

## REMARKETING SUPPLEMENT

### REMARKETED ISSUE

Ratings - Moody's: Aaa/VMIG 1  
(See "Ratings" herein)

*Substitution of the Letter of Credit is subject to the delivery of an opinion by Bond Counsel to the effect that such substitution will not adversely affect the excludability of the interest on the Series 1993A 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 Series 1993A 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 Series 1993A Bonds is included in computing the alternative minimum taxable income of the owners thereof which are individuals, corporations, trusts, or estates. On May 4, 1993, the date of original issuance and delivery of the Series 1993A Bonds, Bond Counsel rendered its opinion that interest on the Series 1993A 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" in the Official Statement for discussion of Bond Counsel's opinion rendered on May 4, 1993.***

**\$70,000,000**

### **North Texas Higher Education Authority, Inc. Student Loan Revenue Bonds Series 1993A**

**Original Issuance Date:** May 4, 1993  
**Remarketing Date:** April 23, 2003

**Remarketing Price:** 100%

**Due:** As shown below

#### **Maturity Schedule**

\$39,500,000 Weekly Rate Term Bond Due April 1, 2005  
\$30,500,000 Weekly Rate Term Bond Due April 1, 2020

THIS REMARKETING SUPPLEMENT HAS BEEN PREPARED AS A SUPPLEMENT TO THE OFFICIAL STATEMENT FOR THE SERIES 1993A BONDS, DATED APRIL 22, 1993 (the "Official Statement"), which is available from the Remarketing Agent described herein. Capitalized terms used in this Remarketing Supplement and not otherwise defined shall have the meanings assigned to such terms in the Official Statement.

This Remarketing Supplement is furnished by North Texas Higher Education Authority, Inc. (the "Authority") in connection with the remarketing of its Student Loan Revenue Bonds, Series 1993A (the "Series 1993A Bonds") as a result of a replacement of a letter of credit securing the Series 1993A Bonds. Upon the issuance of the Series 1993A Bonds on May 4, 1993, credit and liquidity support were provided by a direct pay letter of credit (the "Original Letter of Credit") from Student Loan Marketing Association, which is scheduled to expire on May 1, 2003. The Original Letter of Credit is being replaced by a direct pay letter of credit (the "Letter of Credit") from Lloyds TSB Bank plc (the "Credit Provider"), acting through its New York Branch, which shall be effective as of April 22, 2003. The Series 1993A Bonds are subject to mandatory tender on April 23, 2003, and are being remarketed as of such date.

The Series 1993A Bonds were issued by the Authority pursuant to a General Indenture dated as of May 1, 1993 (the "General Indenture") between the Authority and Bank One, Texas, N.A., as successor trustee, as supplemented and amended (collectively, the "Indenture"). There are currently outstanding under the Indenture \$328,400,000 of Bonds, including the Series 1993A Bonds, the Authority's Student Loan Revenue Bonds, Series 2002A-1, A-2, A-3 and B (the "Series 2002 Bonds") and the Authority's Student Loan Revenue Bonds, Series 2003A-1, A-2, A-3 and B (the "Series 2003 Bonds"). The Indenture also permits the issuance of Additional Bonds in the future. The Series 1993A Bonds constitute Class I Bonds under the Indenture so long as they bear interest at an Adjustable Rate. Reference is made to the Official Statement for information with regard to the payment priority of the Series 1993A Bonds under the Indenture.

The Series 1993A Bonds bear interest at one or more Adjustable Rates (a "Weekly Rate" or an "Intermediate Term Rate") unless converted to a Fixed Interest Rate. The Series 1993A Bonds presently bear interest at a Weekly Rate. Interest on the Series 1993A Bonds is payable on the first day of January, April, July and October of each year so long as the Series 1993A Bonds bear interest at a Weekly Rate, and otherwise as described in the Official Statement. The Series 1993A Bonds bearing interest at an Adjustable Rate are subject to mandatory tender for purchase and optional and mandatory redemption on certain dates under the circumstances described in the Official Statement and, while bearing interest at a Weekly Rate, are subject to tender for purchase at the option of the Owners thereof on not less than seven days' notice as described in the Official Statement.

Upon the remarketing of the Series 1993A Bonds, principal of and interest on the Series 1993A Bonds and the Purchase Price upon tender of the Series 1993A Bonds is payable from an irrevocable direct-pay Letter of Credit issued by

 Lloyds TSB

acting by and through its New York Branch. The Letter of Credit to be issued by Lloyds TSB Bank plc will expire, unless otherwise extended or renewed or earlier terminated in accordance with its terms, on April 21, 2006.

**THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE DESCRIBED IN THE OFFICIAL STATEMENT AND FROM DRAWINGS ON THE LETTER OF CREDIT. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF TEXAS, THE CITIES OF ARLINGTON OR DENTON, TEXAS OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF TEXAS, THE CITIES OF ARLINGTON OR DENTON, TEXAS OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF. THE AUTHORITY HAS NO TAXING POWER.**

REFERENCE IS MADE TO THE OFFICIAL STATEMENT FOR INFORMATION WITH RESPECT TO THE SERIES 1993A BONDS AND THE INDENTURE UNDER WHICH THE SERIES 1993A BONDS WERE ISSUED. Updated information concerning the Credit Provider, the Letter of Credit Agreement, the security for the Bonds, the Authority, the parties servicing and guaranteeing Student Loans, amendments to the Indenture and ratings is contained in this Remarketing Supplement. The following appendices have been updated: Appendix I: Description of the Federal Family Education Loan Program and Appendix III: Financial Statements of the Authority.

**UBS PaineWebber Inc.  
as Remarketing Agent**

Dated: April 17, 2003

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The Trustee has not undertaken to review this Remarketing Supplement and has no responsibility for the information contained herein. Further, the Trustee shall have no responsibility for compliance with any federal or state securities laws with respect to the Bonds.

## REMARKETING SUPPLEMENT

**\$70,000,000**

**North Texas Higher Education Authority, Inc.  
Student Loan Revenue Bonds  
Series 1993A**

### INTRODUCTION

This Remarketing Supplement is furnished by North Texas Higher Education Authority, Inc. (the "Authority") in connection with the remarketing of its Student Loan Revenue Bonds, Series 1993A (the "Series 1993A Bonds") as a result of a replacement of a letter of credit securing the Series 1993A Bonds. Upon the issuance of the Series 1993A Bonds on May 4, 1993, credit and liquidity support were provided by a direct pay letter of credit (the "Original Letter of Credit") from Student Loan Marketing Association, which is scheduled to expire on May 1, 2003. The Original Letter of Credit is being replaced by a direct pay letter of credit (the "Letter of Credit") from Lloyds TSB Bank plc (the "Credit Provider"), acting through its New York Branch, which shall be effective as of April 22, 2003. The Series 1993A Bonds are subject to mandatory tender on April 23, 2003, and are being remarketed as of such date.

This Remarketing Supplement has been prepared as a supplement to the Official Statement for the Series 1993A Bonds dated April 22, 1993 (the "Official Statement"), copies of which are available from the Remarketing Agent. Certain capitalized terms used herein are defined herein, including on the cover page hereof. Capitalized terms not otherwise defined shall have the meanings assigned to such terms in the Official Statement.

### LETTER OF CREDIT

#### General

The Original Letter of Credit is being replaced by a direct pay letter of credit (the "Letter of Credit") issued by Lloyds TSB Bank plc, acting through its New York Branch, on April 22, 2003. The initial Stated Amount of the Letter of Credit is \$73,452,055. The Stated Amount of Letter of Credit will reduce and reinstate in accordance with its terms. The following is a brief summary of certain provisions of the Letter of Credit and the Letter of Credit and Reimbursement Agreement dated as of April 1, 2003 (the "Letter of Credit Agreement"), between the Authority and the Credit Provider. The provisions of any future substitute or replacement Letter of Credit and related Letter of Credit Agreement may be different from those summarized here.

The Indenture requires the Trustee to draw upon the Letter of Credit at such times as are necessary to pay the principal or interest on the Series 1993A Bonds bearing interest at an Adjustable 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 under certain circumstances including mandatory or optional tender of the Series 1993A Bonds if remarketing proceeds are insufficient to pay the purchase price.

The maximum aggregate amount available to be drawn under the Letter of Credit is \$73,452,055 (such amount as from time to time reduced and reinstated is hereinafter referred to as the "Stated Amount"). Of the Stated Amount, up to \$70,000,000 is available for the payment of the unpaid principal of, or the portion of the Purchase Price corresponding to principal of, the Series 1993A Bonds (the "Principal Portion") and up to \$3,452,055 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 1993A Bonds (the "Interest Portion") (120 days of interest at 15% per annum based on a year of 365 days). "Purchase Price" means, with respect to any Series 1993A Bond tendered for purchase pursuant to the Indenture, an amount equal to the principal amount of such Series 1993A Bond plus, with respect to any Series 1993A Bond tendered for purchase on a date which is not a scheduled interest payment date for such Series 1993A Bond, accrued but unpaid interest.

Upon any drawing, the Stated Amount will be reduced by the amount of such drawing. The Stated Amount 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 the 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 the Letter of Credit.

Reductions with respect to any demand for payment of interest on the Series 1993A Bonds (except for that portion of the Purchase Price corresponding to unpaid interest, if any, on such Series 1993A 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 Letter of Credit Agreement has occurred. Reductions with respect to any demand for payment of the Purchase Price of Series 1993A Bonds tendered or deemed to have been tendered pursuant to an optional tender of the Series 1993A Bonds or a tender in connection with a conversion of the interest rate mode on the Series 1993A Bonds to another interest rate mode will be reinstated automatically to the extent such Series 1993A Bonds are released by the Credit Provider pursuant to the Letter of Credit Agreement. Any such automatic reinstatement will be in an amount equal to the Purchase Price of such released Series 1993A Bonds previously paid with proceeds of the Letter of Credit.

Reductions with respect to any demand for payment of the (i) principal of the Series 1993A Bonds or (ii) Purchase Price of Series 1993A 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.

The Letter of Credit Agreement requires the Authority to reimburse the Credit Provider for the full amount of any drawings for interest or principal on the Series 1993A 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 Series 1993A 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 the Series 1993A Bonds to another interest rate mode. Each Liquidity Drawing will constitute an advance to the Authority and will be evidenced by the delivery of Series 1993A Bonds to the Credit Provider. The Letter of Credit 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 Letter of Credit; (b) the first date on which all of the Series 1993A Bonds bear interest at a Fixed Interest Rate or at an Intermediate Term Rate; (c) the date on which the Series 1993A Bonds 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 such Series 1993A Bonds are remarketed or purchased by the Authority or sold by the Credit Provider, all in accordance with the Indenture and the Letter of Credit Agreement; (e) the date on which the 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 the Letter of Credit Agreement equals or exceeds certain rates designated in the Letter of Credit 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 Series 1993A Bonds Owned by the Credit Provider During the Term-Out Period" below.

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

The Letter of Credit, by its terms, will expire on the earliest of (a) April 21, 2006 (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 Series 1993A Bonds have been paid, a substitute Letter of Credit has been delivered to the Trustee or that all Series 1993A Bonds 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 Letter of Credit Agreement has occurred and is continuing and directing that all of the Series 1993A Bonds 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 the Letter of Credit Agreement**

Certain events shall constitute “Events of Default” under the Letter of Credit Agreement. Upon the occurrence and during the continuance of any Event of Default under the Letter of Credit 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 Letter of Credit; (b) declare the principal of and interest on the obligations owing under the Letter of Credit Agreement immediately due and payable; (c) give written notice to the Trustee stating an event of default has occurred and is continuing under the Letter of Credit Agreement and directing that all of the Series 1993A Bonds be redeemed, thereby causing the Letter of Credit to expire; (d) instruct the Trustee to accelerate the Series 1993A Bonds; (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 Series 1993A 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 the Letter of Credit Agreement, the Credit Provider may, by notice to the Authority and the Trustee, at any time declare a Term-Out Event. A Term-Out Event shall also occur on the date which is five business days before the Stated Expiration Date if, as of such date, the Letter of Credit has not been extended by the Credit Provider or replaced. After the occurrence of a Term-Out Event, any Series 1993A Bonds not previously tendered or redeemed shall be subject to mandatory tender, shall be paid from the proceeds of a drawing on the Letter of Credit and the Series 1993A Bonds 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 Letter of Credit Agreement.

## **THE CREDIT PROVIDER**

Lloyds TSB Bank plc (the “Bank”) is the wholly-owned subsidiary of Lloyds TSB Group plc (“LTSB Group”). The Bank and its subsidiaries (the “Bank’s Group”) comprise one of the leading United Kingdom-based financial services groups, whose businesses provide a wide range of banking and financial services in the United Kingdom and overseas.

At the end of 2002, total assets of LTSB Group were £253 billion. The total number of persons employed by LTSB Group and its subsidiaries was approximately 80,000.

The main business activities of the Bank’s Group during 2002 are described below:

### **UK Retail Financial Services**

UK Retail Financial Services encompasses two of the Bank’s Group’s main businesses – (i) UK Retail Banking and Mortgages and (ii) Insurance and Investments – which provide a wide range of banking and financial services to 16 million personal and small business customers in England, Scotland and Wales.

### **Wholesale Markets**

The Bank’s Group’s relationships with major United Kingdom and multinational companies, banks and institutions and medium-sized United Kingdom businesses, together with its activities in financial markets, are managed through dedicated offices in the United Kingdom and a number of locations overseas, including New York and Tokyo.

### **International Banking**

The Bank’s Group provides banking, investment and other financial services overseas in three main areas: (i) The Americas (including the international bank agency of the Bank in Miami, Florida), (ii) New Zealand and (iii) Europe and Offshore Banking.

## **Availability of Public Information**

The Bank will provide, upon request, to each person to whom this Remarketing Supplement is delivered a copy of (i) the most recently available annual Report and Accounts of LTSB Group for the fiscal year ended as at December 31, 2002, and (ii) the Annual Report on Form 20F of LTSB Group for the fiscal year ended 31<sup>st</sup> December, 2001. Written requests should be directed to the Bank at 1251 Avenue of the Americas, 39<sup>th</sup> Floor, New York, New York 10020; Attention: Structured Finance.

## **SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**

### **Payment Priorities**

As described in the Official Statement, the Indenture provides that Bonds shall be designated a priority class, with Class I being the highest priority, and the order of priority decreasing as the Class roman numeral increases. Unless converted to a Fixed Interest Rate, the Series 1993A Bonds constitute Class I Bonds.

There are presently Outstanding under the Indenture \$328,400,000 of Bonds, of which \$70,000,000 (the Series 1993A Bonds) constitute Class I Bonds, \$226,400,000 constitute Class II Bonds and \$32,000,000 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.

### **Initial Collateralization**

As of March 31, 2003, the value of assets pledged under the Indenture was equal to approximately 538% of the aggregate principal amount of the Class I Bonds Outstanding under the Indenture, and approximately 104% 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.

### **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. The definition of "Excess Coverage" in the General Indenture has been amended. "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.

### **Debt Service Reserve Fund**

All the Bonds issued under the Indenture (subject to priority as described in the Official Statement) 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, and 0.75% of the principal amount of the Series 2002 Bonds Outstanding, but in no event less than \$500,000.

## Letter of Credit

Only the Series 1993A Bonds are payable from drawings on the Letter of Credit.

See "SECURITY FOR THE SERIES 1993 BONDS" in the Official Statement for additional information on the security for the Series 1993A Bonds.

## PORTFOLIO INFORMATION

The following information updates information contained in the Official Statement under the caption "PORTFOLIO INFORMATION."

Set forth below are certain characteristics of Student Loans held under the Indenture as of March 31, 2003. 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 Series 1993A Bonds.

### Portfolio Composition As of March 31, 2003

Loan Type	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Subsidized Stafford Loans	\$117,235,113	41%
Unsubsidized Stafford Loans	86,092,505	30
Consolidation Loans	73,025,981	25
PLUS Loans	8,774,427	3
SLS Loans	<u>2,689,064</u>	<u>1</u>
Total	<u>\$287,817,090</u>	<u>100%</u>

Borrower Payment Status	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Repayment	\$142,849,560	50%
Deferment	33,466,889	11
Forbearance	40,529,331	14
In School/Grace	<u>70,971,310</u>	<u>25</u>
Total	<u>\$287,817,090</u>	<u>100%</u>

School Type	Aggregate Outstanding Principal Amount	Percent of Total Principal Balance
Four Year	\$207,793,292	72%
Unknown*	67,803,268	24
Two Year	6,212,669	2
Proprietary	<u>6,007,861</u>	<u>2</u>
Total	<u>\$287,817,090</u>	<u>100%</u>

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

## THE AUTHORITY

*The following information updates and replaces information contained in the Official Statement under the caption "THE AUTHORITY."*

### General

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

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

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

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

## Board of Directors

Name and Position Held	Principal Occupation	Term Expires (September 30)
Mr. Governor E. Jackson President	Director of Student Financial Aid Texas Woman's University Denton, Texas <sup>1</sup>	2004
Dr. J. Lindsay Keffer Vice President	Associate Director for Administration University of North Texas Denton, Texas <sup>1</sup>	2003
Dr. B. Wayne Duke Secretary/Treasurer	Vice President Student Affairs (retired) University of Texas at Arlington Arlington, Texas <sup>1</sup>	2003
Ms. Floreen B. Henry	Assistant Professor Tarrant County College – South Campus Fort Worth, Texas <sup>1</sup>	2004
Mr. James Brock	President (retired) B H & W Manufacturing, Inc. Grandbury, Texas	2003
Mr. W. Jay Anderson	Financial Principal Anderson & Associates Denton, Texas	2003
Mr. K. Daniel Tonn	Certified Public Accountant/Partner Hankins, Powers, Eastup, Deaton & Tonn Denton, Texas	2004
Mr. Jim D. Schultz	Chief Executive Officer Breckwell Holdings, Inc. Arlington, Texas	2004
Dr. Carl D. McDaniel, Jr.	Professor and Chairman of the Marketing Department University of Texas at Arlington Arlington, Texas <sup>1</sup>	2003
Mr. Stephen Nesbitt	Controller City of Denton Denton, Texas <sup>2</sup>	N/A
Ms. Donna Swarb	Chief Financial Officer City of Arlington Arlington, Texas <sup>2</sup>	N/A

<sup>1</sup> Eligible Institution

<sup>2</sup> Ex-Officio Member

## Eligible Lenders

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

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

The Authority makes consolidation loans.

### Authority Financing Activities 1979 to Present

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

<b>Financings</b>			
<b>Date</b>	<b>Type</b>	<b>Amount</b>	<b>Outstanding Balance</b>
1979	Series A	\$ 10,000,000	\$ 0
1980	Series B	6,000,000	0
1982	Series A	11,845,000	0
1982	Series B	25,000,000	0
1983	Series A & B	50,000,000	0
1985	Series A	23,100,000	0
1987	Series 1987	98,000,000	87,750,000
1990	Series 1990	50,000,000	41,000,000
1991	Series A – C	76,750,000	25,000,000
1991	Series D – F	76,750,000	25,000,000
1991	Series G	90,000,000	0
1993	Series A – D	140,000,000	70,000,000
1996	Series A and B	21,500,000	21,500,000
1996	Series C and D	21,500,000	21,500,000
1998	Series 1998	40,815,000	40,815,000
2000	Series 2000A	67,580,000	26,080,000
2000	Series 2000B	35,000,000	35,000,000
2001	Series 2001A	39,545,000	39,545,000
2002	Series 2002A-B	155,000,000	155,000,000
2003	Series 2003A-B	<u>103,400,000</u>	<u>103,400,000</u>
Total Financings		<u>\$1,141,785,000</u>	<u>\$691,590,000</u>

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

In addition, the Authority currently has taxable lines of credit for the purchase of student loans and refinancing of indebtedness in the aggregate amount of \$125,000,000. The utilized balance on the Authority’s lines of credit is approximately \$33 million, leaving approximately \$92 million of the lines of credit unused and available.

### THE GUARANTORS

*The following information updates and replaces information contained in the Official Statement under the caption “THE GUARANTORS.”*

#### General

The Indenture authorizes the Authority to purchase any Eligible Loans which are guaranteed by Texas Guaranteed Student Loan Corporation (“TGSLC” or “TG”), United Student Aid Funds, Inc. or any other entity which guarantees student loans under the Higher Education Act and which has entered into an agreement with the Trustee and the Secretary for reinsurance of its guarantees of student loans and upon receipt of a Rating Confirmation with respect thereto (a “Guarantor” or an “Eligible Guarantor”); provided that substantially all of the

Eligible Loans must be made on behalf of residents of the State of Texas or persons attending Eligible Institutions (as defined in the Higher Education Act) located in the State of Texas. The Authority expects that substantially all of the Eligible Loans purchased and held under the Indenture will be guaranteed by TGSLC; however, the Indenture authorizes the Authority to purchase Eligible Loans which are guaranteed by other entities, as described above. A brief description of TGSLC is included in this Remarketing Supplement 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.** The Texas Guaranteed Student Loan Corporation (TG) is a Texas public non-profit corporation organized in 1980 by the Texas legislature to operate as a guarantee agency in what is now known as the Federal Family Education Loan Program (FFELP), providing a Federally reinsured guaranty of eligible Stafford, PLUS and consolidation student loans. Located at 13809 N. Highway 183, Austin, Texas 78750-1240, TG is governed by nine directors appointed by the Governor of Texas in addition to the State Comptroller, and is staffed by approximately 547 employees.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Fiscal Year	Claims Rate
1998	3.21
1999	2.40
2000	2.00
2001	2.75
2002	3.24

**Voluntary Flexible Agreement.** TG entered into a VFA with ED, effective October 1, 2000. TG's VFA increases the focus upon borrower delinquency and default prevention, and includes: the escrow of all Federal Reserves coupled with 100% ED reinsurance of default claims; continuance of LPIF and AMF revenues as provided under HEA; a new Delinquency Prevention Fee with an .05% annual base rate of TG's Loans in Repayment portfolio, with performance rate increases based upon reductions in annual Default Aversion Requests (DAR); an increased base DAF rate to 1.25% with performance rate increases based upon cure performance; and a reduction in

borrower payment collections to 19.5% with performance rate increases for all collection types based upon collection performance. The VFA provides for reinstatement of TG's Federal Reserve upon termination of the VFA.

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

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

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

### **SERVICING OF THE LOANS**

*The following information updates and replaces information contained in the Official Statement under the caption "SERVICING OF THE LOANS."*

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

#### **Higher Education Servicing Corporation**

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

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

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

<sup>1</sup> Also serves as President and a member of the Board of Directors of the Authority.

The current staff of the Servicer consists of 32 permanent full-time and three 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 an officer of the Education Finance Council, a national organization for not-for-profit secondary markets. Ms. Bryan holds a B.S. degree and an M.S. degree in Business Education and an M.B.A. degree in Management from Texas A & M University Commerce.

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

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

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

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

***Paulette Walker, Director of Loan Services.*** Ms. Walker's responsibility includes customer service and

records and vault management. She joined the Servicer in 1993. Her experience consists of eight years with a large student loan servicer and two years with the Louisiana state secondary market. Ms. Walker attended Oklahoma State University.

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

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

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

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

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

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

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

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

The Servicing Agreement provides that the Trustee is not accountable or responsible in any manner

whatsoever for any action of the Servicer, Nelnet or Edamerica.

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

#### **Nelnet Loan Services, Inc.**

**General.** Nelnet Loan Services, Inc., formerly known as UNIPAC Service Corporation, a Nebraska corporation, began its education loan servicing operations on January 1, 1978, and provides education loan servicing, time-sharing, administration and other services to lenders, secondary market purchasers and guaranty agencies throughout the United States. Nelnet is a privately held corporation. Nelnet offers student loan servicing to lending institutions and secondary markets. Nelnet has offices located in Aurora, Colorado, Lincoln, Nebraska, Jacksonville, Florida, and Indianapolis, Indiana and, as of February 28, 2003, employs a total of 918 employees. As of February 28, 2002, Nelnet Loan Services, Inc. serviced more than \$18.5 billion in student loans.

***The Nelnet Subservicing Agreement.*** The Nelnet Subservicing Agreement, entered into on September 1, 1997, as supplemented and amended, provided for an initial term of five years which ended on September 1, 2002 and provides that it will continue thereafter on a month to month basis until either party terminates the Agreement, upon 90 days written notice.

In accordance with the Nelnet Subservicing Agreement, Nelnet will perform servicing functions for those Financed Eligible Loans presented to it for servicing by the Servicer. Nelnet will service such student loans in accordance with the Higher Education Act and Regulations. Specifically, Nelnet has agreed to take all steps necessary to maintain the insurance on student loans, to prepare and mail to the borrower all required statements, notices, disclosures and demands, to retain records for each student loan, to provide accounting for all transactions related to individual student loans, to process all deferments and forbearances, to process and update accordingly all address changes, to retain all documents received by Nelnet, to take all steps necessary to file a claim for loss with a Guarantor when necessary and allowable by the Higher Education Act, to provide a Lender's Manifest of Student Loans 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.

#### **Educational Services of America, Inc.**

**General.** Educational Services of America, Inc. is a nonprofit corporation incorporated in December 1994 pursuant to applicable laws of the State of Tennessee. Edamerica is empowered by its Charter, among other things, to (i) contract with lenders and other makers of educational loans (including those made under the Higher Education

Act) to provide marketing, administrative and loan origination services and loan servicing for such educational loans, (ii) make educational loans or acquire educational loan notes (other than those made under the Higher Education Act), (iii) service all such educational loans made or acquired, (iv) contract with nonprofit companies organized for exempt purposes and with agencies or instrumentalities of the government of any state or of the United States of America to provide services in furtherance of the exempt purposes of such companies, agencies or instrumentalities, and (v) to establish, manage and operate programs for gathering and distributing or disseminating information and materials with respect to higher education and financial aid and assistance programs available to students and potential students seeking a higher education. Edamerica's principal office is located at 123 Center Park Drive, Knoxville, Tennessee, with an operations center located at 120 North Seven Oaks Drive, Knoxville, Tennessee, and a remote office located in Little Rock, Arkansas. Currently, Edamerica provides full student loan servicing for approximately nine major lenders and secondary markets involving over \$2 billion of educational loans. Edamerica services student loans under a Remote System Agreement with the Pennsylvania Higher Education Assistance Agency. Edamerica is governed by a five-member Board of Directors and employs a corporate staff of approximately 270 full-time and part-time personnel performing various functions, including marketing, loan and guarantee processing, disbursement services, loan servicing, regulatory compliance and internal accounting.

***The Edamerica Subservicing Agreement.*** The Edamerica Subservicing Agreement, entered into on November 15, 2002, provides for an initial term of five years.

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

Specifically, Edamerica 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. Edamerica is required to submit those reports which Edamerica is legally required to submit. Other required governmental reports or requests for data with respect to Eligible Loans serviced under the Edamerica Subservicing Agreement not legally the responsibility of Edamerica will be the responsibility of the Servicer. Edamerica has covenanted that at all times during the term of the Edamerica 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, Edamerica has agreed to establish procedures mutually acceptable to the Servicer and Edamerica for the collection of amounts payable on Eligible Loans under the Edamerica Subservicing Agreement. All sums received by Edamerica 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 Edamerica at a financial institution mutually acceptable to Edamerica and the Servicer. Receipts are to be transferred weekly to accounts held by the Authority or its Trustee. Under certain circumstances, Edamerica 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 Edamerica, to refund money to the guarantor when the lender repurchases a defaulted loan, or to correct money deposited in error in the lockbox account. Edamerica 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 Edamerica within sixty days of receipt.

In the event that records or other data submitted to Edamerica for processing are lost or damaged by

Edamerica, the liability of Edamerica 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.

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

### **Custody of Student Loan Documents**

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

### **Further Information Regarding Servicing Issues**

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

### **THE REMARKETING AGENT**

Under a Remarketing Agreement dated as of May 1, 1993, UBS PaineWebber Inc. has agreed to use its best efforts to remarket the Series 1993A Bonds tendered for purchase in accordance with the provisions of the Indenture and to perform the other duties of the Remarketing Agent and pursuant to the Indenture. The notice address of the Remarketing Agent is UBS PaineWebber Inc., 15<sup>th</sup> Floor, 1285 Avenue of the Americas, New York, New York 10019, Attention: Short-Term Desk (Telephone: 212-713-4692).

### **THE TRUSTEE AND TENDER AGENT**

The current Trustee and Tender Agent under the Indenture is Bank One, National Association. Its address is 420 Throckmorton Street, 3<sup>rd</sup> Floor, TX1-1306, Fort Worth, Texas 76102.

### **AMENDMENTS TO THE INDENTURE**

The Indenture has been amended by a Second Supplemental Indenture dated as of March 1, 2002, a Third Supplemental Indenture dated as of January 1, 2003, a Fourth Supplemental Indenture dated as of January 1, 2003, and an Amended and Restated First Supplemental Indenture dated as of April 1, 2003, all between the Authority and the Trustee. The following is a brief summary of certain amendments to the Indenture.

Mandatory Tender Dates for the Series 1993A Bonds are as follows: each Proposed Conversion Date, each Substitution Date (or such later date selected by the Authority which is at least five Business Days prior to the scheduled expiration date for the Credit Facility then in effect), the fifth Business Day prior to the scheduled expiration date for the Credit Facility then in effect, and on any date established by the Trustee no more than 18 days following its receipt of a Term-Out Notice from the Credit Provider.

Requirements pertaining to the redemption of Series 1993A Bonds have been amended. The Series 1993A

Bonds to be redeemed shall, except as otherwise described in the Official Statement, be selected by the Authority by any one of the following means: (i) By Class in Descending Priority, or (ii) pro rata among all Classes and pro rata as to maturities within a Class, or (iii) if neither clause (i) nor clause (ii) is followed, 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 the Student Loans credited to the Student Loan Fund and all cash and Investment Securities held in the Funds and Accounts (excluding amounts irrevocably set aside to pay particular Bonds), will not be less than each and all of the following sums, after giving effect to such redemption: (x) with respect to the Outstanding Class I and Class II Bonds, at least 107% of the aggregate principal amount of such Bonds then Outstanding, (y) with respect to the Outstanding Class I, Class II and Class III Bonds, at least 105% of the aggregate principal amount of such Bonds then Outstanding, and (z) with respect to all Outstanding Bonds, at least 102% of the aggregate principal amount of such Bonds then Outstanding. Series 1993 Bonds within any Class or maturity shall be selected by the Trustee in any manner as the Trustee shall deem fair and reasonable, in its sole discretion.

Money in the Revenue Fund may be used to pay Auction Agent and Broker-Dealer fees in connection with the regular auctions conducted for the Series 2002 Bonds and Series 2003 Bonds, which were issued as Auction Rate Certificates.

### **RATINGS**

Upon the remarketing of the Series 1993A Bonds and the issuance of the Letter of Credit by Lloyds TSB Bank plc, the Series 1993A Bonds will have been assigned the ratings of “Aaa/VMIG 1” by Moody’s Investors Service (“Moody’s”). The ratings assigned to the Series 1993A Bonds are based on the ratings assigned by Moody’s to the Letter of Credit issued by the Credit Provider. The rating of the Series 1993A 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 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.

### **SUPPLEMENT TO OFFICIAL STATEMENT**

The Official Statement is incorporated herein by reference, except the information contained in this Remarketing Supplement should be substituted for the information contained in the same captions in the Official Statement and the amendments to the Indenture should be given effect. This Remarketing Supplement should be read in conjunction with the Official Statement, copies of which may be obtained from the Remarketing Agent.

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## APPENDIX A

### DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

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

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the FFELP Loans. Generally, this Official Statement describes only the provisions of the Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. The following summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

#### **Federal Family Education Loans**

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

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

#### **Subsidized Stafford Loans**

The Higher Education Act provides for federal (a) insurance or reinsurance of eligible Subsidized Stafford Loans, (b) interest subsidy payments to eligible lenders with respect to certain eligible Subsidized Stafford Loans, and (c) special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education (the “Secretary”) to such holders of eligible Subsidized Stafford Loans.

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

Subject to these limits, Subsidized Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act. Provisions addressing the implementation

of need analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan Program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

### **Unsubsidized Stafford Loans**

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

### **PLUS Loan Program**

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

### **The Consolidation Loan Program**

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

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

### **Interest Rates**

Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.7%, with a maximum rate of 8.25%. The Higher Education Act currently provides that for Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, the interest rate will be equal to 6.8% per annum and for PLUS Loans made on or after July 1,

2006, the interest rate will be equal to 7.9% per annum. Subsidized Stafford Loans and Unsubsidized Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.3%, with a maximum rate of 8.25%. The rate is adjusted annually on July 1. PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.1%, with a maximum rate of 9%. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%. Consolidation Loan applications received on or after July 1, 2003 bear interest at a rate equal to the weighted average of the interest rates on the loans being consolidated, rounded upward to the nearest one-eighth of 1%.

### **Loan Limits**

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

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

### **Repayment**

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

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

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

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

repayment plan is established, the borrower may annually change the selection of the plan.

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

### **Interest Subsidy Payments**

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

### **Special Allowance Payments**

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

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

<b>Date of Loans</b>	<b>Annualized SAP Rate</b>
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% <sup>1</sup>
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8% <sup>2</sup>
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34% <sup>3</sup>

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

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

<sup>3</sup> 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:

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

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

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

### **Loan Fees**

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

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

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

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

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

### **Insurance and Guarantees**

A Federal Family Education Loan is considered to be in default for purposes of the Higher Education Act

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

## **Federal Insurance**

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

## **Guarantees**

If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the guarantor for a statutorily-set percentage (98%) of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary enters into a guarantee agreement and a reinsurance agreement (the "Guarantee Agreements") with each guarantor which provides for federal reimbursement for amounts paid to eligible lenders by the guarantor with respect to defaulted loans.

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

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

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

guarantor, minus any necessary liquidation or other administrative costs.

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

<b>Claims Rate</b>	<b>Guarantor Reinsurance Rate for Loans made prior to October 1, 1993</b>	<b>Guarantor Reinsurance Rate for Loans made between October 1, 1993 and September 30, 1998</b>	<b>Guarantor Reinsurance Rate for Loans made on or after October 1, 1998<sup>1</sup></b>
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

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

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

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

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

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

holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guarantor all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guarantor from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

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

### **Guarantor Reserves**

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

The Higher Education Act required the Secretary to recall \$1 billion in federal reserve funds from guarantors on September 1, 2002. Each guarantor was required to transfer its equitable share of the \$1 billion to a restricted account in equal annual installments for each of the five federal fiscal years 1998 through 2002 (or in certain cases over four federal fiscal years beginning in 1999). The guarantor's required reserve ratio has been reduced from 1.1% to .5%.

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

**APPENDIX B**  
**FINANCIAL STATEMENTS**

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

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

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

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## INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

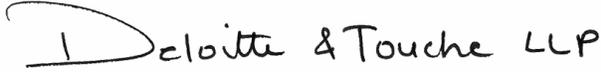
As discussed in Note 1, the Authority adopted Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, for the year ended August 31, 2002.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 13, 2002

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

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

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

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

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

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

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

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

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

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

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

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

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### **FINANCIAL POSITION**

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

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

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

### **OPERATING ACTIVITIES**

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

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

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF NET ASSETS AUGUST 31, 2002

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### ASSETS

#### CURRENT ASSETS:

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

Total current assets 155,538,404

#### LONG-TERM ASSETS:

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

Total long-term assets 665,948,202

TOTAL ASSETS \$ 821,486,606

### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS:

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

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

#### LONG-TERM LIABILITIES - PAYABLE FROM RESTRICTED ASSETS:

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

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

Total liabilities 725,613,014

#### NET ASSETS:

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

Total net assets 95,873,592

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

See notes to financial statements.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

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

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

See notes to financial statements.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2002

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### CASH FLOWS FROM OPERATING ACTIVITIES:

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

### CASH FLOWS FROM INVESTING ACTIVITIES:

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

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

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

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

(Continued)

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2002

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

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

See notes to financial statements.

(Concluded)

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2002

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2. CASH AND INVESTMENTS

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

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

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

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

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

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

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

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

### 3. STUDENT LOAN NOTES RECEIVABLE

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

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

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

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

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

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

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

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

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

A summary of current-year activity is as follows:

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

#### 4. BONDS PAYABLE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**5. LINES OF CREDIT**

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

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

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

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

**6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES**

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

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

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

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

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

## 7. COMMITMENTS

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

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

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

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

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

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

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

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

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

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

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

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

## 8. SEGMENT INFORMATION

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

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

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

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

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# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## OTHER SUPPLEMENTARY INFORMATION

### COMBINING SCHEDULE - STATEMENT OF NET ASSETS INFORMATION

AUGUST 31, 2002

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

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## OTHER SUPPLEMENTARY INFORMATION

### COMBINING SCHEDULE - STATEMENT OF NET ASSETS INFORMATION

AUGUST 31, 2002

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

(Concluded)

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## OTHER SUPPLEMENTARY INFORMATION

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

YEAR ENDED AUGUST 31, 2002

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

(Continued)

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## OTHER SUPPLEMENTARY INFORMATION

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

YEAR ENDED AUGUST 31, 2002

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

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