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 graduate students, professional students, or parents of eligible dependent students. Only graduate students, professional students and parents who do not have an adverse credit history are eligible for PLUS Loans. The basic provisions applicable to PLUS Loans are similar to those of Stafford Loans with respect to the involvement of Guarantee Agencies and the Secretary in providing federal reinsurance on the loans. However, PLUS

Loans differ significantly from Subsidized Stafford Loans, particularly because federal interest subsidy payments are not available under the PLUS Program and special allowance payments are more restricted.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Subsidized Stafford Loans. Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than PLUS Loans made to “parent borrowers”) selected by the borrower, as well as loans made pursuant to the Perkins (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”). Consolidation Loans made pursuant to the Direct Loan Program must conform to the eligibility requirements for Consolidation Loans under the FFEL Program. The borrowers may be either in repayment status or in a grace period preceding repayment, but the borrower may not still be in school. Delinquent or defaulted borrowers are eligible to obtain Consolidation Loans if they agree to re-enter repayment through loan consolidation. Borrowers may add additional loans to a Consolidation Loan during the 180-day period following origination of the Consolidation Loan. A Consolidation Loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

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 repayment provisions authorized under the Higher Education Act and terms consistent with a Consolidation Loan made pursuant to the FFEL Program. In addition, the Secretary may offer the borrower of a Consolidation Loan a Direct Consolidation Loan, for the purposes of providing an income contingent repayment if the borrower’s delinquent loan has been submitted to the guarantor for default aversion.

Interest Rates

Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 but before July 1, 2006 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.7%, with a maximum rate of 8.25%. Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, will bear interest at a rate equal to 6.8% per annum and PLUS Loans made on or after July 1, 2006, will bear interest at a rate equal to 8.5% 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. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a fixed rate equal to the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest one-eighth of 1%, with a maximum rate of 8.25%.

Loan Limits

The Higher Education Act requires that Subsidized and Unsubsidized Stafford Loans made to cover multiple enrollment periods, such as a semester, trimester or quarter be disbursed by eligible lenders in at least two separate disbursements. A Stafford Loan borrower may receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of a Stafford Loan, made prior to July 1, 2007, for an academic year cannot exceed \$2,625 for the first year of undergraduate study, \$3,500 for the second year of undergraduate study and \$5,500 for the

remainder of undergraduate study. The maximum amount of a Stafford Loan, made on or after July 1, 2007, for an academic year cannot exceed \$3,500 for the first year of undergraduate study and \$4,500 for the second year of undergraduate study. The aggregate limit for undergraduate study is \$23,000 (excluding PLUS Loans). Independent undergraduate students may receive an additional Unsubsidized Stafford Loan of up to \$4,000 per academic year, with an aggregate maximum of \$46,000. The maximum amount of the loans for an academic year for graduate students is \$8,500. Independent graduate students may borrow an additional Unsubsidized Stafford Loan up to \$12,000 per academic year. The Secretary has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study. For example, certain medical students may now borrow up to \$46,000 per academic year, with a maximum aggregate limit of \$189,125.

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

Repayment

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

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

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

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

Deferment and Forbearance Periods. No principal repayments need to be made during certain periods prescribed by the Higher Education Act ("Deferment Periods") but interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or rehabilitation training program, (b) not in excess of three years while the borrower is

seeking and unable to find full-time employment, (c) not in excess of three years while the borrower is serving on active duty during a war or other military operation or national emergency, is performing qualifying National Guard duty during a war or other military operation or national emergency, is in active military duty, or is in reserve status and called to active duty, and (d) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance (“Forbearance”) during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which Forbearance is mandatory. Mandatory Forbearance periods exist when the borrower is impacted by a national emergency, military mobilization, or when the geographical area in which the borrower resides or works is declared a disaster area by certain officials. Other mandatory periods include periods during which the borrower is (i) participating in a medical or dental residency and is not eligible for deferment; (ii) serving in a qualified medical or dental internship program or certain national service programs; or (iii) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower’s gross income. In other circumstances, Forbearance may be granted at the lender’s option. Forbearance also extends the maximum repayment periods.

Master Promissory Note

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

Interest Subsidy Payments

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

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders. The rates for Special Allowance Payments are based on formulae that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loan (tax-exempt or taxable). Loans made or purchased with funds obtained by the holder from the issuance of tax-exempt obligations issued prior to October 1, 1993 have an effective minimum rate of return of 9.5%. Amounts derived from recoveries of principal on loans made prior to October 1, 1993 may only be used to originate or acquire additional loans by a unit of a state or local government, or non-profit entity not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate or trustee, which entity has a total unpaid balance of principal

equal to or less than \$100,000,000 on loans for which special allowances were paid in the most recent quarterly payment prior to September 30, 2005. Such entities may originate or acquire additional loans with amounts derived from recoveries of principal until December 31, 2010. The Special Allowance Payments payable with respect to eligible loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are equal to those paid to other lenders.

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

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

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

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

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

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

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

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

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

The Higher Education Act provides that for FFELP Loans first disbursed on or after April 1, 2006, lenders must remit to the Secretary any interest paid by a borrower which is in excess of the special allowance payment rate set forth above for such loans.

Loan Fees

Insurance Premium. For loans guaranteed before July 1, 2006, a guarantor is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, Guarantee Agencies have waived this fee since 1999. For loans guaranteed on or after July 1, 2006, a federal default fee equal to 1% of principal must be paid into the guarantor's Federal Student Loan Reserve Fund.

Origination Fee. Lenders are authorized to charge borrowers of Subsidized Stafford Loans and Unsubsidized Stafford Loans an origination fee in an amount not to exceed: 3.0% of the principal amount of the loan for loans disbursed prior to July 1, 2006; 2.0% of the principal amount of the loan for loans disbursed on or after July 1, 2006 and before July 1, 2007; 1.5% for loans disbursed on or after July 1, 2007 and before July 1, 2008; 1.0% for loans disbursed on or after July 1, 2008 and before July 1, 2009; 0.5% for loans disbursed on or after July 1, 2009 and before July 1, 2010; and 0% for loans disbursed on or after July 1, 2010. Lenders are authorized to charge borrowers of Direct Loans 3.0% for loans disbursed on or after July 1, 2006, 2.5% for loans disbursed on or after July 1, 2007 and before July 1, 2008, 2.0% for loans disbursed on or after July 1, 2008 and before July 1, 2009, 1.5% for loans disbursed on or after July 1, 2009 and before July 1, 2010 and 1.0% for loans disbursed on or after July 1, 2010. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. These fees are not retained by the lender, but must be passed on to the Secretary.

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

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

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

Insurance and Guarantees

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

Federal Insurance

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

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

Guarantees

General. If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the guarantor for a statutorily-set percentage (98% for loans first disbursed prior to July 1, 2006 and 97% for loans first disbursed on or after July 1, 2006) of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan; provided, however, if the servicer which services such loan has been designated as an “Exceptional Performer” by the Secretary, the eligible lender is reimbursed by the guarantor for 99% of the unpaid principal balance of the defaulted loan plus accrued unpaid interest. Under the Higher Education Act, the Secretary enters into a guarantee agreement and a reinsurance agreement (the “Guarantee Agreements”) with each guarantor which provides for federal reimbursement for amounts paid to eligible lenders by the guarantor with respect to defaulted loans.

Guarantee Agreements. Pursuant to the Guarantee Agreements, the Secretary is to reimburse a guarantor for the amounts expended in connection with a claim resulting from the death, bankruptcy or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure, borrowers whose borrowing eligibility was falsely certified by the eligible institution, or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a guarantor’s claims rate experience for federal reimbursement purposes. Generally, 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. See “Education Loans Generally Not Subject to Discharge in Bankruptcy” herein.

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

If the Secretary has terminated or is seeking to terminate Guarantee Agreements, or has assumed a guarantor’s functions, notwithstanding any other provision of law: (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, 1998¹
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). The Higher Education Act provides that on or after October 1, 2006 a guarantor may not charge a borrower collection costs in an amount in excess of 18.5% of the outstanding principal and interest of a defaulted loan that is paid off through consolidation by the borrower, provided that the guarantor must remit to the Secretary a portion of the collection charge equal to 8.5% of the outstanding principal and interest of the defaulted loan. In addition, on or after October 1, 2009 a guarantor must remit to the Secretary any collection fees on defaulted loans paid off through consolidation by the borrower in excess of 45% of the guarantors total collections on default loans in any one federal fiscal year.

Lender Agreements. Pursuant to most typical agreements for guarantee between a guarantor and the originator of the loan, any eligible holder of a loan insured by such a guarantor is entitled to

reimbursement from such guarantor of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower at the rate of 100% of such loss (or, subject to certain limitations, 98% for loans in default made on or after October 1, 1993 but prior to July 1, 2006 or 97% for loans in default made on or after July 1, 2006). Guarantors generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 270 days in the case of a loan payable in monthly installments or for 330 days in the case of a loan payable in less frequent installments. When a loan becomes at least 60 days past due, the holder is required to request default aversion assistance from the applicable guarantor in order to attempt to cure the delinquency. When a loan becomes 240 days past due, the holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guarantor all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guarantor from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

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

Guarantor Reserves

Each guarantor is required to establish a Federal Student Loan Reserve Fund (the "Federal Fund") which, together with any earnings thereon, are deemed to be property of the United States. Each guarantor is required to deposit into the Federal Fund any reserve funds plus reinsurance payments received from the Secretary, default collections, insurance premiums, 70% of payments received as administrative cost allowance and other receipts as specified in regulations. A guarantor is authorized to transfer up to 180 days' cash expenses for normal operating expenses (other than claim payments) from the Federal Fund to the Operating Fund (described below) at any time during the first three years after establishment of the fund. The Federal Fund may be used to pay lender claims and to pay default aversion fees into the Operating Fund. A guarantor is also required to establish an operating fund (the "Operating Fund"), which, except for funds transferred from the Federal Fund to meet operating expenses during the first three years after fund establishment, is the property of the guarantor. A guarantor may deposit into the Operating Fund loan processing and issuance fees equal to 0.40% of the total principal amount of loans insured during the fiscal year, 30% of payments received after October 7, 1998 for the administrative cost allowance for loans insured prior to that date and the 24% retention of collections on defaulted loans and other receipts as specified in regulations. An Operating Fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, compliance monitoring, and other student financial aid related activities. For Subsidized and Unsubsidized Stafford Loans disbursed after July 1, 2006, guarantors must collect and deposit a federal default fee to the Federal Fund equal to 1% of principal of the loan.

The Higher Education Act required the Secretary to recall \$1 billion in federal reserve funds from guarantors on September 1, 2002. Each guarantor was required to transfer its equitable share of the \$1 billion to a restricted account in equal annual installments for each of the five federal fiscal years 1998

through 2002 (or in certain cases over four federal fiscal years beginning in 1999). The guarantor's required reserve ratio has been reduced from 1.1% to .25%.

The Higher Education Act provides for an additional recall of reserves from each Federal Fund, but also provides for certain minimum reserve levels which are protected from recall. The Secretary is authorized to enter into voluntary, flexible agreements with guarantors under which various statutory and regulatory provisions can be waived; provided, however, the Secretary is not authorized to waive any deposit of default aversion fees by guarantors. In addition, under the Higher Education Act, the Secretary is prohibited from requiring the return of all of a guarantor's reserve funds unless the Secretary determines that the return of these funds is in the best interest of the operation of the FFEL Program, or to ensure the proper maintenance of such guarantor's funds or assets or the orderly termination of the guarantor's operations and the liquidation of its assets. The Higher Education Act also authorizes the Secretary to direct a guarantor to: (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.

Education Loans Generally Not Subject to Discharge in Bankruptcy

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

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

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

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APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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**NORTH TEXAS HIGHER
EDUCATION AUTHORITY, INC.**

FINANCIAL REPORT

AUGUST 31, 2005

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004:	
Management's Discussion and Analysis (Unaudited)—Required Supplementary Information	3-8
Statements of Net Assets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-29
OTHER SUPPLEMENTARY INFORMATION:	
Combining Schedule—Statement of Net Assets Information	30-34
Combining Schedule—Statement of Revenues, Expenses and Changes in Net Assets (Deficit) Information	35-39



**WEAVER
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TIDWELL**

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2005 and 2004 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of August 31, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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INTERNATIONAL

North Texas Higher Education Authority, Inc.

Page 2

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplementary information on pages 30 to 39 are presented for purposes of additional analysis and are 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 the audit of the basic financial statements and, accordingly, we express no opinion on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
October 28, 2005

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED AUGUST 31, 2005 AND 2004 (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 at 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.

AUTHORITY ACTIVITY AND HIGHLIGHTS

The Authority purchases student loans from a variety of financial institutions and originates Consolidation loans. Student Loan acquisitions and originations of Consolidation loans increased in 2005 as follows:

	<u>Year 2005</u>	<u>Year 2004</u>	<u>Year 2003</u>
Student Loan Purchases	\$244 mil.	\$164.8 mil.	\$126.7 mil.
Originated Consolidated Loans (Net)	\$49.5 mil.	\$ 39.1 mil.	\$ 27.4 mil.

For further discussion of the Authority's consolidation loan program see Note 3 to the basic financial statements.

Financing for the program is provided through the issuance of tax-exempt and taxable debt, lines of credit, and the recycling of funds. Debt issuance activity is described below:

	<u>Year 2005</u>	<u>Year 2004</u>	<u>Year 2003</u>
Issuance of tax-exempt auction rate securities:	\$ none	\$ none	\$ 73.4 mil.
Issuance of taxable auction rate securities:	<u>\$ none</u>	<u>\$150 mil.</u>	<u>\$ 30 mil.</u>
Total Issuances of auction rate securities:	\$ none	\$150 mil.	\$103.4 mil.
Issuance of tax-exempt variable rate securities:	\$103.6 mil.	\$ 42 mil.	\$ none
Issuance of taxable variable rate securities:	<u>\$ 71.4 mil.</u>	<u>\$ none</u>	<u>\$ none</u>
Total Issuances of variable rate securities:	\$175 mil.	\$ 42 mil.	\$ none
Line of credit balances outstanding:	\$81 mil.	\$ 35.7 mil.	\$ 63.5 mil.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED AUGUST 31, 2005 AND 2004 (with 2003 Comparative Totals) (UNAUDITED)

CONDENSED FINANCIAL POSITION	2005	2004	2003
Cash, cash equivalents and investments	\$ 129,814,974	\$ 124,256,058	\$ 111,330,492
Accrued interest receivable	22,562,298	19,931,775	22,022,249
Student loans receivable	1,063,131,499	872,759,931	751,959,996
Other	3,018,102	2,696,349	2,390,365
TOTAL ASSETS	\$ 1,218,526,873	\$ 1,019,644,113	\$ 887,703,102
Current liabilities	\$ 148,007,982	\$ 48,621,175	\$ 18,618,139
Long-term liabilities	911,272,380	833,312,336	754,814,064
TOTAL LIABILITIES	\$ 1,059,280,362	\$ 881,933,511	\$ 773,432,203
Unrestricted	\$ 39,257,442	\$ 28,482,853	\$ 28,112,260
Restricted	119,989,069	109,227,749	86,158,639
TOTAL NET ASSETS	\$ 159,246,511	\$ 137,710,602	\$ 114,270,899
CONDENSED REVENUES, EXPENSES AND CHANGE IN NET ASSETS	2005	2004	2003
Operating Revenues:			
Interest on student loans	\$ 18,502,778	\$ 18,571,278	\$ 23,967,477
Interest on investments	3,131,007	1,615,266	2,297,463
	\$ 21,633,785	\$ 20,186,544	\$ 26,264,940
Nonoperating revenues:			
Government interest and special allowance	36,231,172	27,469,769	19,257,794
TOTAL REVENUE	\$ 57,864,957	\$ 47,656,313	\$ 45,522,734
Operating Expenses:			
Interest on bonds and line of credit	\$ 23,503,296	\$ 10,216,356	\$ 11,445,634
Provision for excess earnings and arbitrage liabilities	56,296	2,636,686	3,837,783
Loan servicing fees paid to Higher Education Servicing Corporation	3,231,891	2,677,943	3,406,051
Payments for administrative and operating costs to Higher Education Servicing Corporation	5,012,400	4,714,164	3,763,331
Trustee fees	253,324	256,487	215,414
Letter of credit fees	1,658,730	1,676,533	1,895,910
Remarketing fees	581,921	500,442	533,980
Broker/ Dealer fees	1,076,021	972,882	563,057
Bond insurance expense	265,534	197,267	204,600
Miscellaneous expense	689,635	367,850	1,259,667
	36,329,048	24,216,610	27,125,427
CHANGE IN NET ASSETS	\$ 21,535,909	\$ 23,439,703	\$ 18,397,307

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEARS ENDED AUGUST 31, 2005 AND 2004 (UNAUDITED) FINANCIAL ANALYSIS

AUTHORITY FINANCIAL HIGHLIGHTS

Total assets and liabilities increased for the fiscal years 2005 and 2004 as follows:

	<u>Year 2005</u>	<u>Percent Increase from Year 2004</u>	<u>Year 2004</u>	<u>Percent Increase from Year 2003</u>
Increase in assets:	\$198.8mil.	19.5%	\$131.9mil.	14.9%
Increase in liabilities:	\$177.3mil.	20%	\$108.5mil	14%
Increase in net assets	\$ 21.5mil.	15.6%	\$23.4mil	20.5%

Further evaluation of some of the Authority's major asset and liability categories are as follows:

	<u>Year 2005</u>	<u>Percent Change from YR. 2004</u>	<u>Year 2004</u>	<u>Percent Change from YR. 2003</u>
Increase in cash, cash equivalents, investments:	\$ 5.6mil.	4.5%	\$ 12.9mil.	11.6%
Increase in student loans outstanding:	\$190.4mil.	21.8%	\$120.8mil.	16.1%
Increase in net long term debt:	\$ 77.9mil	9.3%	\$78.5mil.	10.4%
Increase in net short term debt:	\$ 99.4mil	204%	\$30 mil.	161%
Increase in net debt:	\$177.3mil	20%	\$108.5mil	14%

The increases (above) in Year 2005 are due largely to the issuance of \$175 million in bonds during the third quarter of the fiscal year. The Authority also retired \$40.5 million of bonds, but increased the balance of its Line of Credit by \$45.3 million. The increase in cash, cash equivalents, and investments is mostly due to funds from the bond issue yet to be used to acquire student loans as of August 31, 2005. The majority of net assets are restricted for debt service or for purchase of student loans. As of August 31, 2005 approximately \$39.2 million is available for unrestricted purposes. The increase in net short term debt is mostly due to \$136.25 million of bonds due to mature in the coming fiscal year, and \$5.7 million of excess interest due in the coming fiscal year (see notes 4 and 6 to the financial statements).

The increases (above) in Year 2004 were due largely to the issuance of \$150 million and \$42 million in bonds during the second quarter and third quarter, respectively, of the fiscal year. The increase in cash, cash equivalents, and investments is mostly due to funds from the bond issues yet to be used to acquire student loans as of August 31, 2004. The increase in net short term debt was mostly due to \$40.5 million of bonds that were due to mature in fiscal year 2005, and \$5 million of excess interest due in fiscal year 2005

OPERATING ACTIVITIES

Operating Revenue increased by \$1.4 million or 7% from 2004. Revenue decreased in 2004 by \$6.1 million or (23%) from 2003. Operating revenues for the Authority are derived entirely from interest earned on student loans and cash equivalents and investments. In general variable rates on student loans were slightly lower than rates in year 2004, but interest on student loans was only \$68,500 less than from 2004 due to the increased volume of student loans. Interest on investments increased \$1.5 million due to increasing investment yields. Student loan rates and investment yields are outlined as follows:

	<u>FYE 2005</u>	<u>FYE 2004</u>	<u>FYE 2003</u>
Variable rates on student loans:	2.77% to 5.41%.	2.77% to 4.32%	2.82% to 4.37%
Average Yield on investments for year:	2.26%	1.17%	1.74%

The variable student loan interest rates are set annually on July 1 based on the 91-day T-Bill rate. Interest rates on Consolidation loans are fixed at time of disbursement. The increase of non-operating revenue is discussed below.

Operating expenses increased by \$12.1 million or 50% from last year. The major categories of the Authority's operating expenses are interest on debt, loan administration and servicing fees, and provision for excess earnings. The increase in operating expenses was mostly due to higher interest expense (increased \$13.2 million from last year). The increase in interest expense in year 2005 was a result of increasing rates, outlined below:

	<u>Year 2005</u>	<u>Year 2004</u>	<u>Year 2003</u>
Average tax-exempt bond rate:	2.11%	1.09%	1.24%
Average taxable bond rate:	2.69%	1.25%	1.43%
Average line of credit rate:	2.89%	1.81%	1.94%

Increasing interest rates in year 2005 decrease the likelihood of excess earnings liability associated with tax-exempt financings. The decrease in provision for excess earnings (decreased \$2.5 million from last year) is due mostly to higher amounts of loan premiums paid for student loans and partly due to increasing interest rates. Declining interest rates in years 2004 and 2003 increased the likelihood of excess earnings liability associated with tax-exempt financings, thus the Authority implemented programs to benefit its borrowers and subsequently reduce any liability due at bond maturity. The increasing yield on investments increase the likelihood for higher arbitrage liability associated with tax-exempt financings (see note 6 to the financial statements).

In 2003 the Authority entered into a contract with a new student loan servicing bureau. Rates charged by the new servicing bureau are lower than those charged by other servicing bureaus. As of August 31, 2004, 72% of the Authority's loans were being serviced by the new Bureau. This resulted in a decrease in loan servicing fees by \$728,000 in 2004. In 2005 loan servicing fees increased \$554,000 due to the increase in volume of student loans. As of August 31, 2005, 81% of the Authority's loans were being serviced by the new Bureau. The administrative and general expense increased \$298,000 in 2005 mostly due to issuance of the Series 2005AB Bonds. Miscellaneous expense in 2003 was higher than normal primarily due to the costs of contracting with the new loan servicing bureau.

NON-OPERATING REVENUE

Non-operating revenue for the Authority is derived entirely from interest subsidy and special allowance paid by the U. S. Government. The program of subsidized interest and special allowance is further discussed in Note 1 to the financial statements.

	Percent change		Percent Change	
	<u>Year 2005</u>	<u>from Year 2004</u>	<u>Year 2004</u>	<u>from Year 2003</u>
Increase in non-operating revenue:	\$8,761,403	32%	\$8,211,975	42.6%
Increase (decrease) in operating revenue:	\$1,447,241	7.2%	(\$6,078,396)	(23%)

The increase in non-operating revenue was primarily due to the reduction of variable rates on student loans (noted in the discussion of Operating Revenue above), which resulted in a greater special allowance income for the Authority. The increase in non-operating revenue for Year 2005 is 500% greater than the increase in operating revenue. The increase in non-operating revenue for Year 2004 is 35% greater than the decrease in operating revenue. In effect the increases in non-operating revenue off set the decreases or small increases in operating revenue.

ECONOMIC FACTORS AND OUTLOOK

In anticipation of growth, the Authority issued approximately \$200 million of Student Loan Revenue Bonds, of which approximately \$98.8 million was tax exempt. This financing was issued in November 2005.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF NET ASSETS AUGUST 31, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents—restricted (Note 2)	\$ 402,145	\$ 141,241
Investments (Note 2)	3,791,622	20,606,018
Investments—restricted (Note 2)	87,524,815	100,673,334
Accrued interest and other accounts receivable	116,046	55,981
Accrued interest and other accounts receivable—restricted	20,200,856	17,363,310
Prepaid expenses	320,224	258,997
Bond issue costs—net of accumulated amortization (Note 4)	2,697,878	2,437,352
Student loans receivable—restricted (Note 3)	133,733,703	124,535,364
Total current assets	248,787,289	266,071,597
LONG-TERM ASSETS:		
Investments (Note 2)	30,310,172	2,835,465
Investments—restricted (Note 2)	7,786,220	0
Student loans receivable—restricted (Note 3)	929,397,796	748,224,567
Accrued Interest and other accounts receivable—restricted	2,245,396	2,512,484
Total long-term assets	969,739,584	753,572,516
TOTAL ASSETS	1,218,526,873	1,019,644,113
LIABILITIES		
CURRENT LIABILITIES—Payable from restricted assets:		
Accounts payable	1,023,961	772,725
Accrued interest payable	4,444,609	1,838,567
Accrued other liabilities	563,994	480,264
Bonds payable (Note 4)	136,250,000	40,500,000
Excess earnings and arbitrage liabilities (Note 6)	5,725,418	5,029,619
Total current liabilities payable from restricted assets	148,007,982	48,621,175
LONG-TERM LIABILITIES—Payable from restricted assets:		
Lines of credit (Note 5)	81,000,000	35,710,000
Bonds payable, less unamortized original issue discounts of \$3,750,141 and \$3,364,882, respectively (Note 4)	820,089,858	781,725,117
Excess earnings and arbitrage liabilities (Note 6)	10,182,522	15,877,219
Total long-term liabilities payable from restricted assets	911,272,380	833,312,336
TOTAL LIABILITIES	1,059,280,362	881,933,511
NET ASSETS		
Restricted	119,989,069	109,227,749
Unrestricted	39,257,442	28,482,853
TOTAL NET ASSETS	\$ 159,246,511	\$ 137,710,602

See notes to basic financial statements.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES:		
Interest on student loans	\$ 18,502,778	\$ 18,571,278
Interest on cash equivalents and investments	3,131,007	1,615,266
Total operating revenues	<u>21,633,785</u>	<u>20,186,544</u>
OPERATING EXPENSES:		
Interest on bonds and line of credit	23,503,296	10,216,356
Provision for excess earnings and arbitrage liabilities	56,296	2,636,686
Loan servicing fees paid to Higher Education Servicing Corporation (Note 1)	3,231,891	2,677,943
Payments for administrative and operating costs to Higher Education Servicing Corporation (Note 1)	5,012,400	4,714,164
Trustee fees	253,324	256,487
Letter of credit fees	1,658,730	1,676,533
Remarketing fees	581,921	500,442
Broker/ Dealer fees	1,076,021	972,882
Bond insurance amortization expense	265,534	197,267
Miscellaneous expense	689,635	367,850
Total operating expenses	<u>36,329,048</u>	<u>24,216,610</u>
OPERATING INCOME (LOSS)	<u>(14,695,263)</u>	<u>(4,030,066)</u>
NONOPERATING REVENUES AND EXPENSES:		
Government subsidy on student loans	6,407,090	5,193,679
Special allowance income	29,824,082	22,276,090
Total nonoperating revenues and expenses	<u>36,231,172</u>	<u>27,469,769</u>
CHANGE IN NET ASSETS	<u>21,535,909</u>	<u>23,439,703</u>
NET ASSETS—Beginning of year	<u>137,710,602</u>	<u>114,270,899</u>
NET ASSETS—End of year	<u>\$ 159,246,511</u>	<u>\$ 137,710,602</u>

See notes to basic financial statements.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	\$ (418,044,959)	\$ (286,639,725)
Student loan repayments	235,286,930	180,233,140
Payment to vendors	(17,655,466)	(15,643,052)
Interest paid on bonds and line of credit	(20,354,847)	(9,338,855)
Cash received for student loan and investment interest	21,123,076	18,766,065
Deferred loan acquisition premiums paid	(9,568,836)	(6,418,729)
Other	(61,227)	(32,374)
Net cash used in operating activities	(209,275,329)	(119,073,530)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments held by Trustee	1,342,078,280	1,047,052,504
Purchases of investments	(1,347,376,291)	(1,059,905,742)
Net cash used in investing activities	(5,298,011)	(12,853,238)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	175,000,000	192,000,000
Proceeds from line of credit	122,340,000	57,230,000
Repayment of bonds	(40,500,000)	(58,000,000)
Payments on line of credit	(77,050,000)	(85,046,000)
Proceeds from government subsidy on student loans	6,370,934	5,093,105
Proceeds from special allowance	29,861,500	21,400,691
Deferred bond issue cost paid	(1,188,190)	(678,700)
Net cash from noncapital financing activities	214,834,244	131,999,096
CHANGE IN CASH AND CASH EQUIVALENTS	260,904	72,328
CASH AND CASH EQUIVALENTS—Beginning of year	141,241	68,913
CASH AND CASH EQUIVALENTS—End of year	\$ 402,145	\$ 141,241

(Continued)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (14,695,263)	\$ (4,030,066)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of deferred bond issue costs and original issue discounts	541,142	588,268
Provision for excess earnings and arbitrage liability	56,296	2,636,686
Change in assets and liabilities:		
Decrease (increase) in accrued interest and other accounts receivable	(2,630,523)	2,090,474
Increase in student loan notes receivable—net	(190,371,568)	(120,799,935)
Increase in prepaid expenses	(61,227)	(32,374)
Increase in accounts payable	251,236	124,429
Increase in accrued and other liabilities	83,730	289,233
Increase in accrued interest payable	2,606,042	59,755
Decrease in excess earnings and arbitrage liabilities	(5,055,194)	-
	<u>\$ (209,275,329)</u>	<u>\$ (119,073,530)</u>
Net cash used in operating activities		

See notes to basic financial statements.

(Concluded)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED AUGUST 31, 2005 AND 2004

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. The President of the Board of the Authority is on the board of HESC.

Three computer service bureaus perform many of the duties involving student loan processing and collecting for HESC under the terms of servicing agreements. The Authority remits to HESC stipulated amounts for services rendered in the administration of the agreements 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.

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, net assets, 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.

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 represent 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 statements of net assets.

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.

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 plans to liquidate or dissolve.

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 2005 and 2004.

Capitalization of Interest—Students have the option of deferring the interest payments on unsubsidized loans, during 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. 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. Interest on student loans in the accompanying financial statements includes approximately \$6,407,090 and \$5,193,679 of interest subsidy and \$29,824,082 and \$22,276,090 of special allowance from the U.S. government for the years ended August 31, 2005 and 2004, respectively. 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. Commercial insurance is purchased in an amount that is sufficient to cover the Authority's risk of loss. There have been no claims filed against the Authority in the past three years, and there has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk.

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, 2005 and 2004, the carrying amount and bank balances of the Authority's cash and deposits was approximately \$1,002,145 and \$741,241, respectively, of which \$600,000 and \$600,000, respectively, is investments in certificates of deposit. All of the bank balances were 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 its indentures, the investment policy approved annually by the Board of Directors, and the Public Funds Investment Act. 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 name of the Authority or its trustee 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.

Interest rate risk— Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority has no specific limitations with respect to this metric.

The Authority's investments as of August 31, 2005 are classified as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Repurchase agreements	\$ 38,413,190	1,794 days
Investment contract	2,884,584	90 days
Certificates of deposit	600,000	180 days
Mutual funds	<u>87,515,055</u>	26 days
	<u>\$ 129,412,829</u>	

The Authority's investments as of August 31, 2004 are classified as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Repurchase agreements	\$ 28,077,505	303 days
Investment contract	2,835,465	90 days
Certificates of Deposit	600,000	180 days
Mutual funds	<u>92,601,847</u>	26 days
	<u>\$ 124,114,817</u>	

The repurchase agreements are with a major commercial bank and broker-dealers. Collateral, valued at 101% to 103% of the investments, is required. The Trustee periodically reviews the ratings of these banks. The repurchase agreements bear interest at variable rates. In 2005 these rates ranged from 1.69% to 3.38% per annum (1.18% to 1.31% in 2004). On April 1, 2004, \$9.4 million of investments in Repurchase Agreements with fixed rates at 7.20% matured, and \$5.1 million of investments in Repurchase Agreements yielding an average rate of 5.1% matured.

The investment contract represents the balance outstanding on a revolving financing agreement with 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 accounts and any related proceeds. The total interest earned during the years ended August 31, 2005 and 2004 on this investment was \$111,552 and \$54,798, respectively.

Credit risk— Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type as of August 31, 2005 and 2004.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of August 31, 2005 and 2004</u>
Repurchase agreements	\$38,413,190	N/A	Not rated
Investment contract	2,884,584	N/A	Not rated
Certificates of deposit	600,000	N/A	Not rated
Mutual funds	87,515,055	N/A	AAA

Concentration of credit risk— The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer. As of August 31, 2005 and 2004, other than investments in mutual funds, the Authority had one repurchase agreement with a bank in the amount of \$38,096,392 and \$27,589,253, respectively, which totaled more than 5% of total investments.

3. STUDENT LOAN NOTES RECEIVABLE

Student loan notes receivable consist of the following at August 31, 2005 and 2004:

	Year 2005				
	Student Loan Notes Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums—Less Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2005AB	\$ 158,296,035	\$ -	\$ 1,762,720	\$ -	\$ 160,058,755
2004	40,356,580	-	80,923	-	40,437,503
2003-2	146,724,225	-	600,151	-	147,324,376
2003	103,936,003	-	542,926	-	104,478,929
2002	141,276,720	-	1,647,828	-	142,924,548
2001	35,050,765	-	224,290	-	35,275,055
2000	54,544,300	-	170,822	(65,564)	54,649,558
1998	39,883,889	-	110,538	-	39,994,427
1996 A-D	33,374,550	-	355,147	-	33,729,697
1993 A-D	58,483,594	-	528,886	-	59,012,480
1991 ABC	25,999,016	-	347,825	(139,997)	26,206,844
1991 DEF	29,021,316	-	406,331	(139,998)	29,287,649
1987	104,303,361	-	3,243,486	-	107,546,847
BOA Line of Credit	81,754,446	-	668,881	-	82,423,327
Unallocated Collections	-	(54,852)	-	-	(54,852)
Unallocated Reserves	-	-	-	(163,644)	(163,644)
Total	\$1,053,004,800	\$ (54,852)	\$ 10,690,754	\$ (509,203)	\$ 1,063,131,499

	Year 2004				
	Student Loan Notes Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums—Less Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2004	\$ 40,243,232	\$ -	\$ -	\$ -	\$ 40,243,232
2003-2	136,293,663	-	471,029	-	136,764,692
2003	95,912,416	-	606,546	-	96,518,962
2002	140,943,713	-	1,645,279	-	142,588,992
2001	34,191,166	-	322,511	-	34,513,677
2000	54,535,610	-	219,631	(66,117)	54,689,124
1998	39,199,383	-	184,965	-	39,384,348
1996 A-D	33,655,614	-	60,482	-	33,716,096
1993 A-D	91,358,163	-	1,009,578	-	92,367,741
1991 ABC	23,623,805	-	609,751	(139,997)	24,093,559
1991 DEF	26,714,304	-	758,842	(139,998)	27,333,148
1990	11,788,765	-	210,304	-	11,999,069
1987	101,294,841	-	-	-	101,294,841
BOA Line of Credit	36,621,260	-	1,705,159	-	38,326,419
Unallocated Collections	-	(907,184)	-	-	(907,184)
Unallocated Reserves	-	-	-	(166,785)	(166,785)
Total	\$ 866,375,935	\$ (907,184)	\$ 7,804,077	\$ (512,897)	\$ 872,759,931

All student loans currently held were made in accordance with Title IV, Part B of the Higher Education Act of 1965, as amended. The Authority purchases five types of loans: Stafford, Unsubsidized Stafford, SLS, PLUS and Consolidated. 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 2.77% to 12% (2.77% to 12% in 2004) 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 5 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 the original lender with respect to such loans has met applicable program requirements. Owned loans that have 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 years ended August 31, 2005 and 2004, the allowance for possible loan losses, which includes WTHEA loans, was approximately \$509,204 and \$512,897, respectively. 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 activity for the years ended August 31, 2005 and 2004 is as follows:

	2005	2004
Loans purchased	\$ 425,097,609	\$ 291,380,562
Amounts collected	(235,286,930)	(180,233,140)
Adjustments (capitalized interest / write off)	560,889	9,652,513
Total change in Student Loan Notes Receivable - Net	<u>\$ 190,371,568</u>	<u>\$ 120,799,935</u>

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, 2005 and 2004:

Bond Series	2005	2004	Interest Mode	Average Interest Rate	Date of Maturity
1987	\$ 87,750,000	\$ 87,750,000	Variable	2.10%	December 1, 2005
1990		1,000,000	Variable	1.71	March 1, 2005
1991 Series C	25,000,000	25,000,000	Variable	2.09	April 1, 2020
1991 Series F	25,000,000	25,000,000	Variable	2.09	April 1, 2020
1993 Series A		39,500,000	Variable	1.75	April 1, 2005
1993 Series A	30,500,000	30,500,000	Variable	2.09	April 1, 2020
1996 Series A & C	35,000,000	35,000,000	Variable	2.09	April 1, 2036
1998 Series B	5,815,000	5,815,000	Variable	2.09	December 1, 2005
1998 Series A	35,000,000	35,000,000	Variable	2.09	December 1, 2032
2000 Series A	18,080,000	18,080,000	Variable	2.09	December 1, 2005
2000 Series B	35,000,000	35,000,000	Variable	2.09	December 1, 2035
2001 Series A	5,705,000	5,705,000	Variable	2.09	December 1, 2005
2001 Series A	31,840,000	31,840,000	Variable	2.09	June 1, 2036
2002	155,000,000	155,000,000	Variable	2.71	April 1, 2041
2003A- A-1,B	35,000,000	35,000,000	Variable	2.24	October 1, 2037
2003A- 2A	18,900,000	18,900,000	Variable	2.23	October 1, 2005
2003A-2B	19,500,000	19,500,000	Variable	2.21	October 1, 2010
2003A-3	30,000,000	30,000,000	Variable	2.64	October 1, 2042
2003-2	150,000,000	150,000,000	Variable	2.73	October 1, 2043
2004	42,000,000	42,000,000	Variable	2.09	December 1, 2038
2005A	103,600,000		Variable	2.47	December 1, 2039
2005B	71,400,000		Variable	3.12	December 1, 2044
Total	<u>\$ 960,090,000</u>	<u>\$ 825,590,000</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, 2005. The actual rates ranged from 1.35% to 3.05% in 2005 and 0.89% to 1.37% in 2004. 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. On May 11, 2004, The Authority advanced refunded \$40,000,000 of the Term Maturity Bonds. The remaining \$1,000,000 of the Term Maturity Bonds matured March 1, 2005.

The interest rate for the bonds represents the average rate for the period September 1, 2004 through February 28, 2005. The actual rates ranged from 1.35% to 1.99% in 2005 and 0.90% to 1.35% in 2004. Interest was 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 (Series 1991G). The Series 1991G was refunded in May 1993. Series 1991 AB and DE have each repaid principal amounts of \$30,000,000 in years 1994 through 2000, of which \$8,000,000 was refunded by the 1996 Series, and \$6,000,000 was refunded by Series 2000A. Additionally, \$21,750,000 each of 1991 Series AB and DE were advance-refunded by Series 2000A.

The interest rate on the variable rate bonds represents the average rate for the year ended August 31, 2005. The actual rates ranged from 1.35% to 3.07% in 2005 and 0.90% to 1.35% in 2004. 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 2003 Series. On January 16, 2003, the Authority advance refunded \$11,255,000 of the 1993B Series bonds and \$19,500,000 of the 1993CD Series bonds. A loss in the amount of \$469,000 was incurred in connection with the advance refunding. The loss is being amortized as a component of interest expense over what would have been the remaining life of the 1993B and 1993CD bonds, which is shorter than the life of the new debt. The remaining \$39,500,000 Series A refunding bonds matured April 1, 2005.

The interest rate on the variable bonds represents the average rate for the year ended August 31, 2005. The actual rates ranged from 1.35% to 3.07% in 2005 and 0.90% to 1.35% in 2004. 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 \$8,000,000 of Series B and D bonds that matured December 1, 2003 was not refunded.

The interest rate for the bonds represents the average rate for the year ended August 31, 2005. The actual rates ranged from 1.35% to 3.07% in 2005 and 0.90% to 1.35% in 2004. 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, 2005. The actual rates ranged from 1.35% to 3.07% in 2005 and 0.90% to 1.35% in 2004. 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 (Series 2000A), which was a refunding of \$43,000,000 from the 1991 AB and DE Series, \$6,500,000 from the 1991 B and E Series, and \$18,080,000 from the 1993 B Series. As a result of extinguishing the 1991 AB and DE 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. On January 16, 2003, the Authority advance refunded \$35,000,000 of the 2000A Series bonds. The \$6,500,000 of Series 2000A bonds that matured September 1, 2002 was not refunded, and the \$8,000,000 of Series 2000A bonds that matured December 1, 2003 was not refunded. Additionally, on December 28, 2000, the Authority issued \$35,000,000 of Student Loan Revenue Bonds (Series 2000B) in new proceeds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2005. The actual rates ranged from 1.35% to 3.07% in 2005 and 0.90% to 1.35% in 2004. 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. On May 11, 2004, The Authority advance refunded \$2,000,000 of the refunding Bonds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2005. The actual rates ranged from 1.35% to 3.07% in 2005 and 0.90% to 1.35% in 2004. 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. The Series 2002 Bonds were issued as Auction Rate Certificates and interest on the Series 2002 Bonds is 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, 2005. The actual rates ranged from 1.70% to 3.70% in 2005 and 1.04% to 1.82% in 2004. Interest is payable on a generally 28-day cycle and at stated maturity dates.

2003 Debt Issue- On January 16, 2003, the Authority issued \$103,400,000 of Student Loan Revenue Bonds, of which \$73,400,000 was used in refunding \$35,000,000 from the 2000A Series Bonds, \$18,900,000 from the 1993B Series Bonds, and \$19,500,000 from the 1993CD Series Bonds. The refunding portion of the 2003 Bonds were issued as Auction Rate Certificates and interest on the refunding Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. The 2003 Issue also included \$30,000,000 in new proceeds issued as Auction Rate Certificates and interest on these Bonds is not tax 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, 2005. The actual rates ranged from 0.1.44% to 3.47% in 2005 and 0.88% to 1.72% in 2004. Interest from the new Bonds is payable on a generally 28-day cycle and at stated maturity dates. Interest from the refunding Bonds is payable on July 1, January 1, and at stated maturity dates.

2003-2 Debt Issue—On December 3, 2003, the Authority issued \$150,000,000 of Student Loan Revenue Bonds. The Series 2003-2 Bonds were issued as Auction Rate Certificates and interest on the Series 2003-2 Bonds is 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, 2005. The actual rates ranged from 1.68% to 3.72% in 2005. For the period December 3, 2003 through August 31, 2004, the rates ranged from 1.10% to 1.83%. Interest from the Bonds is payable on a generally 28-day cycle and at stated maturity dates.

2004 Debt Issue—On May 11, 2004, the Authority issued \$42,000,000 of Term Maturity Student Loan Revenue Refunding Bonds, which were used to advance refund \$40,000,000 of the 1990 Series Bonds and \$2,000,000 of the 2001 Series Bonds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2005. The actual rates ranged from 1.35% to 3.07% in 2005. For the period May 11, 2004 through August 31, 2004, the rates ranged from 1.03% to 1.35%. Interest from the Bonds is payable on June 1, December 1 and at stated maturity dates.

2005AB Debt Issue- On March 3, 2005, the Authority issued \$175,000,000 of Student Loan Revenue Bonds, consisting of \$103,600,000 (Series 2005A) and \$71,400,000 (Series B). Interest on the Series 2005A is tax exempt from gross income of the certificate owners for federal income tax purposes. Interest on the Series 2005B Bonds is not tax 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 period March 3, 2005 through August 31, 2005. The actual rate ranged from 1.82% to 4.05%. Interest from the 2005B Bonds is payable monthly and at stated maturity dates. Interest from the 2005A Bonds is payable on June 1, December 1, and at stated maturity dates.

The following is a summary of debt service requirements at August 31, 2005:

Fiscal Year	Principal	Interest	Total
2006	136,250,000	24,948,914	161,198,914
2007		24,287,248	24,287,248
2008		24,519,008	24,519,008
2009		24,616,784	24,616,784
2010	19,500,000	24,537,968	44,037,968
2011-2015		141,188,081	141,188,081
2016-2020	80,500,000	142,309,346	222,809,346
2021-2025		148,619,591	148,619,591
2026-2030		126,141,781	126,141,781
2031-2035	35,000,000	179,807,436	214,807,436
2036-2040	282,440,000	152,541,600	434,981,600
2041-2044	406,400,000	72,650,111	479,050,111
	<u>\$960,090,000</u>	<u>\$ 1,086,167,868</u>	<u>\$ 2,046,257,868</u>

Rates for all the variable rate demand obligation bonds are re-set on a weekly basis by the remarketing agent, and the rates for bonds issued as auction rate certificates are re-set generally every 28 days (taxable issues) and every 35 days (tax-exempt issues) pursuant to auction procedures administered by the auction agent. The following is a summary of changes in revenue bonds payable of the Authority:

	Balance August 31, 2004	Issued	Repaid or Defeased	Balance August 31, 2005
Revenue bonds	\$ 825,590,000	\$ 175,000,000	\$(40,500,000)	\$960,090,000

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. There are no defeased bonds outstanding as of August 31, 2005.

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 2005 and 2004.

5. LINES OF CREDIT

A revolving line of credit agreement with Bank of America for \$100,000,000 was issued July 25, 2002. The line of credit has a stated maturity of July 28, 2010. 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 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 years ended August 31, 2005 and 2004:

	2005	2004
Beginning balance	\$ 35,710,000	\$ 63,526,000
Additional borrowings	122,340,000	57,230,000
Repayments	(77,050,000)	(85,046,000)
Ending balance	<u>\$ 81,000,000</u>	<u>\$ 35,710,000</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 financial statements. For the years ended August 31, 2005 and 2004, the Authority has made a provision for excess interest of \$56,296 and \$2,636,686, respectively. 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 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. As of August 31, 2004 the excess interest liability for Series 1990 was \$5,029,619. In December 2004, the Authority wrote-off \$5 million of Series 1990 loans as "forgiven". The Series 1990 Bonds matured on March 1, 2005. A final calculation for the Series 1990 Bonds was issued in March 2005, which indicated no liability existed as of March 1, 2005.

The Series 1987 and 2000A Bonds are scheduled to mature December 1, 2005. As of August 31, 2005 the excess interest liabilities for Series 1987 and 2000A are \$4,136,620 and \$1,585,956, respectively. In November 2005, the Authority anticipates writing off approximately \$5.5 million of 'forgiven' loans to eliminate (or significantly decrease) these liabilities. After the bonds are retired, final calculations will be prepared to determine the final liabilities (if any) for these bonds.

All of the Authority's outstanding bonds except the Series 2002, Series 2003-2, 2005B, and a portion of Series 2003 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 years ended August 31, 2005, and 2004 the Authority's provision for arbitrage decreased \$52,971 and \$22,304, respectively. The provision recognizes 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. In June 2005, a payment in the amount of \$25,575 was made for the Series 2000A arbitrage liability.

The excess earnings liability and arbitrage liability are calculated annually on the bond maturity date (bond issuance date for arbitrage liability). The following table displays the aggregate changes in the excess earnings and arbitrage rebate payable for the fiscal years ended August 31, 2005 and 2004:

	2005	2004
Beginning balance	\$20,906,838	\$18,270,152
Additional liability	56,296	2,636,686
Payments to the IRS \ Adjustments	(25,575)	-
Loans "forgiven"	(5,029,619)	-
Ending balance	<u>\$15,907,940</u>	<u>\$20,906,838</u>

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 Dexia Bank under which each has issued a separate irrevocable transferable letter of credit which expires September 5, 2005. Under the agreement, the Authority may borrow up to \$193,316,554 to fund amounts needed to pay principal and accrued interest of any Series 1987, 1998 and 2000 bonds that become due 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, 2005 and 2004.

Under the terms of the Series 2001 and 2004 bond indentures, the Authority has a letter of credit agreement with Lloyds TSB Bank under which Lloyds has issued an irrevocable direct pay letter of credit which expires May 11, 2009. Under the agreement, the Authority may borrow up to \$85,919,497 to fund any amounts needed to pay principal and accrued interest of any Series 2001 and 2004 bonds that become due 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, 2005 and 2004. The Authority's letter of credit agreements with Student Loan Marketing Association under the Series 1990 and 2001 bond indentures were terminated April 27, 2004.

Under the terms of the Series 1991 ABC and 1996 AB, and Series 1991 DEF and 1996 CD 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 the Series 1991 C and F bonds, and the Series 1996 A and C bonds the Authority entered into a Standby Bond Purchase Agreement with Lloyds TSB Bank which expires April 24, 2009. Under the agreement, the Authority may borrow up to \$89,645,890 to pay principal and accrued interest of Series 1991 C and F bonds, and 1996 A and C bonds that become due in accordance with the indentures. The Authority is required to pay a quarterly commitment fee based on the amount available. No amount is outstanding as of August 31, 2005 and 2004. The Authority's Standby Bond Purchase Agreement with the Student Loan Marketing Association expired May 1, 2004.

Under the terms of the 1993 A-D bond indenture, the Authority has a letter of credit agreement with Lloyds TSB Bank under which Lloyds has issued an irrevocable direct pay letter of credit which expires April 21, 2006. Under the agreement, the Authority may borrow up to \$32,004,109 to fund any amounts needed to pay principal and accrued interest of any Series 1993A bonds that become due 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, 2005 and 2004.

Under the terms of the Series 2005AB 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 the Series 2005A and B bonds, the Authority entered into a Standby Bond Purchase Agreement with DEPFA Bank plc which expires March 3, 2017. Under the agreement, the Authority may borrow up to \$184,242,917 to pay principal and accrued interest of Series 2005A and B bonds that become due in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on the amount available. No amount is outstanding as of August 31, 2005.

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

The Series 2003A-1 Bonds, the Series 2003A-2 Bonds and the Series 2003A-3 Bonds were rated "Aaa" by Moody's Investors Service. The Series 2003B Bonds were rated "A2" by Moody's. The bonds were issued as Auction Rate Certificates. Moody's is expected to review its rating on an ongoing basis.

The Series 2003-2A-1 Bonds and the Series 2003-2A-2 Bonds were rated "Aaa" by Moody's Investors Service. The Series 2003-2B Bonds were rated "A2" by Moody's. The bonds were issued as 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 from the assets contained in each trust estate created under an indenture including payments on student loans and investment earnings.

Neither the faith and credit, the taxing power nor any revenue of the State of Texas or any political subdivision thereof 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 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, 2005 and 2004. The provisions of this circular do not limit the Authority or other federal agencies or audit officials from making or contracting 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.

Student Loan Purchase Commitments - In addition to the student loans already purchased, the Authority was contractually committed to its participating lending institutions to purchase student loans under commitment agreements. These agreements require the lending institution to offer student loans to the Authority. The average length of the purchase commitments is three years. Management intends to fulfill the commitments using funds held by the Trustee and funds generated through the normal financing operations of the Authority.

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, 2005 and 2004 appears on the following page:

	Surplus Fund		Bond Funds		Total	
	2005	2004	2005	2004	2005	2004
Condensed Statements of Net Assets						
Assets:						
Current assets	\$ 8,949,991	\$ 20,662,001	\$ 239,837,298	\$ 245,409,596	248,787,289	\$ 266,071,597
Noncurrent assets	30,310,172	2,835,465	939,429,412	750,737,051	969,739,584	753,572,516
Total assets	39,260,163	23,497,466	1,179,266,710	996,146,647	1,218,526,873	1,019,644,113
Liabilities:						
Current liabilities	2,721	6,735	148,005,261	48,614,440	148,007,982	48,621,175
Noncurrent liabilities			911,272,380	833,312,336	911,272,380	833,312,336
Total liabilities	2,721	6,735	1,059,277,641	881,926,776	1,059,280,362	881,933,511
Net assets:						
Restricted	-	-	119,989,069	109,227,749	119,989,069	109,227,749
Unrestricted	39,257,442	28,482,853			39,257,442	28,482,853
Total net assets	\$ 39,257,442	\$ 28,482,853	\$ 119,989,069	\$ 109,227,749	\$ 159,246,511	\$ 137,710,602
Condensed Statements of Revenues, Expenses and Changes in Net Assets						
Operating revenues	\$ 623,820	\$ 545,543	\$ 21,009,965	\$ 19,641,001	\$ 21,633,785	20,186,544
Operating expenses	439,731	174,950	35,889,317	24,041,660	36,329,048	24,216,610
Total operating income (loss)	184,089	370,593	(14,879,352)	(4,400,659)	(14,695,263)	(4,030,066)
Nonoperating revenue			36,231,172	27,469,769	36,231,172	27,469,769
Change in net assets	184,089	370,593	21,351,820	23,069,110	21,535,909	23,439,703
Net assets—beginning of year	28,482,853	28,112,260	109,227,749	86,158,639	137,710,602	114,270,899
Transfer from 90 to Surplus	10,590,500		(10,590,500)			
Net assets—end of year	\$ 39,257,442	\$ 28,482,853	\$ 119,989,069	\$ 109,227,749	\$ 159,246,511	137,710,602
Condensed Statements of Cash Flows						
Net cash provided (used) by:						
Operating activities	\$ 10,660,377	\$ 4,182,716	\$ (219,935,706)	\$(123,256,246)	\$ (209,275,329)	\$(119,073,530)
Noncapital financing activities			214,834,244	131,999,096	214,834,244	131,999,096
Investing activities	(10,660,312)	(4,182,722)	5,362,301	(8,670,516)	(5,298,011)	(12,853,238)
Change in cash and cash equivalents	65	(6)	260,839	72,334	260,904	72,328
Cash and cash equivalents - beginning of year	2	8	141,239	68,905	141,241	68,913
Cash and cash equivalents - end of year	\$ 67	\$ 2	\$ 402,078	\$ 141,239	\$ 402,145	\$ 141,241

9. SUBSEQUENT EVENTS

Series 2005C&D Bonds – In November 2005, the Authority intends to issue approximately \$200 million of Student Loan Revenue Bonds (Series 2005C and D), of which approximately \$98.8 million is expected to be tax exempt.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE -- STATEMENT OF NET ASSETS INFORMATION

AUGUST 31, 2005

ASSETS	Debt Issue										
	2005AB	2004	2003-2	2003	2002	2001	2000B	2000A	1998	1996	1993
Cash and cash equivalents	\$ 169,094	63,460	177,177	189,914		5,240	178,777	54,531	10,154		6,724
Investments - nonrestricted -- current											
Investments - nonrestricted - long-term											
Investments - restricted -- current	12,592,193	3,351,519	7,652,614	9,506,835	8,298,258	3,923,901	3,605,604	3,843,996	5,396,459	8,860,315	4,819,625
Investments - restricted - long-term	153,754	81,969	215,425	336,943	727,326	229,316	37,387	108,827	39,284	551,268	1,225,266
Accrued interest and other accounts receivable	2,795,985	837,328	2,344,811	1,918,636	3,294,192	785,115	790,259	467,396	754,063	642,062	1,119,505
Unremitted student loan principal and interest											
collections due (to) from Clearing Fund	218,471	37,358	264,052	177,568	197,258	48,487	22,046	22,498	61,051	173,123	94,424
Amounts due (to) from other funds	802						4,338		58		
Student loan notes receivable - net	160,058,755	40,437,503	147,324,376	104,478,929	142,924,548	35,275,055	31,177,704	23,471,854	39,994,427	33,729,697	59,012,480
Bond & Line of Credit issue costs, net of accumulated amortization of \$3,573,124	535,863	232,180	237,400	192,747	226,556	144,797	139,679	1,970	190,658	259,238	328,952
Prepaid expenses	56,767	11,667	29,010	10,721	36,461	11,137	5,486	10,626	13,722	51,807	
TOTAL	\$ 176,581,684	45,052,984	158,244,865	116,812,293	155,704,599	40,423,048	35,961,280	27,981,698	46,459,876	44,267,510	66,606,976
LIABILITIES AND NET ASSETS											
LIABILITIES:											
Accounts payable	\$ 126,179	54,409	137,573	127,312	90,502	45,199	21,212	30,409	54,376	25,392	98,317
Accrued interest payable	845,864	256,350	150,510	929,715	212,360	229,158	213,624	110,352	249,117	377,194	124,231
Accrued other liabilities	144,175	38,965	25	31,623	26	34,932	46,749	24,162	54,513	24,628	25,671
Lines of credit											
Bonds payable, less unamortized original issue discount of \$3,750,141	174,363,892	41,667,824	149,326,212	102,999,427	154,299,966	37,346,755	34,780,164	18,075,750	40,663,741	34,858,229	30,364,087
Excess earnings and arbitrage liabilities		267,751		3,478,580		227,791		1,588,798	1,788,395	2,998,167	683,955
Total liabilities	175,480,110	42,285,299	149,614,320	107,566,657	154,602,854	37,883,835	35,061,749	19,829,471	42,810,142	38,283,610	31,296,261
Net assets	1,101,574	2,767,685	8,630,545	9,245,636	1,101,745	2,539,213	899,531	8,152,227	3,649,734	5,983,900	35,310,715
TOTAL LIABILITIES AND NET ASSETS	\$ 176,581,684	45,052,984	158,244,865	116,812,293	155,704,599	40,423,048	35,961,280	27,981,698	46,459,876	44,267,510	66,606,976

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET ASSETS INFORMATION

AUGUST 31, 2005

ASSETS	Debt Issue				BOA	Surplus	Clearing	Total Issues
	1991 ABC	1991 DEF	1990	1987	Line-of-Credit Fund	Funds	Fund	and Other Funds
Cash and cash equivalents	\$ 2,596			(20,659)	(347,872)	67	(87,058)	402,145
Investments - nonrestricted -- current						3,791,622		3,791,622
Investments - nonrestricted - long-term						30,310,172		30,310,172
Investments - restricted -- current	2,917,466	2,965,497		8,515,694	718,724		556,115	87,524,815
Investments - restricted - long-term	1,131,305	749,117		987,710	1,211,323			7,786,220
Accrued interest and other accounts receivable	723,494	726,768		2,621,724	1,198,222	116,046	1,426,692	22,562,298
Unremitted student loan principal and interest collections due (to) from Clearing Fund	70,651	38,759		175,785	74,784		(1,676,315)	
Amounts due (to) from other funds					(5,047,454)	5,042,256		
Student loan notes receivable - net	26,206,844	29,287,649		107,546,847	82,423,327		(218,496)	1,063,131,499
Bond & Line of Credit issue costs, net of accumulated amortization of \$3,573,124	99,412	99,412		9,014				2,697,878
Prepaid expenses	32,083	32,083		2,070	16,584			320,224
TOTAL	\$ 31,183,851	33,899,285	—	119,838,185	80,247,638	39,260,163	938	1,218,526,873
LIABILITIES AND NET ASSETS								
LIABILITIES:								
Accounts payable	\$ 21,029	38,273		68,319	82,739	2,721		1,023,961
Accrued interest payable	101,829	101,829		533,352	9,124			4,444,609
Accrued other liabilities	17,184	17,184		95,489	7,730		938	563,994
Lines of credit					81,000,000			81,000,000
Bonds payable, less unamortized original issue discount of \$3,750,141	24,927,881	24,927,881		87,738,049				956,339,858
Excess earnings and arbitrage liabilities	463,840	274,043		4,136,620				15,907,940
Total liabilities	25,531,763	25,359,210	—	92,571,829	81,099,593	2,721	938	1,059,280,362
Net assets	5,652,088	8,540,075		27,266,356	(851,955)	39,257,442		159,246,511
TOTAL LIABILITIES AND NET ASSETS	\$ 31,183,851	33,899,285	—	119,838,185	80,247,638	39,260,163	938	1,218,526,873

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

**OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE—STATEMENT OF NET ASSETS INFORMATION
AUGUST 31, 2004**

ASSETS	Debt Issue					
	2004	2003-2	2003	2002	2001	2000B
Cash and cash equivalents	\$	\$ 776	\$	\$	\$	\$
Investments—nonrestricted—current						
Investments—nonrestricted—long-term						
Investments—restricted—current	1,595,993	13,831,627	12,569,001	9,013,252	4,151,852	2,216,054
Investments—restricted—long-term						
Accrued interest and other accounts receivable	785,418	2,333,858	1,926,013	3,880,139	1,030,255	800,315
Unremitted student loan principal and interest collections due (to) from Clearing Fund	209,205	821,477	618,314	498,980	118,720	92,145
Amounts due from other funds	(596,541)	(1,396)	15,059	(14,332)	(884)	(27,507)
Student loan notes receivable—net	40,243,232	136,764,692	96,518,962	142,588,992	34,513,677	32,448,541
Bond issue costs, net of accumulated amortization	239,163	243,634	223,100	232,924	162,501	144,410
Prepaid expenses	11,667	30,052	10,929	37,537	11,138	5,485
TOTAL	\$ 42,488,137	\$ 154,024,720	\$ 111,881,378	\$ 156,237,492	\$ 39,987,259	\$ 35,679,443
LIABILITIES AND NET ASSETS						
LIABILITIES:						
Accounts payable	\$ 49,901	\$ 109,214	\$ 86,725	\$ 68,612	\$ 30,391	\$ 28,404
Accrued interest payable	117,910	63,590	426,759	96,470	105,404	98,258
Accrued other liabilities	38,960	20	31,623	20	34,894	46,714
Lines of credit						
Bonds payable, less unamortized original issue discount	41,657,834	149,308,519	102,936,347	154,280,294	37,328,454	34,772,897
Excess earnings and arbitrage liabilities			1,498,411		329,441	
Total liabilities	41,864,605	149,481,343	104,979,865	154,445,396	37,828,584	34,946,273
Net assets	623,532	4,543,377	6,901,513	1,792,096	2,158,675	733,170
TOTAL	\$ 42,488,137	\$ 154,024,720	\$ 111,881,378	\$ 156,237,492	\$ 39,987,259	\$ 35,679,443

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE—STATEMENT OF NET ASSETS INFORMATION

AUGUST 31, 2004

ASSETS	Debt Issue						Debt Issue
	2000A	1998	1996	1993	1991 ABC	1991 DEF	1990
Cash and cash equivalents	\$ 451	\$ (7,741)	\$ 792	\$	\$	\$	\$
Investments—nonrestricted—current							
Investments—nonrestricted—long-term							
Investments—restricted—current	4,067,738	5,403,881	8,672,205	7,617,935	5,040,291	4,315,908	4,241,501
Investments—restricted—long-term							
Accrued interest and other accounts receivable	398,915	971,905	872,396	1,700,301	767,636	794,325	253,776
Unremitted student loan principal and interest collections due (to) from Clearing Fund	171,474	181,760	144,502	284,289	37,672	168,753	31,919
Amounts due from other funds	(730)	19,402	(1,654)	1,032	22	400	581,825
Student loan notes receivable—net	22,240,583	39,384,348	33,716,096	92,367,741	24,093,559	27,333,148	11,999,069
Bond issue costs, net of accumulated amortization	9,910	203,110	274,741	425,187	110,244	110,244	11,400
Prepaid expenses	10,863	13,798	51,807		32,084	32,083	
TOTAL	\$26,899,204	\$46,170,463	\$43,730,885	\$102,396,485	\$30,081,508	\$32,754,861	\$17,119,490
LIABILITIES AND NET ASSETS							
LIABILITIES:							
Accounts payable	\$ 27,655	\$ 39,081	\$ 24,301	\$ 66,063	\$ 8,008	\$ 9,437	\$ 8,874
Accrued interest payable	50,757	114,583	162,567	133,995	47,855	47,855	2,807
Accrued other liabilities	24,142	54,471	24,622	58,879	17,182	17,181	823
Lines of credit							
Bonds payable, less unamortized original issue discount	18,058,749	40,654,016	34,853,594	69,845,166	24,922,936	24,922,936	993,128
Excess earnings and arbitrage liabilities	1,729,770	1,762,838	3,014,659	147,264	160,717		5,029,619
Total liabilities	19,891,073	42,624,989	38,079,743	70,251,367	25,156,698	24,997,409	6,035,251
Net assets	7,008,131	3,545,474	5,651,142	32,145,118	4,924,810	7,757,452	11,084,239
TOTAL	\$26,899,204	\$46,170,463	\$43,730,885	\$102,396,485	\$30,081,508	\$32,754,861	\$17,119,490

(Continued)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

**OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE—STATEMENT OF NET ASSETS INFORMATION
AUGUST 31, 2004**

ASSETS	1987	BOA Line-of- Credit Fund	Surplus Funds	Clearing Fund	Total Issues and Other Funds
Cash and cash equivalents	\$ 634	\$	\$ 2	\$ 146,327	\$ 141,241
Investments—nonrestricted—current			20,606,018		20,606,018
Investments—nonrestricted—long-term			2,835,465		2,835,465
Investments—restricted—current	12,407,040	1,609,759		3,919,297	100,673,334
Investments—restricted—long-term					
Accrued interest and other accounts receivable	1,991,655	426,769	55,981	942,118	19,931,775
Unremitted student loan principal and interest collections due (to) from Clearing Fund	466,356	56,752		(3,902,318)	
Amounts due from other funds	1,150	(4,967,968)	4,992,122		
Student loan notes receivable—net	101,294,841	38,326,419		(1,073,969)	872,759,931
Bond issue costs, net of accumulated amortization	45,520	1,264			2,437,352
Prepaid expenses	3,220	8,334			258,997
TOTAL	\$ 116,210,416	\$ 35,461,329	\$ 28,489,588	\$ 31,455	\$ 1,019,644,113
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable	\$ 167,551	\$ 11,136	\$ 6,735	\$ 30,637	\$ 772,725
Accrued interest payable	251,406	118,351			1,838,567
Accrued other liabilities	116,438	13,477		818	480,264
Lines of credit		35,710,000			35,710,000
Bonds payable, less unamortized original issue discount	87,690,247				822,225,117
Excess earnings and arbitrage liabilities	7,234,119				20,906,838
Total liabilities	95,459,761	35,852,964	6,735	31,455	881,933,511
Net assets	20,750,655	(391,635)	28,482,853		137,710,602
TOTAL	\$ 116,210,416	\$ 35,461,329	\$ 28,489,588	\$ 31,455	\$ 1,019,644,113

(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, 2005

	2005AB	2004	2003-2	2003	Debt Issue 2002	2001	2000B	2000A	1998
REVENUES									
Interest on student loans	\$ 1,229,503	2,117,349	4,083,674	2,979,260	1,331,484	371,356	602,899	726,987	683,371
Interest on investments	277,527	56,071	178,855	259,235	209,306	99,387	54,040	82,180	146,362
Government Subsidy on Student Loans	624,228	188,210	615,361	418,659	1,243,950	293,902	297,907	94,453	295,815
Special allowance income	2,252,523	1,071,177	4,792,777	4,348,861	2,132,529	472,633	514,155	1,011,767	703,146
Total revenues	4,383,781	3,432,807	9,670,667	8,006,015	4,917,269	1,237,278	1,469,001	1,915,387	1,828,694
EXPENSES									
Interest on bonds and lines of credit	2,405,596	895,007	4,073,811	2,516,738	4,191,989	820,904	743,693	402,913	875,439
Loan servicing fees	194,068	189,801	629,760	458,773	369,558	113,772	89,330	122,319	113,912
Administrative & operating costs paid to Higher Education Servicing Corporation	300,000	150,000	450,000	400,000	600,000	150,000	250,000	225,000	450,000
Trustee fees	17,643	17,843	22,842	18,955	25,543	15,193	12,943	15,643	18,793
Letter of credit fees	176,975	152,755	—	—	—	136,551	145,633	75,466	169,903
Remarketing fees	108,187	52,500	—	—	—	46,888	43,710	22,579	50,972
Broker \ Dealer fees	—	—	395,209	272,430	408,382	—	—	—	—
Bond insurance expense	78,534	—	—	—	—	—	—	—	—
Provision for excess earnings & arbitrage liability	—	267,751	—	1,980,169	—	(101,650)	—	(115,397)	25,557
Miscellaneous expense	1,204	20,810	11,877	14,827	12,148	16,137	17,331	22,768	19,858
Total expenses	3,282,207	1,746,467	5,583,499	5,661,892	5,607,620	1,197,795	1,302,640	771,291	1,724,434
CHANGE IN NET ASSETS	1,101,574	1,686,340	4,087,168	2,344,123	(690,351)	39,483	166,361	1,144,096	104,260
NET ASSETS (DEFICIT)-Beginning of year	—	623,532	4,543,377	6,901,513	1,792,096	2,158,675	733,170	7,008,131	3,545,474
Assets transferred from 1990 to 2001, 2004, & Surplus	—	457,813	—	—	—	341,055	—	—	—
NET ASSETS (DEFICIT)-End of year	\$ 1,101,574	2,767,685	8,630,545	9,245,636	1,101,745	2,539,213	899,531	8,152,227	3,649,734

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, 2005

	1996 A-D	1993 A-D	Debt Issue 1991 ABC	1991 DEF	1990	1987	BOA Line-of- Credit Fund	Surplus Funds	Total Funds
REVENUES									
Interest on student loans	\$ 600,152	1,133,062	34,647	(74,127)	(144,918)	2,849,298	(21,219)	—	18,502,778
Interest on investments	194,489	210,746	110,642	108,772	166,512	239,174	113,889	623,820	3,131,007
Government Subsidy on Student Loans	269,255	336,491	242,560	248,946	44,974	733,120	459,259	—	6,407,090
Special allowance income	435,285	3,985,613	1,458,490	1,588,599	314,634	3,832,245	909,648	—	29,824,082
Total revenues	1,499,181	5,665,912	1,846,339	1,872,190	381,202	7,653,837	1,461,577	623,820	57,864,957
EXPENSES									
Interest on bonds and lines of credit	752,169	1,152,855	538,417	538,417	26,732	1,924,097	1,644,519	—	23,503,296
Loan servicing fees	102,413	196,952	78,157	77,526	18,244	336,668	140,638	—	3,231,891
Administrative & operating costs paid to Higher Education Servicing Corporation	110,000	300,000	50,000	50,000	2,400	1,450,000	75,000	—	5,012,400
Trustee fees	12,155	20,593	6,921	6,921	10,200	21,943	9,193	—	253,324
Letter of credit fees	68,679	200,999	47,463	47,462	1,747	389,938	45,159	—	1,658,730
Remarketing fees	43,750	66,927	31,250	31,250	622	83,286	—	—	581,921
Broker \ Dealer fees	—	—	—	—	—	—	—	—	1,076,021
Bond insurance expense	77,000	—	55,000	55,000	—	—	—	—	265,534
Provision for excess earnings & arbitrage liability	(16,492)	536,691	303,123	274,043	—	(3,097,499)	—	—	56,296
Miscellaneous expense	16,749	25,298	8,730	8,948	16,128	29,703	7,388	439,731	689,635
Total expenses	1,166,423	2,500,315	1,119,061	1,089,567	76,073	1,138,136	1,921,897	439,731	36,329,048
CHANGE IN NET ASSETS	332,758	3,165,597	727,278	782,623	305,129	6,515,701	(460,320)	184,089	21,535,909
NET ASSETS (DEFICIT)-Beginning of year	5,651,142	32,145,118	4,924,810	7,757,452	11,084,239	20,750,655	(391,635)	28,482,853	137,710,602
Assets transferred from 1990 to 2001, 2004, & Surplus	—	—	—	—	(11,389,368)	—	—	10,590,500	—
NET ASSETS (DEFICIT)-End of year	\$ 5,983,900	35,310,715	5,652,088	8,540,075	—	27,266,356	(851,955)	39,257,442	159,246,511

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, 2004**

	2004	2003-2	2003	2002	2001	2000B	Debt Issue 2000A
REVENUES:							
Interest on student loans	\$ 688,138	\$ 3,075,595	\$ 3,008,097	\$ 1,718,252	\$ 479,485	\$ 448,897	\$ 704,573
Interest on investments	2,784	61,435	96,037	76,798	32,220	23,406	28,687
Government subsidy on student loans	33,825	358,839	394,560	1,457,397	318,415	303,644	95,691
Special allowance income	223,219	3,460,766	3,924,518	681,383	1,724,425	143,268	1,072,350
Total revenues	947,966	6,956,635	7,423,212	3,933,830	2,554,545	919,215	1,901,301
EXPENSES:							
Interest on bonds and lines of credit	150,225	1,445,707	1,280,856	1,944,885	449,668	387,587	244,249
Loan servicing fees	65,975	385,810	370,473	372,994	116,379	83,632	116,543
Administrative and operating costs paid to Higher Education Servicing Corporation	37,500	266,664	400,000	600,000	150,000	250,000	225,000
Trustee fees	5,919	17,115	12,773	27,665	17,503	13,799	17,796
Letter of credit fees	47,050				153,700	145,753	84,069
Remarketing fees	16,121				48,705	43,790	25,114
Broker/ dealer fees		294,584	268,840	409,458			
Bond insurance expense							
Provision for excess earnings and arbitrage liability			1,498,411		26,184		65,413
Miscellaneous expense	1,644	3,378	15,570	13,032	16,092	15,860	14,696
Total expenses	324,434	2,413,258	3,846,923	3,368,034	978,231	940,421	792,880
CHANGE IN NET ASSETS	623,532	4,543,377	3,576,289	565,796	1,576,314	(21,206)	1,108,421
NET ASSETS (DEFICIT)—Beginning of year			3,325,224	1,226,300	582,361	754,376	5,899,710
NET ASSETS (DEFICIT)—End of year	\$ 623,532	\$ 4,543,377	\$ 6,901,513	\$ 1,792,096	\$ 2,158,675	\$ 733,170	\$ 7,008,131

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, 2004**

	1998	1996 A-D	1993 A-D	1991 ABC	1991 DEF	Debt Issue 1990	1987
REVENUES:							
Interest on student loans	\$ 1,104,288	\$ 880,417	\$ 460,134	\$ 145,918	\$ 86,300	\$ 1,698,631	\$ 4,147,064
Interest on investments	33,252	57,035	189,812	55,881	80,702	55,962	245,598
Government subsidy on student loans	330,545	307,736	313,777	185,785	230,101	138,421	407,652
Special allowance income	391,416	303,197	3,994,185	1,247,077	1,424,859	956,152	2,488,876
Total revenues	1,859,501	1,548,385	4,957,908	1,634,661	1,821,962	2,849,166	7,289,190
EXPENSES:							
Interest on bonds and lines of credit	460,168	414,762	934,654	280,922	280,922	338,746	1,029,773
Loan servicing fees	109,604	88,909	264,221	72,567	68,366	135,735	325,487
Administrative and operating costs paid to Higher Education Servicing Corporation	450,000	110,000	350,000	50,000	50,000	200,000	1,450,000
Trustee fees	20,612	15,446	23,653	8,007	8,005	28,690	25,243
Letter of credit fees	169,969	92,018	261,361	59,860	59,860	129,945	389,159
Remarketing fees	51,065	46,241	87,500	31,250	31,250	35,910	83,496
Broker/ dealer fees							
Bond insurance expense		87,267		55,000	55,000		
Provision for excess earnings and arbitrage liability	139,922	373,812	(674,381)	(135,465)	(495,966)	633,772	1,204,984
Miscellaneous expense	18,870	18,398	28,123	13,004	12,874	22,351	26,712
Total expenses	1,420,210	1,246,853	1,275,131	435,145	70,311	1,525,149	4,534,854
CHANGE IN NET ASSETS	439,291	301,532	3,682,777	1,199,516	1,751,651	1,324,017	2,754,336
NET ASSETS (DEFICIT)—Beginning of year	3,106,183	5,349,610	28,462,341	3,725,294	6,005,801	9,760,222	17,996,319
NET ASSETS (DEFICIT)—End of year	\$ 3,545,474	\$ 5,651,142	\$ 32,145,118	\$ 4,924,810	\$ 7,757,452	\$ 11,084,239	\$ 20,750,655

(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, 2004

	S.L.M.A. Line-of- Credit Fund	BOA Line-of- Credit Fund	Surplus Funds	Total Funds
REVENUES:				
Interest on student loans	\$ (133,966)	\$ 59,455	\$	\$ 18,571,278
Interest on investments	7,966	22,148	545,543	1,615,266
Government subsidy on student loans	139,604	177,687		5,193,679
Special allowance income	123,489	116,910		22,276,090
Total revenues	137,093	376,200	545,543	47,656,313
EXPENSES:				
Interest on bonds and lines of credit	272,477	300,755		10,216,356
Loan servicing fees	30,154	71,094		2,677,943
Administrative and operating costs paid to Higher Education Servicing Corporation	50,000	75,000		4,714,164
Trustee fees	3,096	11,165		256,487
Letter of credit fees	1,798	81,991		1,676,533
Remarketing fees				500,442
Broker/ dealer fees				972,882
Bond insurance expense				197,267
Provision for excess earnings and arbitrage liability				2,636,686
Miscellaneous expense	(30,538)	2,834	174,950	367,850
Total expenses	326,987	542,839	174,950	24,216,610
CHANGE IN NET ASSETS	(189,894)	(166,639)	370,593	23,439,703
NET ASSETS (DEFICIT)—Beginning of year	189,894	(224,996)	28,112,260	114,270,899
NET ASSETS (DEFICIT)—End of year	\$ 0	\$ (391,635)	\$ 28,482,853	\$ 137,710,602

(Concluded)

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture pursuant to which the Bonds, including the Remarketed Bonds, are issued. This summary does not include information with respect to Bonds converted to a Fixed Rate or an Auction Rate. This summary is qualified in all respects by reference to the Indenture, which contains all the terms and conditions pursuant to which the Bonds are issued. Copies of the 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 Remarketing Memorandum.

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

“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 and the Refunding Series 2003 Bonds.

“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 the Indenture, as the same may have been or will be supplemented from time to time, including the Series 1993A 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.

“Business Day” means any day other than a Saturday, Sunday, legal holiday or any other day on which banking institutions in the City of New York, New York, or the city in which the principal corporate trust office of the Trustee is located, are generally authorized or obligated by law or executive order to close or are closed or rendered inoperable due to natural disaster, or on which the New York Stock Exchange or on which the office designated for presentation by each Credit Provider then providing a Credit Facility or by each Liquidity Provider then providing a Liquidity Facility for any of the Bonds is closed. Any payments required hereunder to be made on any day which is not a Business Day may be made instead on the next succeeding Business Day, and no interest shall accrue on such payments in the

interim (except as may otherwise be provided as to a particular Series or Class of Bonds in the related Supplemental Indenture and/or Reimbursement Agreement).

“*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 shall 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 applicable Issue 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 shall 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 Date of Issue 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.

“*Computation Date*” means, with respect to each Series of Bonds which is not Federally Taxable Bonds, a date as of which Rebatale Arbitrage is calculated, which shall be no later than one year after the Issue Date for a Series of Bonds and on the same day of each year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

“*Costs of Issuance*” means all items of expense, directly or indirectly payable or reimbursable by, or to the Authority and related to the conversion of the Bonds to a variable rate or floating rate 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 or the conversion of the Bonds to a variable rate or a floating rate.

“*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.

“*Credit Provider Bonds*” means those Variable Rate Bonds which have been purchased from the tendering owners thereof with the proceeds of a drawing under the Credit Facility, and which have not been remarketed.

“*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 the remarketing of the Refunding Series 2003 Bonds, is equal to the aggregate of 2% of the principal amount of the Series 1993A Bonds, 0.75% of the Series 2002 Bonds Outstanding and 1% of the principal amount of the Series 2003-2 Bonds Outstanding, which amount will not be less than \$500,000 unless a Rating Confirmation with respect to a lesser amount has been obtained.

“*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 Bonds issued after the Series 1993A Bonds or recycling proceeds of loans originally acquired with proceeds of Bonds issued after the Series 1993A Bonds, which qualify under Section 53B.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.

“Excess Interest” means as of the date of computation, the smallest amount that, if treated as reasonable costs (i.e., taken into account in calculating yield) paid on that date, would reduce the yield on the Student Loans financed by a Series of Bonds which are not Federally Taxable Bonds to a yield that is not higher than the yield on the Bonds plus the Permitted Spread. For purposes of this definition only, yield on the Bonds of any Series and yield on the Student Loans financed by any Series of Bonds shall be calculated in accordance with Treas. Reg. §1.148 10(b)(2) or such other applicable regulation under the Code.

“Excess Interest Calculation Date” means, with respect to each Series of Bonds which are not Federally Taxable Bonds, a date as of which Excess Interest is calculated, which shall be no later than one year after the Issue Date for a Series of Bonds and on the same day of each year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

“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.

“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 Amended and Restated General Indenture, dated as of February 3, 2006 entered into by the Authority and the Trustee, 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.

“Gross Proceeds” when used with respect to a Series of the Bonds that are not Federally Taxable Bonds, means “gross proceeds” of the Series within the meaning of Treas. Reg. §1.148 8(d), including original proceeds, amounts received (including repayments of principal) as a result of investing the original proceeds of the Series, transferred proceeds, sinking fund proceeds, amounts invested in a reasonably required reserve or replacement fund, securities or obligations pledged by the Authority as security for payment of Debt Service on a Series of the Bonds, and any other amounts used to pay Debt Service on a Series of the Bonds, together with earnings from the investment of the foregoing.

“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 five supplemental indentures, including by an Amended and Restated Third Supplemental Indenture, dated as of February 3, 2006, between the Authority and the Trustee.

“*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 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), 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) 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) 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.

“*Investments*” has the meaning stated in Treas. Reg. §1.148 8(e) and includes:

(a) a share of stock in a corporation or a right to subscribe for or to receive such a share,

(b) any obligation, including United States Treasury bonds, notes, and bills and bank deposits, whether or not certificated or interest bearing, but excluding obligations the interest on which is, in the Opinion of Bond Counsel, excludable from the gross income of any owner thereof under the Code or the Internal Revenue Code of 1954, as amended to the date of issuance of such obligation,

(c) any annuity contract, or any other deferred payment contract acquired to fund an obligation of the issuer, or

(d) any other property held for investment.

“*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.

“*Permitted Spread*” means the difference between the Yield on the Bonds of a Series and the Student Loans financed with proceeds of the Series as may be required or permitted under the Code.

“*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; (f) transfer fees, purchase premiums and loan origination fees on Student Loans held by the Authority and

acquired (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.

"Rebatable Arbitrage" means as of any Computation Date, the amount of "rebtable arbitrage" with respect to a Series of Bonds which are not Federally Taxable Bonds, determined in accordance with Treas. Reg. §1.148 2.

"Recycling Termination Date" means April 1, 2009, or such later date to which the Credit Provider consents and for which a Rating Confirmation has been obtained.

"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.

“*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 Rebutable Arbitrage, Excess Interest, and the permissible Yield on Investments in the Restricted Yield and Acquisition Funds, however, a Series shall mean 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 1993A Bonds*” means the Series 1993A Bonds, 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 2003A-1 Bonds*” means the Authority’s Student Loan Revenue Bonds, Series 2003A-1, issued under the Indenture.

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

“*Series 2003A-3 Bonds*” means the Authority’s Student Loan Revenue Bonds, Series 2003A-3, issued under the Indenture.

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

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

“*Servicer*” means Higher Education Servicing Corporation, a nonprofit corporation, or any successor consented to by the Credit Provider and designated in a Supplemental Indenture.

“*Servicing Agreement*” means that certain Servicing Agreement dated as of May 1, 2005 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 the consent of the Credit Provider, 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 Authority’s Student Loan Revenue Bonds, Series 2003A-3.

“*Tender Agent*” means any commercial bank or trust company appointed by the Trustee in accordance with the Indenture to serve as the agent for tender of Adjustable Rate Bonds issued under the Indenture.

“*Yield*” of (1) any Investment to any date means the actuarial “yield” of such Investment beginning the date such Investment is allocable to Gross Proceeds, as “yield” is defined in Treas. Reg. §1.103 13(c), as supplemented by Treas. Reg. §§1.148 9(b) and (d), and (2) the Bonds of a Series means the actuarial “yield” of the Bonds of such Series, as defined in Treas. Reg. §1.148 3.

“*Yield Adjustment Payment*” means the minimum amounts payable to the United States Treasury as defined in Treas. Reg. §1.148 10(e).

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

This summary is qualified in all respects by reference to the General Indenture which has been amended and restated, and supplemented by five supplemental indentures, including by an Amended and Restated Third Supplemental Indenture, dated as of February 3, 2006, between the Authority and the Trustee (collectively, the “Supplements”), which contain complete descriptions of all the terms and conditions pursuant to which the Refunding Series 2003 Bonds are issued. The General Indenture creates a Trust Estate for the Bonds, including the Refunding Series 2003 Bonds. Copies of the General Indenture and the Supplements are available from the Trustee. Capitalized terms not otherwise defined herein have the meanings set forth in the General Indenture or the Supplements.

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 Refunding Series 2003 Subaccount;
- (c) Restricted Yield Fund, and within such Fund, a Refunding Series 2003 Account;
- (d) Debt Service Reserve Fund;
- (e) Acquisition Fund; and
- (f) Credit Proceeds Fund, and within such Fund, a Class II Refunding Series 2003 Account and a Class IV Refunding Series 2003 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.

Acquisition Fund

The Trustee is required to deposit in the Acquisition Fund the amounts described in any Supplemental Indenture. Moneys in the Acquisition Fund are used to acquire Eligible Loans.

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 Refunding Series 2003 Subaccount within the Revenue Fund.

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

(a) All Revenues allocable to Eligible Student Loans acquired with the proceeds of the Refunding Series 2003 Bonds; and

(b) Any other amounts deposited thereto upon Authority Order or transferred from any other Account of the Revenue Fund pursuant to the paragraph below.

Money in the Refunding Series 2003 Subaccount of the Revenue Fund shall be used to make the following disbursements, in the following order of priority, on the first Business Day of each January, April, July and October:

(a) to pay Remarketing Agent fees, Credit Provider fees, Liquidity Provider fees then due, and any expenses then due and payable with respect to any Credit Facility or Liquidity Facility;

(b) to make a transfer to the Operating Fund in an amount equal to Program Expenses allocable to the Refunding Series 2003 Bonds for the coming quarter;

(c) to reimburse a Credit Provider for a draw on its Credit Facility to pay the interest and principal on the Refunding Series 2003 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 or if a Credit Provider fails to honor a properly presented draw on its Credit Facility, or if no Credit Facility is in effect with respect to such payments, to pay the interest and principal on the Refunding Series 2003 Bonds then due and payable by Class in descending order of priority;

(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) to reserve three months' interest on the Refunding Series 2003 Bonds to remain on deposit if the date of transfer is not an Interest Payment Date for such bonds or the next Business Day after an Interest Payment Date; and

(f) to the extent of any amounts remaining following the foregoing transfers, payments, and reservations, to the Refunding Series 2003 Account of the Restricted Yield Fund.

Notwithstanding the foregoing, on any date prior to the Recycling Termination Date, the Authority may use money in the Refunding Series 2003 Subaccount of the Revenue Fund to purchase or make Eligible Loans if the Debt Service Reserve Fund and the reserve for interest described in (e) of the preceding paragraph have been fully funded.

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 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 from the other accounts of the Revenue Fund to make such payments, 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.

Credit Proceeds Fund

The first source of payment of principal and interest on the Bonds secured by a Credit Facility will be the designated subaccount in the Credit Proceeds Fund. The Trustee will deposit into the designated subaccount of the Credit Proceeds Fund the proceeds of each drawing on that Credit Facility (other than drawings to provide the Purchase Price of tendered Bonds) immediately upon receipt. The Trustee will draw under such Credit Facility in accordance with its terms in time and amount sufficient to provide for the payment of principal of and interest on the Bonds secured by that Credit Facility on each payment date, whether at maturity or upon earlier proceedings for redemption or acceleration, or otherwise, in an amount equal to the full amount of the interest or principal coming due on such date with respect to all such Bonds then Outstanding (except with respect to Bonds then registered to the order or in the name of such Credit Provider or the Authority). The Trustee will, following deposit of such proceeds into the Credit Proceeds Fund, apply the amounts in such Fund solely to pay such principal and interest on the Bonds as they become due.

Restricted Yield Fund

The Indenture establishes a Refunding Series 2003 Account of the Restricted Yield Fund in which the Trustee will deposit all amounts required to be transferred thereto from the Refunding Series 2003 Subaccount of the Revenue Fund. Money in the Refunding Series 2003 Account of the Restricted Yield Fund will be invested in the manner set forth in the Indenture.

The Trustee will use the money in the Refunding Series 2003 Account of the Restricted Yield Fund for the following purposes in the following order of priority:

- (a) to the extent there is a required deposit or transfer on any date from the Revenue Fund, the money in the Refunding Series 2003 Restricted Yield Account may be utilized instead;
- (b) prior to the Recycling Termination Date, as such date may be extended, all remaining amounts in the Refunding Series 2003 Restricted Yield Account may be used to acquire Eligible Student Loans which will be held in the Student Loan Fund and identified as being allocable to the Refunding Series 2003 Bonds, and, thereafter, all remaining amounts in the Refunding Series 2003 Account of the Restricted Yield Fund will be used to redeem Bonds, unless the Authority has obtained a Rating Confirmation permitting it to use the remaining proceeds in the Refunding Series 2003 Restricted Yield Account to purchase Eligible Loans, make a transfer to the Operating Fund as provided in subsection (c) below, or otherwise; and
- (c) at the option of the Authority, upon 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.

Debt Service Reserve Fund

The Trustee has deposited the Debt Service Reserve Requirement in the Debt Service Reserve Fund, and will deposit any further additions thereto if additional Bonds are issued, and any transfers thereto from the Revenue Fund or Restricted Yield 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.

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.

Excess Interest Fund

No later than sixty days after each Excess Interest Calculation Date, the Authority will determine or cause to be determined, the Excess Interest as of the preceding Excess Interest Calculation Date and shall deliver such calculation to the Trustee and the Credit Provider, along with a statement of a party or parties competent to make such determination, independent of the Authority to the effect that

(a) such party has made a review of the records of account and schedules required by this Section in accordance with generally accepted auditing standards, and

(b) during the course of such review nothing came to the attention of such party that would lead it to believe that such records and schedules were not prepared in accordance with the provisions of the General Indenture, or, if anything did come to the attention of such party, summarizing such discrepancies.

The first time such calculation shows the existence of Excess Interest, the Authority will direct the Trustee to establish an Excess Interest Fund and to transfer an amount equal to such Excess Interest from the following funds, in the following order of priority: (a) Restricted Yield Fund, (b) Revenue Fund, and (c) Acquisition Fund. Thereafter, within sixty days after each Excess Interest Calculation Date, the Authority will take the following actions:

(a) If the amount on deposit in the Excess Interest Fund is less than the Excess Interest as of the preceding Excess Interest Calculation Date, the Authority will notify the Trustee, who will transfer sufficient funds to the Excess Interest Fund so that the amount on deposit is equal to Excess Interest from the following Funds in the following order of priority: Restricted Yield Fund, Revenue Fund and Acquisition Fund.

(b) If the amount on deposit in the Excess Interest Fund is greater than the Excess Interest, the Authority will instruct the Trustee to transfer to the Restricted Yield fund money sufficient to cause the amount on deposit in the Excess Interest Fund to be equal to the Excess Interest as of such Excess Interest Calculation Date.

Unless the Authority obtains an Opinion of Bond Counsel to the effect that such payments are not required in order to preserve the exclusion from gross income of interest on the Bonds for federal income tax purposes, the Authority covenants to direct the Trustee to withdraw from the Excess Interest Fund and remit to the United States Treasury Yield Adjustment Payments in such manner and amounts and on such date as may be required or permitted by Section 148 of the Code.

Additionally, the Authority may direct the Trustee to transfer a specified amount from the Excess Interest Fund to the Restricted Yield Fund at any time, upon providing the Trustee with the following: (a) a Favorable Opinion concerning such transfer; or (b) an Authority Order directing the Trustee to forgive indebtedness on all or a portion of the Student Loans specified in such Authority Order in an amount equal to the amount to be transferred and the implementation of such Authority Order by the Trustee.

Records of the determinations with respect to the above covenant and the Excess Interest Fund will be retained by the Authority until six years after the retirement of all the Bonds.

The Authority's payment of Yield Adjustment Payments to the United States is additional consideration for the purchase of the Bonds by the initial purchasers thereof and the loan of money represented thereby, and is for the purpose of preserving the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The Authority shall exercise reasonable diligence to assure that no error in the calculations required by the General Indenture is made and, if such an error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including the payment of the United States of America of any delinquent amounts owed to it, interest thereon, and any assessed penalty.

Amounts in the Excess Interest Fund will only be used for the purposes specified in the General Indenture, and will not be available for any other purpose, including, but not limited to, payment of Debt Service on the Bonds or reimbursement of any Credit Facility or Liquidity Facility.

Rebate Fund

No later than sixty days after each Computation Date, the Authority will determine, or cause to be determined, the Rebatable Arbitrage as of the preceding Computation Date and will deliver such calculation to the Trustee and the Credit Provider, along with a statement of a party or parties competent to make such determination, independent of the Authority to the effect that

- (a) such party has made a review of the records of account and schedules required by the General Indenture in accordance with generally accepted auditing standards; and
- (b) during the course of such review, nothing came to the attention of such party that would lead it to believe that such records and schedules were not prepared in accordance with the provisions of the General Indenture or, if anything did come to the attention of such party, summarizing such discrepancies.

The first time such calculation shows the existence of Rebatable Arbitrage, the Authority will direct the Trustee to establish a Rebate Fund and to transfer an amount equal to such Rebatable Arbitrage from the following funds, in the following order of priority: (a) Restricted Yield Fund, (b) Revenue Fund, and (c) Acquisition Fund. Thereafter, within sixty days after each Computation Date, the Authority will take the following actions:

- (a) if the amount on deposit in the Rebate Fund is less than the Rebatable Arbitrage as of the preceding Computation Date, the Authority will notify the Trustee, who will transfer sufficient funds to the Rebate Fund so that the amount on deposit is equal to Rebatable Arbitrage from the following Funds in the following order of priority: Restricted Yield Fund, Revenue Fund and Acquisition Fund; and
- (b) if the amount on deposit in the Rebate Fund is greater than the Rebatable Arbitrage, the Authority may instruct the Trustee to transfer to the Restricted Yield Fund money sufficient to cause the amount on deposit in the Rebate Fund to be equal to the Rebatable Arbitrage as of such Computation Date.

Unless the Authority obtains an Opinion of Bond Counsel to the effect that such payments are not required in order to preserve the exclusion from gross income of interest on the Bonds, the Authority covenants to, and will, withdraw from the Rebate Fund and remit to the United States Treasury (in such manner and on such dates as may be required or permitted by Section 148(f) of the Code) the minimum amounts required by Section 148(f) of the Code to be rebated to the United States.

Extraordinary Transfers to Rebate Fund and Excess Interest Fund

By noon on the Business Day preceding the maturity of the last Bond of a Series, the Authority will determine or cause to be determined the Rebatable Arbitrage and Excess Interest expected on the date of such maturity and will deliver its calculations to the Trustee. On the date of receipt of such calculation, the Trustee will:

- (a) first, transfer any required Rebatable Arbitrage to the Rebate Fund,
- and
- (b) second, transfer any Excess Interest to the Excess Interest Fund.

The Trustee will transfer the required amounts from each of the following Funds in the following order of priority: (a) Restricted Yield Fund, (b) Revenue Fund, and (c) Acquisition Fund.

Operating Fund

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 provided for in the Indenture.

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.

Money held for the credit of the Credit Proceeds Fund shall be invested only in Governmental Obligations which mature at the lesser of 30 days or when needed or Investment Securities rated "P1" by Moody's having a maturity of one day. Any money the Trustee holds pending disbursement to a Bondholder shall be invested only in Governmental Obligations which mature at the lesser of 30 days or when needed or Investment Securities rated "P1" by Moody's having a maturity of one day, or any other investment approved by Moody's. Any money held by the Tender Agent in any account in the Purchase Fund shall not be invested.

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 due and owing 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) Student Loans will not be purchased after the Recycling Termination Date.

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.

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, 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 not less than 100% in principal amount of the Bonds of the most senior Class then Outstanding, 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, interest shall cease to accrue thereon and 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, provided, however, that interest on Credit Provider Bonds will continue to accrue as set forth in the Reimbursement Agreement. 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 Payouts.

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 other than as a reimbursement for payment of principal and interest on 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. Except as described under the caption “—Remedies” above, 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 Student 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.

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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