OFFICIAL STATEMENT

$463,200,000
Student Loan Backed Bonds, Series 2012-1
(Taxable LIBOR Floating Rate Bonds)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.
Issuer

The North Texas Higher Education Authority, Inc. (the "Issuer" or the "Authority"), a nonprofit corporation created and established pursuant to and existing under the laws of the State of Texas, is issuing $463,200,000 aggregate principal amount of its Student Loan Backed Bonds, Series 2012-1 (Taxable LIBOR Floating Rate Bonds) (the "Bonds") described below pursuant to the provisions of an Indenture of Trust, dated as of July 1, 2012 (the "Indenture"), between the Issuer and BOKF, NA dba Bank of Texas, as trustee (the "Trustee"):

Original Principal Amount	Interest Rate	Offering Price	Stated Maturity Date	Expected Ratings S&P/Fitch[1]
$463,200,000	1 Month LIBOR + 1.00% per annum	99.748%	12/1/2034	AA+(sf)/AAAsf

[1] See the caption "RATINGS" herein.

Credit enhancement for the Bonds will include overcollateralization and cash on deposit in the Reserve Fund and the Collection Fund.

Bondholders will receive accrued interest and monthly distributions of principal on the first day of each calendar month (or if such day is not a Business Day as defined herein, the immediately succeeding Business Day), commencing November 1, 2012.

Investors should consider carefully the "RISK FACTORS" beginning on page 12 of this Official Statement.

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE DESCRIBED HEREIN AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF TEXAS, THE CITY OF ARLINGTON, TEXAS, THE CITY OF DENTON, TEXAS, OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF TEXAS, THE CITY OF ARLINGTON, TEXAS, THE CITY OF DENTON, TEXAS OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF. THE ISSUER HAS NO TAXING POWER.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions set forth in such acts. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is unlawful.

The Bonds are being offered through the Underwriter named below, subject to prior sale and to the right of the Issuer or the Underwriter to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Bonds will be made in book-entry-only form through The Depository Trust Company on or about July 24, 2012.

BofA Merrill Lynch

July 18, 2012

This Official Statement (this "Official Statement") does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Underwriter to subscribe for or purchase, any of the Bonds in any circumstances or in any state or other jurisdiction where such offer or invitation is unlawful. This Official Statement has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds described herein.

No dealer, broker, salesman or other person has been authorized by the Issuer or the Underwriter to give any information or to make any representations other than those contained in this Official Statement that may be approved by the Issuer. If given or made, such information or representations must not be relied upon as having been authorized by the Issuer or the Underwriter. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has not been any change in the facts set forth in this Official Statement or in the affairs of any party described herein since the date hereof.

In making an investment decision, prospective investors must rely on their own independent investigation of the terms of the offering and weigh the merits and the risks involved with ownership of the Bonds.

Prospective investors are not to construe the contents of this Official Statement, or any prior or subsequent communications from the Issuer or the Underwriter or any of their officers, employees or agents as investment, legal, accounting, regulatory or tax advice. Prior to any investment in the Bonds, a prospective investor should consult with its own advisors to determine the appropriateness and consequences of such an investment in relation to that investor's specific circumstances.

The Underwriter has provided the following sentence for inclusion within this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

There currently is no secondary market for the Bonds. There are no assurances that any market will develop or, if it does develop, how long it will last. The Issuer does not intend to list the Bonds on any exchange, including any exchange in either Europe or the United States.

The Bonds are being offered subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to the approval of certain legal matters by counsel and certain other conditions. No Bonds may be sold without delivery of this Official Statement.

In connection with the offering, the Underwriter may over allot or effect transactions with a view to supporting the market price of the Bonds at levels above that which might otherwise prevail in the open market for a limited period. However, there is no obligation to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

FOR NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER NEW HAMPSHIRE REVISED STATUTE ANNOTATED, CHAPTER 421 B ("RSA 421 B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED TO OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

IRS CIRCULAR 230 NOTICE

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, THE BONDHOLDERS ARE HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY BONDHOLDER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH BONDHOLDER UNDER THE CODE; (II) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE BONDS OR MATTERS ADDRESSED IN THIS OFFICIAL STATEMENT; AND (III) BONDHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Official Statement contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential," and the negative of such terms or other similar expressions.

The forward-looking statements reflect the Issuer's current expectations and views about future events. The forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Issuer's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on the forward-looking statements.

You should understand that the following factors, among other things, could cause the Issuer's results to differ materially from those expressed in forward-looking statements:

- changes in terms of Pledged Eligible Loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in these laws and regulations that may reduce the volume, average term, costs and yields on education loans under the Federal Family Education Loan Program;
- changes resulting from the termination of the Federal Family Education Loan Program effective June 30, 2010;
- changes in the general interest rate environment and in the securitization market for student loans, which may increase the costs or limit the marketability of financings;
- losses from student loan defaults; and
- changes in prepayment rates and credit spreads.

Many of these risks and uncertainties are discussed in greater detail under the heading "RISK FACTORS."

You should read this Official Statement and the documents that are referenced in this Official Statement completely and with the understanding that the Issuer's actual future results may be materially different from what the Issuer expects. The Issuer may not update the forward-looking statements, even though the Issuer's situation may change in the future, unless the Issuer has obligations under the federal securities laws to update and disclose material developments related to previously disclosed information. All of the forward-looking statements are qualified by these cautionary statements.

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SUMMARY OF TERMS

The following summary is a general overview of the terms of the Bonds and does not contain all of the information that you need to consider in making your investment decision.

Before deciding to purchase the Bonds, you should consider the more detailed information appearing elsewhere in this Official Statement.

References in this Official Statement to the "Issuer" refer to North Texas Higher Education Authority, Inc. This Official Statement contains forward looking statements that involve risks and uncertainties. See "SPECIAL NOTE REGARDING FORWARD–LOOKING STATEMENTS" in this Official Statement. Certain terms used in this Official Statement are defined in "GLOSSARY OF TERMS" herein.

Principal Parties and Dates

Issuer

- North Texas Higher Education Authority, Inc.

Administrator

- Higher Education Servicing Corporation

Servicers

Higher Education Servicing Corporation ("HESC") directly services approximately 16.01% of the Pledged Eligible Loans described in this Official Statement but acts as Master Servicer with respect to all Pledged Eligible Loans described under the caption "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS" herein. Approximately 77.45% of the Pledged Eligible Loans are serviced by Edfinancial Services, LLC ("Edfinancial"), as subservicer and 6.54% of the Pledged Eligible Loans are serviced by Nelnet Servicing, LLC ("Nelnet"), as subservicer. HESC, Nelnet and Edfinancial are collectively termed the "Servicers" herein.

Guaranty Agency

- Texas Guaranteed Student Loan Corporation

Eligible Lender Trustee

- BOKF, NA dba Bank of Texas

Trustee

- BOKF, NA dba Bank of Texas

Backup Servicer for HESC and Edfinancial

- Pennsylvania Higher Education Assistance Agency

Collection Periods

The initial Collection Period will begin on the date of issuance and end on September 30, 2012 (for the initial monthly distribution date of November 1, 2012). Each subsequent Collection Period will be the month immediately following the preceding Collection Period.

Monthly Distribution Dates

The Monthly Distribution Dates will be the first day of each calendar month or, if such day is not a Business Day, the immediately succeeding Business Day, as described in this Official Statement, beginning November 1, 2012. The Determination Date for each Monthly Distribution Date will be the second Business Day preceding such Monthly Distribution Date.

As described herein, moneys in the Collection Fund will be used for the purposes and in the priorities described herein on each Monthly Distribution Date. Distributions of principal and interest will be made with respect to the Bonds on Monthly Distribution Dates.

Certain fees and other amounts may be paid on dates other than the Monthly Distribution Dates.

Cut-off Dates

The cut-off date for the Eligible Loan portfolio to be pledged by the Issuer to the Trustee on the date of issuance is the date of issuance. The Eligible Loans pledged by the Issuer to the Trustee under the Indenture and not released from the lien thereof or sold or transferred, to the extent permitted by the Indenture, are sometimes referred to herein as the "Pledged Eligible Loans."

The information presented in this Official Statement under "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS" relating to the Eligible Loans the Issuer expects to pledge to the Trustee on or about the date of issuance is as of May 31, 2012, which is referred to as the "statistical cut-off date." The Issuer believes that the information set forth in this Official Statement with respect to the Eligible Loans as of the statistical cut-off date is representative of the characteristics of the Eligible Loans as they will exist on the date of issuance for the Bonds.

Date of Issuance

The date of issuance for this offering is expected to be on or about July 24, 2012.

Description of the Bonds

General

The North Texas Higher Education Authority, Inc. is issuing $463,200,000 of its Student Loan Backed Bonds, Series 2012-1 (Taxable LIBOR Floating Rate Bonds) (the "Bonds") pursuant to the terms and provisions of an Indenture of Trust dated as of July 1, 2012 (the "Indenture") between the Issuer and the Trustee. The Bonds will be the only bonds issued under the Indenture and no other bonds will be issued under the Indenture on and after the date of issuance of the Bonds.

All of the Bonds issued under the Indenture are special, limited obligations of the Issuer payable solely from the trust estate pledged therefor under the Indenture and will be issued pursuant to the Indenture. The Bonds will be payable primarily from collections on a pool of Eligible Loans held by the Issuer and pledged to the Trustee under the Indenture.

The Bonds will be issued in minimum denominations of $100,000 and in integral multiples of $1,000 in excess thereof. Interest and principal on the Bonds will be payable to the record owners of the Bonds as of the close of business on the day before the related Monthly Distribution Date.

The Issuer may elect to issue more classes of the Bonds than as described herein. The actual principal amount and other characteristics of the classes of Bonds will be described in the final Official Statement for the Bonds and may also be described in a term sheet or supplement to this Official Statement.

Interest on the Bonds

The initial Interest Accrual Period for the Bonds begins on the date of issuance and ends on October 31, 2012 (the day preceding the November 1, 2012 Monthly Distribution Date). For each following Monthly Distribution Date, the Interest Accrual Period will begin on the prior Monthly Distribution Date and end on the day before such Monthly Distribution Date.

The Bonds will bear interest at the following rate but not in excess of the Maximum Rate:

- the Bonds will bear interest, except for the initial interest accrual period, at an annual rate equal to One-Month LIBOR plus 1.00%.

The Trustee will calculate the rate of interest on the Bonds on the second Business Day prior to the start of the applicable Interest Accrual Period. Interest on the Bonds will be calculated on the basis of the actual number of days elapsed during the Interest Accrual Period divided by 360 and rounding the resultant figure to the fifth decimal place.

The interest rate for the Bonds for the initial Interest Accrual Period will be calculated by reference to the following formula:

> x + [(a / b * (y-x)] plus 1.00%, as calculated by the Trustee,
> where:
>
> x = Three-Month LIBOR;
>
> y = Four-Month LIBOR;
>
> a = 8 (the actual number of days from the maturity date of Three-Month LIBOR to the first Monthly Distribution Date); and
>
> b = 33 (the actual number of days from the maturity date of Three-Month LIBOR to the maturity date of Four-Month LIBOR).

Interest accrued on the outstanding principal balance of the Bonds during each Interest Accrual Period will be paid on the following Monthly Distribution Date to the Bondholders of the Bonds.

The Maximum Rate is a Net Effective Interest Rate (as determined by applicable Texas law) equal to 15% per annum.

Principal Distributions

Principal distributions generally will be allocated to the Bonds on each Monthly Distribution Date from funds available to pay principal as described below in "—Flow of Funds." All distributions of principal on the Bonds through DTC will be treated by DTC in accordance with its rules and procedures, as "Pro Rata Pass Through Distribution of Principal."

Principal distributions as described below will be allocated to the Bonds until paid in full.

Subject to having sufficient funds for distribution, principal distributions generally will be allocated to the Bonds on each Monthly Distribution Date in an amount equal to the Principal Distribution Amount for that Monthly Distribution Date plus any amount available for accelerated payment of principal, as described below in "—Flow of Funds."

The term "Principal Distribution Amount" with respect to the Bonds means:

- for the November 2012 Monthly Distribution Date, the amount, if any, by which the Adjusted Pool Balance as of the last day of the Collection Period on September 30, 2012 has decreased from the Adjusted Pool Balance on the Date of Issuance;
- for each Monthly Distribution Date thereafter, the amount, if any, by which (a) the Adjusted Pool Balance at the end of the related Collection Period has decreased from (b) the Adjusted Pool Balance at the end of the Collection Period ending one month prior to the related Collection Period; and
- on the final maturity date for the Bonds, the amount necessary to reduce the aggregate principal balance of such Bonds to zero.

"*Adjusted Pool Balance*" means, with respect to any Monthly Distribution Date, the sum of the Pool Balance and amounts on deposit in the Reserve Fund and, with respect to date of issuance, the sum of the Initial Pool Balance and amounts on deposit in the Reserve Fund. "*Pool Balance*" for any date means the aggregate principal balance of the Pledged Eligible Loans on that date, including accrued interest that is expected to be capitalized, after giving effect to the following, without duplication:

- all payments received by the Issuer through that date from borrowers;
- all amounts received by the Issuer through that date from purchases of

Pledged Eligible Loans released from the lien of the Indenture;

- all liquidation proceeds and realized losses on the Pledged Eligible Loans through that date;

- the amount of any adjustment to balances of the Pledged Eligible Loans that a Servicer makes (under its servicing agreement) through that date; and

- the amount by which guaranty agency reimbursements of unpaid principal on defaulted Pledged Eligible Loans through that date are reduced from 100% to 97%, or other applicable percentage, as required by the risk sharing provisions of the Higher Education Act of 1965 (as supplemented and amended, the "Higher Education Act").

The Indenture also provides that in addition to the Principal Distribution Amount, additional amounts of principal shall be paid on Monthly Distribution Dates to the extent of funds available in the Collection Fund after payment of all other amounts required to be paid therefrom on a Monthly Distribution Date, until the Bonds are paid in full.

See "DESCRIPTION OF THE BONDS—Principal Distributions" in this Official Statement.

Final Maturity

The Monthly Distribution Date on which the Bonds are due and payable in full is as follows:

Final Maturity Date
12/1/2034

The payment in full of the Bonds is expected to occur earlier to the extent that:

- there are significant prepayments on the Pledged Eligible Loans; or

- the Issuer exercises its option to pay the Purchase Amount for all of the Pledged Eligible Loans remaining in the trust estate (which will not occur until a date when the Pool Balance is equal to or less than 10% of the Initial Pool Balance).

The final principal due on the Bonds shall be payable only upon presentation and surrender of such Bonds.

Description of the Issuer and the Trust Estate

General

The Issuer is a nonprofit corporation acting on behalf of the Cities of Arlington, Texas and Denton, Texas and is organized pursuant to the laws of the State of Texas. See "NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC."

As described under "USE OF PROCEEDS," moneys released from the trust estates of the Amended and Restated 1998 Indenture of Trust dated as of April 1, 2007 (the "Restated 1998 Indenture") and the Amended and Restated 2001 Indenture of Trust dated as of December 1, 2010 (the "Restated 2001 Indenture") will be used to make the initial deposits to the Reserve Fund and the Collection Fund established under the Indenture, and proceeds from the sale of the Bonds will be used to refund obligations of the Issuer currently outstanding under the Restated 1998 Indenture and the Restated 2001 Indenture (described under "USE OF PROCEEDS") and to pay costs of issuing the Bonds. Eligible Loans will be released from the Restated 1998 Indenture and the Restated 2001 Indenture on the date of issuance of the Bonds and will be pledged to the Trustee under the Indenture, becoming subject to the lien of the Indenture.

The only sources of funds for payment of the Bonds issued under the Indenture are the Pledged Eligible Loans and investments pledged to the Trustee under the Indenture and the payments the Issuer receives on those Pledged Eligible Loans and investments. After the issuance of the Bonds and the application of the proceeds thereof; the deposit of the moneys released from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture to the Reserve Fund and the Collection Fund; the pledge of the Eligible Loans released from the Restated 1998 Indenture and the Restated 2001 Indenture to the Trustee on the date of issuance; and the payment of the costs of issuance of the Bonds (all as described under "USE OF PROCEEDS" herein), the ratio of the total assets held under the Indenture, including accrued interest on the Pledged Eligible Loans, to the principal amount of the Bonds on the date of issuance will be approximately 104.01%.

The Trust Estate Assets

The assets of the trust estate securing the Bonds issued under the Indenture will be a discrete trust estate that will include:

- the Eligible Loans originated under the Federal Family Education Loan Program ("FFELP" or "FFEL Program") pledged to the Trustee;
- collections and other payments received on account of the Pledged Eligible Loans; and
- money and investments held in funds created under the Indenture, including the Cost of Issuance Fund, the Collection Fund, the Department Rebate Fund, and the Reserve Fund.

All of the Eligible Loans pledged to the Trustee under the Indenture are, as of the time of such pledge, guaranteed by a guaranty agency and reinsured by the U.S. Department of Education (sometimes referred to herein as the "Department of Education"). See "THE ISSUER'S FFEL PROGRAM—The Guaranty Agency" in this Official Statement.

Except under limited circumstances set forth in the Indenture, Pledged Eligible Loans may not be transferred out of the trust estate. For example, in limited circumstances described herein, the Issuer or a Servicer may be required to purchase a Pledged Eligible Loan out of the trust estate or replace such Pledged Eligible Loan. In addition, if necessary for administrative purposes, the Issuer may sell Pledged Eligible Loans free from the lien of the Indenture, so long as the sale price for any Pledged Eligible Loan is not less than the Purchase Amount for such Pledged Eligible Loan and the collective aggregate principal balance of all such sales does not exceed 5.00% of the Initial Pool Balance and the collective aggregate principal balance of all such sales in any calendar year does not exceed 1.00% of the Pool Balance as of January 1 of such calendar year (or as of the date of issuance with respect to the first calendar year). See "SUMMARY OF THE INDENTURE PROVISIONS—Sale of Pledged Eligible Loans."

The Issuer will also pledge to the Trustee all of the rights and remedies that it has under any agreement pursuant to which a Pledged Eligible Loan was acquired by the Issuer and any rights and remedies under any servicing agreement with a third-party relating to the Pledged Eligible Loans.

Pledged Eligible Loans

The FFELP loans described under "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS" herein are expected to be pledged to the Trustee on or about the date of issuance.

The Collection Fund

As described under "USE OF PROCEEDS" herein, a portion of the cash released from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture will be deposited to the Collection Fund on the date of issuance. The Trustee will also deposit into the Collection Fund, upon receipt, all revenues derived from Pledged Eligible Loans and money or investments of the Issuer on deposit with the Trustee, amounts received under any joint sharing agreement and all amounts transferred from the Cost of Issuance Fund, the Department Rebate Fund and the Reserve Fund. Money on deposit in the Collection Fund will be used to make any required payments under any applicable joint sharing agreement, and to pay the Issuer's operating expenses (which include amounts owed to the U.S. Department of Education and the guaranty agencies, amounts due under any joint sharing agreement, administration fees, servicing fees, subordinate administration fees, carryover administration and servicing fees and trustee fees), interest on the Bonds and principal on the Bonds. See the caption "—Flow of Funds" below and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds."

The Reserve Fund

As described under "USE OF PROCEEDS" herein, a portion of the moneys released from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture will be deposited to the Reserve Fund on the date of issuance in an amount equal to approximately 0.25% of the initial aggregate principal amount of the Bonds on the date of issuance. The Reserve Fund is to be maintained at an amount equal to the greater of 0.25% of the aggregate principal amount of the outstanding Bonds as of the end of the immediately preceding Monthly Distribution Date, or $694,800. On any Monthly Distribution Date or other payment date, to the extent that money in the Collection Fund is not sufficient to pay amounts owed to the U.S. Department of Education, to the guaranty agencies or under any applicable joint sharing agreement; administration fees; servicing fees; trustee fees; and the interest then due on the Bonds, then an amount equal to the deficiency will be transferred from the Reserve Fund to the Collection Fund. If on August 1, 2012, September 4, 2012 or October 1, 2012, there are insufficient moneys on deposit in the Collection Fund to pay any of the amounts specified in the last paragraph under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds" in this Official Statement, amounts on deposit in the Reserve Fund on such August 1, 2012, September 4, 2012 or October 1, 2012, as applicable, will be withdrawn by the Trustee and deposited in the Collection Fund to cover such shortfalls therein, to the extent of funds on deposit therein, and will be allocated in the same order of priority as shown under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds" in this Official Statement. To the extent the amount in the Reserve Fund falls below the specified Reserve Fund balance, the Reserve Fund will be replenished on each Monthly Distribution Date from funds available in the Collection Fund as described under the caption "—Flow of Funds" below and under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds." Funds on deposit in the Reserve Fund in excess of the specified Reserve Fund balance will be transferred to the Collection Fund and will be applied as described under the caption "—Flow of Funds" below and under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds." Other than such excess amounts, principal payments due on the Bonds will be made from the Reserve Fund only (a) on any final maturity date for the Bonds or (b) on any Monthly Distribution Date when the market value of securities and cash in the Reserve Fund is sufficient to pay the remaining principal amount of and accrued interest on the Bonds.

Cost of Issuance Fund

A portion of the proceeds of the Bonds will be deposited to the Cost of Issuance Fund on the date of issuance and will be used to pay the costs of issuance of the Bonds. If for any reason, any funds remain in the Cost of Issuance Fund, such funds will be transferred to the Collection Fund on December 1, 2012.

Department Rebate Fund

The Trustee will establish a Department Rebate Fund as part of the trust estate. The Higher Education Act requires holders of student loans first disbursed on or after April 1, 2006 and before July 1, 2010 to rebate to the Department of Education interest received from borrowers on such loans that exceed the applicable special allowance support levels. The Issuer expects that the Department of Education will reduce the special allowance and interest benefit payments payable to the Issuer by the amount of any such rebates owed by the Issuer. However, in certain circumstances, the Issuer may owe a payment to the Department of Education. Each month, the Trustee will transfer moneys from the Collection Fund to the Department Rebate Fund in an amount, if any, needed to equal such expected Department Rebate Interest Amount as described in clause second under "—Flow of Funds" herein. Money in the Department Rebate Fund will be transferred to the Collection Fund to the extent amounts have been deducted by the Department of Education from payments otherwise due to the Issuer or the balance in the Department Rebate Fund exceeds the expected rebate obligation, or will be paid to the Department of Education if necessary to discharge the Issuer's rebate obligation. See "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM."

Characteristics of the Pledged Eligible Loan Portfolio

On the date of issuance, the Issuer will pledge to the Trustee under the Indenture a portfolio of Eligible Loans originated under the FFELP having, as of the statistical cut-off date, an aggregate outstanding principal balance of approximately $472,084,461 (which does not include total accrued interest of approximately $8,343,514 of which approximately $5,779,506 of such total accrued interest is expected to be capitalized). As of the statistical cut-off date, the weighted average annual interest rate of the Eligible Loans to be pledged to the Trustee on the date of issuance (excluding special allowance payments) was approximately 5.04% and their weighted average remaining term to scheduled maturity was approximately 146[**] months. All of the Eligible Loans are expected to be pledged to the Trustee on the date of issuance. The portfolio of Eligible Loans expected to be pledged by the Issuer to the Trustee on the date of issuance is described more fully below under "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS."

[**] Weighted average includes any current deferred or forbearance periods.

Joint Sharing Agreement

A joint sharing agreement among the Issuer, the Eligible Lender Trustee, BOKF, NA dba Bank of Texas, as trustee under certain other indentures of trust of the Issuer and BOKF, NA dba Bank of Texas, as trustee under the Indenture has been entered into for purposes of allocating payments from, and liabilities to, the U.S. Department of Education on student loans among the trust estate established by the Issuer under the Indenture and other trust estates established by the Issuer under the other indentures of trust.

Flow of Funds

Servicing fees and expenses and administration fees and expenses (other than those paid on a subordinate basis) may be paid to the Administrator (initially the Higher Education Servicing Corporation) on August 1, 2012, September 4, 2012, October 1, 2012 and each Monthly Distribution Date from money available in the Collection Fund. The amount of the servicing fee and administration fee payable in clauses 4th and 5th below is specified under the caption "FEES AND EXPENSES" hereunder. The Administrator will be responsible for paying when due any fees or expenses owed to the Servicers. Money available in the Collection Fund will also be used on any date to pay: (i) amounts due to the U.S. Department of Education, any guaranty agency, or the trustee under another trust indenture if required pursuant to the joint sharing agreement; and (ii) amounts needed to repurchase Eligible Loans. On each Monthly Distribution Date, prior to an event of default, money in the Collection Fund will be used to make the following deposits and distributions, to the extent funds are available, as set forth in the following chart:

COLLECTION FUND

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1st To make any payments required under any applicable joint sharing agreement or which represent amounts on deposit in the Collection Fund that are not allocable to the Pledged Eligible Loans

↓

2nd To deposit to the Department Rebate Fund the amount needed to equal the expected Department Rebate Interest Amount

↓

3rd Trustee
(Trustee fees due on such Monthly Distribution Date and any prior unpaid trustee fees with the first payment no earlier than July 1, 2013)

↓

4th Administrator (initially the Higher Education Servicing Corporation)
(Servicing fees for the related Collection Period and any prior unpaid servicing fees)

↓

5th Administrator (initially the Higher Education Servicing Corporation)
(Administration fees and for the related Collection Period and any prior unpaid administration fees)

↓

6th Bondholders
(Interest on the Bonds)

↓

7th Bondholders
(Principal payments in an amount equal to the lesser of the Principal Distribution Amount or the remaining funds in the Collection Fund to the Bondholders until the Bonds are paid in full)

↓

8th Reserve Fund
(Amounts necessary to restore the Reserve Fund to the specified Reserve Fund balance)

↓

9th Administrator (initially the Higher Education Servicing Corporation)
(Carryover administration and servicing fees in an amount not to exceed $40,000 per year, with the first payment no earlier than July 1, 2013)

↓

10th Administrator (initially the Higher Education Servicing Corporation)
(A subordinate administration fee for the related Collection Period
paid to the Administrator monthly on a subordinate basis subject to a limitation on Parity Ratio)

↓

11th Bondholders
(Accelerated payments of principal to the Bondholders until the Bonds are paid in full)

On August 1, 2012, September 4, 2012 and October 1, 2012, except when an Event of Default has occurred that results in an acceleration of the maturity of the Bonds, amounts on deposit in the Collection Fund as of the date of issuance of the Bonds, the last day of the month in July 2012 and the last day of the month in August 2012, respectively, (including any amounts transferred from the Reserve Fund) will be used to make the deposits and distributions specified in the first through fifth priorities shown in the chart above. If the amount on deposit in the Collection Fund is insufficient to pay any of these amounts, amounts on deposit in the Reserve Fund will be withdrawn by the Trustee and deposited to the Collection Fund to cover such shortfalls, to the extent of funds on deposit therein as shown under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds."

Credit Enhancement

Credit enhancement for the Bonds will include overcollateralization and cash on deposit in the Reserve Fund and Collection Fund as described below under "CREDIT ENHANCEMENT." After the issuance of the Bonds and the application of the proceeds thereof; the deposit of the moneys released from the Restated 1998 Indenture and the Restated 2001 Indenture to the Collection Fund and the Reserve Fund; the pledge of the Eligible Loans expected to be made to the Trustee on the date of issuance; and the payment of the costs of issuance, all as described under "USE OF PROCEEDS," the ratio of the total assets held under the Indenture, including accrued interest on the Pledged Eligible Loans, to the principal amount of the Bonds on the date of issuance will be approximately 104.01%.

Servicing and Administration

The Higher Education Servicing Corporation ("HESC" and, in such capacity, the "Master Servicer") has been engaged by the Issuer to oversee the servicing of all of the Pledged Eligible Loans pursuant to an existing servicing agreement between HESC, as Servicer, the Trustee, and the Issuer. HESC (in such capacity, a "Servicer") will assume responsibility under its servicing agreement for directly servicing and making collections on certain of the Pledged Eligible Loans, and it has subcontracted with Edfinancial (in such capacity, a "Servicer") and Nelnet Servicing, LLC (in such capacity, also a "Servicer") to directly service and make collections on substantially all the remaining Pledged Eligible Loans.

The Pennsylvania Higher Education Assistance Agency ("PHEAA") will act as a backup servicer (the "Backup Servicer") and, in such role, will also act as successor Servicer with respect to the Pledged Eligible Loans directly serviced by HESC and Pledged Eligible Loans subserviced by Edfinancial, upon the occurrence of certain events described herein under "SERVICING OF THE PLEDGED ELIGIBLE LOANS—Backup Servicer and Backup Servicing Agreements."

The Administrator (initially the Higher Education Servicing Corporation) will be paid an administration fee for performing the administrative duties under the Indenture and a servicing fee for all of the Pledged Eligible Loans as set forth under "FEES AND EXPENSES." Each of the administration fee and the servicing fee may be paid to the Administrator monthly; to the extent such fees remain unpaid following a monthly payment date, such fees will be paid on the succeeding Monthly Distribution Date as described in the fourth and fifth bullet points under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds" herein. The Administrator will be responsible for paying when due any fees or expenses owed to the Servicers. The Administrator will also receive the subordinate administration fee and the carryover administration and servicing fees, if any, in the amounts and subject to the conditions set forth herein.

Optional Purchase

The Issuer may, but is not required to, purchase the remaining Pledged Eligible Loans in the trust estate ten Business Days prior to any Monthly Distribution Date when the Pool Balance is equal to or less than 10% of the Initial Pool Balance. If this purchase option is exercised, the Pledged Eligible Loans will be released from the lien of the Indenture and the proceeds will be used on the corresponding Monthly Distribution Date to repay all outstanding Bonds, which will result in early retirement of the Bonds.

If the Issuer exercises its purchase option, the purchase price is subject to a prescribed minimum. The prescribed minimum purchase price is the amount that, when combined with amounts on deposit in the funds and accounts held under the Indenture, would be sufficient to:

- reduce the outstanding principal amount of the Bonds then outstanding on the next Monthly Distribution Date to zero;
- pay to the Bondholders of the Bonds the interest payable on the next Monthly Distribution Date; and
- pay any unpaid administration fees and expenses, servicing fees and expenses, trustee fees and expenses, subordinate administration fees, and carryover administration and servicing fees.

Book-Entry Registration

The Bonds will be delivered in book-entry form through The Depository Trust Company. You will not receive a certificate representing your Bonds except in very limited circumstances. See "BOOK-ENTRY REGISTRATION."

Tax Matters

Fulbright & Jaworski L.L.P., Bond Counsel, will deliver an opinion that, for federal income tax purposes, the Bonds will be treated as the Issuer's indebtedness and that the trust created under the Indenture will not be characterized as creating an association or publicly traded partnership taxable as a corporation each for federal tax purposes. Bondholders of the Bonds will be required to include in their income the interest on the Bonds as paid or accrued in accordance with their respective accounting methods and the provisions of the Internal Revenue Code. See "TAX MATTERS."

ERISA Considerations

Fiduciaries of employee benefit plans, retirement arrangements and other entities in which such plans or arrangements are invested ("Plans"), persons acting on behalf of Plans or persons using the assets of Plans should review carefully with their legal advisors whether the purchase and holding of the Bonds could give rise to a transaction prohibited under ERISA or the Internal Revenue Code. See "ERISA CONSIDERATIONS."

Rating of the Bonds

The Bonds are expected to be rated as follows:

Rating Agency
(S&P/Fitch)

"AA+(sf)"/"AAAsf"

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "RATINGS."

CUSIP Number

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Reports to Bondholders

The Issuer will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") for the benefit of the bondholders of the Bonds and in order to assist the Underwriter participating in the sale of the Bonds in complying with Rule 15c2-12 promulgated by the U.S. Securities and

Exchange Commission. See "CONTINUING DISCLOSURE."

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RISK FACTORS

Potential investors in the Bonds should consider the following risk factors together with all other information in this Official Statement in deciding whether to purchase the Bonds. The following discussion of possible risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Additional risk factors relating to an investment in the Bonds are described throughout this Official Statement, whether or not specifically designated as risk factors. There can be no assurance that other risk factors will not become material in the future.

The Bonds are a long-term investment but based upon a LIBOR short-term index plus a spread

The interest rates on the Bonds are based on One-Month LIBOR plus a fixed spread, as described herein. As a result, the interest rates on the Bonds are based on a short-term interest rate that is recalculated monthly on each LIBOR determination date, as described herein, plus a fixed spread. See "DESCRIPTION OF THE BONDS—Interest Payments" herein for more information on how interest payments on the Bonds are calculated. Such interest rates on the Bonds may fluctuate significantly over the life of the Bonds. The Bonds, however, are a long-term investment in that there is currently no secondary market for the Bonds and they are not subject to any optional tender or liquidity devices. Furthermore, there are no assurances that any market will develop or, if it does develop, how long it will last as described below.

You may have difficulty selling your Bonds

There currently is no secondary market for the Bonds. There is no assurance that any market will develop or, if it does develop, that it will continue or will provide investors with a sufficient level of liquidity of investment. If a secondary market for the Bonds does develop, the spread between the bid price and the asked price for the Bonds may widen, thereby reducing the net proceeds to you from the sale of your Bonds. The Issuer does not intend to list the Bonds on any exchange, including any exchange in either Europe or the United States. Under current market conditions, you may not be able to sell your Bonds when you want to do so (you may be required to bear the financial risks of an investment in the Bonds for an indefinite period of time) or you may not be able to obtain the price that you wish to receive. The market values of the Bonds may fluctuate and movements in price may be significant.

The Bonds are not a suitable investment for all investors

The Bonds are not a suitable investment if you require a regular or predictable schedule of payments or payment on any specific date. The Bonds are complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of an investment, and the interaction of these factors.

The Bonds are payable solely from the trust estate and you will have no other recourse against the Issuer

Interest and principal on the Bonds will be paid solely from the funds and assets held in the discrete trust estate created under the Indenture. Except for any substitutions of Pledged Eligible Loans required to be made by the Issuer as described under "THE PLEDGED ELIGIBLE LOANS," the only Pledged Eligible Loans to be pledged to the Trustee are those to be pledged on the date of issuance of the Bonds, and there will be no subsequent acquisitions of or recycling of Pledged Eligible Loans into the trust estate. No insurance or guarantee of the Bonds will be provided by any government agency or instrumentality, by any insurance company or by any other person or entity. Therefore, your receipt of payments on the Bonds will depend solely on:

- the amount and timing of payments and collections on the Pledged Eligible Loans and interest paid or earnings on the funds held in the accounts established pursuant to the Indenture;

- amounts on deposit in the Collection Fund, the Reserve Fund and other funds and accounts held in the trust estate; and

- the overcollateralization amount (the amount by which the total assets held under the Indenture is expected to exceed the outstanding principal amount of the Bonds and accrued interest thereon then outstanding).

You will have no recourse against any party if the trust estate is insufficient for repayment of the Bonds.

The State of Texas, the City of Arlington, Texas and the City of Denton, Texas are <u>not</u> liable with respect to Bonds

The Bonds are special, limited obligations of the Issuer payable solely from the trust estate described herein and do not constitute a debt, liability or obligation of the State, the City of Arlington, Texas, the City of Denton, Texas, or of any agency or political subdivision thereof or a pledge of the faith and credit of the State, the City of Arlington, Texas, the City of Denton, Texas or of any agency or political subdivision thereof. The Issuer has no taxing power.

No subordinate bonds will be issued and, therefore, the bonds will bear all losses not covered by available credit enhancement

Credit enhancement for the Bonds includes overcollateralization and cash on deposit in the Reserve Fund and the Collection Fund. The Issuer is not issuing any bonds that are subordinate to the Bonds. Therefore, to the extent that the credit enhancement described above is exhausted, the bonds will bear any risk of loss.

Funds available in the Reserve Fund are limited and, if depleted, there may be shortfalls in payments to Bondholders

The Reserve Fund will be funded on the date of issuance. Amounts on deposit in the Reserve Fund will be replenished to the extent of available funds so that the amount on deposit in the Reserve Fund will be maintained at the specified Reserve Fund balance. Funds may be transferred out of the Reserve Fund from time to time as described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." In the event that the funds on deposit in the Reserve Fund are exhausted and there are insufficient available funds in the Collection Fund, the Bonds will bear any risk of loss.

New Rules Could Adversely Affect the Asset-Backed Securities Market

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (as may be amended from time to time, the "Dodd-Frank Act") to reform and strengthen supervision of the U.S. financial services industry. The Dodd-Frank Act requires the creation of new federal regulatory agencies and grants additional authorities and responsibilities to existing regulatory agencies in order to identify and address emerging systemic risks posed by the activities of financial services firms. The Dodd-Frank Act also provides for enhanced regulation of derivatives, restrictions on executive compensation and enhanced oversight of credit rating agencies.

The Dodd-Frank Act will result in comprehensive changes to the regulation of most financial institutions operating in the United States. It will also foster new regulation in the business and the markets in which the Issuer operates. Specifically, significant new regulation is anticipated in many areas of consumer financial products and services and in particular private education loans. Under the Dodd-Frank Act, entities such as the Issuer will be subject to regulations developed by a new agency designed to regulate federal consumer financial protection laws, the Consumer Financial Protection Bureau (the "CFPB"). The CFPB is an independent agency housed within the Federal Reserve Board but not subject to Federal Reserve Board jurisdiction or to the Congressional appropriations process. It will have substantial power to regulate financial products and services received by consumers from both banks and non-bank lenders. The CFPB will be developing rules in enumerated areas of federal law traditionally applicable to consumer lending such as Truth in Lending, Fair Credit Reporting and Fair Debt Collection. Further, the CFPB will be working to ensure that consumers are protected from unfair, deceptive, or abusive acts and practices and from discrimination. The addition of statutory protection for consumers from "abusive" acts or practices is a new consumer protection standard that was added by the Dodd-Frank Act. Rulemaking authority applicable to all banks, regardless of size, was transferred from the bank regulatory agencies to the CFPB. As a result, the CFPB will be promulgating rules under the Dodd-Frank Act that will cover consumer finance activities of all banks and bank holding companies. In addition to its rulemaking authority for consumer protection laws that had been applicable to banks and bank holding companies, the CFPB was provided with specific authority to regulate non-depository entities engaged in areas such as payday lending and private education lending. Each area is expected to be subject to significant new rulemaking and may introduce, for the first time, new federal oversight of non-depository entities engaged in educational lending.

Another factor that could impact the costs associated with the Issuer's lending activities is the change in federal law preemption enacted as part of the Dodd-Frank Act. Specifically, significant new enforcement authority is provided to state governments including the authority of states attorneys general to bring lawsuits under federal consumer protection laws with the consent of the CFPB. It is unclear what the operational impact of these developments will be on the Issuer but it is likely, however, that operational expenses will increase as new or additional compliance requirements and risk of enforcement activities are imposed on operations.

Additionally, the Dodd-Frank Act creates an orderly liquidation framework for the resolution of bank holding companies with over $50 billion in assets and other systemically significant non-bank financial companies defined therein as "covered financial companies."

The effects of the Dodd-Frank Act will depend significantly upon the content and implementation of the rules and regulations issued pursuant to its provisions. It is not yet clear how the Dodd-Frank Act and its associated rules and regulations will affect the asset-backed securities market generally, or the Issuer and the Bonds, in particular. No assurance can be given that the new regulations will not have an adverse effect on the value or liquidity of the Bonds.

Certain amendments to the Indenture and other actions may be taken with rating notification or by less than all of the Bondholders and without your approval

The Indenture provides that the Issuer will provide notice to Fitch and S&P (if Fitch and S&P are then rating any of the Bonds at the request of the Issuer) regarding certain proposed actions at least 20 Business Days prior to the proposed effective date of the proposed action (as defined under "GLOSSARY OF TERMS"). The Indenture also permits the Issuer and the Trustee to amend the definitions of investment securities and subservicer therein to the extent the requirements of a rating notification (as defined under "GLOSSARY OF TERMS") to Fitch and S&P (if Fitch and S&P are then rating any of the Bonds at the request of the Issuer) have been satisfied, in each case without the consent of the Bondholders. Subject to the limitations described in "SUMMARY OF THE INDENTURE PROVISIONS—Supplemental Indentures—Supplemental Indentures Requiring Consent of Registered Owners," and "SUMMARY OF THE INDENTURE PROVISIONS—Consent of Registered Owners," changes may be made to the Indenture or other actions taken without the consent of the Bondholders. See "SUMMARY OF THE INDENTURE PROVISIONS—Supplemental Indentures—Supplemental Indentures Not Requiring Consent of Registered Owners."

Under the Indenture, holders of specified percentages of the aggregate principal amount of the Bonds may amend or supplement or waive provisions of the Indenture without the consent of the other holders. You have no recourse if the holders vote and you disagree with the vote on these matters. The holders may vote in a manner which impairs the ability to pay principal and interest on your Bonds.

The rate of payments on the Pledged Eligible Loans may affect the maturity and yield of the Bonds

Pledged Eligible Loans may be prepaid at any time without penalty. If the Issuer receives prepayments on the Pledged Eligible Loans, those amounts will be used to make principal payments as described below under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds," which could shorten the average life of the Bonds. Factors affecting prepayment of loans include general economic conditions, prevailing interest rates and changes in the borrower's employment, including transfers and unemployment. Refinancing opportunities that may provide more favorable repayment terms, including those offered under consolidation loan programs and borrower incentive programs, also affect prepayment rates.

Scheduled payments with respect to the Pledged Eligible Loans may be reduced and the maturities of Pledged Eligible Loans disbursed under the FFELP prior to July 1, 2010 may be extended as authorized by the Higher Education Act. Also, periods of deferment and forbearance may lengthen the remaining term of the Eligible Loans and the average life of the Bonds.

The rate of principal payments to you on the Bonds will be directly related to the rate of payments of principal on the Pledged Eligible Loans. Changes in the rate of prepayments may significantly affect your actual yield to maturity, even if the average rate of principal prepayments is consistent with your expectations. In general, the earlier a prepayment of principal of a loan, the greater the effect may be on your yield to maturity. The effect on your yield as a result of principal payments occurring at a rate higher or lower than the rate anticipated by you during the period immediately following the issuance of the Bonds may not be offset by a subsequent like reduction, or increase, in the rate of principal payments on the Bonds. You will bear entirely any reinvestment risks resulting from a faster or slower incidence of prepayment of the Pledged Eligible Loans.

Different rates of change in interest rate indexes may affect trust estate cash flow

The interest rates on the Bonds may fluctuate from one Interest Accrual Period to another in response to changes in the specified index rates. The Eligible Loans that will be pledged as security for the Bonds bear interest either at fixed rates or at rates which are generally based upon the Bond-equivalent yield of the 91-day U.S. Treasury Bill rate. In addition, the Pledged Eligible Loans may be entitled to receive special allowance payments from the Department of Education based upon a one-month LIBOR rate. See "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS" and "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM." If there is a decline in the rates payable on Pledged Eligible Loans, the amount of funds representing interest deposited into the Collection Fund may be reduced. If the interest rate payable on the Bonds does not decline in a similar manner and time, the Issuer may not have sufficient funds to pay interest on the Bonds when due. Even if there is a similar reduction in the rate applicable to the Bonds, there may not necessarily be a reduction in the other amounts required to be paid by the Issuer, such as administrative expenses, causing interest payments to be deferred to future periods. Sufficient funds may not be available in future periods to make up for any shortfalls in the current payments of interest on the Bonds or expenses of the trust estate.

For loans disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances when the loan rate exceeds the special allowance support level. However, lenders are not allowed to retain interest income in excess of the special allowance support level on loans disbursed on or after April 1, 2006 and before July 1, 2010, and are required to rebate any such "excess interest" to the federal government on a quarterly basis. This modification effectively limits lenders' returns to the special allowance support level and could require a lender to rebate excess interest accrued but not yet received. For fixed rate loans, the excess interest owed to the federal government will be greater when one-month LIBOR rates are relatively low, causing the special allowance support level to fall below the loan rate. Furthermore, FFELP loans disbursed on or after October 1, 2007 and before July 1, 2010 are also subject to a reduced special allowance payment formula. As of the statistical cut-off date, approximately 9.80% of the Pledged Eligible Loans described herein under the caption "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS" were disbursed on or after October 1, 2007. See "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM" attached hereto for more information on the special allowance payment formulas applicable with respect to FFELP loans. There can be no assurance that such factors or other types of factors will not occur or that, if they occur, such occurrence will not materially adversely affect the sufficiency of the trust estate to pay the principal of and interest on the Bonds, as and when due.

General economic conditions and turmoil in the credit markets

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

There have also been changes in the national credit markets since the fall of 2007 that have dramatically changed the way that the Issuer does business. Since 1978, the Issuer regularly financed its Eligible Loan purchases on a long-term basis through the issuance of revenue Bonds secured by the Eligible Loans it has purchased with the proceeds of such Bonds. Due to the turmoil in the credit markets, the cost of asset-backed securities financings has increased and their availability has decreased.

Some of the issues that have made asset-backed borrowings more difficult include: the collapse of the auction rate securities market, the downgrade of national Bond insurers, limited availability of credit support and liquidity in the market, the requirement by those credit and liquidity providers that are in the market of increasingly higher amounts of equity and higher fees payable to such credit and liquidity providers in financings, and the establishment by the credit rating agencies of significantly more rigorous assumptions and requirements. In addition to the turmoil in the credit markets, the elimination of the FFEL Program by HCEARA (hereinafter defined) as further described below impacted the Issuer. As of July 1, 2010, FFELP loans are no longer made or originated pursuant to the Higher Education Act and new federal Eligible Loans will be originated solely under the Direct Loan Program (hereinafter defined).

This difficulty in obtaining long-term financing has severely limited the Issuer's ability to purchase Eligible Loans and has negatively impacted the Issuer's business relationships with its long-time lender partners. There are many lender banks that have historically originated loans which the Issuer has purchased, but such relationships have changed dramatically.

Due to the limited recourse nature of the trust estate for the Bonds, the turmoil in the credit markets should not impact the payment of the Bonds unless it causes (a) erosion in the finances of the Issuer to such an extent that it cannot honor any repurchase, administration, or similar obligations under the Indenture or (b) causes the interest rates on the Bonds to increase more than the interest rates and subsidies received by the Issuer on the Pledged Eligible Loans.

Ratings of other student loan revenue bonds issued by the Issuer may be reviewed or downgraded; lowering of the credit rating of the United States of America may adversely affect the market value of your Bonds

Disruptions in the credit markets, along with the collapse of the financial strength and bankruptcy or insolvency of several monoline insurers, the widening of interest rate spreads and the collapse of the auction rate securities market have caused the rating agencies to announce that they are reviewing or intend to review the ratings assigned to certain securities, including student loan revenue bonds. Additionally, many student loan revenue bonds are sensitive to spreads between commercial paper rates and LIBOR rates, and such spreads have been wider than historical levels since the credit market disruption began in 2007. However, in the case of the Issuer, this risk has been mitigated by the Issuer electing to have its special allowance payments computed on the basis of the one-month LIBOR rate. However, these events have led to a number of ratings actions on student loan revenue bonds, including securities issued by the Issuer. Ratings actions may take place at any time.

The ratings assigned by S&P on certain of the Issuer's outstanding student loan-backed securities have been lowered in connection with S&P's downgrade of its long-term sovereign credit rating on the obligations of the United States, as the Department of Education is obligated to make special allowance and interest subsidy payments with respect to the FFELP student loans securing such student loan-backed securities, and to reimburse the guaranty agencies for payments made on defaulted FFELP student loans. In November 2011, Fitch affirmed its AAA rating of the long-term debt of the United States of America, but revised its Outlook from Stable to Negative. Subsequently, Fitch revised its Outlook to Negative on all AAA-rated FFELP student loan asset-backed notes. In Fitch's view, the rating on FFELP student loan asset-backed notes is directly linked to the long-term debt rating of the United States of America, since the underlying collateral is guaranteed by the Department, which carries the full faith and credit of the United States government. While the "AAAsf" rating is still attainable for certain new issuances of FFELP student loan asset-backed notes (such as the Bonds), Fitch will designate the Outlook on those as Negative on the Date of Issuance. Depending on the ratings assigned, the stated reasons for a lower rating and other factors, the liquidity, market value and regulatory characteristics of the Bonds could be materially and adversely affected.

The Issuer cannot predict the timing of any ratings actions, nor can the Issuer predict whether the ratings assigned to the Issuer's outstanding student loan revenue bonds or the Bonds offered hereby will be downgraded. Any further adverse action by the rating agencies regarding other student loan-backed securities issued previously by the Issuer or by any other entities may adversely affect the market value of the Bonds or any secondary market for the Bonds that may develop.

**Elimination of FFEL Program,
other Congressional action and other applicable law
may affect your Bonds and the Pledged Eligible Loans**

Since July 1, 2010, FFELP loans under the Higher Education Act are no longer being originated and new federal Eligible Loans will be originated solely through the Federal Direct Student Loan Program (the "Direct Loan Program"). FFELP loans originated under the Higher Education Act prior to July 1, 2010 which have been acquired by the Issuer (including the loans described herein under the caption "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS") continue to be subject to the provisions of the FFEL Program. A description of the FFEL Program is provided in APPENDIX A hereto to explain certain of the provisions of the FFEL Program applicable to FFELP loans made prior to July 1, 2010. Notwithstanding anything herein to the contrary, after June 30, 2010, no new FFELP loans (including Consolidation Loans) may be made or insured under the FFEL Program and no funds are authorized to be appropriated, or may be expended, under the Higher Education Act to make or insure loans under the FFEL Program (including Consolidation Loans) for which the first disbursement is after June 30, 2010, except as expressly authorized by an Act of Congress enacted after the date of enactment of SAFRA (hereinafter defined).

Title IV of the Higher Education Act and the regulations promulgated by the Department of Education thereunder have been the subject of frequent amendments and federal budgetary legislation in recent years, the most significant of which has been the passage of H.R. 4872 (the "Health Care & Education Affordability Reconciliation Act of 2010" or "HCEARA" or the "Reconciliation Act") which terminates originations of FFELP loans under the FFEL Program after June 30, 2010 such that all new federal Eligible Loans will be originated under the Direct Loan Program on and after July 1, 2010. See "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM" hereto for more information on the Higher Education Act and the various amendments thereto. Due to the enactment of HCEARA, FFELP loans made pursuant to the Higher Education Act will no longer be originated and new federal Eligible Loans are originated solely under the Direct Loan Program as of July 1, 2010.

Certain other amendments to the Higher Education Act also authorize the Secretary to offer borrowers Consolidation Loans under the Direct Loan Program whereby a borrower may consolidate various Eligible Loans into a single loan with income sensitive repayment terms. See "APPENDIX A–DESCRIPTION OF THE FFEL PROGRAM" hereto for more information on Consolidation Loans under the Direct Loan Program. The financing of such Consolidation Loans by the Secretary on a large scale basis may cause an increase in the number of prepayments of federal Eligible Loans and reduce the size of the Issuer's student loan programs.

Certain recent proposals by the Obama administration, such as the Pay-As-You-Earn Proposal (the "PAYE Proposal") put forth by President Obama on October 25, 2011, may also affect the speed with which the Pledged Eligible Loans are repaid by borrowers. The PAYE Proposal is not yet final and it is not clear at this time if it will apply to loans such as the Pledged Eligible Loans; however, if the PAYE Proposal or other such similar proposal by the President was to become applicable to the Pledged Eligible

Loans, it is possible that borrowers might take longer to repay their loans. See “APPENDIX A–DESCRIPTION OF THE FFEL PROGRAM” hereto for more information on the Pay-As-You-Earn Proposal.

Furthermore, as a result of changes to the FFEL Program over the years, the net revenues resulting to holders of federal Eligible Loans have in many cases been reduced and may be reduced further in the future. As these reductions occur, cost increases and revenue reductions for guaranty agencies may occur. See “APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM.” The elimination of the FFEL Program through HCEARA has also impacted holders of federal Eligible Loans in that there will not be revenue to such holders from newly originated loans. The Issuer cannot predict all the effects of such revenue reductions on the Issuer, the Servicers, the guaranty agencies, the Pledged Eligible Loans or the Issuer’s loan programs.

Competition from the Federal Direct Student Loan Program

The Direct Loan Program was established under the Student Loan Reform Act of 1993. Under the Direct Loan Program, approved institutions of higher education, or alternative loan originators approved by the Department of Education, make loans to students or parents without application to or funding from outside lenders or guarantors. As a result of the enactment of the Reconciliation Act, no FFELP loans will be originated after June 30, 2010, and all loans made under the Higher Education Act originate under the Direct Loan Program. The Direct Loan Program also results in a reduced volume and variety of Eligible Loans available to be purchased by the Issuer and may result in prepayments of Pledged Eligible Loans if such Pledged Eligible Loans are consolidated under the Direct Loan Program.

Due to the limited recourse nature of the trust estate created under the Indenture for the Bonds, competition from the Direct Loan Program should not impact the payment of the Bonds unless it causes (a) erosion in the finances of the Issuer to such an extent that it cannot honor any repurchase, administration or similar obligations under the Indenture or (b) causes the interest rates on the Bonds to increase more than the interest rates and subsidies received by the Issuer on the Pledged Eligible Loans, or (c) prepayments of Pledged Eligible Loans if such Pledged Eligible Loans are consolidated under the Direct Loan Program.

Voluntary Closing Agreement Program for Certain Tax-Exempt Student Loan Issuers

On March 20, 2012, the Internal Revenue Service (“IRS”) released Announcement 2012-14, which describes a voluntary closing agreement program (the “Program”) under which issuers of tax-exempt qualified student loan bonds may enter into a closing agreement with the IRS to resolve certain concerns of the IRS. In the announcement, the IRS describes certain “loan transfers” between student loan bond issues which it believes violate the applicable law and regulations relating to arbitrage bonds. The announcements sets forth terms under which an issuer may resolve any IRS issues described in the announcement and preserve the tax-exempt status of its bonds. An issuer who participates in the Program would enter into a closing agreement with the IRS, and would make a payment to the IRS of a settlement amount. The Program is currently available for voluntary closing agreement requests submitted no later than July 31, 2012.

The Issuer has not determined whether to submit a request for a closing agreement under the Program, nor are any of its tax-exempt qualified student loan bonds currently under examination by the IRS. Any payments that the Issuer would be required to make in connection with (a) the Program or (b) any examination of its bonds could reduce funds available to honor repurchase, administration, servicing or other obligations under various agreements relative to the financed student loans. It is not presently expected that any payments made in connection with the Program or any examination of its bonds would prevent the Issuer from fulfilling such obligations.

Because the interest on the Bonds is includable in gross income for federal tax purposes, the Bonds are not subject to the Program, but other tax-exempt obligations of the Issuer would be. In addition, the Bonds are refunding tax-exempt bonds of the Issuer. Should the Issuer elect to participate in the Program, no funds under the Indenture would be available to make any payments to the IRS under the Program.

The United States military build-up may result in delayed payments from borrowers called to active military service

The build-up of the United States military over recent years has increased the number of citizens who are in active military service. The Servicemembers Civil Relief Act limits the ability of a lender under the FFELP to take legal action against a borrower during the borrower's period of active duty and, in some cases, during an additional three month period thereafter.

The Issuer does not know how many Eligible Loans have been or may be affected by the application of the Servicemembers Civil Relief Act. Payments on Pledged Eligible Loans may be delayed as a result of these requirements, which may reduce the funds available to the Issuer to pay principal and interest on the Bonds.

Higher Education Relief Opportunities for Students Act of 2003 may result in delayed payments from borrowers

The Higher Education Relief Opportunities for Students Act of 2003 ("HEROS Act of 2003") signed into law on August 18, 2003 authorizes the Secretary of Education to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary for the benefit of "affected individuals" who:

- are serving on active military duty or performing qualifying national guard duty during a war or other military operation or national emergency;
- reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency; or
- suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary.

The Secretary is authorized to waive or modify any provision of the Higher Education Act to ensure that:

- such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance;
- administrative requirements in relation to that assistance are minimized;
- calculations used to determine need for such assistance accurately reflect the financial condition of such individuals;

- provision is made for amended calculations of overpayment; and
- institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable.

The number and aggregate principal balance of Eligible Loans that may be affected by the application of the HEROS Act of 2003 is not known at this time. Accordingly, payments the Issuer receives on Pledged Eligible Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers become eligible for the relief provided under the HEROS Act of 2003, there could be an adverse effect on the total collections on the Pledged Eligible Loans and the Issuer's ability to pay principal and interest on the Bonds.

Consumer protection laws may affect enforceability of Pledged Eligible Loans

Numerous federal and state consumer protection laws, including various state usury laws and related regulations, impose substantial requirements upon lenders and servicers involved in consumer finance. Some states impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liability that could affect an assignee's ability to enforce consumer finance contracts such as the Eligible Loans. In addition, the remedies available to the Trustee or the Bondholders upon an event of default under the Indenture may not be readily available or may be limited by applicable state and federal laws.

You will rely on third-party servicers for the servicing of the Pledged Eligible Loans

The Issuer relies on third-party servicers to service all of the Pledged Eligible Loans. The Issuer is dependent on HESC, Edfinancial and Nelnet to provide certain equipment, software, training and related support with respect to the Pledged Eligible Loans serviced by these third-party servicers and PHEAA will also be engaged to act as the Backup Servicer for HESC with respect to the Pledged Eligible Loans directly serviced by HESC and the Pledged Eligible Loans subserviced by Edfinancial upon the occurrence of certain events described herein under "SERVICING OF THE PLEDGED ELIGIBLE LOANS—Backup Servicer and Backup Servicing Agreements." HESC also services and acts as custodian with respect to the Pledged Eligible Loans pursuant to an existing servicing agreement between HESC, the Issuer, and the Trustee and subcontracts with Edfinancial and Nelnet to perform certain duties thereunder.

The cash flow projections relied upon by the Issuer in structuring the issuance of the Bonds were based upon assumptions with respect to servicing costs which the Issuer based upon HESC's costs to service the loans that it services under its servicing agreement with the Issuer and the Trustee (including any servicing fees paid by HESC to Edfinancial or Nelnet for any duties performed under the servicing agreement on behalf of HESC) and PHEAA's costs to act as Backup Servicer with respect to the loans directly serviced by HESC and the loans subserviced by Edfinancial, on behalf of HESC. No assurance can be made that the costs to HESC, Edfinancial, Nelnet and the Backup Servicer for servicing the Pledged Eligible Loans serviced by it will not increase, or that the Issuer would be successful in entering into servicing agreements with other servicers that would be acceptable to the rating agencies at the assumed level of servicing cost if the current HESC servicing agreement, the Edfinancial subservicing agreement between HESC and Edfinancial, the Nelnet subservicing agreement between HESC and Nelnet, or the Backup Servicer servicing agreement is terminated. Although HESC is obligated to service the Pledged Eligible Loans serviced by it in accordance with the terms of its servicing agreement with the Issuer and the Trustee, Edfinancial and Nelnet are obligated to perform certain duties under the HESC servicing agreement, on behalf of HESC, as subservicers, and the Backup Servicer is obligated to service the Pledged Eligible Loans, if necessary, in accordance with the terms of the Backup Servicing Agreement with HESC and the Backup Servicing Agreement with Edfinancial, the timing of payments to be actually received with respect to the Pledged Eligible Loans will be dependent upon the ability of HESC, Edfinancial, Nelnet and, if necessary, the Backup Servicer to adequately service the Pledged Eligible Loans serviced by each entity. In addition, the Issuer and the Bondholders will be relying on the compliance by HESC, Edfinancial, Nelnet and the Backup Servicer with applicable federal and state laws and regulations.

Bankruptcy or insolvency of a Servicer could result in payment delays to you

HESC will act as a Servicer with respect to the Pledged Eligible Loans pursuant to a servicing agreement among HESC, the Issuer, and the Trustee and HESC will subcontract with Edfinancial and Nelnet, as subservicers, to perform certain duties thereunder; PHEAA will act as Backup Servicer with respect to the Pledged Eligible Loans directly serviced by HESC and the Pledged Eligible Loans subserviced by Edfinancial, on behalf of HESC. In the event of a default by a Servicer, a subservicer, or a Backup Servicer resulting from events of insolvency or bankruptcy, a court, conservator, receiver or liquidator may have the power to prevent the appointment of a successor servicer and delays in collections in respect of those affected Pledged Eligible Loans may occur. Any delay in the collections of Pledged Eligible Loans may delay payments to you.

A default by a Servicer could adversely affect the Bonds

If HESC defaults on its obligations to service the loans directly serviced by it or if Edfinancial or Nelnet defaults on its obligations to service the loans subserviced by it, the Backup Servicer would become the successor Servicer for those Pledged Eligible Loans. If another third-party Servicer defaults on its obligations to service the loans serviced by it, the Issuer or the Trustee may remove the third-party Servicer without the consent of any other party, subject to satisfaction of the conditions set forth in the Indenture. In the event of the removal of a Servicer and the appointment of a successor servicer, there may be additional costs associated with the transfer of servicing to the successor servicer, including but not limited to, an increase in the servicing fees the successor servicer charges. In addition, the Issuer cannot predict the ability of the successor servicer to perform the obligations and duties under any servicing agreement.

Bankruptcy or insolvency of a third-party seller of Pledged Eligible Loans could result in payment delays to you

The Issuer has acquired certain of the Pledged Eligible Loans from third-party sellers. The Issuer has taken steps to structure each loan purchased by the Issuer from a third-party seller, such that the loans purchased should not be included in the bankruptcy estate of a seller if any of them should become bankrupt. If a court disagrees with this position, the Issuer could experience delays in receiving payments on the Pledged Eligible Loans and delays in receiving payments on the Bonds could be expected, or a reduction in payments on the Bonds could occur. A court could also subject those Pledged Eligible Loans to a superior tax or government lien arising before the sale of the Eligible Loans to the Issuer.

If Pledged Eligible Loans are purchased from a bank and the bank becomes insolvent, it would become subject to receivership by the Federal Deposit Insurance Corporation. In that case, the FDIC could treat the transfer of the Eligible Loans to the Issuer as a secured loan rather than as a sale. If that were to happen, the Issuer would have only a security interest in those Pledged Eligible Loans and could experience delays in receiving payments with respect to those Pledged Eligible Loans. In addition, the FDIC may seek a release of the loans to itself, as receiver, which would accelerate and prepay the "loan."

If the Issuer or a Servicer fails to comply with the Department of Education's regulations, payments on the Bonds could be adversely affected

The Department of Education regulates each servicer of federal Eligible Loans. Under these regulations, a third-party servicer is jointly and severally liable with its client lenders (including the Issuer) for liabilities to the Department of Education arising from its violation of applicable requirements. In addition, if any lender or servicer fails to meet standards of financial responsibility or administrative capability included in the regulations, or violates other requirements, the Department of Education may impose penalties or fines and limit, suspend, or terminate the lender's ability to participate in or a servicer's eligibility to contract to service loans originated under FFELP before July 1, 2010.

If the Issuer (as lender) were so fined, or its FFELP eligibility were limited, suspended or terminated, payment on the Bonds could be adversely affected. If any Servicer were so fined or held liable, or its eligibility were limited, suspended, or terminated, its ability to properly service the Pledged Eligible Loans and to satisfy any remedies owed by it to the Issuer under a servicing agreement relating to Pledged Eligible Loans could be adversely affected. In addition, if the Department of Education terminates a Servicer's eligibility, a servicing transfer will take place and there may be delays in collections and temporary disruptions in servicing. Any servicing transfer may temporarily adversely affect payments to you.

Failure to comply with loan origination and servicing procedures for Pledged Eligible Loans may result in loss of guarantee and other benefits

The Issuer and the entities servicing its loans must meet various requirements in order to maintain the federal guarantee on the Pledged Eligible Loans. These requirements establish servicing requirements and procedural guidelines and specify school and borrower eligibility criteria.

A guaranty agency may reject a loan for claim payment due to a violation of the FFEL Program due diligence collection and servicing requirements. In addition, a guaranty agency may reject claims under other circumstances, including, for example, if a claim is not timely filed or adequate documentation is not maintained. Once a Pledged Eligible Loan ceases to be guaranteed, it is ineligible for federal interest benefit and special allowance payments. If a Pledged Eligible Loan is rejected for claim payment by a guaranty agency, the Issuer, through its servicers, continues to pursue the borrower for payment or institutes a process to reinstate the guarantee. Guarantee agencies may reject claims as to portions of interest for certain violations of the due diligence collection and servicing requirements even though the remainder of a claim may be paid.

Examples of errors that cause claim rejections include isolated missed collection calls or failures to send collection letters as required. Violations of due diligence collection and servicing requirements can result from human error. Violations can also result from computer processing system errors or from problems arising in connection with the implementation of a new computer platform or the conversion of additional loans to a servicing system.

The Department of Education has implemented school eligibility requirements, including default rate limits. In order to maintain eligibility in the FFEL Program, schools must maintain default rates below specified levels and both guaranty agencies and lenders are required to insure that loans are made to students attending schools that meet default criteria. If the Issuer fails or the Servicers fail to comply with any of the above requirements, the Issuer could incur penalties or lose the federal guarantee on some or all of the Pledged Eligible Loans.

The inability of the Issuer, a Servicer or a Selling Lender to meet their respective purchase obligations may result in losses on your Bonds

Under some circumstances, the Issuer may be required to purchase or provide a substitute for, or may have the right to require a Servicer or the lender selling a Pledged Eligible Loan to purchase, a Pledged Eligible Loan. This right against the Issuer arises generally if a Pledged Eligible Loan ceases to be guaranteed or insured (and a guarantee or insurance claim is not paid by a guaranty agency or by the United States) or is determined to be encumbered by a lien other than the lien of the Indenture and if the same is not cured within the applicable cure period. This right against a Servicer or a selling lender arises generally as the result of a breach of certain covenants with respect to such Eligible Loan, in the event such breach materially adversely affects the interests of the Issuer in that Pledged Eligible Loan and is not cured within the applicable cure period. There is no guarantee that the Issuer, the Servicer or a selling lender will have the financial resources to make a purchase or substitution. In this case, you will bear any resulting loss.

In addition, the Issuer assigned and pledged to the Trustee its rights and remedies under any Eligible Loan purchase agreement under which Pledged Eligible Loans were acquired. If the Issuer is unable to honor its repurchase or cure obligations, the Trustee could pursue any rights of the Issuer against these third parties with respect to the Pledged Eligible Loans. Any limitations on the rights and remedies specified in these agreements may impair the Issuer's ability to pay principal and interest on your Bonds, and there is no guarantee that any third-party to any of the above referenced agreements will have the financial resources to honor their respective obligations under those agreements.

Limitation on enforceability of remedies against the Issuer could result in payment delays or losses;

The remedies available to the Trustee or the Bondholders upon an event of default under the Indenture are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies provided in the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds and the Indenture will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, moratorium, insolvency or other similar laws affecting the rights of creditors generally.

In addition, the Higher Education Act provides that a security interest in FFELP loans may be perfected by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law, which, under the Texas Uniform Commercial Code, is accomplished by filing a financing statement with the Texas Secretary of State. Nonetheless, if through fraud, inadvertence or otherwise, a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Pledged Eligible Loans (or, in the case of a master promissory note, a copy thereof), any security interest of the Trustee in the related Pledged

Eligible Loans could be preempted. The Issuer currently maintains control and shall continue to maintain control of all Pledged Eligible Loans that are evidenced by an electronically signed note in compliance with applicable federal and state laws. Custody of all other promissory notes relating to Pledged Eligible Loans will be maintained by the Issuer, or a custodial agent on its behalf, or by the Servicer.

Certain factors relating to security

The Issuer has covenanted in the Indenture that the assets constituting the trust estate pledged by the Issuer under the Indenture are and will be owned by the Issuer free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, of equal rank with or subordinate to the respective pledges created by the Indenture, and that all action on the part of the Issuer to that end has been duly and validly taken. The Issuer acquires most of its Eligible Loans by purchasing such loans from other lenders. When purchasing Eligible Loans, the Issuer customarily obtains warranties from the sellers as to certain matters, including that the loans were originated in accordance with the Higher Education Act and that the loans will be transferred to the Issuer free of any liens. Notwithstanding the foregoing, under applicable law, security interests in such loans may exist which may not be ascertainable from available sources. Therefore, no absolute assurance can be given that liens other than the lien of the Indenture do not and will not exist.

The use of master promissory notes for the pledged Eligible Loans may compromise the Trustee's security interest

Loans made under the FFEL Program may be evidenced by a master promissory note. Once a borrower executes a master promissory note with a lender, additional Eligible Loans made by the lender to such borrower are evidenced by a confirmation sent to the borrower, and all Eligible Loans are governed by the single master promissory note.

An Eligible Loan evidenced by a master promissory note may be sold independently of the other Eligible Loans governed by the master promissory note. If the Issuer acquires an Eligible Loan governed by a master promissory note and does not obtain possession of the master promissory note, other parties could claim an interest in the Eligible Loan. This could occur if the holder of the master promissory note were to take an action inconsistent with the Issuer's rights to a Pledged Eligible Loan, such as delivery of a duplicate copy of the master promissory note to a third-party for value. Although such action would not defeat the Issuer's rights to the Pledged Eligible Loan or impair the security interest held by the Trustee for your benefit, it could delay receipt of principal and interest payments on the loan.

You may incur losses or delays in payment on your Bonds if borrowers do not make timely payments or default on their Pledged Eligible Loans

For a variety of economic, social and other reasons, all the payments that are actually due on Pledged Eligible Loans may not be made at all or may not be made in a timely fashion. Borrowers' failures to make timely payments of the principal and interest due on the Pledged Eligible Loans will affect the revenues of the trust estate for the Issuer which may reduce the amounts available to pay principal and interest due on the Bonds.

The cash flow from the Pledged Eligible Loans and the Issuer's ability to make payments due on the Bonds will be reduced to the extent interest is not currently payable on the Pledged Eligible Loans. The borrowers on most Eligible Loans are not required to make payments during the period in which they are in school and for certain authorized periods thereafter, as described in the Higher Education Act. The Department of Education will make all interest payments while payments are deferred under the Higher

Education Act on certain subsidized Eligible Loans first disbursed before July 1, 2010 that qualify for interest benefit payments. For all other Eligible Loans first disbursed before July 1, 2010, interest generally will be capitalized and added to the principal balance of the Eligible Loans. The Pledged Eligible Loans will consist of Eligible Loans for which payments are deferred as well as Eligible Loans for which the borrower is currently required to make payments of principal and interest. The proportions of the Pledged Eligible Loans for which payments are deferred and currently in repayment will vary during the period that the Bonds are outstanding.

In general, a guaranty agency reinsured by the Department of Education will guarantee 100% of each Eligible Loan originated before October 1, 1993, 98% of each Eligible Loan originated on or after October 1, 1993 and before July 1, 2006, and 97% of each Eligible Loan originated on or after July 1, 2006 and before July 1, 2010. As a result, if a borrower of a Pledged Eligible Loan defaults, the Issuer may, with respect to certain loans, experience a loss of approximately 2% or 3% of the outstanding principal and accrued interest on each of the defaulted loans depending upon when it was first disbursed. The Issuer does not have any right to pursue the borrower for the remaining portion that is not subject to the guarantee. If defaults occur on the Pledged Eligible Loans and the credit enhancement described herein is not sufficient, you may suffer a delay in payment or a loss on your investment..

The Trustee may be forced to sell the pledged Eligible Loans at a loss after an event of default

Generally, if an event of default occurs under the Indenture, the Trustee may sell, and, at the direction of Bondholders (in varying percentages as specified in the Indenture), must sell the Pledged Eligible Loans. However, the Trustee may not find a purchaser for the Pledged Eligible Loans or the market value of the Pledged Eligible Loans plus other assets in the trust estate might not equal the principal amount of outstanding Bonds plus accrued interest. Competition currently existing in the secondary market for Eligible Loans made under the FFEL Program before July 1, 2010 also could be reduced, resulting in fewer potential buyers of the Pledged Eligible Loans and lower prices available in the secondary market for the Pledged Eligible Loans. You may suffer a loss if the Trustee is unable to find purchasers willing to pay prices for the Pledged Eligible Loans sufficient to pay the principal amount of the Bonds plus accrued interest.

The Bonds may be repaid early due to an optional purchase, which may affect your yield, and you will bear reinvestment risk

The Bonds may be repaid before you expect them to be in the event of an optional purchase (when the Pool Balance is equal to or less than 10% of the Initial Pool Balance) of the Pledged Eligible Loans as described under "DESCRIPTION OF THE BONDS—Optional Purchase." Such an event would result in the early retirement of the Bonds outstanding on that date. If this happens, your yield on the Bonds may be affected and you will bear the risk that you cannot reinvest the money you receive in comparable Bonds at an equivalent yield.

The characteristics of the portfolio of pledged Eligible Loans may change

The characteristics of the pool of Eligible Loans expected to be pledged to the Trustee on the date of issuance are described herein as of the statistical cut-off date. However, the actual characteristics of the Eligible Loans at any given time will change due to factors such as the repayment of the Eligible Loans in the normal course of business, the occurrence of delinquencies or defaults, or the failure of the Issuer to acquire the Pledged Eligible Loans, if any, that are expected to be acquired. The characteristics that may differ include the composition of the Eligible Loans, the distribution by loan type, the distribution by interest rate, the distribution by principal balance and the distribution by remaining terms. You should consider potential variances when making your investment decision concerning the Bonds. See “CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS” in this Official Statement.

Eligible Loans are unsecured and the ability of the guaranty agencies to honor their guarantees may become impaired

The Higher Education Act requires that all Eligible Loans be unsecured. As a result, the only security for payment of the Pledged Eligible Loans are the guarantees provided by the guaranty agencies.

A deterioration in the financial status of a guaranty agency and its ability to honor guarantee claims on defaulted Pledged Eligible Loans could delay or impair that guaranty agency’s ability to make claims payments to the Trustee. The financial condition of a guaranty agency can be adversely affected if it submits a large number of reimbursement claims to the Department of Education, which results in a reduction of the amount of reimbursement that the Department of Education is obligated to pay a guaranty agency. The Department of Education may also require a guaranty agency to return its reserve funds to the Department of Education upon a finding that the reserves are unnecessary for that guaranty agency to pay its program expenses or to serve the best interests of the federal student loan program. The inability of any guaranty agency to meet its guarantee obligations could reduce the amount of money available to pay principal and interest to you as the owner of the Bonds or delay those payments past their due date.

If the Department of Education has determined that a guaranty agency is unable to meet its guarantee obligations, the student loan holder may submit claims directly to the Department of Education and the Department of Education is required to pay the full guarantee claim amount due with respect to such claims. See “THE ISSUER’S FFEL PROGRAM—The Guaranty Agency.” However, the Department of Education’s obligation to pay guarantee claims directly in this fashion is contingent upon the Department of Education making the determination that a guaranty agency is unable to meet its guarantee obligations. The Department of Education may not ever make this determination with respect to a guaranty agency and, even if the Department of Education does make this determination, payment of the guarantee claims may not be made in a timely manner.

Payment offsets by a guaranty agency or the Department of Education could prevent the Issuer from paying you the full amount of the principal and interest due on your Bonds

The Issuer, through its Eligible Lender Trustee, may use the same Department of Education lender identification number for the Pledged Eligible Loans to be included in the trust estate as it uses for other Eligible Loans it holds. If so, the billings submitted to the Department of Education and the claims submitted to guaranty agencies for the Pledged Eligible Loans will be consolidated with the billings and claims for payments for Eligible Loans that are not included in the trust estate using the same lender identification number. Payments on those billings by the Department of Education as well as claim payments by the applicable guaranty agencies will be made to the Issuer, or to a Servicer on behalf of the Issuer, in lump sum form. Those payments must be allocated by the Issuer to the trust estate and to other trust estates of the Issuer that reference the same lender identification number.

If the Department of Education or a guaranty agency determines that the Issuer owes it a liability on any Eligible Loan held by it, the Department of Education or the applicable guaranty agency may seek to collect that liability by offsetting it against payments due to the Issuer in respect of the Pledged Eligible

Loans pledged to secure your Bonds. Any offsetting or shortfall of payments due to the Issuer could adversely affect the amount of funds available to the trust estate and thus the Issuer's ability to pay you principal and interest on the Bonds. The Issuer has entered into a "joint sharing agreement" with the Eligible Lender Trustee, BOKF, NA dba Bank of Texas, as trustee under certain other indentures of trust of the Issuer and BOKF, NA dba Bank of Texas, as trustee under the Indenture in order to allocate payments from, and liabilities to, the U.S. Department of Education on Eligible Loans among the trust estate established by the Issuer under the Indenture and the trust estates established by the Issuer under the other indentures of trust.

Commingling of payments on Eligible Loans could prevent the Issuer from paying you the full amount of the principal and interest due on your Bonds

Payments received on the Pledged Eligible Loans generally are deposited into an account in the name of the Issuer or the applicable Servicer each business day. Payments received on the Pledged Eligible Loans may not always be segregated from payments the Issuer or the applicable Servicer receives on other Eligible Loans it owns (with respect to the Issuer) or services (with respect to a Servicer), and payments received on the Pledged Eligible Loans that are part of the trust estate may not be segregated from payments received on the Issuer's other Eligible Loans that are not part of the trust estate. Such amounts that relate to the Pledged Eligible Loans once identified by the Issuer or applicable Servicer as such are transferred to the Trustee for deposit into the Collection Fund on average within 3 business days of receipt. If the Issuer or applicable Servicer fails to transfer such funds to the Trustee, Bondholders may suffer a loss. See "SERVICING OF THE PLEDGED ELIGIBLE LOANS."

Incentive or borrower benefit programs may affect your Bonds

The Pledged Eligible Loans may be subject to various borrower incentive programs. Any incentive program that effectively reduces borrower payments or principal balances on Pledged Eligible Loans may result in the principal amount of Pledged Eligible Loans amortizing faster than anticipated. The Issuer may discontinue, increase or modify such benefits at any time, but only subject to the provisions of the Indenture. The Issuer cannot accurately predict the number of borrowers that will utilize the borrower benefits provided under the rate relief programs currently offered by the Issuer. The greater the number of borrowers that utilize such benefits with respect to Pledged Eligible Loans, the lower the total loan receipts on such Pledged Eligible Loans. See "THE ISSUER'S FFEL PROGRAM."

The Bonds are expected to be issued only in book-entry form

The Bonds are expected to be initially represented by one or more certificates registered in the name of Cede & Co., the nominee for DTC, and will not be registered in your name or the name of your nominee. Unless and until definitive securities are issued, holders of the Bonds will not be recognized by the Trustee as registered owners as that term is used in the Indenture. Until definitive securities are issued, holders of the Bonds will only be able to exercise the rights of registered owners indirectly through DTC and its participating organizations. See "BOOK-ENTRY REGISTRATION."

The ratings of the Bonds are not a recommendation to purchase and may change

It is a condition to issuance of the Bonds that they be rated as indicated under "SUMMARY OF TERMS—Rating of the Bonds." Ratings are based primarily on the creditworthiness of the underlying Pledged Eligible Loans, the amount of credit enhancement and the legal structure of the transaction. The ratings are not a recommendation to you to purchase, hold or sell the Bonds inasmuch as the ratings do not comment as to the market price or suitability for you as an investor. An additional rating agency may rate the Bonds, and that rating may not be equivalent to the initial rating described in this Official Statement. Ratings may be increased, lowered or withdrawn by any rating agency at any time if in the rating agency's judgment circumstances so warrant. A downgrade in the rating of your Bonds is likely to decrease the price a subsequent purchaser will be willing to pay for your Bonds.

The Issuer will pay a fee to the Rating Agencies to assign the initial credit ratings to the Bonds on or before the Date of Issuance. Being paid by the Issuer or an underwriter to issue or maintain a credit rating on an asset-backed security may create a conflict of interest for rating agencies; such conflict may be particularly acute because arrangers of asset-backed securities transactions provide repeat business to such rating agencies.

Amendments of the Indenture and Waivers of Defaults; Voting Rights and Control of Remedies Generally

Under the Indenture, holders of specified percentages of the aggregate principal amount of Bonds may amend or supplement provisions thereof, direct remedies upon the occurrence of an Event of Default and waive Events of Default and compliance provisions without the consent of the other holders. A holder of the Bonds may have no recourse if other holders of such Bonds vote and such holder disagrees with the vote on these matters. The holders may vote in a manner that impairs the Issuer's ability to pay principal and interest on the Bonds from assets in the Trust Estate.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

General

The Issuer 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 Issuer 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 Issuer's purpose is to promote student access to higher education. The Issuer is located at 1250 E. Copeland Road, Suite 200, Arlington, Texas 76011-4921, Telephone (817) 265-9158.

The Issuer 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 Chapter 53B of the Texas Education Code (as amended, the "Authorizing Act"). The Issuer'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 Issuer, paid to the federal government. The Issuer's activities are governed by the Authorizing Act, the Texas Non-Profit Corporation Act, and Section 150(d) of the Internal Revenue Code of 1986, as amended.

The Issuer has no employees. Administration of the Issuer's activities is provided by Higher Education Servicing Corporation, and Kathryn Bryan, Executive Director of Higher Education Servicing Corporation, is Executive Director of the Issuer. See "SERVICING OF THE PLEDGED ELIGIBLE LOANS—Higher Education Servicing Corporation" and "—The Servicing Agreement."

The Issuer is governed by a Board of Directors consisting of seven Directors. Three directors are appointed by the City Council of Arlington, Texas, three directors are appointed by the City Council of Denton, Texas and one director is appointed by both. The Issuer submits nominations to such Cities. Each of the City Councils of such Cities may also remove those Directors appointed by it. Directors serve two year staggered terms of office. The occupations and Board of Directors positions for each of the Directors of the Issuer are 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 Issuer. The Bylaws of the Issuer 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.

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Board of Directors

Name and Position Held	Principal Occupation	Term Expires (September 30)
Mr. Governor E. Jackson President	Director of Student Financial Aid Texas Woman's University[1] Denton, Texas	2012
Dr. J. Lindsay Keffer Vice President	Associate Director for Administration (retired) University of North Texas[1] Denton, Texas	2012
Ms. Ruby Woolridge Secretary/Treasurer	Guidance Counselor (retired) Fort Worth Independent School District Fort Worth, Texas	2012
Mr. Joseph Bruner	Certified Public Accountant & Owner Downtown Arlington Farmers Market Arlington, Texas	2012
Mr. K. Daniel Tonn	Certified Public Accountant/Partner Hankins, Powers, Eastup, Deaton & Tonn Denton, Texas	2012
Mr. Daniel Mohorc	President and CEO Galactic Ltd. Arlington, Texas	2012
Vacancy[3]		
Ms. Michelle McCallum[2]	Budget Manager City of Denton Denton, Texas	N/A
Mr. Mike Finley[2]	Assistant Finance Director City of Arlington Arlington, Texas	N/A

[1] Eligible Institution
[2] Ex Officio Member
[3] There is presently one vacancy on the Board of Directors.

Eligible Lenders

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

Special Allowance Payments

Pursuant to the Higher Education Act and regulations of the Department of Education, holders of Eligible Loans are entitled to bill and collect from the federal government special allowance payments designed to make the rate of return on the Eligible Loans more of a market rate. Loans financed with tax-exempt bonds originally issued prior to October 1, 1993 are entitled to receive special allowance payments in an amount which provides the owner of the loan with a minimum or floor rate of return of 9.5% (commonly known as the "floor"). In the past, the Issuer has received the "floor" income on a substantial number of its loans. However, none of the Pledged Eligible Loans to be deposited and held under the Indenture upon the issuance of the Bonds qualify for the 9.5% floor.

Previous Financings of the Issuer

The Issuer has previously issued a significant number of series of bonds secured by Eligible Loans. The Issuer has paid in full all scheduled interest due and payable on each outstanding series of securities, and there are no prior payment defaults on any debt securities issued by the Issuer. As of June 1, 2012, the Issuer had outstanding Bonds in the following amounts issued under the following indentures.

	Amount Outstanding
1993 Indenture	$343,000,000
Restated 1998 Indenture	312,180,000
Restated 2001 Indenture	165,340,000
2010-1 Indenture	161,020,000
2010-2 Indenture	103,365,000
2011-1 Indenture	185,296,000
Total	$1,270,201,000

The Bonds are being issued to refund all of the bonds outstanding under the Restated 1998 Indenture and the Restated 2001 Indenture and, accordingly, upon the issuance of the Bonds, the bonds under those Indentures will no longer be outstanding and the total amount of other outstanding bonds of the Issuer (based upon amounts of bonds outstanding as of June 1, 2012) giving effect to the refunding plus the issuance of the Bonds will be $1,255,881,000.

The outstanding bonds issued under the indentures referred to above, after giving effect to the refunding of the bonds under the Restated 1998 Indenture and the Restated 2001 Indenture, are secured by collateral separate and apart from the collateral securing the Bonds to be issued under the Indenture. Furthermore, the Bonds to be issued under the Indenture will not be secured by the indentures referred to above, any of the collateral securing such indentures or any other indenture or transaction document with respect to the Issuer's prior issuances of bonds.

Financial and Other Information

The audited financial statements of the Issuer as of and for the years ended August 31, 2011 and August 31, 2010 are attached hereto as APPENDIX D. The Issuer's financial statements include information with respect to its loan programs generally, including its FFEL program and other information regarding the Issuer. These financial statements are included for general background purposes only. Since the Bonds are special, limited obligations of the Issuer, payable solely from the Pledged Eligible Loans and other assets pledged to the Trustee under the Indenture as part of the trust estate, the overall financial status of the Issuer, or that of its other programs, does not indicate and does not affect whether the trust estate will be sufficient to fund the timely and full payment of principal and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE ISSUER'S FFEL PROGRAM

Since 1978, the Issuer has established a program for purchasing certain Eligible Loans originated pursuant to the Federal Family Education Loan Program ("FFELP" or the "FFEL Program"), authorized by Title IV of the federal Higher Education Act (such loans, "FFELP loans"). The FFEL Program authorized by the Higher Education Act is described in "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM" attached hereto. All of the Pledged Eligible Loans pledged to the Trustee under the Indenture will consist of Eligible Loans that are qualified loans originated under the Higher Education

Act, and only qualified loans originated under the Higher Education Act are eligible to be financed under the Indenture.

The portfolio of Pledged Eligible Loans may include Eligible Loans with borrower benefits, including Current Borrower Benefit Loans and New Borrower Benefit Loans as described below. The Pledged Eligible Loans may be eligible for more than one of the benefits described in each paragraph below.

"Current Borrower Benefit Loan" means an Eligible Loan which is a Stafford Loan made on or after August 1, 1996 and which enters repayment prior to July 1, 2007 or a PLUS Loan made on or after July 1, 2004 and which enters repayment prior to July 1, 2007 which (i) is or could become eligible for up to a 2.5% per annum interest rate reduction for the remaining term of such Financed Eligible Loan in the event the borrower makes 48 consecutive scheduled monthly payments as and when due on a timely basis, or (ii) is eligible for a 0.25% interest rate reduction for the term of such Financed Eligible Loan if the borrower elects to make loan payments with an electronic debit from such borrower's bank account, and no automatic debit transaction is returned due to insufficient funds, or (iii) is eligible for write-off in the event the principal and interest on qualified loans of the borrower have a combined principal and interest balance of no more than $600.

In the case of Consolidation Loans made on or after July 1, 2004 and entering repayment prior to July 1, 2007, a "Current Borrower Benefit Loan" means a Financed Eligible Loan which (i) is or could become eligible for a 1% per annum interest rate reduction for the remaining term of such Financed Eligible Loan in the event the borrower timely makes 36 consecutive scheduled monthly payments as and when due, or (ii) is eligible for a 0.25% interest rate reduction for the term of such Financed Eligible Loan if the borrower elects to make loan payments with an electronic debit from such borrower's bank account, and no automatic debit transaction is returned due to insufficient funds, or (iii) is eligible for write-off in the event the principal and interest on qualified loans of the borrower have a combined principal and interest balance of no more than $600.

"New Borrower Benefit Loan" means an Eligible Loan which is a Stafford Loan or a PLUS Loan which enters repayment between July 1, 2007 and July 1, 2008 or a loan disbursed between July 1, 2007 and July 1, 2008 and entered repayment prior to April 1, 2010, which (i) is eligible for or has received a reduction of (a) 1% of the principal balance outstanding on the date on which the borrower has made 12 consecutive scheduled monthly payments on time, (b) an additional 2% of the principal balance outstanding on the date on which the borrower has made 24 consecutive scheduled monthly payments on time, (c) an additional 3% of the principal balance outstanding on the date on which the borrower has made 36 scheduled monthly payments on time, and (d) after any reduction in principal, continues to be paid in consecutive scheduled monthly payments on time; or (ii) is eligible for a 0.75% interest rate reduction for the term of such Pledged Eligible Loan if the borrower elects to make loan payments with an electronic debit from such borrower's bank account, and no automatic debit transaction is returned due to insufficient funds, or (iii) is eligible for write-off in the event the principal and interest on qualified loans of the borrower have a combined principal and interest balance of no more than $600.

In the case of Consolidation Loans made on or after July 1, 2007, a "New Borrower Benefit Loan" means a Pledged Eligible Loan which (i) is or could become eligible for a 1% per annum interest rate reduction for the remaining term of such Pledged Eligible Loan in the event the borrower timely makes 24 consecutive scheduled monthly payments as and when due, or (ii) is eligible for a 0.25% interest rate reduction for the term of such Pledged Eligible Loan if the borrower elects to make loan payments with an electronic debit from such borrower's bank account, and no automatic debit transaction is returned due to insufficient funds, or (iii) is eligible for write-off in the event the principal and interest on qualified loans of the borrower have a combined principal and interest balance of no more than $600.

The Guaranty Agency

As of the statistical cut-off date, approximately 99.00% of the Eligible Loans expected to be pledged to the Trustee as part of the trust estate on the date of issuance are loans guaranteed (with respect to payments of principal and interest) by Texas Guaranteed Student Loan Corporation ("TGSLC") and reinsured by the Secretary under the Higher Education Act. The guarantee provided by TGSLC is an obligation solely of TGSLC and is not supported by the full faith and credit of the federal or any state government. However, the Higher Education Act provides that if the Secretary determines that a guaranty agency, like TGSLC, is unable to meet its insurance obligations, the Secretary shall assume responsibility for all functions of that guaranty agency under its loan insurance program. Additional discussion that relates to guaranty agencies generally under the FFEL Program is included in "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM."

In the issuance of guarantees on loans, each guaranty agency is required to review loan applications to verify the completion of required information. In addition, each guaranty agency is required to make a determination that the applicant has not borrowed amounts in excess of those permitted under the Higher Education Act. In addition to TGSLC described below, the Indenture provides that Pledged Eligible Loans may be guaranteed by any entity authorized to guarantee student loans under the Higher Education Act and with which the Eligible Lender Trustee maintains a guarantee agreement.

TGSLC

The following information has been furnished by TGSLC for use in this Official Statement. Neither the Issuer nor the Underwriter makes any guarantee or any representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of TGSLC subsequent to the date hereof.

Organization. TGSLC is a Texas public non-profit corporation organized in 1980 by the Texas legislature to operate as a guarantee agency in what is now known as the FFEL Program, providing a federally reinsured guaranty of eligible Stafford, PLUS and consolidation student loans. Located at 301 Sundance Parkway, Round Rock, Texas 78681, TGSLC is governed by nine directors appointed by the Governor of Texas in addition to the State Comptroller, and is staffed by approximately 640 employees.

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

	Loan Guarantee Volume	
Federal Fiscal Year	**Excluding Consolidation Loans**	**Including Consolidation Loans**
2007	4.28	5.74
2008	6.72	7.38
2009	9.58	9.59
2010	2.44	2.44
2011	--	--

Pursuant to Federal legislation, the origination of federal student loans under the FFEL Program was discontinued in July 2010.

Portfolio Loans. Loan default rates for students attending proprietary schools typically exceed that for two-year and four-year schools. School type mix for the total portfolio is as follows:

School Type	Total Portfolio as of September 30, 2011
Four Year	81%
Two Year	9
Proprietary	10

Including consolidation loans, the total portfolio as of September 30, 2011 is comprised of 44% four year, 5% two year, 5% proprietary, and 46% consolidation loans.

Eligible FFEL Program loans sold ("put") to the Department of Education under Federal legislation provisions of have been removed from TGSLC's portfolio.

Reserves. TGSLC's Reserve Ratio as reported by the Department of Education is as follows:

Federal Fiscal Year	Reserve Ratio
2007	0.900
2008	0.905
2009	0.980
2010	1.470
2011	1.667

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

Federal Fiscal Year	Claims Rate
2007	3.01
2008	3.32
2009	3.40
2010	2.99
2011	3.56

No Liability to Bondholders. The information concerning TGSLC in this Official Statement has been provided for the sole purpose of describing TGSLC's function as guarantor of certain of the Pledged Eligible Loans. TGSLC has no obligation or liability of any kind to the holders of the Bonds or to pay the principal of, redemption premium (if any), or interest on the Bonds.

Miscellaneous. Liabilities created by TGSLC are not debts of the State of Texas and TGSLC may not secure any liability with funds or assets of the State of Texas except as otherwise provided in the final sentence of this paragraph. TGSLC is subject to the Texas Sunset Act (Chapter 325, Government Code) and as a result of Sunset Review completed in 2004, the Texas legislature enacted legislation to extend TGSLC's existence until September 1, 2021. If TGSLC is abolished in a subsequent Sunset

Review, the Comptroller of Public Accounts of the State of Texas is required under the Authorizing Act to serve as trustee to administer the assets of TGSLC and satisfy its outstanding obligations.

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

THE ELIGIBLE LENDER TRUSTEE

BOKF, NA dba Bank of Texas, is the Eligible Lender Trustee for the Issuer. The Eligible Lender Trustee has or will acquire, on behalf of the Issuer, legal title to all of the Pledged Eligible Loans. The Eligible Lender Trustee, on behalf of the Issuer, has entered into a guarantee agreement with each of the guarantee agencies described in this Official Statement with respect to all of the Pledged Eligible Loans. The Eligible Lender Trustee qualifies as an eligible lender and the holder of the Issuer's Pledged Eligible Loans for all purposes under the Higher Education Act and the guarantee agreements.

The Eligible Lender Trustee may resign at any time by giving written notice to the Issuer. The Issuer may also remove the Eligible Lender Trustee at any time upon payment to the Eligible Lender Trustee of all moneys, fees and expenses then due to it. Such resignation or removal of the Eligible Lender Trustee and appointment of a successor will become effective only when a successor accepts its appointment.

The Eligible Lender Trustee is acting as "eligible lender" with respect to the Pledged Eligible Loans as an accommodation to the Issuer and not for the benefit of any other party. Notwithstanding any responsibility that the Eligible Lender Trustee may have to the Secretary of Education or any guarantee agency under the Higher Education Act, the Eligible Lender Trustee will not have any responsibility for the action or inaction of the Issuer or any other party in connection with the Pledged Eligible Loans and the documents, agreements, understandings and arrangements relating to the Pledged Eligible Loans.

The liability of the Eligible Lender Trustee in connection with the issuance and sale of the Bonds will consist solely of discharging its express obligations set forth in the Eligible Lender Trust Agreement between it and the Issuer. The Eligible Lender Trustee will not be personally liable for any actions or omissions that were not the result of its own fraud, willful misconduct or negligence. The Eligible Lender Trustee will be entitled to be indemnified by the Issuer for any loss, liability or expense (including reasonable attorneys' fees) incurred by it in connection with the performance of its duties as eligible lender trustee, except for any loss, liability or expenses caused by the Eligible Lender Trustee's fraud, willful misconduct or negligence.

SERVICING OF THE PLEDGED ELIGIBLE LOANS

The Issuer is required under the Higher Education Act, the rules and regulations of the guaranty agencies and the Indenture to cause the servicing and collection of the Pledged Eligible Loans to be conducted with due diligence. The Higher Education Act defines due diligence as requiring the use of collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. The Higher Education Act also requires the exercise of reasonable care and diligence in the making and servicing of Eligible Loans originated under the Higher Education Act and provides that the Secretary may disqualify an "eligible lender" (which could include the Eligible Lender Trustee as holder of Eligible Loans acquired under the Higher Education Act) from further federal insurance if the Secretary is not satisfied that the foregoing standards have been or will be met. An eligible lender may not relieve itself of its responsibility for meeting these standards by delegation of its responsibility to any servicing agent and, accordingly, if any servicer fails to meet such standards, the Issuer's ability to realize the benefits of insurance may be adversely affected.

The Higher Education Act requires that a guaranty agency ensure that due diligence will be exercised by an eligible lender in making and servicing Eligible Loans originated under the Higher Education Act guaranteed by such guaranty agency. Each guaranty agency establishes procedures and standards for due diligence to be exercised by the servicer and by eligible lenders which service loans subject to such guaranty agency's guarantee. If a Servicer does not comply with the established due diligence standards, the Issuer's ability to realize the benefits of any guaranty may be adversely affected.

HESC, as Master Servicer, will oversee the servicing of all of the Pledged Eligible Loans expected to be pledged as part of the trust estate under the Indenture on the date of issuance pursuant to its servicing agreement with the Issuer and the Trustee. HESC, as a Servicer, will directly service and make collections on certain of the Pledged Eligible Loans, and will subcontract with Edfinancial and Nelnet (each, a "Servicer" or a "Subservicer") to directly service and make collections on substantially all of the remaining Pledged Eligible Loans. PHEAA will act as Backup Servicer with respect to the Pledged Eligible Loans directly serviced by HESC and the Pledged Eligible Loans which are subserviced by Edfinancial. The Issuer may from time to time enter into other servicing agreements and arrangements in accordance with the terms of the Indenture.

The following is certain additional information with respect to HESC; Edfinancial; Nelnet and the Backup Servicing Agreements with respect to the Pledged Eligible Loans directly serviced by HESC and the Pledged Eligible Loans subserviced by Edfinancial.

Higher Education Servicing Corporation

The following information has been furnished by Higher Education Servicing Corporation ("HESC") for use in this Official Statement.

General. The Issuer has entered into a servicing agreement dated May 1, 2005 (as amended and supplemented, the "Servicing Agreement") among the Issuer, the Trustee and HESC pertaining to the Issuer's Eligible Loans, including the Pledged Eligible Loans. HESC is a non-profit 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. HESC is located at 1250 East Copeland Road, Suite 200, Arlington, Texas 76011-4921, Telephone (817) 265-9158 and is governed by a self-perpetuating six-member Board of Directors.

HESC has provided management and administrative support and servicing of Eligible Loans to the Issuer for over 30 years. HESC has entered into a subservicing agreement with Edfinancial, under which Edfinancial currently performs many student loan servicing activities for most of the Issuer's Eligible Loan portfolio on behalf of HESC. While the subservicer is responsible for performing the tasks necessary to insure the guarantee on the Eligible Loans, HESC supervises all its activities and in the past has supplemented the subservicer's collection efforts by performing default prevention, review of claims and denied claims, and skip-tracing. Since 1994, HESC has been engaged by over 20 lenders to originate Eligible Loans on their behalf and to service such loans until the loans enter repayment and are sold to the Issuer. During fiscal year 2010, HESC originated and serviced in excess of $380 million in principal amount of Eligible Loans and during fiscal year 2011, HESC originated and serviced in excess of $248 million in principal amount of Eligible Loans.

In 2005, the Issuer expressed its desire for HESC to gradually perform full servicing of the Issuer's Eligible Loans without the use of subservicers because it believed that HESC's servicing activities were superior to those provided by the subservicers. Accordingly, HESC expanded its staff and facilities so that it could perform all servicing duties associated with the Issuer's Eligible Loans. HESC began full servicing of Eligible Loans for the Issuer in May 2006 and is currently servicing approximately \$191 million of Eligible Loans owned by the Issuer. HESC currently utilizes student loan servicing software under a license agreement from 5280 Solutions.

HESC has undergone audits of its loan servicing system, general controls environment and servicing policies/procedures pursuant to AICPA Statement on Standards for Attestation Engagements (SSAE 16 Audit), formerly referred to as Type II SAS 70 Audit. The first SSAE 16 Audit was performed for the period of January 1, 2007 through June 30, 2007. The most recently released Audit was for the period of July 1, 2010 through June 30, 2011 and the third-party audit report has been issued.

As of the statistical cut-off date, HESC directly serviced approximately 16.01% of the Eligible Loans expected to be pledged under the Indenture on the date of issuance of the Bonds and relied on Edfinancial to subservice approximately 77.45% of the Eligible Loans expected to be pledged under the Indenture on the date of issuance of the Bonds. As of the statistical cut-off date, Nelnet Servicing, LLC subserviced approximately 6.54% of the remaining Eligible Loans expected to be pledged under the Indenture on the date of issuance of the Bonds.

The present Board of Directors of HESC is as follows:

Name and Position Held	**Principal Occupation**
Mr. Ken D. Woods President	President CMW Management Corporation
Dr. Jerry Lytle Vice President	Director of Placement (Retired) East Texas State University
Mrs. Judy Schneider Secretary/Treasurer	Consultant Financial Aid Services
Ms. June Hagler	Associate Director of Student Financial Aid – Retired Southern Methodist University Dallas, Texas
Vacant	
Vacant	

The current staff of the Servicer consists of 38 permanent full-time employees and 5 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 has served nine years as a member of the board of directors of the Mayo Foundation at Texas A&M University Commerce and sixteen years as a member of the board of directors of the Education Finance Council, a national organization for not-for-profit secondary markets. She is currently a member of the board of directors of the National Council of Higher Education Loan Programs. Ms. Bryan holds a B.S. degree and an M.S. degree in Business Education and an M.B.A. degree in Management from Texas A & M University Commerce.

Bimal J Radia, Chief Financial Officer. Mr. Radia has the overall responsibility of managing finance, accounting and investment activities of the Authority. Prior to joining the Servicer in February 2011, he managed client/investor relationships at Litton Loan Servicing (a subsidiary of Goldman Sachs & Co.). Mr. Radia has also served as Vice President of Capital Markets at First Marblehead Corporation and as Chief Financial Officer of the Massachusetts Educational Financing Authority for nine years. He also serves in an advisory capacity for Houston Technology Center, assisting start-up companies in raising capital. Mr. Radia holds a Bachelors Degree in Commerce from the Gujarat University, an M.B.A. degree in Management from University of Massachusetts and a M.S. degree in Finance from Boston College.

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

Robert Sandlin, Director of Policy and Compliance. Mr. Sandlin's responsibility includes internal audit and oversight of regulatory and statutory compliance. Prior to joining the Servicer in 2006, he spent 20 years working in the student loan industry. He was previously employed by TGSLC and two other Texas student loan servicers. He also has provided consulting services in the areas of compliance and oversight. Mr. Sandlin has served on the Regulations Committee of the National Council of Higher Education Loan Programs since 1995. He holds a B.B.A. degree in finance from West Texas A & M University.

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

Paulette Walker, Director of Loan Acquisitions. Ms. Walker's responsibility includes the acquisition of student loans, customer service and records and vault management. She joined the Servicer in 1993 and spent 13 years as Director of Loan Services for the Servicer. Her experience consists of eight years with a large student loan servicer and two years with the Louisiana state secondary market. Ms. Walker attended Oklahoma State University.

The Servicing Agreement. The following summary of the material terms of the Servicing Agreement does not cover every detail of the Servicing Agreement, and reference should be made to the Servicing Agreement for a full and complete statement of its provisions.

Under the Servicing Agreement, HESC has agreed to service the Pledged Eligible Loans included in the trust estate created under the Indenture. In servicing such Pledged Eligible Loans, HESC 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 guaranty agencies of the Pledged Eligible Loans.

Pursuant to the Servicing Agreement, HESC reviews student loans to be purchased by the Issuer and is required to use its best efforts to ensure 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. HESC certifies to the Trustee that, to the best of its knowledge, each Eligible Loan appears to qualify in all respects as an Eligible Loan under the Indenture, that each Eligible 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 HESC 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 Eligible 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 an Eligible Loan to the Issuer failed to comply with the due diligence requirements of the Higher Education Act during the time it owned the loan, HESC is required to recourse the loan back to the seller, with any recovery to be for the account of the trust estate.

HESC is required to prepare and send or will cause to be prepared and sent to the Trustee information to be added to the quarterly request to the Department of Education for payment of all interest subsidies and special allowance payments. Servicing and collection reports pertaining to the Eligible Loans are required to be prepared and retained by HESC.

HESC may subcontract with others to perform its servicing duties under the Servicing Agreement. HESC has contracted with the Subservicers described below and may contract with other subservicers or may have the Pledged Eligible Loans serviced under any such contract or contracts.

The Issuer has agreed to hold HESC harmless for any insurance claim which the Secretary or a guaranty agency refuses to pay because of a failure on the part of the originating lender to exercise due diligence in the loan origination process. The Issuer is required to indemnify and hold HESC 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 HESC, Edfinancial or any custodian, except those arising out of HESC's own negligence or that of its sub-agents or HESC's acts which are unauthorized or not within the scope of the Servicing Agreement. HESC's liability is limited to amounts it receives from the Subservicers and its own loan loss reserve, which is currently equal to $662,773. HESC will not be accountable or responsible for any action of the Issuer or the Trustee.

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

The Issuer is required to pay HESC monthly and to reimburse it for any fees paid on behalf of the Issuer pursuant to the Indenture.

The Servicing Agreement provides that the Trustee is not accountable or responsible in any manner whatsoever for any action of HESC or the Subservicer.

The Subservicers

HESC has entered into subservicing agreements with each of Edfinancial and Nelnet (the "Subservicers") under which Edfinancial and Nelnet currently perform many Eligible Loan servicing activities for most of the Issuer's Eligible Loan portfolio on behalf of HESC. A description of each of Edfinancial and Nelnet is set forth below.

Edfinancial Services, LLC

The following information has been furnished by Edfinancial Services, LLC ("Edfinancial") for use in this Official Statement. The Issuer does not guarantee or make any representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of Edfinancial subsequent to the date hereof.

General. Edfinancial Services, LLC is a Nevada limited liability company that is empowered and legally authorized by its organizational documents to conduct business required by its obligations under the Higher Education Act and the Servicing Agreement. The principal office of Edfinancial is located at 298 North Seven Oaks Drive, Knoxville, Tennessee, with an operations center located at 120 North Seven Oaks Drive, Knoxville, Tennessee. Edfinancial also maintains offices in Little Rock, Arkansas and Jacksonville, Florida. Edfinancial provides full student loan servicing for lenders and secondary markets nationwide, which servicing includes assets of the U.S. Department of Education. As of May 31, 2012, Edfinancial's loan servicing volume was approximately $19,500,000,000.

As of May 31, 2012, Edfinancial employed a staff of approximately 423 full time and part time personnel performing various functions, including loan servicing, regulatory compliance and internal accounting. Edfinancial's loan servicing portfolio is currently housed on the remote servicing system owned by PHEAA. Edfinancial has submitted a Notice of Termination of its remote agreement to PHEAA, and has entered in a license agreement with 5280 Solutions, LLC ("5280," a subsidiary of Nelnet, Inc.) for use of 5280's servicing system. The terms and conditions of the PHEAA remote agreement shall continue to govern the remote servicing arrangement between PHEAA and Edfinancial until the date on which all of Edfinancial's serviced portfolio is deconverted off of PHEAA's remote system and onto the 5280 remote servicing system.

The Edfinancial Subservicing Agreement. HESC and Educational Services of America, Inc. entered into the Edfinancial Subservicing Agreement as of November 15, 2002 (the "Edfinancial Subservicing Agreement"). Educational Services of America, Inc. assigned the agreement to Edfinancial Services, LLC as of September 15, 2006. The agreement had an initial five year term and was extended November 15, 2007 for an additional term ending June 30, 2013.

In accordance with the Edfinancial Subservicing Agreement, HESC has agreed to place on Edfinancial's loan servicing system certain Eligible Loans made or acquired by the Issuer including all Eligible Loans made or acquired which have a borrower who has a prior loan being serviced by Edfinancial. HESC has no obligation to place Eligible Loans with Edfinancial (a) which are for borrowers who have prior loans held by the Issuer which are being serviced by another entity under a contractual undertaking predating the Edfinancial Subservicing Agreement or for which the Issuer is obligated to deliver to another servicer under a contractual undertaking predating the Edfinancial Subservicing Agreement; (b) which, as a condition of acquisition, are required to be serviced by an entity other than Edfinancial; or (c) if Edfinancial consents to the delivery of such loans to another servicer. Edfinancial will perform servicing functions for those Pledged Eligible Loans presented to it for servicing by HESC 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.

Edfinancial has specifically agreed to promptly and routinely furnish HESC with copies of all material reports, records, and other documents and data reasonably required by HESC, and to maintain all correspondence received by it relating to individual borrower accounts and to make such information available to HESC. Edfinancial is required to submit those reports which Edfinancial is legally required to submit. Other required governmental reports or requests for data with respect to Eligible Loans serviced under the Edfinancial Subservicing Agreement not legally the responsibility of Edfinancial will be the responsibility of HESC. Edfinancial has covenanted that, at all times during the term of the Edfinancial Subservicing Agreement, it will be a third-party servicer which satisfies and complies with the standards and requirements of the Higher Education Act and the regulations thereunder. Additionally, Edfinancial has agreed to establish procedures mutually acceptable to HESC and Edfinancial for the collection of amounts payable on Eligible Loans under the Edfinancial Subservicing Agreement. All sums received by Edfinancial with respect to any Eligible Loans, whether attributable to principal, interest, or any other amounts payable are required to be deposited daily in a third-party lockbox account maintained by Edfinancial at a financial institution mutually acceptable to Edfinancial and HESC. Receipts are to be transferred weekly to accounts held by the Issuer or its Trustee. Under certain circumstances, Edfinancial is authorized to withdraw money from the lockbox account, including when necessary to refund overpayments made by a borrower, to refund money to a guarantor when a defaulted borrower makes additional payments to Edfinancial, to refund money to the guarantor when the lender repurchases a defaulted loan, or to correct money deposited in error in the lockbox account. Edfinancial may withdraw funds for other reasons only with the prior written consent of HESC. HESC will be responsible for auditing or causing the auditing of all processed records and reporting any errors to Edfinancial within 60 days of receipt.

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

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

In the event any guaranty agency denies a claim made by Edfinancial with respect to any loan owned by the Issuer due to an error or omission by Edfinancial, then Edfinancial will have a period of eleven months following the date of the denial in which to cure such error or omission and to have the guarantee reinstated. In the event that Edfinancial fails to cure such violation, then Edfinancial is required to purchase the loan from the Issuer for a purchase price equal to the price that the guaranty agency would have paid the Issuer in the absence of such servicing error or omission, plus accrued interest.

Nelnet Servicing, LLC

The following information has been furnished by Nelnet Servicing, LLC ("Nelnet") for use in this Official Statement. The Issuer does not guarantee or make any representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of Nelnet subsequent to the date hereof.

General. Nelnet began its education loan servicing operations on January 1, 1978, and provides student loan servicing that includes application processing, underwriting, fund disbursement, customer service, account maintenance, federal reporting and billing collections, payment processing, default aversion, claim filing and recovery/collection services. These activities are performed internally for Nelnet's portfolio and for third-party clients including the federal government. Nelnet has offices located in, among other cities, Aurora, Colorado and Lincoln, Nebraska, and, as of December 31, 2011 employed approximately 2,400 employees. As of December 31, 2011, Nelnet serviced approximately $76 billion of commercially owned and government-owned student loans.

The information included herein relating to Nelnet has been obtained from Nelnet and has not been independently verified by the Issuer, the Underwriter or their respective counsel or Bond Counsel. The inclusion of this information is not, and should not be construed as, a representation by the Issuer, the Underwriter or their respective counsel or Bond Counsel as to its accuracy or completeness or otherwise.

The Nelnet Subservicing Agreement. The Loan Servicing Agreement, dated as of April 1, 2003, between Nelnet, Inc. and HESC (the "Nelnet Subservicing Agreement"), provided for an initial term of five years which ended on March 31, 2008 and thereafter continued on a month to month basis. The Nelnet Subservicing Agreement was renewed as of May 30, 2008 and was assigned to Nelnet Servicing, LLC on January 1, 2009.

In accordance with the Nelnet Subservicing Agreement, Nelnet will perform servicing functions for those Financed Eligible Loans presented to it for servicing by HESC. Nelnet will maintain a complete file for the eligible student loans of each borrower, take all steps (excluding cure activity if non-Servicer error) necessary to maintain the insurance or guarantee coverage on each student loan in full force and effect at all times, endeavor to collect or cause to be collected and, upon receipt, pay to HESC all payments of principal of and interest on all eligible loans, retain summary records of all contacts, follow-ups and collection efforts, prepare and maintain all appropriate accounting records with respect to all transactions related to the eligible loans of each borrower, handle the processing of all adjustments, including extensions, reinstatements and deferments, handle the processing of all address changes, and in the case of defaulted eligible loans, take all steps necessary to file and prove a claim for loss with the Secretary of Education or the guarantee agency, as the case may be and as required, and assume responsibility for all necessary communication and contact with the Secretary or the guarantee agency, as the case may be, to accomplish recovery on such defaulted eligible loans.

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 Issuer. 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 if any student loans serviced by Nelnet are removed from Nelnet's system prior to their payment in full due to an increase in fees not accepted by HESC or a breach of the Nelnet Subservicing Agreement.

Backup Servicer and Backup Servicing Agreements

Pursuant to the Backup Servicing Agreements, PHEAA will act as Backup Servicer with respect to the Pledged Eligible Loans directly serviced by HESC and the Pledged Eligible Loans subserviced by

Edfinancial.[1] If HESC decides to no longer service Pledged Eligible Loans or if HESC is in material violation of its obligations to service the Pledged Eligible Loans serviced by it in accordance with the terms of its servicing agreement and such violation remains uncured after notice thereof and the expiration of any applicable cure period, then at the written direction of the Issuer or the registered owners of a majority in aggregate principal amount of the Bonds outstanding, the Trustee will provide thirty days' written notice to PHEAA of the determination that all of the Pledged Eligible Loans then directly serviced by HESC will be serviced under the HESC Backup Servicing Agreement. If Edfinancial decides to no longer service Pledged Eligible Loans or if Edfinancial is in material violation of its obligations to service the Pledged Eligible Loans serviced by it in accordance with the terms of its servicing agreement and such violation remains uncured after notice thereof and the expiration of any applicable cure period, then at the written direction of HESC, the Issuer, or the registered owners of a majority in aggregate principal amount of the Bonds outstanding, the Trustee will provide thirty days' written notice to PHEAA of the determination that all of the Pledged Eligible Loans then serviced by Edfinancial will be serviced under the Edfinancial Backup Servicing Agreement.

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[1] As of the date of this Official Statement, the Authority had contracted with PHEAA to act as the Backup Servicer for certain of the Authority's loans directly serviced by HESC and certain of the Authority's loans subserviced by Edfinancial. The Authority expects to enter into amendments to the backup servicing agreements which would allow PHEAA to act as the Backup Servicer with respect to all the Pledged Eligible Loans directly serviced by HESC or subserviced by Edfinancial. Such amendments are expected to be effective on or about the date of issuance of the Bonds.

FEES AND EXPENSES

The annual fees payable by the Issuer are set forth in the table below. The priority of payment of such fees is described below in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds."

Fees	Recipient	Amount
Administration Fee	Higher Education Servicing Corporation	0.15%[1]
Servicing Fee	Higher Education Servicing Corporation	0.34%[2]
Trustee Fee	BOKF, NA dba Bank of Texas	0.01%[3]
Subordinate Administration Fee	Higher Education Servicing Corporation	0.10%[4]
Carryover Administration and Servicing Fee	Higher Education Servicing Corporation	Not to Exceed $40,000[5]

[1] As a percentage of the Pool Balance as of the first day of each month in the related Collection Period. One-twelfth of the amount referenced above is payable on each Monthly Distribution Date. The Administration Fee will also be paid on August 1, 2012, September 4, 2012 and October 1, 2012 and will be calculated as a percentage of the Pool Balance as of the date of issuance of the Bonds, August 1, 2012 and September 4, 2012 respectively.

[2] Monthly servicing fees paid from the trust estate are paid monthly according to schedules set forth in each servicing agreement with the first such payment to be made on August 1, 2012; commencing with the Collection Period spanning the calendar month of July 2013, monthly servicing fees have an assumed 3.00% inflation rate per annum. For the first full month of the transaction, the servicing fees will be approximately 1/12th of 0.34% per annum of the principal balance of the Eligible Loans.

[3] The trustee fee will not exceed 0.01% per annum of the principal amount of the Bonds outstanding on June 1 of each year and is payable annually in advance commencing on July 1, 2013 and on each Monthly Distribution Date thereafter, to the extent unpaid.

[4] The subordinate administration fee will be calculated monthly based on the Pool Balance as of the first day of each month in the related Collection Period, shall be equal to 0.10% per annum and is payable on each Monthly Distribution Date only if the Parity Ratio with respect to all of the Bonds as of the Monthly Distribution Date is equal to 104.50% or higher.

[5] This amount shall not exceed $40,000 per year, and is first payable July 1, 2013. It is intended to be used for unpaid miscellaneous servicing and administration.

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USE OF PROCEEDS

The estimated sources and uses are expected to be applied as follows. All amounts reflected in the table below are estimates and the final amounts will not be determined until the date of issuance.

Source of Funds:	
Proceeds of the Bonds (less original issue discount and underwriting discount)	$460,295,736
Cash from Restated 1998 Indenture and Restated 2001 Indenture	7,994,265
Total	$468,290,001
Uses:	
Refund bonds outstanding under the Restated 1998 Indenture and Restated 2001 Indenture	$459,569,412
Deposit to Collection Fund	6,836,265
Deposit to Reserve Fund	1,158,000
Costs of Issuance	726,324
Total	$468,290,001

On the date of issuance, the Issuer will pledge Eligible Loans released from the Restated 1998 Indenture and the Restated 2001 Indenture to the Trustee under the Indenture, collectively in an amount, equal to, as of the statistical cut-off date of May 31, 2012, approximately $472,084,461, plus accrued interest of approximately $8,343,514 (of which approximately $5,779,506 is expected to be capitalized).

The Bonds are being issued to refund all of the bonds outstanding under the Restated 1998 Indenture and the Restated 2001 Indenture. The following series of bonds are outstanding under the Restated 1998 Indenture: 1998, 2000B, 2005A, 2005B, 2007A, and 2007B (the outstanding aggregate principal amount of these six series of bonds totals $312,180,000 as of June 1, 2012); and the following series of bonds are outstanding under the Restated 2001 Indenture: 2001A, 2004A and 2010E (the outstanding aggregate principal amount of these 3 series of bonds totals $164,340,000 as of June 1, 2012). The bonds outstanding under the Restated 1998 Indenture and the Restated 2001 Indenture will be redeemed on the expected redemption date of July 24, 2012 at a redemption price of par plus accrued interest to the redemption date.

Upon the issuance of the Bonds and the application of the proceeds thereof to refund the bonds outstanding under the Restated 1998 Indenture and the Restated 2001 Indenture and pay the costs of issuance of the Bonds, the release of the moneys from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture and the deposit of such moneys to the Collection Fund and the Reserve Fund, the pledge of the Eligible Loans described in the preceding paragraph to the Trustee under the Indenture, and the payment of the costs of issuance of the Bonds, the ratio of total assets held under the Indenture, including accrued interest on the Pledged Eligible Loans, to the principal amount of the Bonds on the date of issuance will be approximately 104.01%.

THE PLEDGED ELIGIBLE LOANS

The Eligible Loans expected to be pledged to the Trustee were and will be loans made under the Higher Education Act to finance post-secondary education. Loans that meet the foregoing criteria are sometimes referred to in this Official Statement as “Eligible Loans.”

The Issuer has agreed to purchase or provide a substitute for, or may have the right to require a third-party Servicer to purchase, a Pledged Eligible Loan from the trust estate. This right against the Issuer arises generally if a Pledged Eligible Loan ceases to be guaranteed or insured (and a guarantee or insurance claim is not paid by a guaranty agency or by the United States) or is determined to be encumbered by a lien other than the lien of the Indenture and if the same is not cured within the applicable cure period. This right against a Servicer arises generally as the result of a breach of certain covenants with respect to such Eligible Loan, in the event such breach materially adversely affects the interests of the Issuer in that Pledged Eligible Loan and is not cured within the applicable cure period. Additionally, any remedies that the Issuer has with respect to the Pledged Eligible Loans from a third-party under a student loan purchase agreement or a servicing agreement will be assigned and pledged to the Trustee under the Indenture.

CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS
(As of the Statistical Cut-off Date)

As of May 31, 2012, the statistical cut-off date, the characteristics of the pool of Eligible Loans the Issuer expects to pledge to the Trustee pursuant to the Indenture on the date of issuance were collectively as described below. The aggregate outstanding principal balance of the Eligible Loans in each of the following tables includes the principal balance due from borrowers, which does not include total accrued interest of approximately $8,343,514 (of which approximately $5,779,506 is expected to be capitalized). The percentages set forth in the tables below may not always add to 100% and the balances may not always add to $472,084,461 due to rounding.

The aggregate characteristics of the entire pool of Eligible Loans expected to be pledged on the date of issuance, including the composition of the Eligible Loans and the related borrowers, the related guarantors, the distribution by Eligible Loan type, the distribution by interest rate, the distribution by principal balance and the distribution by remaining term to scheduled maturity, may vary from the information presented below since the information presented below is as of the statistical cut-off date, and the date that the Pledged Eligible Loans will be pledged to the Trustee under the Indenture will occur after that date. In addition, the Issuer has the right to sell certain of the Pledged Eligible Loans as described under "SUMMARY OF THE INDENTURE PROVISIONS—Sale of Pledged Eligible Loans."

The Issuer offers a variety of borrower incentive programs for Eligible Loans originated or acquired by it that, among other things, provide for an interest rate reduction for borrowers that make payments on their loans electronically. See "THE ISSUER'S FFEL PROGRAM."

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Composition of the Pledged Eligible Loan Portfolio
(As of the Statistical Cut-off Date)

Aggregate Outstanding Principal Balance:	$472,084,461
Accrued Interest to be Capitalized:	$5,779,506
Number of Borrowers:[(1)]	38,898
Average Outstanding Principal Balance Per Borrower:	$12,136
Number of Loans:	93,232
Average Outstanding Principal Balance Per Loan:	$5,064
Weighted Average Remaining Term to Scheduled Maturity (Months):[(2)]	146
Weighted Average Payments Made (Months):	41
Weighted Average Annual Borrower Interest Rate:[(3)]	5.04%
Weighted Average Special Allowance Payment Repayment Margin to 1-Month LIBOR:	2.43%
Weighted Average Special Allowance Payment Repayment Margin to 91-Day Treasury Bill:	3.07%

[(1)] A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.
[(2)] The weighted average remaining term to scheduled maturity shown in the table above was determined from the statistical cut-off date to the stated maturity date of the applicable Eligible Loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.
[(3)] The weighted average annual borrower interest rate shown in the table above was determined without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

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Distribution of the Pledged Eligible Loans by Loan Type
(As of the Statistical Cut-off Date)

Loan Type	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Stafford– Unsubsidized	33,510	$134,242,128	28.44%
Stafford – Subsidized	43,233	130,072,317	27.55
Consolidation – Unsubsidized	6,952	103,330,118	21.89
Consolidation – Subsidized	6,876	88,146,734	18.67
Plus	2,175	12,093,074	2.56
Grad PLUS	486	4,200,090	0.89
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by Range of Annual Borrower Interest Rate
(As of the Statistical Cut-off Date)

Range of Annual Borrower Interest Rate	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Less than or equal to 2.00%	9,137	$35,825,482	7.59%
2.01% - 3.00%	28,178	102,668,267	21.75
3.01% - 4.00%	4,875	40,718,481	8.63
4.01% - 5.00%	2,978	38,315,288	8.12
5.01% - 6.00%	1,863	25,164,365	5.33
6.01% - 7.00%	41,888	181,932,763	38.54
7.01% - 8.00%	1,660	22,508,045	4.77
Greater than 8.00%	2,653	24,951,770	5.29
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by School Type
(As of the Statistical Cut-off Date)

School Type	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
4-Year Institution	73,957	$389,259,281	82.46%
2-Year Institution	12,332	40,752,613	8.63
Unknown	2,061	23,712,945	5.02
Proprietary	4,882	18,359,622	3.89
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by SAP Interest Rate Index
(As of the Statistical Cut-off Date)

SAP Interest Rate Index	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
1-month LIBOR Index	89,264	$452,751,177	95.90%
91-day T-Bill Index	3,968	19,333,283	4.10
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by Borrower Payment Status
(As of the Statistical Cut-off Date)

Borrower Payment Status	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
In School	3,940	$13,305,546	2.82%
Grace	2,176	7,154,619	1.52
Deferment	14,485	65,055,988	13.78
Forbearance	10,550	60,100,951	12.73
Repayment (First Year)	17,526	79,340,914	16.81
Repayment (Second Year)	7,189	27,945,875	5.92
Repayment (Third Year)	7,473	25,560,715	5.41
Repayment (More than 3 Years)	29,084	190,025,543	40.25
Claims Filed	809	3,594,309	0.76
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by Number of Days Delinquent
(As of the Statistical Cut-off Date)

Number of Days Delinquent	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Less than or equal to 30	81,482	$415,218,268	87.95%
31 – 60	2,861	14,346,871	3.04
61 – 90	1,806	9,040,626	1.92
91 – 120	1,357	6,748,993	1.43
121 – 150	1,038	4,901,383	1.04
151 – 180	785	3,758,135	0.80
181 – 210	760	3,248,674	0.69
211 – 240	765	3,757,058	0.80
Greater than 240	2,378	11,064,453	2.34
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by Date of Disbursement (Dates Correspond to Changes in Guaranty Percentages) (As of the Statistical Cut-off Date)*

Date of Disbursement	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
July 1, 2006 and after	47,951	$251,483,760	53.27%
October 1, 1993 – June 30, 2006	44,725	219,168,718	46.43
Pre October 1, 1993	556	1,431,982	0.30
Total	93,232	$472,084,461	100.00%

*FFELP Loans disbursed prior to October 1, 1993 are 100% guaranteed by the guarantee agency. FFELP Loans disbursed on or after October 1, 1993 and before July 1, 2006 are 98% guaranteed by the guarantee agency. FFELP Loans disbursed on or after July 1, 2006 are 97% guaranteed by the guarantee agency. See "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM."

Distribution of the Pledged Eligible Loans by Date of Disbursement (Dates Correspond to Changes in Special Allowance Payment) (As of the Statistical Cut-off Date)*

Date of Disbursement	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Pre April 1, 2006	41,965	$203,155,211	43.03%
April 1, 2006 – September 30, 2007	42,970	222,688,027	47.17
October 1, 2007 and after	8,297	46,241,223	9.80
Total	93,232	$472,084,461	100.00%

*For FFELP Loan disbursed on or after April 1, 2006, if the stated interest rate is higher than the rate applicable to such loan including Special Allowance Payments, the holder of the loan is to credit the difference to the Department of Education. FFELP Loans disbursed on or after October 1, 2007 and before July 1, 2010 have a higher SAP margin for eligible not-for-profit lenders such as the Authority than for for-profit lenders, but a 40 bps to 70 bps lower SAP margin than loans originated on or after January 1, 2000 and before October 1, 2007.

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Distribution of the Pledged Eligible Loans by Range of Outstanding Principal Balance
(As of the Statistical Cut-off Date)

Range of Outstanding Principal Balance	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Less than or equal to $2,000.00	25,585	$29,195,984	6.18%
$2,000.01 - $4,000.00	31,121	91,314,655	19.34
$4,000.01 - $6,000.00	17,011	84,540,324	17.91
$6,000.01 - $8,000.00	6,692	45,506,496	9.64
$8,000.01 - $10,000.00	3,778	33,596,098	7.12
$10,000.01 - $15,000.00	3,964	48,436,238	10.26
$15,000.01 - $20,000.00	1,888	32,535,809	6.89
$20,000.01 - $25,000.00	1,169	26,077,356	5.52
$25,000.01 - $30,000.00	692	18,846,832	3.99
$30,000.01 - $40,000.00	653	22,632,182	4.79
$40,000.01 - $50,000.00	302	13,374,654	2.83
$50,000.01 - $60,000.00	170	9,256,613	1.96
Greater than $60,000.00	207	16,771,220	3.55
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by
Range of Remaining Repayment Term to Scheduled Maturity
(As of the Statistical Cut-off Date)[**]

Range of Remaining Repayment Term to Scheduled Maturity (in months)	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Less than or equal to 24	1,577	$3,121,227	0.66%
25 – 36	1,231	1,670,178	0.35
37 – 48	2,015	3,457,979	0.73
49 – 60	3,903	10,471,864	2.22
61 – 72	5,657	15,703,105	3.33
73 – 84	9,567	30,008,873	6.36
85 – 96	9,975	34,223,948	7.25
97 – 108	12,268	47,455,444	10.05
109 – 120	37,499	158,800,959	33.64
121 – 144	1,964	26,121,776	5.53
145 – 168	1,723	20,055,244	4.25
169 – 192	1,985	25,448,088	5.39
193 – 216	919	14,951,211	3.17
217 – 240	1,213	23,363,248	4.95
Greater than 240	1,736	57,231,316	12.12
Total	93,232	$472,084,461	100.00%

[**] Determined by excluding any current deferral or forbearance periods, and any deferral or forbearance periods that may be granted in the future.

The following chart shows the geographic distribution of the Pledged Eligible Loans based on the permanent billing addresses of the borrowers as shown on HESC's records:

Distribution of the Pledged Eligible Loans by Geographic Location
(As of the Statistical Cut-off Date)

Geographic Location	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Texas	81,093	$395,892,065	83.86%
California	1,449	8,999,143	1.91
New York	689	4,531,199	0.96
Colorado	663	4,302,131	0.91
Florida	608	3,474,395	0.74
Oklahoma	597	3,444,524	0.73
Illinois	426	3,305,961	0.70
Virginia	473	2,893,934	0.61
Washington	352	2,835,851	0.60
Georgia	437	2,709,013	0.57
Louisiana	460	2,505,741	0.53
Arizona	368	2,387,830	0.51
Tennessee	394	2,076,000	0.44
Arkansas	319	1,923,163	0.41
Maryland	275	1,874,440	0.40
New Mexico	446	1,844,703	0.39
Massachusetts	215	1,644,210	0.35
North Carolina	308	1,590,993	0.34
Kansas	183	1,573,490	0.33
Missouri	244	1,541,440	0.33
Other	3,233	20,734,235	4.39
Total	93,232	$472,084,461	100.00%

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Distribution of the Pledged Eligible Loans by Servicer
(As of the Statistical Cut-off Date)

Servicer	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Edfinancial Services, LLC	66,631	$365,633,119	77.45%
Higher Education Servicing Corporation*	21,736	75,579,045	16.01
Nelnet Servicing, LLC	4,865	30,872,297	6.54
Total	93,232	$472,084,461	100.00%

* The Higher Education Servicing Corporation is expected to directly service approximately 16.01% of the outstanding principal balance of the Pledged Eligible Loans on the date of issuance of the Bonds pledged to the Trustee under the Indenture.

Distribution of the Pledged Eligible Loans by Guaranty Agency
(As of the Statistical Cut-off Date)

Guaranty Agency	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Texas Guaranteed Student Loan Corporation	92,323	$467,384,976	99.00%
USA Funds	680	3,537,650	0.75
ECMCA	89	757,073	0.16
Kentucky Higher Education Assistance Authority	104	280,667	0.06
Other	20	59,883	0.01
College Assist	8	31,863	0.01
Educational Credit Management Corporation	4	19,781	0.00^
EdFund	3	11,244	0.00^
American Student Assistance	1	1,322	0.00^
Total	93,232	$472,084,461	100.00%

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^ Greater than zero, but less than 0.01.

Distribution of the Pledged Eligible Loans by Rehab Loans
(As of the Statistical Cut-off Date)

Rehab Loans	Number of Loans	Outstanding Principal Balance	Percent of Loans by Outstanding Principal Balance
Non-Rehab Loan	86,584	$433,726,206	91.87%
Rehab Loan	6,648	38,358,254	8.13
Total	93,232	$472,084,461	100.00%

Distribution of the Pledged Eligible Loans by Loan Repayment Terms
(As of the Statistical Cut-off Date)

Loan Repayment Terms	Number of Loans	Aggregate Outstanding Balance	Percent of Loans by Aggregate Outstanding Balance
Level Repayment [1]	82,178	$362,968,776	76.89%
Other Repayment Options [2]	11,054	109,115,685	23.11
Total	93,232	$472,084,461	100.00%

(1) Also includes in-school and in-grace loans.
(2) Includes, among others, graduate repayment, income-sensitive, and interest-only period loans.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued pursuant to the terms of the Indenture. The Bonds will be the only bonds issued under the Indenture and no other bonds will be issued under the Indenture on and after the date of issuance of the Bonds. The Indenture and the Bonds will each be governed by the laws of the State of Texas. The following summary describes the material terms of the Bonds and related provisions of the Indenture. However, it is not complete and is qualified in its entirety by the actual provisions of the Indenture and the Bonds. Certain other provisions of the Indenture are described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "SUMMARY OF THE INDENTURE PROVISIONS."

The Issuer may elect to issue more classes of the Bonds than as described herein. The actual principal amount and other characteristics of the classes of Bonds will be described in the final Official Statement for the Bonds and may also be described in a term sheet or supplement to this Official Statement.

Interest Payments

Interest will accrue on the Bonds during each Interest Accrual Period. The initial Interest Accrual Period for the Bonds begins on the date of issuance and ends on October 31, 2012 (the day preceding the November 1, 2012 Monthly Distribution Date). For all other Monthly Distribution Dates, the Interest Accrual Period will begin on the prior Monthly Distribution Date and end on the day before the next Monthly Distribution Date.

Interest accrued on the outstanding principal balance of the Bonds during each Interest Accrual Period is payable on the following Monthly Distribution Date commencing November 1, 2012. Subsequent Monthly Distribution Dates for the Bonds will be on the first day of each calendar month, or if any such day is not a Business Day, the next Business Day. Interest accrued but not paid on any Monthly Distribution Date will be due on the next Monthly Distribution Date on which funds are available, together with an amount equal to interest on the unpaid amount to the extent permitted by law at the applicable rate per annum described below for each Interest Accrual Period.

The interest rate on the Bonds for each Interest Accrual Period, except for the initial Interest Accrual Period, will be equal to One-Month LIBOR plus 1.00% but not in excess of the Maximum Rate. The interest rate for the Bonds for the initial Interest Accrual Period will be calculated by reference to the following formula and may not exceed the Maximum Rate:

$x + [(a / b * (y-x)]$ plus 1.00%, as calculated by the Trustee,
where:

x = Three-Month LIBOR;

y = Four-Month LIBOR;

$a = 8$ (the actual number of days from the maturity date of Three-Month LIBOR to the first Monthly Distribution Date); and

$b = 33$ (the actual number of days from the maturity date of Three-Month LIBOR to the maturity date of Four-Month LIBOR).

The Trustee will calculate the rate of interest on the Bonds on the LIBOR determination date described below. The amount of interest distributable to holders of the Bonds for each $1,000 in principal amount will be calculated by multiplying the applicable interest rate for the Interest Accrual Period by $1,000, multiplying that product by the actual number of days in the Interest Accrual Period divided by 360, and rounding the resulting figure to the fifth decimal point.

The Maximum Rate is a Net Effective Interest Rate (as determined by applicable Texas law) equal to 15% per annum.

If the interest rate on the Bonds calculated as described above exceeds the Maximum Rate for any Interest Accrual Period, then interest at the Maximum Rate will be due and payable with respect to such Interest Accrual Period, and the Trustee will calculate the amount of interest which would have been payable had the Maximum Rate not been in effect less the amount of interest actually paid (the "Excess Amount"). If there is any Excess Amount as of any determination date and the interest rate for such Bonds determined as described above is less than the Maximum Rate for the succeeding Interest Accrual Period, then, to the extent permitted by law, the Bonds will bear interest at a rate not to exceed the Maximum Rate until the Excess Amount is paid in full. The Excess Amount is used solely to determine the interest rate on the Bonds to the date of their maturity and is not otherwise payable to the Bondholders. Any Bond that matures by redemption or otherwise is not entitled to any further Excess Amount.

Calculation of LIBOR

For each Interest Accrual Period, LIBOR will be obtained by the Trustee by reference to the London interbank offered rate for deposits in U.S. Dollars having the relevant index maturity which appears on Reuters Screen LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, as of 11:00 a.m., London time, on the related LIBOR determination date. LIBOR, for purposes of calculating interest on the Bonds, is equal to the applicable LIBOR. The LIBOR determination date will be the second Business Day before the beginning of each Interest Accrual Period. If this rate does not appear on Reuters Screen LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, the rate for that day will be determined on the basis of the rates at which deposits in U.S. Dollars, having the relevant maturity and in a principal amount of not less than U.S. $1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR determination date, to prime banks in the London interbank market by four major banks selected by the Trustee. The Trustee will request the principal London office of each of the four banks to provide a quotation of its rate. If the banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Trustee, at approximately 11:00 a.m., New York City time, on that LIBOR determination date, for loans in U.S. Dollars to leading European banks having the relevant maturity and in a principal amount of not less than U.S. $1,000,000. If the banks selected as described above are not providing quotations, the relevant maturity of LIBOR in effect for the applicable Interest Accrual Period will be such relevant maturity of LIBOR in effect for the previous accrual period.

"*Business Day*" means:

- for purposes of calculating LIBOR, any day on which banks in New York, New York and London, England are open for the transaction of international business; and
- for all other purposes, any day other than a Saturday, a Sunday, a holiday or any other day on which the Federal Reserve Bank or banks located in Dallas, Texas or the city in which the applicable corporate trust office of the Trustee is located (initially Fort Worth, Texas), are authorized or permitted by law or executive order to close.

Principal Distributions

The Monthly Distribution Date on which the Bonds are due and payable in full is as follows:

Final Maturity Date
12/1/2034

The actual date on which the final distribution on the Bonds will be made may be earlier than the applicable maturity date set forth above as a result of a variety of factors.

Principal distributions generally will be allocated to the Bonds on each Monthly Distribution Date from funds available to pay principal as described below in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Collection Fund; Flow of Funds." All distributions of principal on the

Bonds through DTC will be treated by DTC in accordance with its rules and procedures, as "Pro Rata Pass Through Distribution of Principal."

Subject to having sufficient funds available for distribution, principal distributions generally will be allocated to the Bonds on each Monthly Distribution Date in an amount equal to the Principal Distribution Amount for that Monthly Distribution Date plus any amount available for accelerated payment of principal, as set forth in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Collection Fund; Flow of Funds."

There may not be sufficient funds available to pay the full Principal Distribution Amount on each Monthly Distribution Date. Other than amounts in excess of the specified Reserve Fund balance transferred to the Collection Fund, principal payments due on the Bonds will be made from the Reserve Fund only (a) on the final maturity date for the Bonds or (b) on any Monthly Distribution Date when the market value of securities and cash in the Reserve Fund is sufficient to pay the remaining principal amount of and accrued interest on the Bonds. Prior to the final maturity of the Bonds, failure to pay the full Principal Distribution Amount on a Monthly Distribution Date will not be an event of default under the indenture.

The term "*Principal Distribution Amount*" means:

- for the November 2012 Monthly Distribution Date, the amount, if any, by which the Adjusted Pool Balance as of September 30, 2012 (the last day of the Collection Period) has decreased from the Adjusted Pool Balance on the date of issuance;

- for each Monthly Distribution Date thereafter, the amount, if any, by which (a) the Adjusted Pool Balance at the end of the related Collection Period has decreased from (b) the Adjusted Pool Balance at the end of the Collection Period ending one month prior to the related Collection Period; and

- on the final maturity date for the Bonds, the amount necessary to reduce the aggregate principal balance of such Bonds to zero.

"*Adjusted Pool Balance*" means, with respect to any Monthly Distribution Date, the sum of the Pool Balance and amounts on deposit in the Reserve Fund and, with respect to the date of issuance, the sum of the Initial Pool Balance and amounts on deposit in the Reserve Fund. "*Pool Balance*" for any date means the aggregate principal balance of the Pledged Eligible Loans on that date, including accrued interest that is expected to be capitalized, after giving effect to the following, without duplication:

- all payments received by the Issuer through that date from borrowers;

- all amounts received by the Issuer through that date from purchases of Pledged Eligible Loans released from the lien of the Indenture;

- all liquidation proceeds and realized losses on the Pledged Eligible Loans through that date;

- the amount of any adjustment to balances of the Pledged Eligible Loans that any Servicer makes (under its servicing agreement) through that date; and

- the amount by which guaranty agency reimbursements of unpaid principal on defaulted Pledged Eligible Loans through that date are reduced from 100% to 97%, or other applicable percentage, as required by the risk sharing provisions of the Higher Education Act.

The Indenture also provides that in addition to the Principal Distribution Amount, additional amounts of principal will be paid on Monthly Distribution Dates to the extent of funds available in the Collection Fund after payment of all other amounts required to be paid therefrom on a Monthly Distribution Date, to the Bonds until paid in full.

Optional Purchase

The Issuer may, but is not required to, purchase from the trust estate the remaining Pledged Eligible Loans in the trust estate ten Business Days prior to any Monthly Distribution Date when the Pool Balance is equal to or less than 10% of the Initial Pool Balance. If this purchase option is exercised, the Pledged Eligible Loans will be released from the lien of the Indenture, and the proceeds will be used on the corresponding Monthly Distribution Date to repay all outstanding Bonds, which will result in early retirement of the Bonds.

If the Issuer exercises its purchase option, the purchase price is subject to a prescribed minimum purchase price. The prescribed minimum purchase price is the amount that, when combined with amounts on deposit in the funds and accounts held under the Indenture, would be sufficient to:

- reduce the outstanding principal amount of the Bonds then outstanding on the next Monthly Distribution Date to zero;
- pay to the Bondholders of the Bonds the interest payable on the next Monthly Distribution Date; and
- pay any unpaid administration fees and expenses, servicing fees and expenses, trustee fees and expenses, subordinate administration fees, and carryover administration and servicing fees.

Prepayment, Yield and Maturity Considerations

Generally, all of the Pledged Eligible Loans are pre-payable in whole or in part, without penalty, by the borrowers at any time, or as a result of a borrower's default, death, disability or bankruptcy and subsequent liquidation or collection of guarantee payments with respect to such loans. The rates of payment of principal on the Bonds and the yield on the Bonds may be affected by prepayments of the Pledged Eligible Loans. Because prepayments generally will be paid through to Bondholders as distributions of principal, it is likely that the actual final payments on the Bonds will occur prior to the final maturity date of the Bonds. Accordingly, in the event that the Pledged Eligible Loans experience significant prepayments, the actual final payments of the Bonds may occur substantially before their final maturity date, causing a shortening of the weighted average life of the Bonds. Weighted average life refers to the average amount of time that will elapse from the date of issuance of a Bond until each dollar of principal of such Bond will be repaid to the investor.

The rate of prepayments on the Pledged Eligible Loans cannot be predicted and may be influenced by a variety of economic, social and other factors. Generally, the rate of prepayments may tend to increase to the extent that alternative financing becomes available on more favorable terms or at interest rates significantly below the interest rates payable on the Pledged Eligible Loans. In addition, the Issuer is obligated to purchase from the trust estate (or substitute a similar Eligible Loan) any Pledged Eligible Loan that ceases to be guaranteed or insured (and a guarantee or insurance claim is not paid by a guaranty agency or by the United States) or is determined to be encumbered by a lien other than the lien of the Indenture and if the same is not cured within the applicable cure period. A Servicer is obligated to purchase any Pledged Eligible Loan as a result of a breach of certain covenants with respect to such Eligible Loan, in the event such breach materially adversely affects the interests of the Issuer in that Pledged Eligible Loan and is not cured within the applicable cure period.

However, scheduled payments with respect to the Pledged Eligible Loans may be reduced and the maturities of Pledged Eligible Loans may be extended, including pursuant to grace periods, deferral periods and forbearance periods. The rate of payment of principal of the Bonds and the yield on the Bonds may also be affected by the rate of defaults resulting in losses on the Pledged Eligible Loans that may have been liquidated, by the severity of those losses and by the timing of those losses, which may affect the ability of the guaranty agencies to make guarantee payments on such Pledged Eligible Loans. In addition, the maturity of certain of the Pledged Eligible Loans may extend beyond the final maturity date for the Bonds.

More information on weighted average lives, expected maturities and percentages of original principal remaining at each Monthly Distribution Date is set forth in "APPENDIX B—PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE BONDS" hereto.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds will be special, limited obligations of the Issuer secured by and payable solely from the discrete trust estate pledged by the Issuer to the Trustee under the Indenture. The following assets will serve as security for the Bonds:

- Eligible Loans pledged to the Trustee;
- revenues derived from the Pledged Eligible Loans, including all principal and interest payments, proceeds, charges and other income received by the Trustee or the Issuer therefrom, payments of and any insurance proceeds, interest benefit payments and special allowance payments therefrom, any proceeds from the sale or other disposition of the Pledged Eligible Loans; and
- all moneys and investments held in the funds created under the Indenture and investment income from such funds.

Funds

The following funds will be created by the Trustee under the Indenture for the benefit of the registered owners:

- Collection Fund;
- Cost of Issuance Fund;
- Department Rebate Fund; and
- Reserve Fund.

Pledged Eligible Loans, evidenced by promissory notes, will be owned in the name of the Eligible Lender Trustee and will be pledged to the Trustee and credited to the trust estate in the books and records of the applicable Servicer.

Money transferred from a Servicer to the Trustee on account of the Pledged Eligible Loans will be deposited into the Collection Fund for distribution in accordance with the terms of the Indenture. The Trustee will invest money held in funds created under the Indenture in investment securities (as defined in the Indenture) at the direction of the Issuer. Investment securities may be purchased by or through the Trustee and its affiliates. Money in any fund created under the Indenture may be pooled for purposes of investment.

Fund Deposits

As described under "USE OF PROCEEDS," moneys released from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture will be used to make the initial deposits to the Reserve Fund and the Collection Fund described below and certain proceeds of the Bonds will be deposited to the Cost of Issuance Fund described below.

Cost of Issuance Fund

On the date of issuance, a portion of the proceeds of the Bonds will be deposited into the Cost of Issuance Fund created under the Indenture and will be used to pay the costs of issuance of the Bonds. All funds remaining on deposit in the Cost of Issuance Fund will be transferred to the Collection Fund on December 1, 2012.

Reserve Fund

On the date of issuance of the Bonds, a portion of the moneys released from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture will be deposited into the Reserve Fund in an amount equal to approximately 0.25% of the initial aggregate principal amount of the Bonds on the date of issuance. The Reserve Fund is required to contain a specified Reserve Fund balance equal to the greater of (a) 0.25% of the aggregate principal amount of the outstanding Bonds as of the end of the immediately preceding Monthly Distribution Date; or (b) $694,800. On each Monthly Distribution Date or other payment date, to the extent that money in the Collection Fund is not sufficient to pay certain of the Issuer's operating expenses, including amounts owed to the U.S. Department of Education, the guaranty agencies, or under any applicable joint sharing agreement, administration fees and expenses, servicing fees and expenses, trustee fees and expenses and the interest then due on the Bonds, then the amount of the deficiency will be transferred from the Reserve Fund to the Collection Fund. If on August 1, 2012, September 4, 2012 or October 1, 2012, there are insufficient moneys on deposit in the Collection Fund to pay any of the amounts specified in the last paragraph under "—Collection Fund; Flow of Funds" herein, amounts on deposit in the Reserve Fund on such August 1, 2012, September 4, 2012 or October 1, 2012, as applicable, will be withdrawn by the Trustee and deposited in the Collection Fund to cover such shortfalls therein, to the extent of funds on deposit therein, and will be allocated in the same order of priority as shown under "—Collection Fund; Flow of Funds" herein. To the extent the amount in the Reserve Fund falls below the specified Reserve Fund balance, the Reserve Fund will be replenished on each Monthly Distribution Date from funds available in the Collection Fund as described under "—Collection Fund; Flow of Funds" below.

The Reserve Fund is intended to enhance the likelihood of timely distributions of interest to the Bondholders and to decrease the likelihood that the Bondholders will experience losses. In some circumstances, however, the Reserve Fund could be reduced to zero. Amounts on deposit in the Reserve

Fund in excess of the specified Reserve Fund balance will be transferred to the Collection Fund and will be applied as described under "—Collection Fund; Flow of Funds." Other than such excess amounts, principal payments due on the Bonds will be made from the Reserve Fund only (a) on any final maturity date for the Bonds or (b) on any Monthly Distribution Date when the market value of securities and cash in the Reserve Fund is sufficient to pay the remaining principal amount of and accrued interest on the Bonds.

Department Rebate Fund

The Trustee will establish the Department Rebate Fund as part of the trust estate. The Higher Education Act requires holders of Eligible Loans first disbursed on or after April 1, 2006 and before July 1, 2010 to rebate to the Department of Education interest received from borrowers on such loans that exceeds the applicable special allowance support levels. The Issuer expects that the Department of Education will reduce the special allowance and interest benefit payments payable to the Issuer by the amount of any such rebates owed by the Issuer. However, in certain circumstances, the Issuer may owe a payment to the Department of Education. Each month, the Trustee will transfer moneys from the Collection Fund to the Department Rebate Fund in an amount, if any, needed to equal the expected Department Rebate Interest Amount as described in the second bullet point under "—Collection Fund; Flow of Funds" herein. Money in the Department Rebate Fund will be transferred to the Collection Fund to the extent amounts have been deducted by the Department of Education from payments otherwise due to the Issuer or the balance in the Department Rebate Fund exceeds the expected rebate obligation, or will be paid to the Department of Education if necessary to discharge the Issuer's rebate obligation. See "APPENDIX A—DESCRIPTION OF THE FFEL PROGRAM—Special Allowance Payments."

Collection Fund; Flow of Funds

As described under "USE OF PROCEEDS," a portion of the moneys released from the trust estate of the Restated 1998 Indenture and the trust estate of the Restated 2001 Indenture will be deposited into the Collection Fund on the date of issuance. The Trustee will also deposit into the Collection Fund, upon receipt, all Available Funds, including revenues derived from Pledged Eligible Loans; all proceeds of any sale of Pledged Eligible Loans; all amounts received under any joint sharing agreement; any amounts transferred from the Cost of Issuance Fund, the Reserve Fund, and the Department Rebate Fund; any earnings on investment of moneys held in such funds; and any other amounts the Issuer instructs to be deposited therein.

Upon written direction from the Issuer to the Trustee, moneys in the Collection Fund shall be used to pay, when due, Monthly Rebate Fees. Money available in the Collection Fund will also be used on any day as needed to pay: (i) amounts due to the U.S. Department of Education, any guaranty agency, or the trustee under another trust indenture if required pursuant to the joint sharing agreement; and (ii) amounts needed to repurchase Eligible Loans.

On each Monthly Distribution Date (and, as specified herein, on August 1, 2012, September 4, 2012 and October 1,2012), prior to an acceleration of the maturity of the Bonds following an event of default, money in the Collection Fund will be used to make the following deposits and distributions, to the extent funds are available:

- ***first,*** to make any payments required under any applicable joint sharing agreement or which represent amounts on deposit in the Collection Fund that are not allocable to the Pledged Eligible Loans;

- ***second*****,** to deposit to the Department Rebate Fund the amount necessary to bring the balance of the Department Rebate Fund to the expected Department Rebate Interest Amount through the last day of the preceding Collection Period;

- ***third***, to pay the Trustee the trustee fees due on such Monthly Distribution Date and any prior unpaid trustee fees, with the first payment no earlier than July 1, 2013;

- ***fourth***, to pay the Administrator (initially the Higher Education Servicing Corporation) the servicing fees for the related Collection Period and any prior unpaid servicing fees;

- ***fifth***, to pay the Administrator (initially the Higher Education Servicing Corporation) the administration fees for the related Collection Period and any prior unpaid administration fees;

- ***sixth***, to pay the Bondholders interest due on the Bonds;

- ***seventh***, to pay principal payments in an amount equal to the lesser of the Principal Distribution Amount or the remaining funds in the Collection Fund to the Bondholders until the Bonds are paid in full;

- ***eighth***, to transfer to the Reserve Fund the amount, if any, necessary to restore the Reserve Fund to the specified Reserve Fund balance;

- ***ninth***, to pay the Administrator (initially the Higher Education Servicing Corporation) any carryover administration and servicing fees in an amount not to exceed $40,000 per year, with the first payment no earlier than July 1, 2013;

- ***tenth***, to pay monthly a subordinate administration fee for the related Collection Period to the Administrator (initially the Higher Education Servicing Corporation) on a subordinate basis if the Parity Ratio on the related Monthly Distribution Date is at least 104.50%; and

- ***eleventh***, to pay accelerated payments of principal until the Bonds are paid in full.

"*Parity Ratio*" means, on any Monthly Distribution Date, (a) the Adjusted Pool Balance (including all accrued interest expected to be capitalized on the Pledged Eligible Loans) as of the end of the related Collection Period divided by (b) the outstanding amount of the Bonds after giving effect to distributions to be made on that Monthly Distribution Date.

Additionally, on August 1, 2012, September 4, 2012 and October 1, 2012, except where an Event of Default has occurred that results in an acceleration of the maturity of the Bonds, amounts on deposit in the Collection Fund (including any amounts transferred from the Reserve Fund), as of the date of issuance of the Bonds, the last day of July 2012 and the last day of August 2012, respectively, will be used to make the deposits and distributions specified in the first through fifth priorities shown above. If the amount on deposit in the Collection Fund is insufficient to pay any of these amounts, amounts on deposit in the Reserve Fund will be withdrawn by the Trustee and deposited into the Collection Fund to cover such shortfalls, to the extent of funds on deposit therein.

Flow of Funds After Events of Default Resulting in Acceleration of the Bonds

Following the occurrence of an event of default that results in an acceleration of the maturity of the Bonds, and after the payment of certain fees and expenses, payments of interest on the Bonds will be made, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for such interest, and then payments of principal on the Bonds will be made, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal until the Bonds are paid in full. See "SUMMARY OF THE INDENTURE PROVISIONS—Remedies on Default."

Investment of Funds Held by Trustee

The Trustee will invest amounts credited to any fund established under the Indenture in investment securities described in the Indenture pursuant to orders received from the Issuer. In the absence of an order, and to the extent practicable, the Indenture requires the Trustee to invest amounts held under the Indenture in money market funds.

The Trustee is not responsible or liable for any losses of either principal or interest on investments made by it or for keeping all funds held by it fully invested at all times. Its only responsibility is to comply with investment instructions of the Issuer or its designee in a non-negligent manner.

BOOK-ENTRY REGISTRATION

General

The following information concerning DTC and DTC's book-entry system has been obtained from information made publicly available by DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the Issuer and the Underwriter take no responsibility for the accuracy of such statements.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

TRUSTEE

The Issuer will issue the Bonds pursuant to the Indenture by and between the Issuer and BOKF, NA dba Bank of Texas ("Bank of Texas"), as Trustee.

The Issuer may maintain customary banking relations on arm's-length terms with the Trustee.

Subject to the terms of the Indenture, the Trustee will act on behalf of the Bondholders and represent their interests in the exercise of its rights only as set forth in the Indenture. See "SUMMARY OF THE INDENTURE PROVISIONS—The Trustee" for additional information regarding the responsibilities of the Trustee. The Trustee will have no obligation to administer, service or collect the Pledged Eligible Loans or to maintain or monitor the administration, servicing or collection of those loans.

The following information has been furnished by the Bank of Texas for use in this Official Statement. The Issuer does not guarantee or make any representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of the Bank of Texas subsequent to the date hereof. Except for such information, the Bank of Texas has not reviewed or been involved in the preparation of this Official Statement and has no responsibility for any of the other information contained herein.

Bank of Texas is a national banking association organized under the laws of the United States with assets in excess of $26 billion. Bank of Texas has acted as trustee on numerous asset-backed securities transactions involving pools of Eligible Loans, including, as of November 2011, approximately $542,450,000 of previously issued student loan revenue bonds that were issued by the Issuer.

SUMMARY OF THE INDENTURE PROVISIONS

The following is a summary of some of the provisions in the Indenture. This summary does not cover every detail contained in the Indenture and is subject to all of the terms and conditions of the Indenture in its entirety. Reference should be made to the Indenture for a full and complete statement of its provisions.

Parity and Priority of Lien

The provisions of the Indenture are generally for the equal benefit, protection and security of the registered owners of the Bonds, without preference, priority or distinction of any Bond over any other Bond, except as expressly provided in the Indenture with respect to certain payment priorities.

The Available Funds and other money, Pledged Eligible Loans and other assets the Issuer pledges under the Indenture will be free and clear of any pledge, lien, charge or encumbrance, other than that created by the Indenture. If any Pledged Eligible Loan is found to have been subject to a lien at the time such Pledged Eligible Loan was pledged to the trust estate, the Issuer will cause such lien to be released, will purchase such Pledged Eligible Loan from the trust estate for a purchase price equal to its principal amount plus any unamortized premium, if any, and interest accrued thereon or will replace such Pledged Eligible Loan with another Eligible Loan with substantially identical characteristics which replacement Eligible Loan will be free and clear of liens at the time of such replacement.

Except as otherwise provided in the Indenture, the Issuer:

- will not create or voluntarily permit to be created any debt, lien or charge on the Pledged Eligible Loans which would be on a parity with, subordinate to, or prior to the lien of the Indenture;

- will not take any action or fail to take any action that would result in the lien of the Indenture or the priority of that lien for the Bonds thereby secured being lost or impaired; and

- will pay or cause to be paid, or will make adequate provisions for the satisfaction and discharge of all lawful claims and demands which if unpaid might by law be given precedence to or any equality with the Indenture as a lien or charge upon the Pledged Eligible Loans.

Representations and Warranties

The Issuer will represent and warrant in the Indenture that:

- it is duly authorized to issue the Bonds and to execute and deliver the Indenture, pledge the Pledged Eligible Loans as security for the Bonds, and to covenant to pay the principal and interest on the Bonds, but solely from the trust estate;

- all necessary action for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and

- the Bonds in the hands of the registered owners are and will be valid and enforceable obligations of the Issuer secured by and payable solely from the trust estate.

Sale of Pledged Eligible Loans

Except under limited circumstances described in the Indenture (including, but not limited to, the repurchase obligations of the Issuer under the Indenture as described herein under "—Parity and Priority of Lien," and "—Servicing and Enforcement of the Servicing Agreements"), Pledged Eligible Loans may not be sold, transferred or otherwise disposed of by the Issuer while any Bonds are outstanding. However, if necessary for administrative purposes, the Issuer may sell Pledged Eligible Loans free from the lien of the Indenture, so long as the sale price for any Pledged Eligible Loan is not less than the amount required to prepay in full such Pledged Eligible Loan under the terms thereof, including all accrued interest thereon and any unamortized premium, the collective aggregate principal balance of all such sales does not exceed 5.00% of the Initial Pool Balance and the collective aggregate principal balance of all such sales in any calendar year does not exceed 1.00% of the Pool Balance as of January 1 of such calendar year (or as of the date of issuance with respect to the first calendar year).

Covenants

The Issuer will cause financing statements to be filed in any jurisdiction necessary to perfect the security interest it grants under the Indenture. The Trustee will cause continuation statements to be filed in any jurisdiction necessary to maintain the security interest granted by the Issuer under the Indenture.

Upon written request of the Trustee, the Issuer will permit the Trustee or its agents, accountants and attorneys, at the expense of the Issuer, to examine and inspect the property, books of account, records, reports and other data relating to the Pledged Eligible Loans, and will furnish the Trustee such other information as it may reasonably request. The Trustee will be under no duty to make any examination unless requested in writing to do so by the registered owners of a majority in aggregate principal amount of the Bonds at the time outstanding, and unless those registered owners have offered the Trustee security and indemnity satisfactory to it against any costs, expenses and liabilities which might be incurred in making any examination.

The Issuer will keep and maintain proper books of account relating to its Program including all dealings or transactions of or in relation to the business and affairs of the Issuer which relate to the Bonds. Within 180 days of the close of each fiscal year, the Issuer will receive an audit of the Issuer by an independent certified public accountant. A copy of each audit report showing in reasonable detail the financial condition of the Issuer as at the close of each fiscal year will be filed with the Trustee within 180 days after the end of each Fiscal Year and will be available for inspection by any registered owner.

Servicing and Enforcement of the Servicing Agreements

The Issuer will at all times appoint, retain and employ a competent Administrator for the purpose of carrying out its respective programs under the Authorizing Act and the Program.

The Issuer will cause to be diligently enforced and taken all reasonable steps, actions and proceedings necessary for the enforcement of all material terms, covenants and conditions of all servicing agreements, including, without limitation, the prompt payment of all principal and interest payments and all other amounts due the Issuer thereunder. Except to the extent expressly permitted by the Indenture, the Issuer:

(a) will not permit the release of any material obligations of any Servicer under the related servicing agreement, except in conjunction with amendments or modifications permitted by the Indenture and will defend, enforce, preserve and protect the material rights of the Issuer and the Trustee thereunder;

(b) will not consent or agree to or permit any amendment or modification of any servicing agreement which will materially adversely affect the rights or security of the Trustee or the Bondholders; and

(c) will duly and punctually perform and observe each of its obligations to each Servicer under the related servicing agreement in accordance with the terms thereof.

Notwithstanding the foregoing, the Indenture does not prevent the Issuer from taking any action to replace any Servicer or from consenting or agreeing to, or permitting, any amendments, modifications to, or waivers with respect to, any servicing agreement, subject to the conditions set forth in the Indenture.

If at any time any Servicer fails in any material respect to perform its obligations under its servicing agreement or under the Higher Education Act or if any servicing audit shows any material deficiency in the servicing of Pledged Eligible Loans by any Servicer, the Issuer will, or will cause the Servicer to, cure the failure to perform or the material deficiency or remove such Servicer and appoint another Servicer.

If any Pledged Eligible Loan ceases to be guaranteed or insured, and a guarantee with respect to such Pledged Eligible Loan is rejected by the applicable guaranty agency or an insurance claim with respect to such Pledged Eligible Loan is rejected by the Secretary and the same is not cured within one year after such rejection or if any Pledged Eligible Loan is determined to be encumbered by any lien other than the lien of the Indenture, then the Issuer will either: (a) purchase or cause the Servicer to purchase such Pledged Eligible Loan from the trust estate for a purchase price equal to its principal amount plus unamortized premium, if any, and interest accrued thereon; or (b) replace or cause the Servicer to replace such Pledged Eligible Loan with another Pledged Eligible Loan of substantially identical characteristics (excluding such due diligence failure).

The Issuer covenants to maintain a Backup Servicing Agreement with a third-party servicer with respect to the Pledged Eligible Loans directed serviced by the Higher Education Servicing Corporation or any successor thereto. The Issuer also covenants to maintain a Backup Servicing Agreement with a third-party servicer with respect to the Pledged Eligible Loans serviced by Edfinancial Services LLC.

The Trustee shall have no responsibility to service or act as custodian of the Pledged Eligible Loans or to monitor or supervise any such Servicer or custodian, and shall not be responsible or liable for any acts or omissions of any Servicer or custodian of the Pledged Eligible Loans.

Additional Covenants With Respect to the Higher Education Act

The Trustee is an eligible lender under the Higher Education Act and covenants in the Indenture to maintain its status as an eligible lender.

The Issuer is responsible for the following actions, among others, with respect to the Higher Education Act:

- administering, operating and maintaining the Issuer's program with respect to Eligible Loans in such manner as to ensure that the Program and the Pledged Eligible Loans will benefit from the benefits available under the Higher Education Act and the federal program of reimbursement for Eligible Loans pursuant to the Higher Education Act, or from any other federal statute providing for such federal program;

- entering into or causing the Eligible Lender Trustee to enter into on its behalf, any guarantee agreement, maintaining such guarantee agreement and diligently enforcing its rights thereunder and not voluntarily consenting to or permitting any rescission of or consenting to any amendment to or otherwise taking any action under or in connection with any guarantee agreement which in any manner would materially adversely affect the rights of the Bondholders under the Indenture;

- causing to be diligently enforced, and causing to be taken all reasonable steps necessary or appropriate for the enforcement of all terms, covenants and conditions of all Pledged Eligible Loans and agreements in connection with the Pledged Eligible Loans, including the prompt payment of all principal and interest payments and all other amounts due to the Issuer thereby and not releasing the obligations of any borrower or agreeing to, permitting, allowing or causing any amendment or modification of any Pledged Eligible Loan except to the extent permitted by the Indenture;

- maintaining and causing, or causing the Eligible Lender Trustee to maintain, the benefits of the guarantee agreements, contracts of insurance, the interest benefit payments and the special allowance payments to be held for the benefit of the Trustee and enforcing its rights under the guarantee agreements and not voluntarily permitting or consenting to any amendment or rescission or taking any action that would adversely affect the registered owners;

- complying with all United States and state statutes, rules, and regulations which apply to the Program and to the Pledged Eligible Loans; and

- taking all actions reasonably necessary to enforce all material provisions of any of its student loan purchase agreements requiring the seller to repurchase student loans which have lost or never had their guarantee due to actions or omissions of the seller.

Continued Existence; Successor

The Issuer will preserve and keep in full force and effect its existence, rights and franchises as a non-profit corporation of the State except as may otherwise be permitted by the Indenture. The Issuer will not sell, transfer or otherwise dispose of all or substantially all of its assets (except Pledged Eligible Loans if such sale, transfer or disposition will discharge the Indenture in accordance therewith), consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it. These restrictions do not apply to a transaction where the transferee or the surviving or resulting entity, if other than the Issuer, irrevocably and unconditionally assumes the obligation to perform and observe the Issuer's agreements and obligations under the Indenture.

Events of Default

The Indenture will define the following events as events of default:

- default in the due and punctual payment of interest on any Bond then outstanding when the same becomes due and payable;

- default in the due and punctual payment of the principal of any Bond then outstanding when the same becomes due and payable on its final maturity date;

- default in the performance or observance of any other of the Issuer's covenants, agreements or conditions contained in the Indenture or in the Bonds, and continuation of such default for a period of 90 days after written notice thereof is given to the Issuer by a responsible officer of the Trustee; and
- the occurrence of an event of bankruptcy.

Remedies on Default

Accelerated Maturity. If an event of default should occur and be continuing, then and in every case the registered owners of Bonds representing not less than a majority in aggregate principal amount of the Bonds then outstanding may declare all the outstanding Bonds to be immediately due and payable, by a notice in writing to the Issuer and to the Trustee, and, upon any such declaration, the unpaid principal amount of such outstanding Bonds, together with accrued and unpaid interest thereon through the date of acceleration, will become immediately due and payable, subject, however, to the restrictions on sale of the trust estate described in "Remedies on Default—Sale of Trust Estate" below. If an event of default other than an event of default described in the third bullet point under "Events of Default" should occur and be continuing, then and in every such case the Trustee may declare all the outstanding Bonds to be immediately due and payable, by a notice in writing to the Issuer, and upon any such declaration the unpaid principal amount of such outstanding Bonds, together with accrued and unpaid interest thereon through the date of acceleration, will become immediately due and payable, subject, however, to the restrictions on sale of the trust estate.

Possession of Trust Estate. Upon the acceleration of the principal of the Bonds and subject to the Trustee's rights to compensation and indemnification, the Trustee may, and upon the written direction of the registered owners representing not less than a majority in aggregate principal amount of the outstanding Bonds shall, take possession of any portion of the trust estate of the Issuer that may be in the custody of others, and all property comprising the trust estate, exclude the Issuer wholly therefrom and have, hold, use, operate, manage and control those assets. The Trustee may also, in the name of the Issuer or otherwise, conduct such Issuer's business and collect and receive all charges, income and revenues of the trust estate. After deducting all expenses incurred and all other proper outlays authorized in the Indenture, and all payments which may be made as reasonable compensation for its own services, and for the services of its attorneys, agents, and assistants and all other amounts owed to the Trustee under the Indenture, the Trustee will apply the rest and residue of the money received by the Trustee as follows:

FIRST, to the Department of Education, any department rebate interest amount and monthly rebate fee due and owing thereto, to any guaranty agency, amounts due and owing to such guaranty agency and to any party to any joint sharing agreement to which the Issuer may be a party, any amounts due and owing from the trust estate;

SECOND, to the Trustee, any fees and any costs and out-of-pocket expenses of the Trustee due and owing;

THIRD, to each Servicer and the Administrator, unpaid servicing fees and unpaid administration fees (other than subordinate administration fees and other than carryover administration and servicing fees);

FOURTH, to the Bondholders, amounts due and unpaid on the Bonds for interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for such interest;

FIFTH, to the Bondholders, amounts due and unpaid on the Bonds for principal, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal;

SIXTH, to the Administrator, for any subordinate administration fees due and remaining unpaid;

SEVENTH, to the Administrator and each Servicer, any carryover administration and servicing fees; and

EIGHTH, to the Issuer.

Sale of Trust Estate. Upon the happening of any event of default and if the principal of all of the outstanding Bonds has been declared due and payable, then the Trustee may, and at the written direction of the registered owners of at least a majority of the principal amount of the outstanding Bonds, will sell the trust estate to the highest bidder in accordance with the requirements of applicable law.

Notwithstanding the foregoing and whether or not the principal of all outstanding Bonds has been declared due and payable, the Trustee is prohibited from selling the Pledged Eligible Loans following an event of default, other than a default in the payment of any principal or any interest on any Bond outstanding, unless:

- The registered owners of all of the Bonds at the time outstanding consent to such sale;
- The proceeds of such sale are sufficient to pay in full all outstanding Bonds at the date of such sale pursuant to terms of the Indenture describing discharge of the Indenture; or
- Either the Issuer or the Administrator determines that the collections on the Pledged Eligible Loans would not be sufficient on an ongoing basis to make all payments on such Bonds as such payments would have become due if such Bonds had not been declared due and payable, and the Trustee obtains the consent of the registered owners of at least 66-2/3% in aggregate principal amount of the Bonds at the time outstanding to such sale.

Appointment of Receiver. If an event of default occurs, if all of the outstanding Bonds under the Indenture have been declared due and payable, and if any judicial proceedings are commenced to enforce any right of the Trustee or of the registered owners under the Indenture or otherwise, then as a matter of right, the Trustee will be entitled to the appointment of a receiver for the trust estate.

Protection of Rights. Upon the happening of any event of default, the Trustee may proceed to protect and enforce the rights of the Trustee and the registered owners in such manner as counsel for the Trustee may advise, whether for the specific performance of any covenant, condition, agreement or undertaking in the Indenture, or in aid of the execution of any power granted to the Trustee in the Indenture, or for the enforcement of such other appropriate legal or equitable remedies as, in the opinion of such counsel, may be more effectual to protect and enforce the rights of the Trustee and the registered owners.

Suits for Enforcement. The Issuer promises that if there is a default in the payment of interest which continues for a period of five days or a default in the payment of the Bonds on the final maturity date for the Bonds, then the Issuer will, upon demand of the Trustee, but solely from the trust estate, pay to the Trustee, for the benefit of the registered owners, the whole amount then due and payable on such Bonds for principal and interest, with interest upon any overdue principal and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installments of interest, if any, at the rate or rates borne by or provided for in such Bonds, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, fees, expenses, disbursements and advances of the Trustee and its agents and counsel.

If the Issuer fails to pay such amounts, the Trustee, in its own name may upon receiving indemnification satisfactory to the Trustee institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree, and may enforce the same against the Issuer and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the trust estate.

Waivers and Rescissions of Events of Default. At any time before a judgment or decree for payment of the money due has been obtained by the Trustee, the Trustee will waive any event of default and its consequences and rescind any declaration of acceleration of the Bonds, upon the written request of the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding; provided, however, that there shall not be waived or rescinded any event of default in the payment of the principal of any outstanding Bonds at the date of maturity thereof, or any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission:

(a) the Issuer has paid or deposited with the Trustee a sum sufficient to pay all payments of principal of and interest on all Bonds and all other amounts that would then be due under the Indenture or the Bonds if the event of default giving rise to such acceleration had not occurred and all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, any Servicer and their agents and counsel; and

(b) all events of default, other than the nonpayment of the principal of the Bonds that has become due solely by such acceleration, have been cured or waived.

In case of any such waiver or rescission, then and in every such case the Issuer, the Trustee and the registered owners of the Bonds shall be restored to their former positions and rights under the Indenture, but no such waiver or rescission will extend to or affect any subsequent or other default, or impair any rights or remedies with respect to such other defaults.

Direction of Trustee. If an event of default occurs, the registered owners of a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, upon indemnifying the Trustee for its fees and expenses, will have the right to direct and control the Trustee as to the method of taking any and all proceedings for any sale of any or all of the trust estate, or for the appointment of a receiver, if permitted by law, and may at any time cause any proceedings authorized by the terms of the Indenture to be discontinued or delayed.

Right to Enforce in Trustee. No registered owner will have any right as a registered owner to institute any suit, action or proceedings for the enforcement of the provisions of the Indenture or for the execution of any trust thereunder or for the appointment of a receiver or for any other remedy under the Indenture. All rights of action under the Indenture are vested exclusively in the Trustee, unless and until the Trustee fails for 30 days to institute an action, suit or proceeding after the registered owners of the requisite principal amount of the Bonds then outstanding:

- have given to the Trustee written notice of a default under the Indenture, and of the continuance thereof;

- have made written request upon the Trustee and the Trustee has been afforded reasonable opportunity to institute such action, suit or proceeding in its own name; and

- have offered indemnity and security satisfactory to the Trustee against the costs, expenses, and liabilities to be incurred in or by an action, suit or proceeding in its own name.

The Trustee

Acceptance of Trust. The Trustee will accept the trusts imposed upon it by the Indenture and will perform those trusts, but only upon and subject to the following terms and conditions:

- except during the continuance of an event of default, the Trustee undertakes to perform only those duties as are specifically set forth in the Indenture, and the Trustee shall not be liable for its acts or omissions in carrying out its duties under the Indenture, except for its own negligence or willful misconduct;

- except during the continuance of an event of default, the Trustee, in the absence of bad faith on its part, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such certificates or opinions which by any provisions of the Indenture are specifically required to be furnished to the Trustee, the Trustee will be under a duty to examine the same to determine whether or not they conform as to form with the requirements of the Indenture and whether or not they contain the statements required under the Indenture;

- in case an event of default has occurred and is continuing, the Trustee, in exercising the rights and powers vested in it by the Indenture, will use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs; and

- before taking any action under the Indenture requested by registered owners, the Trustee may require that it be furnished an indemnity Bond or other indemnity and security satisfactory to it by the registered owners, as applicable, for the reimbursement of all fees, costs and expenses (including those of its counsel and agents) to which it may be put and to protect it against liability arising from any action taken by the Trustee, except liability which results from the negligence or willful misconduct of the Trustee and negligence with respect to moneys deposited and applied pursuant to the Indenture, by reason of any action so taken by the Trustee.

Indenture Trustee May Act Through Agents. The Trustee may execute any of the trusts or powers under the Indenture and perform any duty thereunder, either itself or by or through its attorneys, agents, or employees. The Trustee will not be answerable or accountable for any default, neglect or misconduct of any such attorneys, agents or employees, if reasonable care has been exercised in the appointment. The Issuer will pay all reasonable costs incurred by the Trustee and all reasonable compensation to all such persons as may reasonably be employed in connection with the trusts of the Indenture on the same basis as discussed below under "—*Compensation of Trustee*."

Duties of the Trustee. The Trustee will not make any representations as to the title of the Issuer in the trust estate or as to the security afforded thereby and by the Indenture, or as to the validity or sufficiency of the Indenture or the Bonds issued thereunder. If no event of default as defined in the

Indenture has occurred, the Trustee is required to perform only those duties specifically required of it under the Indenture. The Trustee will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, appraisal, opinion, or document of the Issuer, the Administrator or a Servicer or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with experts and with counsel (who may but need not be counsel for the Issuer, for the Trustee, or for a registered owner or who may be Bond Counsel), and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered, and in respect of any determination made by it under the Indenture in good faith and in accordance with the opinion of such counsel.

The Trustee will not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture; provided, however, that the Trustee will be liable for its negligence or willful misconduct in taking such action. The Trustee is authorized to enter into agreements with other persons, in its capacity as Trustee, in order to carry out or implement the terms and provisions of the Indenture. The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee will not be liable with respect to any action taken, suffered or omitted to be taken in good faith in accordance with the Indenture or any other transaction document or at the direction of the registered owners evidencing the appropriate percentage of the aggregate principal amount of the outstanding Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture.

Indemnification of Trustee. The Trustee is generally under no obligation or duty to perform any act at the request of registered owners or to institute or defend any suit to protect the rights of the registered owners under the Indenture unless properly indemnified and provided with security to its satisfaction. The Trustee is not required to take notice, or be deemed to have knowledge, of any default or event of default of the Issuer under the Indenture (other than an event of default described in the first two bullet points under "—Events of Default" above) unless and until a responsible officer of the Trustee has been specifically notified in writing of the default or event of default by the registered owners of the required percentages in principal amount of the Bonds then outstanding or the Issuer.

However, the Trustee may begin suit, or appear in and defend suit, execute any of the trusts created by the Indenture, enforce any of its rights or powers under the Indenture, or do anything else in its judgment proper to be done by it as Trustee, without assurance of reimbursement or indemnity. In that case, the Trustee will be reimbursed or indemnified by the registered owners requesting that action, if any, or by the Issuer in all other cases, for all reasonable and documented fees, expenses, liabilities, outlays and counsel fees and other reasonable disbursements properly incurred unless such reasonable and documented fees, expenses, liabilities, outlays and counsel fees and other reasonable disbursements are adjudicated to have resulted from the negligence or willful misconduct of the Trustee or any other Trustee indemnified party (as defined below). The Trustee will not be liable for, and will be held harmless by the Issuer from, any liability arising from following any Issuer orders, instructions or other directions upon which it is authorized to rely under the Indenture or other agreement to which it is a party. The Trustee and its officers, directors, employees and agents (the "Trustee indemnified parties") will further be indemnified for and held harmless by the Issuer from and against any loss, liability or expense incurred without negligence or willful misconduct on the part of the Trustee or any other Trustee indemnified parties arising out of or in connection with the Trustee's acceptance or administration of the trust or its duties under the Indenture, including the reasonable costs and expenses of the Trustee indemnified parties in defending themselves against any claim or liability in connection with the exercise or performance of any of the Trustee's duties under the Indenture. The obligations of the Issuer under the Indenture are limited to amounts held under the Indenture and available to pay such obligations. If the Issuer or the registered owners, as appropriate, fail to make such reimbursement or indemnification, the applicable Trustee indemnified party may reimburse itself, subject to the provisions of the Indenture, from any money in its possession under the provisions of the Indenture.

In no event will the Trustee be responsible or liable for any special, indirect, punitive or consequential loss or damages of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of such action. The rights, privileges, immunities and benefits given to the Trustee under the Indenture, including, without limitation, its right to be indemnified, are extended to, and will be enforceable by the Trustee. The provisions in the Indenture regarding indemnification of the Trustee will survive the resignation or removal of the Trustee and the termination of the Indenture.

Compensation of Trustee. Except as otherwise provided in the Indenture, the Issuer will pay to the Trustee the annual Trustee Fee for the services rendered by it under the Indenture, and also all of its advances, counsel fees and fees and other expenses reasonably made or incurred in and about the execution and administration of the trust created by the Indenture; provided the obligations are payable solely from the trust estate. The Trustee and the Issuer will agree to a trustee fee prior to the issuance of the Bonds, which trustee fee will be applicable so long as the Bonds are outstanding. If not paid by the Issuer, the Trustee will have a lien against the trust estate held pursuant to the Indenture, subject to the payment priorities as specifically provided in the Indenture, to secure payment of the Trustee Fee and expenses, advances and counsel fees incurred in and about the execution of the trusts thereby created and performance of the powers and duties of the Trustee thereunder and the cost and expense incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful misconduct of the Trustee or any other Trustee indemnified party) and any other amounts due and owing the Trustee or any other Trustee indemnified party under the Indenture, including under the section of the Indenture described herein under the caption "—Indemnification of Trustee."

Resignation of Trustee. The Trustee and any successor to the Trustee may resign and be discharged by giving the Issuer notice in writing specifying the date on which the resignation is to take effect; provided, however, that such resignation will only take effect on the day specified in such notice if a qualified successor Trustee has been appointed pursuant to the Indenture. If no successor Trustee has been appointed by the later of that date and 90 days after the Issuer received the Trustee's notice, then the Trustee may either (a) appoint a temporary successor Trustee meeting the eligibility requirements of a trustee under the Indenture; or (b) request a court of competent jurisdiction to (i) require the Issuer to appoint a successor Trustee within three days of the receipt of citation or notice by the court or (ii) appoint a successor Trustee itself meeting the eligibility requirements of the Indenture.

Removal of Trustee. The Trustee or any successor to the Trustee may be removed:

- at any time by the registered owners of a majority in aggregate principal amount of the Bonds then outstanding under the Indenture;
- by the Issuer for cause or upon the sale or other disposition of the Trustee or its trust functions; or
- by the Issuer without cause so long as no event of default exists or has existed within the last 90 days.

In the event the Trustee is removed, removal will not become effective until:

- a successor Trustee has been appointed; and
- the successor Trustee has accepted that appointment.

So long as the Bonds are rated by S&P, the Trustee is required to maintain a long-term credit rating by S&P of no less than "BBB." If at any time the Trustee's rating falls below "BBB," the Trustee shall notify the Issuer and the Issuer shall remove the Trustee and appoint a successor trustee within 30 days. The removed Trustee shall be entitled to all money when due to it under the Indenture. In addition, if the Trustee appoints a custodian to hold the Funds on its behalf, such custodian shall maintain at least a "BBB" rating by S&P.

Successor Trustee. If the Trustee or any successor to the Trustee resigns, is dissolved, is removed or otherwise is disqualified to act or is incapable of acting, or in case control of the Trustee or of any successor to the Trustee or of its officers is taken over by any public officer or officers, the Issuer may appoint a successor Trustee. The Issuer will cause notice of the appointment of a successor Trustee to be mailed to the registered owners of the Bonds at the address of each registered owner appearing on the Bond registration books maintained by the Trustee, as registrar.

Every successor Trustee will be required to meet the following eligibility criteria:

- will be a bank or trust company in good standing, organized and doing business under the laws of the United States or of a state therein;
- have a reported capital and surplus of not less than $50,000,000;
- will be authorized under the law to exercise corporate trust powers in the State of Texas and will be subject to supervision or examination by a federal or state authority;
- will be an eligible lender under the Higher Education Act so long as such designation is necessary to maintain guarantees and federal benefits under the Higher Education Act with respect to the Pledged Eligible Loans; and
- so long as the Bonds are rated by S&P, have a long term rating by S&P of at least "BBB."

Merger of the Trustee. Any corporation or association into which the Trustee may be merged or with which it may be consolidated, or any corporation or association resulting from any merger or consolidation to which the Trustee will be a party, or any corporation or association succeeding to all or substantially all of the corporate trust business of the Trustee, will be the successor of the Trustee under the Indenture, provided such corporation or association is otherwise qualified and eligible to serve as trustee under the Indenture, without the execution or filing of any paper or any further act on the part of any other parties thereto.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Registered Owners. The Issuer can agree with the Trustee to enter into any indentures supplemental to the Indenture for any of the following purposes without notice to or the consent of Bondholders:

- to cure any ambiguity or formal defect or omission in the Indenture;

- to grant to or confer upon the Trustee for the benefit of the registered owners any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the registered owners or the Trustee;

- to subject to the Indenture additional revenues, properties or collateral;

- to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification of the Indenture or any indenture supplemental thereto under the Trust Indenture Act of 1939 or any similar federal statute or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

- to evidence the appointment of a separate or co-Trustee or a co-registrar or transfer agent or the succession of a new Trustee under the Indenture, or any additional or substitute Guaranty Agency or Servicer;

- to add such provisions to or to amend such provisions of the Indenture as may be necessary or desirable to implement the student loan business in conformance with the Higher Education Act so long as such additions or amendments are, in the judgment of the Issuer, not to the material prejudice of the registered owners of any outstanding Bonds;

- to make any change as may be necessary in order to obtain and maintain for any of the Bonds an investment grade rating from a nationally recognized rating service, so long as such changes are, in the judgment of the Issuer, not to the material prejudice of the registered owners of any outstanding Bonds;

- to make any changes necessary to comply with or to obtain more favorable treatment under any current or future law, rule or regulation, including, but not limited to, the Higher Education Act;

- to create any additional funds or accounts or subaccounts under the Indenture deemed by the Trustee to be necessary or desirable;

- to amend the Indenture to provide for use of a surety Bond or other financial guaranty instrument in lieu of cash and/or investment securities in all or any portion of the Reserve Fund, so long as such action will not adversely affect the ratings of any of the Bonds;

- to make any other change which, in the judgment of the Issuer, is not to the material prejudice of the registered owners of any Bonds outstanding under the Indenture.

Supplemental Indentures Requiring Consent of Registered Owners. Any amendment of the Indenture other than those listed above must be approved by the registered owners of not less than a majority of the collective aggregate principal amount of the Bonds then outstanding under the Indenture, provided that the changes described below may be made in a supplemental indenture only with the consent of the registered owners of all Bonds then outstanding (except for the second bullet below which only requires the consent of the registered owners of the affected Bonds):

- an extension of the stated maturity date of the principal of or the interest on any Bond;
- a reduction in the principal amount of any Bond or the rate of interest thereon;
- a privilege or priority of any Bond or Bonds under the Indenture over any other Bond or Bonds except as otherwise provided in the Indenture;
- a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture; or
- the creation of any lien other than a lien ratably securing all of the Bonds at any time outstanding under the Indenture except as otherwise provided in the Indenture.

Additional Limitation on Modification of Indenture. None of the provisions of the Indenture will permit an amendment to the provisions of the Indenture which permits the transfer of all or part of the Pledged Eligible Loans or the granting of an interest therein to any person other than an eligible lender under the Higher Education Act or a Servicer, unless the Higher Education Act is modified so as to permit the same. No amendment or supplement to the Indenture will be effective unless there is delivered to the Trustee an opinion of Bond Counsel to the effect that an amendment or supplement to the Indenture was adopted in conformance with the Indenture.

Certain Notices to Rating Agencies

The Indenture requires the Trustee to notify each rating agency then rating the Bonds of, among other things: (a) any amendment, change, expiration, extension or renewal of the Indenture, (b) redemption (other than monthly principal reductions), defeasance, or acceleration of any of the Bonds, (c) the occurrence of any event of default, (d) any change in the Trustee, (e) the sale of substantially all the Pledged Eligible Loans, (f) any increase in the administration fee, carryover administration and servicing fee, subordinate administration fee, servicing fee, or trustee fee in an amount in excess of the permitted increases under the Indenture, (g) a waiver or rescission of an event of default, (h) a change in Servicer, (i) the addition of an Investment Security under subcaption (k) of the definition thereof; or (j) certain other information within its actual knowledge in certain circumstances in connection with any supplemental indenture. These notification provisions do not apply to the extent such notice or information has been previously supplied to the rating agencies and the Trustee has written evidence to such effect.

The Indenture provides that the Issuer will satisfy the requirements of a Rating Notification prior to taking any Proposed Action. It will be the duty of the Issuer to provide any information reasonably required by a Rating Agency in connection with a Rating Notification. The Issuer will make the notice relating to any Rating Notification publicly available in the manner applicable to post-issuance disclosures under Rule 15c2-12 as promulgated by the Securities and Exchange Commission.

Consent of Registered Owners

Whenever in this Official Statement the requirements of a rating notification must be satisfied for any Proposed Action, to the extent that the Bonds no longer carry a rating from any rating agency, such proposed action, failure to act or other event will require the written consent of the registered owners of not less than a majority of the collective aggregate principal amount of the Bonds then outstanding.

Trusts Irrevocable

The trust created by the Indenture is irrevocable until the Bonds and interest thereon and all other payment obligations under the Indenture are fully paid or provision is made for their payment as provided in the Indenture.

Satisfaction of Indenture

If the registered owners are paid all the principal of and interest due on their Bonds at the times and in the manner stipulated in the Indenture and if all other persons are paid any other amounts payable and secured under the Indenture, then the pledge of the trust estate will thereupon terminate and be discharged. The Trustee will execute and deliver to the Issuer instruments to evidence the discharge and satisfaction, and the Trustee will pay all money held by it under the Indenture to the party entitled to receive it under the Indenture.

Bonds will be deemed to have been paid if money for the payment or redemption thereof has been set aside and is being held in trust by the Trustee at the final maturity date for the Bonds or an earlier redemption date. Any outstanding Bond will, prior to the final maturity date or earlier redemption date, be deemed to have been paid if (i) such Bond is to be redeemed on any date prior to its final maturity date and (ii) the Issuer has given notice of redemption on said date, there has been deposited with the Trustee either money (fully insured by the Federal Deposit Insurance Corporation or fully collateralized by Government Obligations as defined below) in an amount which is sufficient, or Governmental Obligations (including any Governmental Obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America) the principal of and the interest on which when due will provide money which, together with the money, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal of and interest to become due on such Bond on and prior to the redemption date or final maturity date, as the case may be. For the purposes of this section, "Governmental Obligations" means certain non-callable governmental obligations which are unconditionally and fully guaranteed by the United States of America or any agency or instrumentality thereof. The Indenture provides restrictions on defeasing Bonds during the existence of an event of default.

CREDIT ENHANCEMENT

Credit enhancement for the Bonds will include overcollateralization and cash on deposit in the Reserve Fund and the Collection Fund.

The value of the Pledged Eligible Loans to be pledged to the Trustee on the date of issuance, together with that portion of the moneys released from the trust estate of the Restated 1998 Indenture and that portion of the moneys released from the trust estate of the Restated 2001 Indenture that is expected to be deposited on the date of issuance into the Collection Fund and Reserve Fund will exceed the original principal balance of the Bonds to be issued by the Issuer, which excess will represent the initial overcollateralization for the trust estate and a portion of the credit enhancement.

Upon the issuance of the Bonds and the application of the proceeds thereof as described herein under "USE OF PROCEEDS" (including the payment of the underwriting discount); the deposit of the moneys released from the trust estate of the Restated 1998 Indenture and the Restated 2001 Indenture to the Collection Fund and the Reserve Fund; the pledge of the Eligible Loans expected to be made to the Trustee on the date of issuance; and the payment of the costs of issuance of the Bonds, all as described under "USE OF PROCEEDS," the ratio of the total assets held under the Indenture, including accrued interest on the Pledged Eligible Loans, to the principal amount of the Bonds on the date of issuance will be approximately 104.01%. All the FFELP loans expected to be pledged on the date of issuance have been identified and are described herein under "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS."

In addition, the Reserve Fund is intended to enhance the likelihood of timely distributions of interest to the Bondholders and to decrease the likelihood that the Bondholders will experience losses. To the extent of available funds, the Reserve Fund will be replenished so that amounts on deposit therein do not fall below the specified Reserve Fund balance.

Credit enhancement will not provide protection against all risks of loss and may not guarantee payment to Bondholders of all amounts to which they are entitled. If losses or shortfalls occur that exceed the amount covered by the credit enhancement or that are not covered by the credit enhancement, Bondholders will bear their allocable share of deficiencies. The Issuer is not issuing any subordinate bonds. To the extent that the credit enhancement described above is exhausted, the Bonds will bear any risk of loss.

TAX MATTERS

General. The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, brokers-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and acquire such Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the "Service") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

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

Internal Revenue Service Circular 230 Notice. You should be aware that:

(a) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(b) such discussion was written to support the promotion or marketing (within the meaning of Service Circular 230) of the transactions or matters addressed by such discussion; and

(c) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with Service Circular 230.

Characterization of the Trust. Based upon certain assumptions and certain representations of the Issuer, Fulbright & Jaworski L.L.P., Bond Counsel, will render its opinion, with respect to the Bonds to the effect that the Bonds will be treated as debt of the Issuer, rather than as an interest in the financed student loans, and that the trust created under the Indenture (for purposes of this section of the Official Statement, the "Trust") will not be characterized for federal income tax purposes as creating an association or publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. Unlike a ruling from the Service, such opinion is not binding on the courts or the Service. Therefore, it is possible that the Service could assert that, for purposes of the Code, the transaction contemplated by this Official Statement constitutes a sale of the financed student loans (or an interest therein) to the owners of the Bonds (solely for purposes of this section of the Official Statement, the "registered owners") or that the relationship which will result from this transaction is that of a partnership, or an association taxable as a corporation.

If, instead of treating the transaction as creating secured debt of the Issuer, the transaction were treated as creating a partnership among the registered owners and the Issuer, the resulting partnership would not be subject to federal income tax. Rather, the Issuer and each registered owner would be taxed individually on their respective distributive shares of the partnership's income, gain, loss, deductions and credits generated by the trust estate created under the Indenture. In such case, the amount and timing of items of income and deduction of the registered owner would differ from the anticipated treatment of the Bonds as debt instruments.

If, alternatively, it were determined that the Trust is an entity classified as a corporation or a publicly traded partnership taxable as a corporation and treated as having purchased the financed student loans, the Trust would be subject to federal income tax at corporate income tax rates on the income it derives from the financed student loans, which would reduce the amounts available for payment to the registered owners. Cash payments to the registered owners generally would be treated as dividends for tax purposes to the extent of such corporation's accumulated and current earnings and profits.

Characterization of the Bonds as Indebtedness. The Issuer and the registered owners will express in the Indenture their intent that for federal income tax purposes the Bonds will be indebtedness of the Issuer secured by the financed student loans. The Issuer and the registered owners, by accepting the Bonds, have agreed to treat the Bonds as indebtedness of the Issuer for federal income tax purposes. The Issuer intends to treat this transaction as a financing reflecting the Bonds as its indebtedness for tax and financial accounting purposes.

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

The Issuer believes, based on the advice of counsel, that it has retained the preponderance of the primary benefits and burdens associated with ownership of the financed student loans and should, thus, be treated as the owner of the financed student loans for federal income tax purposes. If, however, the

Service were successfully to assert that this transaction should be treated as a sale of the financed student loans, the Service could further assert that the entity created pursuant to the Indenture, as the owner of the financed student loans for federal income tax purposes, should be deemed engaged in a business and, therefore, characterized as a publicly traded partnership taxable as a corporation.

Payments of Stated Interest on the Bonds. The stated interest paid on the Bonds will be included in the gross income, as defined in section 61 of the Code, by the owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the owners thereof.

Original Issue Discount. If a substantial amount of the Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Bonds will be amortized over the life of the Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the owners of the Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the owners of the Bonds that exceeds actual cash distributions to the owners in a taxable year.

The amount of the original issue discount that accrues on the Bonds each taxable year will be reported annually to the Service and to the owners. The portion of the original issue discount included in each owner's gross income while the owner holds the Bonds will increase the adjusted tax basis of the Bonds in the hands of such owner.

Disposition of Bonds and Market Discount. An owner of Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the owner's adjusted tax basis in the Bonds. Generally, the owner's adjusted tax basis in the Bonds will be the owner's initial cost, increased by the original issue discount previously included in the owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the owner's holding period for the Bonds.

Under current law, a purchaser of a LIBOR floating rate bond who did not purchase the Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Bonds.

Backup Withholding. Under section 3406 of the Code, a owner of the Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Bonds. This withholding applies if such owner of the Bonds: (i) fails to furnish to payor such owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain owners of the Bonds. Owners of the Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the owners of the Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the owner provides a statement to the payor certifying, under penalties of perjury, that such owner is not a United States person and providing the name and address of such owner; (ii) such interest is treated as not effectively connected with the owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

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

Tax-Exempt Investors. In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose which forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. If, contrary to expectations, one or more of the Bonds were considered equity for tax purposes and if one or more other Bonds were considered debt for tax purposes, those Bonds treated as equity likely would be subject to acquisition indebtedness and likely would generate unrelated business taxable income. However, as noted above, counsel has advised the Issuer that the Bonds will be characterized as debt for federal income tax purposes. Therefore, except to the extent any registered owner incurs acquisition indebtedness with respect to a Bond, interest paid or accrued with respect to such Bond may be excluded by each tax-exempt registered owner from the calculation of unrelated business taxable income. Each potential tax-exempt registered owner is urged to consult its own tax advisor regarding the application of these provisions.

ERISA CONSIDERATIONS

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

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

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

Plan Asset Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3-101 (the "Plan Asset Regulation") concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the Issuer) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section

4975 of the Code, when a Plan acquires an "equity interest" in such entity. ERISA Section 3(42) defines the term "plan assets." Depending upon a number of factors set forth in the Plan Asset Regulation, "plan assets" may be deemed to include either a Plan's interest in the assets of an entity (such as the Issuer) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest. For purposes of this section, the terms "plan assets" ("Plan Assets") and the "assets of a Plan" have the meaning specified in the Plan Asset Regulation and ERISA Section 3(42) and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan's investment therein (a "Plan Asset Entity").

Under the Plan Asset Regulation, the assets of the Issuer would be treated as Plan Assets if a Plan acquires an equity interest in the Issuer and none of the exceptions contained in the Plan Asset Regulation is applicable. The Plan Asset Regulation provides an exemption from "plan asset" treatment for securities issued by an entity if such securities are debt securities under applicable state law with no "substantial equity features." If the Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases Bonds could be treated as having acquired a direct interest in the Issuer. In that event, the purchase, holding, transfer or resale of the Bonds could result in a transaction that is prohibited under ERISA or the Code. While not free from doubt, on the basis of the Bonds as described herein, it appears that the Bonds should be treated as debt without substantial equity features for purposes of the Plan Asset Regulation.

In the event that the Bonds cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Asset Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Asset Regulation and ERISA Section 3(42). Because the availability of this exception depends upon the identity of the Bondholders at any time, there can be no assurance that the Bonds will qualify for this exception and that the Issuer's assets will not constitute a Plan Asset subject to ERISA's fiduciary obligations and responsibilities. Therefore, neither a Plan nor a Plan Asset Entity should acquire or hold Bonds in reliance upon the availability of this exception under the Plan Asset Regulation.

Prohibited Transactions

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

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

Purchaser's/Transferee's Representations and Warranties

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

Consultation With Counsel

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

INFORMATION REPORTS

For each Collection Period, the Issuer will post on its web site a report setting forth information with respect to the Bonds as of the end of such period, including the following:

- identification of remaining Bond balances;
- description of amounts applied from the Collection Fund, including the distribution allocable to principal and interest for the Bonds;
- current fees payable by the trust estate; and
- limited descriptions of activity in the Available Funds.

For each quarter, the Issuer will post on its website a report setting forth information with respect to the Pledged Eligible Loans, including descriptions of portfolio characteristics.

UNDERWRITING

Subject to the terms and conditions to be set forth in a bond purchase contract between the Issuer and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), the Underwriter has agreed to purchase the Bonds at a price equal to the principal amount of the Bonds less net original issue discount of $1,167,264 and less an underwriting discount of $1,737,000. After the initial offering, the prices of the Bonds may change.

Until the initial distribution of Bonds is completed, the rules of the Securities and Exchange Commission may limit the ability of the Underwriter and selling group members, if any, to bid for and purchase the Bonds. As an exception to these rules, the Underwriter is permitted to engage in transactions that stabilize the price of the Bonds. These transactions consist of bids of purchase for the purpose of pegging, fixing or maintaining the price of the Bonds.

Purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases.

Neither the Issuer nor the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer nor the Underwriter makes any representation that the Underwriter will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Issuer has agreed to indemnify the Underwriter and under certain limited circumstances, the Underwriter will indemnify the Issuer, against certain civil liabilities, including liabilities under the Securities Act.

Bank of America, N.A., an affiliate of the Underwriter, provides a letter of credit for certain of the Issuer's bonds presently outstanding under the Restated 1998 Indenture, which letter of credit is expected to be terminated upon the redemption of such bonds on the expected redemption date of July 24, 2012. The Underwriter or affiliates thereof routinely provide various financial and banking services (such as, but not limited to, the above-described letter of credit) to clients such as the Issuer, have done so in the past and may do so in the future with respect to the Issuer.

LEGAL PROCEEDINGS

There is no controversy or litigation of any nature now pending or, to the knowledge of the Issuer, threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Issuer taken with respect to the issuance or sale thereof, the pledge or application of any moneys or securities provided for the payment of the Bonds or the due existence or powers of the Issuer.

LEGAL MATTERS

The Issuer has been represented in connection with the authorization, issuance, offer, sale and delivery of the Bonds by its Bond Counsel, Fulbright & Jaworski L.L.P., who will pass on certain legal matters for the Issuer. Certain legal matters will be passed on for the Underwriter by Kutak Rock LLP. Certain legal matters will be passed upon for the Trustee and the Eligible Lender Trustee by Looper, Reed & McGraw, P.C.

RATINGS

It is a condition to the issuance of the Bonds that the Bonds be rated at least "AA+(sf)"/ "AAAsf," respectively, by two nationally recognized statistical rating organizations, S&P and Fitch. As of December 2, 2011, Fitch's Rating Outlook for all existing and new issuances of "AAA" rated tranches of FFELP securitizations is Negative, which reflects Fitch's Negative Rating Outlook on the long-term foreign and local currency issuer default ratings of the United States. See "RISK FACTORS" herein.

A securities rating addresses the likelihood of the receipt by owners of the Bonds of payments of principal and interest with respect to their Bonds from assets in the trust estate. The rating takes into consideration the characteristics of the Pledged Eligible Loans, and the structural and legal aspects associated with the rated Bonds. On a quarterly basis, each Rating Agency rating the Bonds is provided with servicing reports describing the performance of the underlying assets in the prior period.

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Neither the Issuer nor the Underwriter has undertaken any responsibility either to bring to the attention of the holders of the affected Bonds any proposed change in or withdrawal of such ratings or to oppose any such proposed revision. Any such change in or withdrawal of the ratings could have an adverse effect on the market price of the affected Bonds. See "CONTINUING DISCLOSURE."

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the SEC (the "Rule"), the Issuer will enter into a continuing disclosure agreement with respect to the Bonds (a "Continuing Disclosure Agreement") setting forth the undertaking of the Issuer regarding continuing disclosure with respect to the Bonds. The proposed form of the Continuing Disclosure Agreement is set forth in Appendix C attached hereto. The Issuer has not failed to comply with any previous undertaking to provide annual reports or notices of material events in accordance with the Rule, except it made one late filing on October 20, 2011 due to an administrative oversight. The Issuer has changed its administrative procedures to provide better reporting of events.

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GLOSSARY OF TERMS

Some of the terms used in this Official Statement are defined below. The Indenture contains the definition of other terms used in this Official Statement and reference is made to the Indenture for those definitions.

"*Administrator*" means the Higher Education Servicing Corporation or any successor appointed by the Issuer to perform any administrative duties under the Indenture.

"*Available Funds*" means, with respect to a Monthly Distribution Date, the sum of the following amounts received to the extent not previously distributed: (a) all collections received by any Servicer on the Pledged Eligible Loans (including late fees received by any Servicer with respect to the Pledged Eligible Loans and payments from any guaranty agency received with respect to the Pledged Eligible Loans) but net of (i) any collections in respect of principal on the Pledged Eligible Loans applied by the Issuer to recall claims with respect to or repurchase Eligible Loans (only to the extent that such Eligible Loans were previously Pledged Eligible Loans under the Indenture) from the guaranty agencies or any Servicer; provided, that such claim recall or repurchase is required by the terms of the Guarantee Agreement (including, for this purpose, any claim recall or repurchase which is "strongly encouraged" by the Department's Common Manual), the related servicing agreement or origination agreement, as applicable, or such claim recall or repurchase is required by federal law or regulations, including, without limitation, the Higher Education Act and the related regulations, and (ii) amounts required by the Higher Education Act to be paid to the Department (including, but not limited to, any monthly rebate fees and any Department rebate interest amounts to be deposited into the Department Rebate Fund or paid directly to the Department) or to be repaid to borrowers (whether or not in the form of a principal reduction of the applicable Pledged Eligible Loan), with respect to the Pledged Eligible Loans; (b) any interest benefit payments and special allowance payments received by the Trustee or the Issuer with respect to Pledged Eligible Loans; (c) all liquidation proceeds from any Pledged Eligible Loans which became liquidated Pledged Eligible Loans in accordance with the related Servicer's customary servicing procedures, and all other moneys collected with respect to any liquidated Pledged Eligible Loan which was written off, net of the sum of any amounts expended by the related Servicer in connection with such liquidation and any amounts required by law to be remitted to the obligor on such liquidated Pledged Eligible Loan; (d) the aggregate purchase amounts received for Pledged Eligible Loans repurchased by a seller, a Servicer, the Issuer or otherwise released from the lien of this Indenture by the Issuer; (e) the aggregate amounts, if any, received from a Seller or any Servicer as reimbursement of non-guaranteed interest amounts, or lost interest benefit payments and special allowance payments, with respect to the Pledged Eligible Loans pursuant to a student loan purchase agreement or a servicing agreement, respectively; (f) other amounts received by a Servicer pursuant to its role as Servicer of the Pledged Eligible Loans under the related servicing agreement and payable to the Issuer in connection therewith; (g) all interest earned or gain realized from the investment of amounts in any Fund or Account; and (h) any other amounts deposited to the Collection Fund.

"*Bondholder*" means, (a) with respect to a book-entry Bond, the person who is the owner of such book-entry Bond, as reflected on the books of the Trustee as registrar, and (b) with respect to Bonds held in definitive form, the person in whose name a Bond is registered in the Bond registration books of the Trustee.

"*Carryover Administration and Servicing Fee*" means any fees for performing the administrative duties of the Issuer and/or the Administrator under the Indenture and any fees for servicing the Pledged Eligible Loans not paid on prior Monthly Distribution Dates from funds available in the fourth and fifth bullet points described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—

Collection Fund; Flow of Funds," which fees shall be limited to no more than $40,000 annually, with the first payment no earlier than July 1, 2013.

"*Collection Period*" means, with respect to the first Monthly Distribution Date, the period beginning on the Date of Issuance and ending on September 30, 2012, and with respect to each subsequent Monthly Distribution Date, the Collection Period means the calendar month immediately following the preceding Collection Period.

"*Eligible Lender*" means an entity which is an "eligible lender," as defined in the Higher Education Act (including but not limited to an "eligible lender trustee"), and which has received an eligible lender number or other designation from the Secretary with respect to loans made under the Higher Education Act.

"*Eligible Loan*" means any loan made to finance post-secondary education that is made under the Higher Education Act.

"*Event of Bankruptcy*" means (a) the Issuer shall have commenced a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall have made a general assignment for the benefit of creditors, or shall have declared a moratorium with respect to its debts or shall have failed generally to pay its debts as they become due, or shall have taken any action to authorize any of the foregoing; or (b) an involuntary case or other proceeding shall have been commenced against the Issuer seeking liquidation, reorganization, or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property provided such action or proceeding is not dismissed within 60 days.

"*Fitch*" means Fitch, Inc., Fitch Ratings Ltd., its subsidiaries and its successors and assigns.

"*Guarantee*" or "*Guaranteed*" means, with respect to an Eligible Loan, the insurance or guarantee by a guaranty agency pursuant to such guaranty agency's guarantee agreement of the maximum percentage of the principal of and accrued interest on such Eligible Loan allowed by the terms of the Higher Education Act with respect to such Eligible Loan at the time it was originated (but without giving effect to adjustments for "exceptional performer" status under the Higher Education Act) and the coverage of such Eligible Loan by the federal reimbursement contracts, providing, among other things, for reimbursement to a guaranty agency for payments made by it on defaulted Eligible Loans insured or guaranteed by a guaranty agency of at least the minimum reimbursement allowed by the Higher Education Act with respect to a particular Eligible Loan.

"*Guarantee Agreements*" means a guaranty or lender agreement between the Eligible Lender Trustee and a guaranty agency, and any amendments thereto.

"*Higher Education Act*" means the Higher Education Act of 1965, as amended or supplemented from time to time, or any successor federal act and all regulations, directives, bulletins, and guidelines promulgated from time-to-time thereunder.

"*Indenture*" means the indenture of trust between the Issuer and the Trustee, including all supplements and amendments thereto.

"*Initial Pool Balance*" means the Pool Balance as of the date of issuance of the Bonds.

"*Interest Benefit Payment*" means an interest payment on Eligible Loans received pursuant to the Higher Education Act and an agreement with the federal government, or any similar payments.

"*Investment Securities*" means

(a) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States of America or any agency or instrumentality thereof, including, but not limited to, direct or fully guaranteed (i) U.S. Treasury obligations, (ii) Small Business Administration guaranteed participation certificates and guaranteed pool certificates, and (iii) U.S. Department of Housing and Urban Development local authority bonds; provided, however, such obligations must be limited to those instruments which have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change, not have an "r" suffix attached to any rating, and have interest tied to a single interest rate index plus a single fixed spread (if any), which interest moves proportionately with such index;

(b) debentures of the Federal Housing Administration;

(c) certain debt instruments of certain government-sponsored agencies, including: (i) Federal Home Loan Mortgage Corporation debt obligations, (ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) consolidated system-wide bonds and notes, (iii) Federal Home Loan Banks consolidated debt obligations; (iv) the Federal National Mortgage Association debt obligations; and (v) Resolution Funding Corp. ("REFCORP") debt obligations or any agency or instrumentality of the United States of America which are established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor; provided, however, such obligations must be limited to those instruments which have a predetermined fixed dollar amount of principal due at maturity that cannot vary, not have an "r" suffix attached to any rating, and have interest tied to a single interest rate index plus a single fixed spread (if any), which interest moves proportionately with such index;

(d) federal funds, unsecured certificates of deposit, interest-bearing time or demand deposits, banker's acceptances, and repurchase agreements or other similar banking arrangements with a maturity of 12 months or less with any domestic commercial banks (including those of the Trustee or any affiliate); provided, however, (i) that, at the time of deposit or purchase, such depository institution has commercial paper which is rated "A 1+" by S&P and "AA-/F1+" by Fitch, (ii) that ratings of holding companies may not be considered ratings of the banks; and (iii) such banking arrangements must be limited to those instruments which have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change, not have an "r" suffix attached to any rating, and have interest tied to a single interest rate index plus a single fixed spread (if any), which interest moves proportionately with such index;

(e) deposits that are fully insured by the Federal Deposit Insurance Corp. ("FDIC") which (i) have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change, (ii) if rated, do not have an "r" suffix attached to the rating, and (iii) have interest which is tied to a single interest rate index plus a single fixed spread (if any) and move proportionately with such index;

(f) debt obligations maturing in 365 days or less that are rated at least "AA-" by S&P and "AA-/F1+" by Fitch which (i) have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change, (ii) if rated, do not have an "r" suffix attached to the rating, and (iii) have interest which is tied to a single interest rate index plus a single fixed spread (if any) and move proportionately with such index;

(g) commercial paper, including that of the Trustee and any of its affiliates, which is rated in the single highest classification, "A-1+" by S&P and "F1+" by Fitch, and which matures not more than 365 days after the date of purchase; provided, however, such commercial paper must (i) have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change, (ii) if rated, not have an "r" suffix attached to the rating, and (iii) have interest which is tied to a single interest rate index plus a single fixed spread (if any), which interest moves proportionately with such index;

(h) investments in certain short-term debt, including commercial paper, federal funds, repurchase agreements, unsecured certificates of deposit, time deposits, and banker's acceptances, of issuers rated "A-1" by S&P and "AA-/F1+" by Fitch; provided, however, (i) only amounts in the Collection Fund may be invested in the investment securities described in this clause, (ii) the total amount of such investments may not represent more than 20% of the outstanding principal amount of the Bonds, (iii) each such investment may not mature beyond 30 days, (iv) such investments are not eligible for the Reserve Fund, (v) such investments must have a predetermined fixed dollar amount of principal due at maturity that cannot vary, (vi) if such investments are rated, may not have an "r" suffix attached to the rating, and (vii) such investments must have interest which is tied to a single interest rate index plus a single fixed spread (if any) and move proportionately with such index;

(i) investments in a money market fund rated at least "AAAm" or "AAAm-G" by S&P and, "AAA/V1+" by Fitch, if then rated by Fitch, including funds for which the Trustee or an affiliate thereof acts as investment advisor or provides other similar services for a fee;

(j) a local government investment pool, as defined by the Texas Public Funds Investment Act; and

(k) any other investment selected by the Issuer and permitted by the Public Funds Investment Act, after the requirements of a Rating Notification to the Rating Agencies have been satisfied.

"*Joint Sharing Agreement*" means any joint sharing agreement entered or to be entered into by the Issuer and the Trustee and other trustees under another indenture of trust of the Issuer to properly allocate payments from, and liabilities to, the U.S. Department of Education on Eligible Loans among the trust estate created under the Indenture and any other trust estates established by the Issuer, as any such agreement may be amended or supplemented from time to time.

"*Master Servicer*" means Higher Education Servicing Corporation or any successor corporation.

"*Maximum Rate*" shall mean a Net Effective Interest Rate (as determined by applicable Texas law) equal to 15% per annum.

"*Net Effective Interest Rate*" has the meaning given to it in Chapter 1204 of the Texas Government Code.

"*Parity Ratio*" shall mean, on any Monthly Distribution Date, (a) the Adjusted Pool Balance (including all accrued interest expected to be capitalized on the Pledged Eligible Loans) as of the end of the related Collection Period divided by (b) the outstanding amount of the Bonds after giving effect to distributions to be made on that Monthly Distribution Date. The Parity Ratio shall be calculated by the Issuer or the Administrator and certified to the Trustee upon which the Trustee may conclusively rely with no duty to further examine or determine such information.

"*Proposed Action*" means any proposed action, failure to act or other event which under the terms of the Indenture, is conditional upon a Rating Notification.

"*Purchase Amount*" with respect to any Pledged Eligible Loan means the amount required to prepay in full such Pledged Eligible Loan under the terms thereof including all accrued interest thereon and any unamortized premium, it being acknowledged that any accrued and unpaid interest benefit payments or special allowance payments will continue to be payable to the Trustee and constitute part of the trust estate.

"*Rating Agency*" means each of S&P and Fitch and their successors and assigns or any other rating agency requested by the Issuer to maintain a rating on any of its Bonds.

"*Rating Notification*" means, with respect to a Proposed Action, the Issuer shall have given notice of such Proposed Action to each Rating Agency at least 20 Business Days prior to the proposed effective date therefor.

"*Registered Owner*" means any Bondholder, unless the context otherwise requires.

"*S&P*" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., its successors and assigns.

"*Secretary*" means the Secretary of the Department of Education or any successor to the pertinent functions thereof under the Higher Education Act.

"*Servicer*" means the Master Servicer or any Subservicer.

"*Special Allowance Payments*" means the special allowance payments authorized to be made by the Secretary by Section 438 of the Higher Education Act, or similar allowances, if any, authorized from time-to-time by federal law or regulation.

"Subordinate Administration Fee" means a fee of 0.10% per annum payable to the Administrator, which fee will be calculated monthly based on the Pool Balance as of the first day of each month of the Collection Period and will be payable on the related Monthly Distribution Date if the Parity Ratio on such date is at least 104.50%.

"*Subservicer*" means Edfinancial Services LLC, Nelnet Servicing LLC, Pennsylvania Higher Education Assistance Agency, and any other Subservicer with which the Master Servicer enters into a Servicing Agreement, after the requirements of a Rating Notification to the Rating Agencies have been satisfied.

"*Supplemental Indenture*" means an agreement supplemental to the Indenture executed pursuant to the Indenture.

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APPENDIX A

DESCRIPTION OF THE FFEL PROGRAM

Beginning on July 1, 2010, FFELP Loans made pursuant to the Higher Education Act were no longer originated, and new federal student loans were originated solely under the Federal Direct Student Loan Program (the "Direct Loan Program"). However, FFELP Loans originated under the Higher Education Act prior to July 1, 2010 which have been acquired or are anticipated to be acquired by the Issuer (including the loans described in this Offering Memorandum under the caption "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS") continue to be subject to the provisions of the FFEL Program. The following description of the FFEL Program has been provided solely to explain certain of the provisions of the FFEL Program applicable to FFELP Loans made on or after July 1, 1998 and prior to July 1, 2010.

The following summary of the FFEL 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.

The Higher Education Act provides for several different educational loan programs (collectively, the "Federal Family Education Loan Program" or "FFEL Program," and the loans originated thereunder, "Federal Family Education Loans" or "FFELP Loans"). Under the FFEL Program, state agencies or private nonprofit corporations administering student loan insurance programs ("Guaranty 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 and federal budgetary legislation, the most significant of which has been the passage of H.R. 4872 (the "Health Care & Education Affordability Reconciliation Act of 2010" or "HCEARA") which terminated originations of FFELP Loans under the FFEL Program after June 30, 2010 such that all new federal student loans originated on and after July 1, 2010 are originated under the Direct Loan Program. A summary of certain recent amendments to the FFEL Program under the Higher Education Act culminating in HCEARA follows:

- September 2007: Congress passed, and former President Bush signed into law, the College Cost Reduction and Access Act of 2007, cutting more than $20 billion from the FFEL Program.

- May 2008: In response to disruptions in the credit markets and the announcement by several lenders that they will no longer originate FFELP Loans, the Ensuring Continued Access to Student Loans Act of 2008 (the "Ensuring Continued Access to Student Loans Act") was enacted and signed into law by former President Bush on May 7, 2008. The Ensuring Continued Access to Student Loans Act amended the Higher Education Act to (a) increase annual loan limits and aggregate loan limits on federal unsubsidized loans for dependent and independent undergraduate students; (b) provide deferrals to parent borrowers to begin repayment of PLUS Loans (hereinafter defined) which were first disbursed on or after August 1, 2008 six months and one day after the student ceases to carry at least one half the normal full time academic workload (this provision was further amended to, among other things, apply to PLUS Loans which were first disbursed on or after July 1, 2008 by the hereinafter discussed Higher Education Opportunity Act which became law on August 14, 2008); (c) provide lenders temporary discretionary authority under extenuating circumstances to exclude mortgage payments that are fewer than 180 days delinquent and/or other debt that is not more than 89 days delinquent from consideration when evaluating parent eligibility for PLUS Loans made to parents of dependent students (this provision was further amended by the Higher Education Opportunity Act to apply to loans first disbursed prior to July 1, 2008 and new temporary authority was given to lenders to deal with extenuating circumstances for loans first disbursed on or after July 1, 2008); and (d) provide temporary authority to the Secretary of the United States Department of Education (the "Secretary") to purchase certain FFELP Loans first disbursed on or after October 1, 2003 and before July 1, 2009 from any eligible lender on such terms as are, subject to certain other conditions, in the best interest of the United States (this provision was further modified by P.L. 110-350 which became law on October 7, 2008 to allow the Secretary to additionally purchase certain FFELP Loans first disbursed on or after July 1, 2009 but before July 1, 2010 and by P.L. 111-39 which became law on July 1, 2009 to allow the Secretary to purchase certain FFELP Loans rehabilitated pursuant to the Higher Education Act). Through certain "Dear Colleague" letters issued to members of the higher education lending community, the Secretary created three programs (defined and described herein under the heading "Secretary's Temporary Authority to Purchase Stafford Loans and PLUS Loans") to utilize its temporary purchasing authority under the Ensuring Continued Access to Student Loans Act and P.L. 110-350: (1) the Put Program, (2) the Purchase of Participation Interests Program and (3) the Asset-Backed Commercial Paper Conduit Program.

- August 2008: The Higher Education Opportunity Act was enacted and signed into law by former President Bush. The Higher Education Opportunity Act amended the Higher Education Act to, among other things: (a) extend the Secretary's authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act through September 30, 2014 (however, this provision was further amended by HCEARA to only allow the Secretary authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act before July 1, 2010), (b) allow graduate and professional students to receive, like parent borrowers of PLUS Loans, in-school deferment for PLUS Loans first disbursed on or after July 1, 2008 for a six month period beginning on the day after the date the student ceases to carry at least one-half the normal full-time academic workload, (c) allow FFEL Program borrowers to consolidate their loans under the Direct Loan Program in order to use the no accrual of interest benefit offered to active duty service members under the Direct Loan Program for not more than sixty months for loans first disbursed on or after October 1, 2008, (d) extend the authority to make Consolidation Loans (hereinafter defined) under the Higher Education Act through September 30, 2014 (however, this provision was further amended by HCEARA to only allow the Secretary authority to make Consolidation Loans under the Higher Education Act before July 1, 2010), (e) only allow FFEL Program borrowers to be eligible for loan rehabilitation once and (f) beginning in fiscal year 2012, prohibit an eligible institution from participating in any program under the Higher Education Act if such eligible institution's cohort default rate is 30% or higher (rather than 25% or higher). There are also numerous other administrative changes contained in the Act.

- September 2009: On September 17, 2009, the United States House of Representatives adopted H.R. 3221 ("The Student Aid and Fiscal Responsibility Act of 2009" or "SAFRA"). SAFRA contains language terminating the origination of FFELP Loans under the FFEL Program by July 1, 2010, which language was later amended and enacted through HCEARA.

- March 2010: On March 21, 2010, in connection with the federal budget reconciliation and appropriation process, the United States House of Representatives adopted HCEARA. HCEARA includes a revised version of SAFRA previously adopted by the United States House of Representatives in September 2009. On March 25, 2010, the United States Senate passed an amended version of HCEARA and sent the reconciliation package to the House of Representatives. That same night, the House of Representatives voted to adopt HCEARA. On March 30, 2010, President Obama signed HCEARA whereby HCEARA became law. ***Due to the enactment of HCEARA, FFELP Loans made pursuant to the Higher Education Act are no longer originated and effective July 1, 2010, new federal student loans are originated solely under the Direct Loan Program.***

Federal Family Education Loans

Several types of loans are 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 graduate students, professional students, or 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 FFELP Loan may be made only to a United States citizen or permanent resident or otherwise eligible individual under federal regulations who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution; (b) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (c) has agreed to notify promptly the holder of the loan of any address change; (d) is not in default on any federal education loans; (e) meets the applicable "need" requirements; and (f) has not committed a crime involving fraud or obtaining funds under the Higher Education Act which funds have not been fully repaid. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. With certain exceptions, an institution with a cohort default rate that is equal to or greater than 25% for each of the three most recent fiscal years for which data are available is not an eligible institution under the Higher Education Act. However, beginning in fiscal year 2012, the threshold is raised from 25% to 30%.

Subsidized Stafford Loans First Disbursed On or Prior to June 30, 2010

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

Unsubsidized Stafford Loans First Disbursed On or Prior to June 30, 2010

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 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 benefit payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins.

PLUS Loan Program

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

As of July 1, 2009, PLUS Loans made to parents of dependent students ("Parent PLUS Loans") became subject to a loan origination rights auction to be held in each state every two years. The winning lenders in each state will be those two lenders whose bids reflect the lowest amount of special allowance payments. If a lender has one of the two winning bids within the state, the lender must enter into an agreement with the Secretary to originate PLUS Loans to eligible borrowers within that state and to accept special allowance payments at the rate bid by the second-lowest bidder in the state's auction. Failure to enter into such an agreement may subject the lender to various sanctions, including, but not limited to, a penalty assessment in the amount of the additional costs incurred by the Secretary in obtaining another eligible lender to originate such eligible PLUS Loans; a prohibition of bidding by such lender in other auctions under this program; and the limitation, suspension or termination of the lender's participation in the FFEL Program. These two lenders will be the only lenders in each respective state allowed to originate Parent PLUS Loans for the cohort of students at institutions of higher education within such state until the students graduate or leave the institutions of higher education. Lenders may, however, bid in multiple states. The Secretary shall choose an eligible lender-of-last-resort for each state to serve the students in the event that there is not a winning bid. The maximum bid given by each lender cannot exceed the average bond equivalent rates for three month commercial paper rates (as quoted by the Federal Reserve in Publication H-15 or its successor) in effect for the quarter less the applicable interest rate for the loan plus 1.79%. The unpaid principal and interest of a defaulted Parent PLUS Loan will be 99% guaranteed by a Guaranty Agency. The Secretary will not collect any loan fees for Parent PLUS Loans originated as a result of the auction. The initial Parent PLUS Loan origination rights auction was initially scheduled to be held on April 15, 2009 within each state, but the Department of Education cancelled the initial auction on April 9, 2009 due to the fact that it could not generate sufficient interest to participate in the auction amongst eligible lenders in each state.

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. The authority to make such Consolidation Loans expired on June 30, 2010. 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 Parent PLUS Loans) selected by the borrower, as well as loans made pursuant to the Perkins Loan Program, the Health Professions Student Loan Programs and the Direct Loan Program. Consolidation Loans made pursuant to the Direct Loan Program must conform to the eligibility requirements for Consolidation Loans under the Federal Family Education Loan Program. The borrowers may be either in repayment status or in a grace period preceding repayment, but the borrower may not still be in school. Delinquent or defaulted borrowers are eligible to obtain Consolidation Loans if they agree to re-enter repayment through loan consolidation. Borrowers may add additional loans to a Consolidation Loan during the 180-day period following origination of the Consolidation Loan. 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 the requirements of the Higher Education Act.

The Higher Education Act authorizes the Secretary to offer the borrower a Direct Consolidation Loan with repayment provisions authorized under the Higher Education Act and terms consistent with a Consolidation Loan made pursuant to the FFEL Program. In addition, the Secretary may offer the borrower of a Consolidation Loan a Direct Consolidation Loan for one of three purposes: (a) providing the borrower with an income contingent repayment plan (or income-based repayment plan as of July 1, 2009) if the borrower's delinquent loan has been submitted to a Guaranty Agency for default aversion (or, as of July 1, 2009, if the loan is already in default); (b) allowing the borrower to participate in a public service loan forgiveness program offered under the Direct Loan Program or (c) allowing the borrower to use the no accrual of interest for active duty service members benefit offered under the Direct Loan Program for not more than sixty months for loans first disbursed on or after October 1, 2008. In order to participate in the public service loan forgiveness program, the borrower must not have defaulted on the Direct Loan; must have made 120 monthly payments on the Direct Loan after October 1, 2007 under certain income based repayment plans, a standard 10-year repayment plan for certain Direct Loans, or a certain income contingent repayment plan; and must be employed in a public service job at the time of forgiveness and during the period in which the borrower makes each of his 120 monthly payments. A public service job is defined broadly and includes working at an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended and restated (the "IRC"), which is exempt from taxation under Section 501(a) of the IRC. No borrower may, however, receive a reduction of loan obligations under both the public service loan forgiveness program offered under the Direct Loan Program and the following programs: (a) the loan forgiveness program for teachers offered under both the FFEL Program and the Direct Loan Program, (b) the loan forgiveness program for service in areas of national need offered under the FFEL Program and (c) the loan repayment program for civil legal assistance attorneys offered under the FFEL Program.

Federal Direct Student Loan Program

The Student Loan Reform Act of 1993 established the Direct Loan Program. The first loans under the Direct Loan Program were made available for the 1994-1995 academic year. Under the Direct

Loan Program, approved institutions of higher education, or alternative loan originators approved by the United States Department of Education (the "Department of Education"), make loans to students or parents without application to or funding from outside lenders or Guaranty Agencies. The Department of Education provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including extended, graduated and income contingent repayment plans, forbearance of payments during periods of national service and consolidation under the Direct Loan Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the Direct Loan Program. The Direct Loan Program also provides certain programs under which principal may be forgiven or interest rates may be reduced. Direct Loan Program repayment plans, other than income contingent plans, must be consistent with the requirements under the Higher Education Act for repayment plans under the FFEL Program. Due to the enactment of HCEARA, FFELP Loans made pursuant to the Higher Education Act will no longer be originated, and as of July 1, 2010, new federal student loans are originated solely under the Direct Loan Program.

Secretary's Temporary Loan Consolidation Authority. HCEARA additionally temporarily granted the Secretary authority to make a Federal Direct Consolidation Loan to a borrower (a) who has one or more loans in two or more of the following categories: (i) loans made under the Direct Loan Program, (ii) loans purchased by the Secretary pursuant to the provisions described herein under "—Secretary's Temporary Authority to Purchase Stafford Loans and PLUS Loans," and (iii) loans made under the FFEL Program that are held by an eligible lender; (b) who has not yet entered repayment on one or more of such loans in any of the categories described in clause (a)(i)-(iii) herein; and (c) whose application for such Federal Direct Consolidation Loan is received by the Secretary on or after July 1, 2010 and before July 1, 2011.

Special Direct Consolidation Loans. The Department of Education announced in a letter dated October 26, 2011 on its "Information for Financial Aid Professionals" website that it will offer Special Direct Consolidation Loans to eligible borrowers from January 1, 2012 through June 30, 2012. Special Direct Consolidation Loans are intended to help borrowers manage their debt by ensuring all of their federal loans are serviced by the same entity, resulting in one bill and one payment. Borrowers will also receive an interest rate reduction on Special Direct Consolidation Loans as a repayment incentive.

> Eligibility. Under the Special Direct Consolidation Loans, an eligible borrower means a borrower with at least one student loan held by the Department (a Direct Loan or a Federal Family Education Loan (FFEL) owned by the Department and serviced by one of the Department's servicers, and at least one commercially-held FFEL loan (a FFEL loan that is owned by a FFEL lender and serviced either by that lender or by a servicer contracted by that lender). Only the commercially-held FFEL loans are eligible for consolidation under the Special Direct Consolidation Loans. The commercially-held FFEL loans include: (1) FFEL Subsidized and Unsubsidized Stafford Loans, (2) FFEL PLUS Loans (both those taken out by graduate/professional students and those taken out by a parent to pay for the costs of an undergraduate student), and (3) FFEL Consolidation Loans. These loans must be in grace, repayment, deferment, or forbearance.
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> Interest Rates. If the borrower consolidates into a Special Direct Consolidation Loan, the borrower will receive a 0.25% interest rate reduction from the current interest rate on such commercially-held FFEL loan(s) as of the date of consolidation. The interest rate will be fixed for the life of the loan and cannot exceed 8.25%.
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> Repayment. Under the Special Direct Consolidation Loans, the following repayment plans are provided: (1) Standard Repayment Plan, (2) Graduated Repayment Plan, (3) Extended

Repayment Plan, (4) Income-Contingent Repayment (ICR) Plan, and (5) Income-Based Repayment (IBR) Plan. However, the repayment plan does not start over when the borrower receives a Special Direct Consolidation Loan. Instead, each consolidated commercially-held FFEL loan will retain its original repayment term. For example, if the borrower had made three years of loan payments on a 10 year standard repayment plan prior to consolidating a Federal Stafford Loan and the borrower chooses the Standard Repayment Plan for the Special Direct Consolidation Loan, the borrower's repayment term would continue to be 7 years. Also, if the Special Direct Consolidation Loan includes a parent Federal PLUS Loans, or Federal Consolidation Loans that repaid parent PLUS loans, that portion of the borrower's consolidation loan may not be repaid under the IBR plan. However, the borrower has the option of paying that portion of the loan under the ICR plan.

Public Service Loan Forgiveness Program (the "PSLF Program"). By consolidating the commercially-held FFEL loans into a Special Direct Consolidation Loan, those loans become Direct Loans, and become eligible for the PSLF Program if the borrower meets the PSLF Program's requirements. Under the PSLF Program, the borrower may qualify for forgiveness of the remaining balance due on the eligible Direct Loans after the borrower makes 120 payments on those loans under certain repayment plans while employed full time by certain public service employers.

Interest Rates

Subsidized and Unsubsidized Stafford Loans. Subsidized and Unsubsidized Stafford Loans made on or after October 1, 1998 but before July 1, 2006 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. Subsidized Stafford Loans and Unsubsidized Stafford Loans made on or after October 1, 1998 but before July 1, 2006 in all other payment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.30%, with a maximum rate of 8.25%. The rate is adjusted annually on July 1.

Subsidized Stafford Loans disbursed on or after July 1, 2006 and before July 1, 2010 bear interest at progressively lowered rates described below. Subsidized Stafford Loans made on or after July 1, 2006 but before July 1, 2008 bear interest at a rate equal to 6.80% per annum. Subsidized Stafford Loans made on or after July 1, 2008 but before July 1, 2009 bear interest at a rate equal to 6.00% per annum. Subsidized Stafford Loans made on or after July 1, 2009 but before July 1, 2010 will bear interest at a rate equal to 5.60% per annum.

Unsubsidized Stafford Loans made on or after July 1, 2006 and before July 1, 2010 bear interest at a rate equal to 6.80% per annum.

PLUS Loans. PLUS Loans made on or after October 1, 1998 but before July 1, 2006 bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.10%, with a maximum rate of 9.00%. The rate is adjusted annually on July 1. PLUS Loans made on or after July 1, 2006 and before July 1, 2010 bear interest at a rate equal to 8.50% per annum.

Consolidation Loans. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 and that was disbursed before July 1, 2010 bear interest at a fixed rate equal to the lesser of (a) the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest one-eighth of 1.00% or (b) 8.25%.

Servicemembers Civil Relief Act – 6.00% Interest Rate Limitation. As of August 14, 2008, FFELP Loans incurred by a servicemember, or by a servicemember and the servicemember's spouse jointly, before the servicemember enters military service may not bear interest at a rate in excess of 6.00% during the period of military service. It is not clear at this time, however, if this interest rate limitation applies to a servicemember's already existing student loans or only to new student loans incurred by the servicemember on or after August 14, 2008 but prior to the servicemember's military service.

Loan Disbursements

The Higher Education Act generally requires that Stafford Loans and PLUS 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. The Higher Education Act also generally requires that the first installment of such loans made to a student who is entering the first year of a program of undergraduate education and who has not previously obtained a FFEL Program loan (a "First FFEL Student") must be presented by the institution to the student 30 days after the First FFEL Student begins a course of study. However, certain institutions whose cohort default rate is less than 10% prior to October 1, 2011 and less than 15% on or after October 1, 2011 for each of the three most recent fiscal years for which data are available may (a) disburse any such loan made in a single installment for any period of enrollment that is not more than a semester, trimester, quarter, or 4 months and (b) deliver any such loan that is to be made to a First FFEL Student prior to the end of the 30 day period after the First FFEL Student begins his or her course of study at the institution.

Loan Limits

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 Stafford Loans, made prior to July 1, 2007, for an academic year cannot exceed $2,625 for the first year of undergraduate study, $3,500 for the second year of undergraduate study and $5,500 per year for the remainder of undergraduate study. The maximum amount of Stafford Loans, made on or after July 1, 2007, for an academic year cannot exceed $3,500 for the first year of undergraduate study and $4,500 for the second year of undergraduate study. The aggregate limit for undergraduate study is $23,000 (excluding PLUS Loans). Dependent undergraduate students may receive an additional unsubsidized Stafford Loan of up to $2,000 per academic year, with an aggregate maximum of $31,000. Independent undergraduate students may receive an additional Unsubsidized Stafford Loan of up to $6,000 per academic year for the first two years and up to $7,000 per academic year thereafter, with an aggregate maximum of $57,500. The maximum amount of subsidized loans for an academic year for graduate students is $8,500. Graduate students may borrow an additional Unsubsidized Stafford Loan of up to $12,000 per academic year. The Secretary has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study.

The total amount of all PLUS Loans that (a) parents may borrow on behalf of each dependent student or (b) graduate or professional students may borrow for any academic year may not exceed the student's estimated cost of attendance minus other financial assistance for that student as certified by the eligible institution which the student attends.

Repayment

General. Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins six months after the date a borrower ceases to pursue at least a half time course of study (the six month period is the "Grace Period"). Repayment of interest on an Unsubsidized Stafford Loan begins immediately upon disbursement of the loan; however, the lender may capitalize the interest until repayment of principal is scheduled to begin. Except for certain borrowers as described below, each loan generally must be scheduled for repayment over a period of not more than 10 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. Regulations of the Secretary require lenders to offer borrowers standard, graduated, income-sensitive, or, as of July 1, 2009 for certain eligible borrowers, income-based repayment plans. Use of income-based repayment plans may extend the ten-year maximum term.

Effective July 1, 2009, a new income-based repayment plan became available to certain FFEL Program borrowers and Direct Loan Program borrowers. To be eligible to participate in the plan, the borrower's annual amount due on loans made to a borrower prior to July 1, 2010 with respect to FFEL Program borrowers and prior to July 1, 2014 with respect to Direct Loan Program borrowers (as calculated under a standard 10-year repayment plan for such loans) must exceed 15% of the result obtained by calculating the amount by which the borrower's adjusted gross income (and the borrower's spouse's adjusted gross income, if applicable) exceeds 150% of the poverty line applicable to the borrower's family size. With respect to any loan made to a new Direct Loan Program borrower on or after July 1, 2014, the borrower's annual amount due on such loans (as calculated under a standard 10-year repayment plan for such loans) must exceed 10% of the result obtained by calculating the amount by which the borrower's adjusted gross income (and the borrower's spouse's adjusted gross income, if applicable) exceeds 150% of the poverty line applicable to the borrower's family size. Such a borrower may elect to have his payments limited to the monthly amount of the above-described result. Furthermore, the borrower is permitted to repay his loans over a term greater than 10 years. The Secretary will repay any outstanding principal and interest on eligible FFEL Program loans and cancel any outstanding principal and interest on eligible Direct Loan Program loans for borrowers who participated in the new income-based repayment plan and, for a period of time prescribed by the Secretary (but not more than 25 years for a borrower whose loan was made prior to July 1, 2010 with respect to FFEL Program loans and prior to July 1, 2014 with respect to Direct Loan Program loans and not more than 20 years for a Direct Loan Program borrower whose loan was made on or after July 1, 2014), have (a) made certain reduced monthly payments under the income-based repayment plan; (b) made certain payments based on a 10-year repayment period when the borrower first made the election to participate in the income-based repayment plan; (c) made certain payments based on a standard 10-year repayment period; (d) made certain payments under an income-contingent repayment plan for certain Direct Loan Program loans; or (e) have been in an economic hardship deferment. On October 25, 2011, President Obama proposed a "Pay-As-You-Earn" plan (the "PAYE Proposal") that would allow certain provisions being offered to new Direct Loan Program borrowers for loans made on or after June 1, 2014 as part of the income-based repayment plan described in this paragraph to become available to certain borrowers sooner; the PAYE Proposal includes loan forgiveness for certain borrowers after a 20 year loan repayment period and a loan repayment cap of 10% of such borrower's discretionary income. On June 7, President Obama directed the Department of Education in a memorandum to create by July 15, 2012 online and mobile resources for students and former students to use in order to learn more about the income-based repayment plans and the PAYE Proposal. However, the details of the PAYE Proposal will not be final until it goes through the negotiated-rulemaking process.

Borrowers of Subsidized Stafford Loans and of the subsidized portion of Consolidation Loans, and borrowers of similar subsidized loans under the Direct Loan Program receive additional benefits under the new income-based repayment program: the Secretary will pay any unpaid interest due on the borrower's subsidized loans for up to three years after the borrower first elects to participate in the new income-based repayment plan (excluding any periods where the borrower has obtained economic hardship deferment). For both subsidized and unsubsidized loans, interest is capitalized when the borrower either ends his participation in the income-based repayment program or begins making certain payments under the program calculated for those borrowers whose financial hardship has ended.

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, subject to deferral. For parent borrowers whose loans were first disbursed on or after July 1, 2008, it is possible, upon the request of the parent, to begin repayment on the later of (a) six months and one day after the student for whom the loan is borrowed ceases to carry at least one-half of the normal full-time academic workload (as determined by the school) and (b) if the parent borrower is also a student, six months and one day after the date such parent borrower ceases to carry at least one-half such a workload. Similarly, graduate and professional student borrowers whose loans were first disbursed on or after July 1, 2008 may begin repayment six months and one day after such student ceases to carry at least one-half the normal full-time academic workload (as determined by the school). Repayment plans are the same as in the Subsidized and Unsubsidized Stafford Loan Program for all PLUS Loans except those PLUS Loans which are made, insured, or guaranteed on behalf of a dependent student; such excepted PLUS Loans are not eligible for the income-based repayment plan which became effective on July 1, 2009. Furthermore, eligible lenders may determine for all PLUS Loan borrowers (a) whose loans were first disbursed on or after July 1, 2008 that extenuating circumstances exist if between January 1, 2007 through December 31, 2009, a PLUS Loan applicant (1) is or has been delinquent for 180 days or less on the borrower's residential mortgage loan payments or on medical bills, and (2) does not otherwise have an adverse credit history, as determined by the lender in accordance with the regulations promulgated under the Higher Education Act prior to May 7, 2008 and (b) whose loans were first disbursed prior to July 1, 2008 that extenuating circumstances exist if between January 1, 2007 through December 31, 2009, a PLUS Loan applicant (1) is or has been delinquent for 180 days or less on the borrower's residential mortgage loan or on medical bills and (2) is not and has not been delinquent on the repayment of any other debt for more than 89 days during the period.

Consolidation Loans enter repayment on the date the loan is disbursed. The first payment is due within 60 days after all holders of the loan have discharged the liabilities of the borrower on the loan selected for consolidation. Consolidation Loans which are not being paid pursuant to income-sensitive repayment plans (or, as of July 1, 2009, income-based repayment plans) must generally 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). Consolidation Loans may also be repaid pursuant to the new income-based repayment plan which became effective on July 1, 2009. However, Consolidation Loans which have been used to repay a PLUS Loan that has been made, insured, or guaranteed on behalf of a dependent student are not eligible for this new income-based repayment plan.

FFEL Program borrowers who accumulate outstanding FFELP Loans on or after October 7, 1998 totaling more than $30,000 may receive an extended repayment plan, with a fixed annual or graduated payment amount paid over a longer period of time, not to exceed 25 years. A borrower may accelerate principal payments at any time without penalty. Once a repayment plan is established, the borrower may annually change the selection of the plan.

Deferment and Forbearance Periods. No principal repayments need to be made during certain periods prescribed by the Higher Education Act ("Deferment Periods") but interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or an approved rehabilitation training program for disabled individuals; (b) not in excess of three years while the borrower is seeking and unable to find full-time employment; (c) while the borrower is serving on active duty during a war or other military operation or national emergency, is performing qualifying National Guard duty during a war or other military operation or national emergency, and for 180 days following the borrower's demobilization date for the above-described services; (d) during the 13 months following service if the borrower is a member of the National Guard, a member of a reserve component of the military, or a retired member of the military who (i) is called or ordered to active duty, and (ii) is or was enrolled within six months prior to the activation at an eligible educational institution; (e) if the borrower is in active military duty, or is in reserve status and called to active duty; and (f) 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 include, but are not limited to, periods during which the borrower is (i) participating in a medical or dental residency and is not eligible for deferment; (ii) serving in a qualified medical or dental internship program or certain national service programs; or (iii) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, Forbearance may be granted at the lender's option. Forbearance also extends the maximum repayment periods.

Master Promissory Notes

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

Interest Benefit Payments

The Secretary is to pay interest on Subsidized Stafford Loans while the borrower is a qualified student, during a Grace Period or during certain Deferment Periods. In addition, those portions of Consolidation Loans that repay Subsidized Stafford Loans or similar subsidized loans made under the Direct Loan Program are eligible for interest benefit payments. The Secretary is required to make interest benefit 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 benefit 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 formulas 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 9.50%. Amounts derived from recoveries of principal on loans made prior to October 1, 1993 may only be used to originate or acquire additional loans by a unit of a state or local government, or non-profit entity not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate or trustee, which entity has a total unpaid balance of principal equal to or less than $100,000,000 on loans for which special allowances were paid in the most recent quarterly payment prior to September 30, 2005. Such entities may originate or acquire additional loans with amounts derived from recoveries of principal until December 31, 2010. The special allowance payments payable with respect to eligible loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are equal to those paid to other lenders.

Subject to the foregoing and to Public Law 112-74 (discussed below), the formulas for special allowance payment rates for Subsidized 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 at a "bond equivalent rate" in the manner applied by the Secretary as referred to in Section 438 of the Higher Education Act. The term "Three Month Commercial Paper Rate" means the 90-day commercial paper index calculated quarterly and based on an average of the daily 90-day commercial paper rates reported in the Federal Reserve's Statistical Release H-15.

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.10%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.10% [1]
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.80% [2]
On or after January 1, 2000 (and before July 1, 2010)	Three Month Commercial Paper Rate less Applicable Interest Rate + 2.34% [3]
On or after October 1, 2007 and before July 1, 2010 if an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate less Applicable Interest Rate + 1.94% [4]
On or after October 1, 2007 and before July 1, 2010 if an eligible lender other than an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate less Applicable Interest Rate + 1.79% [5]

[1] Substitute 2.50% in this formula while such loans are in the in-school or grace period.
[2] Substitute 2.20% in this formula while such loans are in the in-school or grace period.
[3] Substitute 1.74% in this formula while such loans are in the in-school or grace period.
[4] Substitute 1.34% in this formula while such loans are in the in-school or grace period.
[5] Substitute 1.19% in this formula while such loans are in the in-school or grace period.

The formulas for special allowance payment rates for PLUS Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.10%
On or after January 1, 2000 (and before July 1, 2010)	Three Month Commercial Paper Rate less Applicable Interest Rate +2.64%
On or after October 1, 2007 and before July 1, 2010 if an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate less Applicable Interest Rate + 1.94%
On or after October 1, 2007 and before July 1, 2010 if an eligible lender other than an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate less Applicable Interest Rate + 1.79%

The formulas for special allowance payment rates for Consolidation Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.10%
On or after January 1, 2000 (and before July 1, 2010)	Three Month Commercial Paper Rate less Applicable Interest Rate + 2.64%
On or after October 1, 2007 and before July 1, 2010 if an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate less Applicable Interest Rate + 2.24%
On or after October 1, 2007 and before July 1, 2010 if an eligible lender other than an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate less Applicable Interest Rate + 2.09%

Public Law 112-74, dated December 23, 2011, amended the Higher Education Act, reflecting financial market conditions, to allow FFELP lenders to make an affirmative election to permanently change the index for Special Allowance Payment calculations on all FFELP loans in the lender's portfolio (with certain exceptions) disbursed after January 1, 2000 from the three-month commercial paper (financial) rate to the one-month LIBOR index, commencing with the Special Allowance Payment calculations for the calendar quarter beginning on April 1, 2012. The one-month LIBOR rate is defined as the one-month London Inter Bank Offered Rate for United States dollars in effect for each of the days in such quarter as compiled and released by the British Bankers Association. Such election to permanently change the index for Special Allowance Payment calculations must have been made by April 1, 2012 and any lender who has made such election must also have waived all contractual, statutory or other legal rights to the Special Allowance Payment calculation formula in effect at the time the loans were first disbursed.

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 benefit 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 Guaranty Agencies' requirements.

The Higher Education Act provides that for FFELP Loans first disbursed on or after April 1, 2006 and before July 1, 2010, lenders must remit to the Secretary any interest paid by a borrower which is in excess of the special allowance payment rate set forth above for such loans.

Loan Fees

Insurance Premium. For loans guaranteed before July 1, 2006, a Guaranty Agency is authorized to charge a premium, or guarantee fee, of up to 1.00% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, Guaranty Agencies have waived this fee since 1999. For loans guaranteed on or after July 1, 2006 that are first disbursed before July 1, 2010, a federal default fee equal to 1.00% of principal must be paid into such Guaranty Agency's Federal Student Loan Reserve Fund (hereinafter defined as the "Federal Fund").

Origination Fee. Lenders are authorized to charge borrowers of Subsidized Stafford Loans and Unsubsidized Stafford Loans an origination fee in an amount not to exceed: 3.00% of the principal amount of the loan for loans disbursed prior to July 1, 2006; 2.00% of the principal amount of the loan for loans disbursed on or after July 1, 2006 and before July 1, 2007; 1.50% of the principal amount of the loan for loans disbursed on or after July 1, 2007 and before August 1, 2008; 1.00% of the principal amount of the loan for loans disbursed on or after August 1, 2008 and before July 1, 2009; and 0.50% of the principal amount of the loan for loans disbursed on or after July 1, 2009 and before July 1, 2010. The Secretary is authorized to charge borrowers of Direct Loans 4.00% of the principal amount of the loan for loans disbursed prior to February 8, 2006. A lender may charge a lesser origination fee to Stafford Loan borrowers so long as the lender does so consistently with respect to all borrowers who reside in or attend school in a particular state. For borrowers of Direct Loans other than Federal Direct Consolidation Loans and Federal Direct PLUS Loans, the Secretary may charge such borrowers as follows: 3.00% of the principal amount of the loan for loans disbursed on or after February 8, 2006 and before July 1, 2007; 2.50% of the principal amount of the loan for loans disbursed on or after July 1, 2007 and before August 1, 2008; 2.00% of the principal amount of the loan for loans disbursed on or after August 1, 2008 and before July 1, 2009; 1.50% of the principal amount of the loan for loans disbursed on or after July 1, 2009 and before July 1, 2010; and 1.00% of the principal amount of the loan for loans disbursed on or after July 1, 2010. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. The lenders must pass the origination fees received under the FFEL Program on to the Secretary.

Lender Loan Fee. The lender of any FFELP Loan is required to pay to the Secretary an additional origination fee equal to 0.50% of the principal amount of the loan for loans first disbursed on or after October 1, 1993, but prior to October 1, 2007. For all loans first disbursed on or after October 1, 2007 and before July 1, 2010, the lender must pay an additional origination fee equal to 1.00% of the principal amount of the loan.

The Secretary collects from the lender or subsequent holder of the loan the maximum origination fee authorized (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in interest benefit payments or special allowance payments or directly from the lender or holder of the loan.

Rebate Fee on Consolidation Loans. The holder of any Consolidation Loan for which the first disbursement was made on or after October 1, 1993, is required to pay to the Secretary a monthly fee equal to .0875% (1.05% per annum) of the principal amount plus accrued unpaid interest on the loan. However, for Consolidation Loans for which applications were received from October 1, 1998 to January 31, 1999, inclusive, the monthly rebate fee is approximately equal to .0517% (.62% per annum) of the principal amount plus accrued interest on the loan.

Insurance and Guarantees

A Guaranty Agency guarantees Federal Family Education Loans made to students or parents of students by eligible lenders. A Guaranty Agency generally purchases defaulted student loans which it has guaranteed with its reserve fund (as described under "—Guarantor Reserves"). 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 a reduction (as described in 20 U.S.C. §1075(b)) within 90 days of notification of such default. The default claim package submitted to a Guaranty Agency must include all information and documentation required under the Federal Family Education Loan Program regulations and such Guaranty Agency's policies and procedures.

The Higher Education Act gives the Secretary of Education various oversight powers over the Guaranty Agencies. These include requiring a Guaranty Agency to maintain its reserve fund at a certain required level and taking various actions relating to a Guaranty Agency if its administrative and financial condition jeopardizes its ability to meet its obligations.

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% for loans first disbursed prior to July 1, 2006 and 97% for loans first disbursed on or after July 1, 2006 but before July 1, 2010) of the unpaid principal balance of the loan plus accrued unpaid interest on any defaulted loan 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 of a borrower; bankruptcy of a borrower; total and permanent disability of a borrower (including those borrowers who have been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected condition); inability of a borrower to engage in any substantial, gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, has lasted continuously for at least 60 months, or can be expected to last continuously for at least 60 months; the death of a student whose parent is the borrower of a PLUS Loan; certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure; borrowers whose borrowing eligibility was falsely certified by the eligible institution; or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a Guarantor's claims rate experience for federal reimbursement purposes. Generally, educational loans are non dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower's dependents. Further, the Secretary is to reimburse a Guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below. See "Education Loans Generally Not Subject to Discharge in Bankruptcy" herein.

The Secretary may terminate Guarantee Agreements if the Secretary determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. Upon termination of such Guarantee 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. On May 7, 2008, Treasury funds were further authorized to be appropriated for emergency advances to Guarantors to ensure such Guarantors are able to act as lenders-of-last-resort and to assist Guarantors with immediate cash needs, claims, or any demands for loans under the lender-of-last-resort program.

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 purchased or 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 the reserve funds or assets or is inconsistent with the terms or purposes of the Higher Education Act; and (c) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the Guarantor. Finally, notwithstanding any other provision of law, the Secretary's liability for any outstanding liabilities of a Guarantor (other than outstanding student loan guarantees under the Higher Education Act), the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the Guarantor, minus any necessary liquidation or other administrative costs.

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

Claims Rate	**Guarantor Reinsurance Rate for Loans made prior to October 1, 1993**	**Guarantor Reinsurance Rate for Loans made between October 1, 1993 and September 30, 1998**	**Guarantor Reinsurance Rate for Loans made on or after October 1, 1998 and prior to July 1, 2010[1]**
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

[1] Student loans made pursuant to the lender-of-last resort program have an amount of reinsurance equal to 100%; student loans transferred by an insolvent Guarantor have an amount of reinsurance ranging from 80% to 100%.

The 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 by the borrower on a FFELP Loan guaranteed by a Guarantor is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the borrower's payment. The Secretary's equitable share of the borrower's payment equals the amount remaining after the Guarantor has deducted from such payment: (a) the percentage amount equal to the complement of the reinsurance percentage in effect when payment under the Guarantee Agreement was made with respect to the loan and (b) as of October 1, 2007, 16% of the borrower's payments (to be used for the Guarantor's Operating Fund (hereinafter defined)). The percentage deduction for use of the borrower's payments for the Guarantor's Operating Fund varied prior to October 1, 2007: from October 1, 2003 through and including September 30, 2007, the percentage in effect was 23% and prior to October 1, 2003, the percentage in effect was 24%. The Higher Education Act further provides that on or after October 1, 2006, a Guarantor may not charge a borrower collection costs in an amount in excess of 18.50% of the outstanding principal and interest of a defaulted loan that is paid off through consolidation by the borrower; provided that the Guarantor must remit to the Secretary a portion of the collection charge equal to 8.50% of the outstanding principal and interest of the defaulted loan. In addition, on or after October 1, 2009, a Guarantor must remit to the Secretary any collection fees on defaulted loans paid off with consolidation proceeds by the borrower which are in excess of 45% of the Guarantor's total collections on defaulted loans in any one federal fiscal year.

Lender Agreements. Pursuant to most typical agreements for guarantee between a Guarantor and the originator of the loan, any eligible holder of a loan insured by such a Guarantor is entitled to reimbursement from such Guarantor, subject to certain limitations, of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability, certain medically determinable physical or mental impairment, or bankruptcy of the student borrower at the rate of 98% for loans in default made on or after October 1, 1993 but prior to July 1, 2006 and 97% for loans in default made on or after July 1, 2006 but prior to July 1, 2010. Certain holders of loans may receive higher reimbursements from Guarantors. For example, lenders of last resort may receive reimbursement at a rate of 100% from Guarantors.

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.

Rehabilitation of Defaulted Loans. Under the Higher Education Act, the Secretary of Education is authorized to enter into an agreement with each Guaranty Agency pursuant to which a Guaranty Agency sells defaulted student loans that are eligible for rehabilitation to an eligible lender. For a defaulted student loan to be rehabilitated, the borrower must request rehabilitation and the applicable Guaranty Agency must receive an on time, voluntary, full payment each month for 12 consecutive months. However, effective July 1, 2006, for a student loan to be eligible for rehabilitation, the applicable Guaranty Agency must receive 9 payments made within 20 days of the due date during 10 consecutive months. Upon rehabilitation, a student loan is eligible for all the benefits under the Higher Education Act for which it would have been eligible had no default occurred.

A Guaranty Agency repays the Secretary an amount equal to 81.5% of the outstanding principal balance of the student loan at the time of sale to the lender multiplied by the reimbursement percentage in effect at the time the student loan was reimbursed. The amount of such repayment is deducted from the amount of federal reimbursement payments for the fiscal year in which such repayment occurs, for purposes of determining the reimbursement rate for that fiscal year.

Loans Subject to Repurchase. The Higher Education Act requires a lender to repurchase student loans from a guaranty agency, under certain circumstances, after a Guaranty Agency has paid for the student loan through the claim process. A lender is required to repurchase: (a) a student loan found to be legally unenforceable against the borrower; (b) a student loan for which a bankruptcy claim has been paid if the borrower's bankruptcy is subsequently dismissed by the court or, as a result of the bankruptcy hearing, the student loan is considered non dischargeable and the borrower remains responsible for repayment of the student loan; (c) a student loan which is subsequently determined not to be in default; or (d) a student loan for which a Guaranty Agency inadvertently paid the claim.

Guarantor Reserves

Each Guarantor is required to establish a 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, a certain percentage of default collections equal to the complement of the reinsurance percentage in effect when payment under the Guarantee Agreement was made, insurance premiums, 70% of payments received after October 7, 1998 from the Secretary for administrative cost allowances for loans insured prior to that date, 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 at any time during the first three years after establishment of the fund. The Federal Fund may be used to pay lender claims and to pay default aversion fees into the Operating Fund. A Guarantor is also required to establish an operating fund (the "Operating Fund"), which, except for funds transferred from the Federal Fund to meet operating expenses during the first three years after fund establishment, is the property of the Guarantor. A Guarantor may deposit into the Operating Fund loan processing and issuance fees equal to 0.40% of the total principal amount of loans insured during the fiscal year for loans originated on or after October 1, 2003 and first disbursed before July 1, 2010, 30% of payments received after October 7, 1998 for the administrative cost allowances for loans insured prior to that date, the account maintenance fee paid by the Secretary for Direct Loan Program loans in the amount of .06% of the original principal amount of the outstanding loans insured, any default aversion fee that is paid, the Guarantor's 16% retention on collections of defaulted loans and other receipts as specified in the regulations. An Operating Fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring, and other student financial aid related activities. For Subsidized and Unsubsidized Stafford Loans guaranteed on or after July 1, 2006 and first disbursed before July 1, 2010, Guarantors must collect and deposit a federal default fee to the Federal Fund equal to 1.00% of the principal amount of the loan.

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

Secretary's Temporary Authority to
Purchase Stafford Loans and PLUS Loans

On May 7, 2008, the Ensuring Continued Access to Student Loans Act temporarily granted the Secretary the authority to purchase Stafford Loans and PLUS Loans from eligible lenders which were first disbursed on or after October 1, 2003, but prior to July 1, 2009 on such terms as are, subject to certain other conditions, in the best interest of the United States. On October 7, 2008, P.L. 110-350 became law and additionally granted the Secretary the power to purchase Stafford Loans and PLUS Loans from eligible lenders which were first disbursed on or after July 1, 2009, but prior to July 1, 2010. On July 1, 2009, P.L. 111-39 became law and further expanded the Secretary's purchase authority to include FFELP Loans rehabilitated pursuant to 20 U.S.C. § 1078-6.

In order to purchase loans (other than rehabilitated loans), the Secretary must make a determination that adequate loan capital is not available to meet demand for Stafford Loans and PLUS Loans. Any purchase of loans, however, by the Secretary may not create any net cost for the United States government (including any servicing costs associated with the loans). The Secretary must additionally fulfill various other requirements in order to purchase loans, including a notice with certain details which must be published in the Federal Register prior to any purchase. Eligible lenders, in turn, must use the funds provided by the Secretary to ensure their continued participation in the FFEL Program, to originate new FFELP Loans to students, and, with respect to funds received from rehabilitated FFELP Loan sales to the Secretary, to purchase such rehabilitated FFELP Loans pursuant to 20 U.S.C. § 1078-6(a). Pursuant to P.L. 110-350, the Secretary's authority to purchase loans expired on July 1, 2010.

Through certain "Dear Colleague" letters issued to members of the higher education lending community, the Secretary has created three programs (defined and described below) to utilize its temporary purchasing authority: (1) the Put Program, (2) the Purchase of Participation Interests Program and (3) the Asset-Backed Commercial Paper Conduit Program.

Put Program.

2008-2009 Academic Year Put Program. Initially, in a May 21, 2008 "Dear Colleague" letter, the Secretary only committed to exercising the purchasing authority granted under the Ensuring Continued Access to Student Loans Act for eligible loans originated during the 2008 2009 academic year (the "Put Program"). On July 1, 2008, the Department of Education published the terms and conditions of the Put Program for the 2008-2009 academic year in the Federal Register (specifically, 73 FR 37422, as later corrected by 73 FR 41048). The Federal Register required eligible FFEL Program lenders to submit a Notice of Intent to participate in the Put Program to the Department of Education by July 31, 2008. Participating lenders must meet the terms and conditions set forth in the Federal Register which include, but are not limited to, the following: (a) the eligible Stafford Loans and PLUS Loans must have, among other things, been made to students and parents of dependent students, respectively, for loan periods that include, or begin on or after, July 1, 2008; additionally, the first disbursement must be scheduled to be made on or after May 1, 2008 but no later than July 1, 2009, and the loan must be fully disbursed no later than September 30, 2009; (b) unless the participating lender has entered into a Master Participation Agreement (described under the Purchase of Participation Interests Program below) with the Department of Education, each participating lender must enter into a Master Loan Sale Agreement with the Department of Education and provide a statement setting forth representations, warranties, and guarantees required by the Department of Education in the Federal Register notice on or prior to March 31, 2009; (c) each participating lender who has entered into a Master Participation Agreement with the Department of Education must also enter into the Master Loan Sale Agreement with the Department of Education on or prior to July 1, 2009 if the lender wishes to redeem any of the participation interests sold to the Department of Education in its eligible loans, (d) each participating lender must exercise, if at all, its option to sell its fully disbursed eligible Stafford Loans and PLUS Loans to the Department of Education on or before August 31, 2009 (per the Department of Education's Loan Purchase Programs Electronic Announcement #71 which extended the deadline to submit the 45-day notice to sell loans from August 14, 2009 to August 31, 2009, allowing for a final purchase date of October 15, 2009); and (e) all loan sales for which the participating lender has properly exercised its option must be completed on or before October 15, 2009 (per the Department of Education's Loan Purchase Programs Electronic Announcement #71 which extended the final loan purchase date from September 30, 2009 to October 15, 2009 in order to accommodate possible increased activity at the end of program year 2009).

2009-2010 Academic Year Put Program. Due to continued tightening in the credit markets and concern among students, schools, and lenders regarding the availability of FFELP Loans for the 2009-2010 academic year, the Secretary further committed in a November 10, 2008 "Dear Colleague" letter, pursuant to the authority granted by P.L. 110-350, to replicating the Put Program for the 2009-2010 academic year. On January 15, 2009, the Department of Education published the terms and conditions of the Put Program for the 2009-2010 academic year in the Federal Register (specifically, 74 FR 2518). The Federal Register requires eligible FFEL Program lenders to submit a Notice of Intent to participate in the Put Program as it relates to the 2009-2010 academic year to the Department of Education. Participating lenders must meet the terms and conditions set forth in the Federal Register which include, but are not limited to, the following: (a) the eligible Stafford Loans and PLUS Loans must have, among other things, been made to students and parents of dependent students, respectively, for loan periods that include, or begin on or after, July 1, 2009; additionally, the first disbursement must be scheduled to be made on or after May 1, 2009 but no later than July 1, 2010, and the loan must be fully disbursed no later than September 30, 2010; (b) unless the participating lender has entered into a Master Participation Agreement (described under the Purchase of Participation Interests Program below) with the Department of Education, each participating lender must enter into a 2009 Master Loan Sale Agreement with the Department of Education and provide a statement setting forth representations, warranties, and guarantees required by the Department of Education in the Federal Register notice on or prior to March 31, 2010; (c) each participating lender who has entered into a Master Participation Agreement (described under the

Purchase of Participation Interests Program below) with the Department of Education must also enter into the 2009 Master Loan Sale Agreement with the Department of Education on or prior to July 1, 2010 if the lender wishes to redeem any of the participation interests sold to the Department of Education in its eligible loans, (d) each participating lender must exercise, if at all, its option to sell its fully disbursed eligible Stafford Loans and PLUS Loans to the Department of Education on or before August 14, 2010; and (e) all loan sales for which the participating lender has properly exercised its option must be completed on or before September 30, 2010.

Purchase of Participation Interests Program.

2008-2009 Academic Year Purchase of Participation Interests Program. In a May 21, 2008 "Dear Colleague" letter, the Secretary, utilizing its temporary authority under the Ensuring Continued Access to Student Loans Act, announced a new financing program to make capital available to FFEL Program lenders, whereby the Secretary committed to purchasing participation interests (the "Purchase of Participation Interests Program") in pools of eligible Stafford Loans and PLUS Loans made by FFEL Program lenders for the 2008-2009 academic year and holding those participation interests until September 30, 2009 (provided, however, that the Department of Education's participation interests may be reduced through loan sales made pursuant to the Put Program until October 15, 2009 per the Department of Education's Loan Purchase Programs Electronic Announcement #71). On July 1, 2008, the Department of Education published the terms and conditions of the Purchase of Participation Interests Program for the 2008-2009 academic year in the Federal Register (specifically, 73 FR 37422, as later corrected by 73 FR 41048). The Federal Register requires eligible FFEL Program lenders to submit a Notice of Intent to participate in the Put Program and the Purchase of Participation Interests Program to the Department of Education by July 31, 2008. Participating lenders must meet the terms and conditions set forth in the Federal Register which include, but are not limited to, the following: (a) the eligible Stafford Loans and PLUS Loans must have, among other things, been made to students and parents of dependent students, respectively, for loan periods that include, or begin on or after, July 1, 2008; additionally, the first disbursement must be scheduled to be made on or after May 1, 2008 but no later than July 1, 2009, and the loan must be fully disbursed no later than September 30, 2009, (b) each participating lender must enter into a Master Participation Agreement with the Department of Education and a third-party custodian acceptable to the Department of Education prior to the earlier of July 1, 2009 or the closing date of the sale of the first participation interest to the Department of Education, (c) each participating lender must exercise, if at all, its option to sell participation interests in their eligible loans to the Department of Education on or before August 1, 2009 (provided, however, certain sales of participation interests may occur as late as September 30, 2009), (d) any participation interests purchased by the Department of Education will be held by the Department of Education until the earlier of (i) the date the participating lender notifies the Department of Education that it will no longer participate in the Purchase of Participation Interests Program (by redeeming its loans from the third-party custodian and, if desired by the participating lender, by selling such redeemed loans to the Department of Education in accordance with the Put Program), (ii) the effective date of any termination event such as, but not limited to, the bankruptcy, insolvency, or other adverse event with respect to the participating lender, and (iii) September 30, 2009 (provided, however, that settlement of final loan sale transactions may occur until October 15, 2009 per the Department of Education's Loan Purchase Programs Electronic Announcement #71).

2009-2010 Academic Year Purchase of Participation Interests Program. P.L. 110-350 additionally granted the Secretary the power to purchase eligible Stafford Loans and PLUS Loans from eligible FFEL Program lenders which were first disbursed on or after July 1, 2009, but prior to July 1, 2010. In response to continued tightening in the credit markets and concern among students, schools and lenders as to the availability of FFELP Loans for the 2009-2010 academic year, the Secretary committed in a November 10, 2008 "Dear Colleague" letter, pursuant to the authority granted by P.L. 110-350, to replicating the Purchase of Participation Interests Program for the 2009-2010 academic year. On January 15, 2009, the Department of Education published the terms and conditions of the Purchase of Participation Interests Program for the 2009-2010 academic year in the Federal Register (specifically, 74 FR 2518). The Federal Register requires eligible FFEL Program lenders to submit a Notice of Intent to participate in the Put Program and the Purchase of Participation Interests Program to the Department of Education. Participating lenders must meet the terms and conditions set forth in the Federal Register which include, but are not limited to, the following: (a) the eligible Stafford Loans and PLUS Loans must have, among other things, been made to students and parents of dependent students, respectively, for loan periods that include, or begin on or after, July 1, 2009; additionally, the first disbursement must be scheduled to be made on or after May 1, 2009 but no later than July 1, 2010, and the loan must be fully disbursed no later than September 30, 2010, (b) each participating lender must enter into a 2009 Master Participation Agreement with the Department of Education and a third-party custodian acceptable to the Department of Education prior to the earlier of July 1, 2010 or the closing date of the sale of the first participation interest to the Department of Education, (c) each participating lender must exercise, if at all, its option to sell participation interests in its eligible loans to the Department of Education on or before August 1, 2010 and (d) any participation interests purchased by the Department of Education will be held by the Department of Education until the earlier of (i) the date the participating lender notifies the Department of Education that it will no longer participate in the Purchase of Participation Interests Program as it relates to the 2009-2010 academic year eligible Stafford Loans and PLUS Loans, (ii) the effective date of any termination event such as, but not limited to, the bankruptcy, insolvency, or other adverse event with respect to the participating lender, and (iii) September 30, 2010.

Asset-Backed Commercial Paper Conduit Program. In a November 10, 2008 “Dear Colleague” letter, the Secretary announced that, due to stagnation in the credit markets and the billions of dollars of student loans which remain on bank balance sheets, the Department of Education would develop an asset-backed commercial paper conduit program (the “Asset-Backed Commercial Paper Conduit Program”) to purchase fully disbursed FFELP Loans (other than Consolidation Loans) awarded between October 1, 2003 and July 1, 2009. Each conduit would be privately created by an eligible lender trustee and would contain the ownership rights of lenders to their eligible FFELP Loans. The conduit would issue commercial paper to investors and secure the repayment of the commercial paper with the conduit’s FFELP Loan pool. The funds provided by investors would be paid to the student lenders who transferred the ownership rights in their eligible FFELP Loans to the conduit. The Department of Education would, pursuant to the Ensuring Continued Access to Student Loans Act, enter into forward purchase commitments with each eligible lender trustee participating in the Asset-Backed Commercial Paper Conduit Program and commit to purchasing at a date in the future eligible FFELP Loans at a certain price from the conduit if the conduit lacks sufficient funds to repay its investors as the commercial paper becomes due. On January 15, 2009, the Department of Education published the specific terms of the asset-backed commercial paper conduit program in the Federal Register (specifically, 74 FR 2518). Certain of the terms and conditions set forth in the Federal Register include, but are not limited to, the following: (a) the eligible Stafford Loans and PLUS Loans must have, among other things, been first disbursed by the eligible lender on or after October 1, 2003, but no later than June 30, 2009; fully disbursed no later than September 30, 2009; and conveyed to the conduit no later than June 30, 2010, (b) each conduit must enter into a Put Agreement with the Department of Education consistent with the terms and conditions in the Federal Register notice, (c) each conduit is expected to exercise its put option to the Department of Education only after it has attempted to obtain funds from certain other sources, (d) the Department of Education will pay a purchase price of 97% or 100% (depending on the loan characteristics) of the principal balance outstanding plus the accrued but unpaid interest owed by the borrower for the eligible loans as of the purchase date, and (e) the Department of Education will agree to purchase eligible loans with a broader range of borrower benefits than those loans or participation interests in loans purchased by the Department of Education pursuant to the Put Program and the Purchase of Participation Interests Program (described above). On February 4, 2009, the Department of

Education announced to the lending community via Loan Purchase Programs Electronic Announcement #47 that Straight-A Funding, LLC, through an eligible lender trustee agreement with the Bank of New York Mellon, entered into an agreement on January 20, 2009, with the Department of Education to serve as the initial conduit provider under the Asset-Backed Commercial Paper Conduit Program. On May 11, 2009, the Department of Education announced to the lending community via Loan Purchase Programs Electronic Announcement #60 that the Asset-Backed Commercial Paper Conduit Program had officially been implemented. Sallie Mae Corporation and the Access Group were the first issuers to issue commercial paper through the Straight-A Funding, LLC conduit provider. As described above, the Asset-Backed Commercial Paper Conduit Program terminated on June 30, 2010 when the eligible Stafford Loans and PLUS Loans must be conveyed to the conduit.

Secretary's Temporary Loan Consolidation Authority

On March 30, 2010, HCEARA temporarily granted the Secretary authority to make a Federal Direct Consolidation Loan to a borrower (a) who has one or more loans in two or more of the following categories: (i) loans made under the Direct Loan Program, (ii) loans purchased by the Secretary pursuant to the provisions described herein under "—Secretary's Temporary Authority to Purchase Stafford Loans and PLUS Loans," and (iii) loans made under the FFEL Program that are held by an eligible lender; (b) who has not yet entered repayment on one or more of such loans in any of the categories described in clause (a)(i)-(iii) herein; and (c) whose application for such Federal Direct Consolidation Loan was received by the Secretary on or after July 1, 2010 and before July 1, 2011.

Lender-of-Last-Resort Program

The FFEL Program allowed Guaranty Agencies and eligible lenders (after consideration by the state Guaranty Agency) to act as lenders-of-last-resort before July 1, 2010. A lender-of-last-resort is authorized to receive advances from the Secretary in order to ensure that adequate loan capital exists in order to make loans to students before July 1, 2010. Until July 1, 2010, students and parents of students who were otherwise unable to obtain FFELP Loans (other than Consolidation Loans) were able to apply to receive loans from the state's lenders-of-last-resort.

On May 7, 2008, the Ensuring Continued Access to Student Loans Act temporarily granted the Secretary authority until June 30, 2009 to designate qualified state institutions of higher education as eligible to apply for loans from lenders-of-last-resort. On October 7, 2008, P.L. 110-350 became law and extended the Secretary's authority for an additional year which ended on June 30, 2010. Any designation by the Secretary of an institution as eligible to apply for such loans also expired on June 30, 2010 per P.L. 110-350.

Education Loans Generally Not Subject to Discharge in Bankruptcy

Under the U.S. Bankruptcy Code, educational loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8)(A)(i)-(ii) provides that a discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of Title 11 of the United States Code does not discharge an individual debtor from any debt for an education benefit overpayment or loan made, insured, or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

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APPENDIX B

PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE BONDS

Prepayments on pools of Pledged Eligible Loans can be calculated based on a variety of prepayment models. The model used herein to calculate prepayments is the constant prepayment rate and is referred to herein as the "CPR" model.

The CPR model is based on prepayments assumed to occur at a constant percentage rate. CPR is stated as an annualized rate and is calculated as the percentage of the loan amount outstanding at the beginning of a period (including accrued interest to be capitalized), after applying scheduled payments, that prepays during that period.

The CPR model assumes that Pledged Eligible Loans will prepay in each month according to the following formula:

Monthly Prepayments = (Pool Balance after scheduled payments) x $(1-(1-\text{CPR})^{1/12})$

Accordingly, monthly prepayments, assuming a $1,000 balance after scheduled payments would be as follows for various levels of CPR:

	0% CPR	3% CPR	6% CPR	9% CPR
Monthly Prepayment	$0.00	$2.54	$5.14	$7.83

The CPR model does not purport to describe historical prepayment experience or to predict the prepayment rate of any actual Eligible Loan pool. The Pledged Eligible Loans pledged under the Indenture will not prepay according to the CPR, nor will all of the Pledged Eligible Loans pledged under the Indenture prepay at the same rate. Potential investors must make an independent decision regarding the appropriate principal prepayment scenarios to use in making any investment decision.

For the sole purpose of calculating the information presented in the tables, it is assumed, including but not limited to the following, that:

- the Statistical Cut-off Date for the Pledged Eligible Loans pledged under the Indenture is May 31, 2012;
- the pool balance of Pledged Eligible Loans (which does not include any accrued interest) is assumed to be approximately $472,084,461, as of May 31, 2012 and remains unchanged on the date of issuance;
- accrued interest to be capitalized on the Eligible Loans totals approximately $5,779,506;
- the pool of Pledged Eligible Loans consists of 244 representative loans ("rep lines"), which have been created for modeling purposes from individual Eligible Loans based on combinations of similar individual Eligible Loan characteristics, which include, but are not limited to, loan status, interest rate, loan type, SAP index, servicer, and remaining term;
- the date of issuance is July 24, 2012;
- the Pledged Eligible Loans (as grouped within the "rep lines" described above) remain in their current status until their status end date and then move to repayment, with the

exception of school status loans which are assumed to have a 6-month grace period before moving to repayment, and no Student Loan moves from repayment to any other status;

- all Pledged Eligible Loans and replines are assumed to have the same characteristics on the Issue Date as they have on the Statistical Cut-off Date;
- the Pledged Eligible Loans that are (i) unsubsidized Stafford or Consolidation loans not in repayment status, (ii) subsidized Stafford or Consolidation loans in forbearance status or (iii) SLS or PLUS loans not in repayment status, have interest accrue and capitalize upon entering repayment;
- the Pledged Eligible Loans that are (i) subsidized Stafford loans not in school, grace or deferment status or, (ii) subsidized Consolidation loans in deferment status, have interest paid (Interest Subsidy Payments) by the Department quarterly, based on a quarterly calendar accrual period;
- the Pledged Eligible Loans that are in Repayment make level payments of principal and interest;
- prepayments on the Pledged Eligible Loans begin immediately upon the replines entering repayment;
- there are government payment delays of 60 days for interest subsidy and special allowance payments;
- there are payment delays of 60 days for interest rebates and interest floor payments;
- no borrower benefits are utilized;
- no delinquencies or defaults occur on any of the Pledged Eligible Loans, no purchases from the trust estate for breaches of representations, warranties or covenants occur, and all borrower payments are collected in full;
- 1-Month LIBOR remains at 0.24% and 91-day Treasury bill remains fixed at 0.09% for the life of the transaction;
- the interest rate for the Bonds at all times will be 1.24% per annum;
- interest on the Bonds will be paid monthly, beginning November 1, 2012.
- Principal Payments will be made on the Bonds in accordance with the "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Collection Fund; Flow of Funds" herein. Principal Payments will be made to the Bonds from available funds on the 1st of each month after all prior distributions have occurred;
- The Bonds are subject to Optional Redemption at par when the Pool Balance is less than 10% of the Initial Pool Balance. When calculating the information presented in the tables hereto, however, no optional redemption clean-up call or purchase of the Pledged Eligible Loans under the Indenture occurs;
- interest accrues on the Bonds on an actual/360 day count basis;
- Trustee Fees equal 0.01% per annum of the aggregate outstanding principal amount of Bonds as of the immediately preceding Monthly Distribution Date and are paid annually, in advance, under the Indenture commencing July 1, 2013;

- monthly administration fees paid to the Administrator (initially the Issuer) equal to 1/12 of 0.15% of the Pool Balance as of the first day of each month in the related Collection Period;

- monthly servicing fees paid from the trust are paid monthly according to the schedule set forth in the servicing agreement with an assumed 3.00% inflation rate per annum and adjusted annually (beginning in July 2013). For the first full month of the transaction, the servicing fees were approximately one twelfth of 0.34% per annum of the principal balance of the Pledged Eligible Loans as of the related Collection Period;

- a consolidation loan rebate fee equal to 1.05% per annum of the outstanding principal balance of the Pledged Eligible Loans that are consolidation loans, is paid monthly under the Indenture to the Department of Education and are subject to a payment delay of 30 days;

- Carryover Administration and Servicing Fees totaling $40,000 are paid annually under the Indenture commencing July 1, 2013;

- to the extent funds are available, payment of additional Administrative Expenses paid monthly in arrears (as described in clause tenth under "SUMMARY OF TERMS—Description of the Issuer and the Trust Estate—Flow of Funds"), calculated monthly based on the Pool Balance as of the first day of each month in the related Collection Period, and shall be equal to: 0.10% per annum if the Parity Ratio on the related Monthly Distribution Date is at least 104.50%;

- the Reserve Fund pledged under the Indenture has an initial balance equal to 0.25% of the aggregate principal amount of the Bonds as of the date of issuance and thereafter has a balance equal to the greater of (a) 0.25% of the principal amount of Outstanding Bonds immediately prior to such Monthly Distribution Date or (b) $694,800;

- all payments are assumed to be made at the end of the month and amounts on deposit in the Collection Fund and the Reserve Fund pledged under the Indenture, including reinvestment income earned in the previous month, net of Servicing Fees, are reinvested in eligible investments at the assumed reinvestment rate of 0.09% per annum through the end of the related Collection Period; reinvestment earnings from the prior Collection Period are available for distribution;

- the Collection Fund pledged under the Indenture is assumed to have approximately $2,753,831 at closing, which when received, consists of approximately $2,564,008 of accrued interest (not expected to be capitalized);

- no excess cashflow will be released;

- no optional redemption clean-up call or purchase of the Pledged Eligible Loans under the Indenture occurs;

- no event of default has occurred or is continuing to occur under the Indenture; and

- net special allowance payments and interest subsidy payments are assumed to be set aside monthly.

The tables below have been prepared based on the assumptions described above (including the assumptions regarding the characteristics and performance of the rep lines, which will differ from the characteristics and performance of the actual pool of Pledged Eligible Loans) and should be read in conjunction therewith. In addition, the diverse characteristics, remaining terms to scheduled maturity and loan ages of the Pledged Eligible Loans could produce slower or faster principal payments than implied by the information in these tables, even if the dispersions of weighted average characteristics, remaining terms to scheduled maturity and loan ages are the same as the characteristics, remaining terms to scheduled maturity and loan ages assumed. See “RISK FACTORS” above.

Each set of projected weighted average lives reflects a projected average of the periods of time for which the Bonds are Outstanding. Such projected weighted average lives do not reflect the period of time which any one Bond will remain Outstanding. At each prepayment speed, some Bonds will remain Outstanding for periods of time shorter than the applicable projected weighted average life, while some will remain Outstanding for longer periods of time.

WEIGHTED AVERAGE LIVES AND EXPECTED MATURITY DATES
OF THE BONDS AT VARIOUS PERCENTAGES OF THE CPR

0% CPR	3% CPR	6% CPR	9% CPR
Weighted Average Life (Years)[1]			
5.96	5.19	4.59	4.10
Expected Maturity Date			
January 1, 2028	February 1, 2026	April 1, 2024	March 1, 2023

(1) The weighted average life of each of the Bonds (assuming a 360 day year consisting of twelve 30 day months) is determined by: (a) multiplying the amount of each principal payment on such Bonds by the number of years from the date of issuance to the related Monthly Distribution Date, (b) adding the results, and (c) dividing that sum by the aggregate principal amount of such Bonds as of the date of issuance.

PERCENTAGES OF ORIGINAL PRINCIPAL AMOUNT OF THE BONDS REMAINING AT CERTAIN MONTHLY DISTRIBUTION DATES
AT VARIOUS PERCENTAGES OF THE CPR

	0% CPR	**3% CPR**	**6% CPR**	**9% CPR**
Date of Issuance	100%	100%	100%	100%
Nov-12	98	98	97	97
Nov-13	91	89	86	84
Nov-14	83	78	73	69
Nov-15	73	67	60	55
Nov-16	63	56	49	42
Nov-17	53	45	38	32
Nov-18	43	35	28	22
Nov-19	34	26	20	15
Nov-20	25	19	13	9
Nov-21	18	12	8	4
Nov-22	12	7	4	1
Nov-23	8	4	1	0
Nov-24	6	2	0	0
Nov-25	4	*	0	0
Nov-26	2	0	0	0
Nov-27	*	0	0	0
Nov-28	0	0	0	0

* Greater than zero but less than 0.5% of original principal amount of the Bonds remaining.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Continuing Disclosure Agreement") is executed and delivered by North Texas Higher Education Authority, Inc. (the "Obligated Person") in connection with the issuance of its Student Loan Backed Bonds, Series 2012-1 (the "Series 2012-1 Bonds"). The Series 2012-1 Bonds are being issued pursuant to Indenture of Trust, dated as of July 1, 2012 (the "Indenture"), between the Obligated Person and BOKF, NA dba Bank of Texas, as trustee (the "Trustee"). The Obligated Person undertakes and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Continuing Disclosure Agreement is being executed and delivered by the Obligated Person for the benefit of the Registered Owners and beneficial owners of the Series 2012-1 Bonds and in order to assist the Underwriter (as defined below) in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Financial Information*" shall mean any Annual Financial Information provided by the Obligated Person pursuant to, and as described in, Sections 3 and 4 of this Continuing Disclosure Agreement.

"*Disclosure Representative*" shall mean the Executive Director of the Obligated Person or his or her designee, or such other person as the Obligated Person shall designate.

"*Dissemination Agent*" shall mean any Dissemination Agent designated by the Obligated Person.

"*EMMA*" means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

"*Listed Event*" shall mean any of the events listed in Section 5(a) of this Continuing Disclosure Agreement.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board, and any successors or assigns, or any other entities or agencies approved under the Rule.

"*Official Statement*" shall mean the Official Statement, dated July 18, 2012, of the Obligated Person with respect to its offering of the Series 2012-1 Bonds.

"*Repository*" shall mean, until otherwise designated by the Securities and Exchange Commission, the Electronic Municipal Market Access website of the MSRB located at http://emma.msrb.org and, if applicable, the State Repository.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time.

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

"*State Repository*" shall mean any public or private repository or entity designated by the State of Texas as a state information depository for purposes of the Rule and recognized as such by the SEC. As of the date of this Continuing Disclosure Agreement, there is no State Repository.

"*Underwriter*" means the "participating underwriter" as that term is defined in the Rule, and in relation to the Series 2012-1 Bonds, shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated, or any successor known to the Obligated Person.

Section 3. Provision of Annual Financial Information.

(a) The Obligated Person shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Obligated Person's fiscal year, commencing with the report of the fiscal year ending August 31, 2012, provide to the Repository, at www.emma.msrb.org, in such electronic format accompanied by such identifying information (the "Prescribed Form") as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information, the Annual Financial Information which is consistent with the requirements of Section 4 of this Continuing Disclosure Agreement.

(b) The Annual Financial Information may be submitted as a single document or as separate documents comprising a package, or by specific cross reference to other documents which have been submitted to the Repository and available to the public on the Repository's website or filed with the SEC. If the document so referenced is a final offering document within the meaning of the Rule, such final offering document must be available from the Repository. The Obligated Person shall clearly identify each such other document so incorporated by cross-reference.

(c) If the financial statements of the Obligated Person are audited, the audited financial statements of the Obligated Person must be submitted if and when available but may be submitted separately from the balance of the Annual Financial Information and later than the date required above for the filing of the Annual Financial Information if they are not available by that date.

Section 4. Content of Annual Financial Information. The Obligated Person's Annual Financial Information shall contain or incorporate by reference the following:

(a) annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America;

(b) an update of the financial information and operating data in the Official Statement under the heading "NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.—Previous Financings of the Issuer"; under the heading "FEES AND EXPENSES," under the heading "USE OF PROCEEDS"; and under the heading "CHARACTERISTICS OF THE PLEDGED ELIGIBLE LOANS"; and

(c) the following Indenture information:

(i) the balances in the Collection Fund, the Department Rebate Fund and the Reserve Fund; and (ii) the principal amount of the Series 2012-1 Bonds issued under the Indenture then outstanding.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section, the Obligated Person shall give, or cause to be given, on behalf of itself and any other persons providing undertakings under the Rule with respect to the Series 2012-1 Bonds, notice to the Repository of the occurrence of any of the following events with respect to the Series 2012-1 Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service or proposed or final determinations of taxability (for tax-exempt bonds), Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices of determinations with respect to the tax status of the Series 2012-1 Bonds, or other material events affecting the tax status of the Series 2012-1 Bonds;

(vii) modifications to rights of Registered Owners of Bonds, if material;

(viii) any call of any Series 2012-1 Bonds, if material, and tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Series 2012-1 Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Obligated Person;[*]

(xiii) the consummation of a merger, consolidation or acquisition involving the Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination

[*] This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) If the Obligated Person obtains knowledge of the occurrence of a Listed Event, the Obligated Person shall file, in a timely manner not in excess of ten (10) business days after the occurrence of any Listed Event, a notice of such occurrence in Prescribed Form with EMMA.

(c) The Obligated Person shall provide, in a timely manner to the MSRB in Prescribed Form in accordance with EMMA, notice of any failure of the Obligated Person to timely provide the Annual Financial Information as specified in Section 4 hereof.

(d) If the Obligated Person changes its fiscal year, it shall provide in Prescribed Form notice of the change of fiscal year to the Trustee and to the MSRB.

Section 6. Termination of Reporting Obligation. The Obligated Person's obligations under this Continuing Disclosure Agreement shall terminate upon the earliest to occur of (a) the legal defeasance, prior redemption or payment in full of all of the Series 2012-1 Bonds; (b) the date that the Obligated Person shall no longer constitute an "obligated person" with respect to the Series 2012-1 Bonds within the meaning of the Rule (or, if later, the date on which the Obligated Person determines to no longer voluntarily comply with the Rule in the event that the Rule does not apply to the Series 2012-1 Bonds at the time). The Obligated Person shall file a notice of any such termination with the Repository in the Prescribed Form in accordance with EMMA.

Section 7. Dissemination Agent. The Obligated Person may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Obligated Person may amend this Continuing Disclosure Agreement, and any provision of this Continuing Disclosure Agreement may be waived, if such amendment or waiver is consistent with the Rule, as determined by an opinion of counsel experienced in federal securities laws selected by the Obligated Person. Written notice of any such amendment or waiver shall be provided by the Obligated Person to the MSRB in Prescribed Form in accordance with EMMA, and the next Annual Financial Information shall explain in narrative form the reasons for the amendment and the impact of any change in the type of information being provided. If any amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made will present a comparison between the financial statement or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Continuing Disclosure Agreement, the Obligated Person shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Obligated Person to comply with any provision of this Continuing Disclosure Agreement, any Registered Owner or beneficial owner of the Series 2012-1 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligated Person to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Obligated Person to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

Section 11. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Obligated Person, the Dissemination Agent, the Underwriter and Registered Owners and beneficial owners from time to time of the Series 2012-1 Bonds and shall create no rights in any other person or entity.

Dated as of July 1, 2012

NORTH TEXAS HIGHER EDUCATION
AUTHORITY, INC.
By ____________________________________
Name __________________________________
Title ___________________________________

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APPENDIX D

FINANCIAL STATEMENTS OF THE ISSUER FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

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NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

FINANCIAL STATEMENTS FOR THE
YEARS ENDED AUGUST 31, 2011 AND 2010 AND
INDEPENDENT AUDITOR'S REPORT

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Texas Higher Education Authority, Inc.

We have audited the accompanying statements of net assets of North Texas Higher Education Authority, Inc. (the Authority) as of August 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of August 31, 2011 and 2010, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The other supplementary information on pages 45 to 52 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
December 21, 2011

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2011 AND 2010 (UNAUDITED)

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

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

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

AUTHORITY ACTIVITY AND HIGHLIGHTS

The Authority purchases student loans from a variety of financial institutions. However due to the changes in the HERA and elimination of the FFELP student loan acquisitions have declined since 2008.

	2011	2010	2009	2008
Student Loan Purchases	$29 mil.	$77.3 mil.	$62.6 mil.	$375.5 mil.

The Authority originated Consolidation loans up until the second quarter of 2008, but changes in law decreased yields on these loans made after July 1, 2008, and the Authority stopped making them as they would have no longer been financially feasible. For further discussion of the Authority's acquisition and consolidation loan program see Note 3 to the basic financial statements. Also see discussion of "Recent Turbulence in the Financial Markets" below.

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

	2011	2010	2009
Issuance of tax-exempt variable rate securities:	$255.25 mil.	$207.2 mil	$ 0
Issuance of taxable variable rate securities:	$210.2 mil.	$ 0	$ 0
Total Issuances of variable rate securities:	$465.45 mil.	$207.2 mil.	$ 0
Line of credit balances outstanding:	$ 0	$ 0	$176.6 mil.

The Authority's debt issuance in 2011 was used to refund $454 million of the Authority's "bank bonds" (see discussion of "bank bonds" under Recent Turbulence in the Financial Markets below), acquire $10 million of loans ("new money"), and pay bond issuance expenses.

In 2010, the Authority issued $207,200,000 of debt of which $168,315,000 was used to pay off the Authority's lines of credit and $38,885,000 was "new money" used to acquire loans. The Authority did not issue any debt in 2009 and used most of the available funds from its two lines of credit to acquire loans. For further discussion of the financial markets and the impact on the Authority's ability to issue additional debt, see the discussion of "Recent Turbulence in the Financial Market" below.

FINANCIAL ANALYSIS

CONDENSED FINANCIAL POSITION	2011	2010	2009
Cash, cash equivalents and investments	$ 151,929,434	$ 107,930,542	$ 103,814,913
Accrued interest receivable	22,820,616	27,668,630	30,353,967
Student loans receivable	1,395,807,661	1,549,712,839	1,631,188,766
Other	4,277,964	5,240,270	5,142,613
TOTAL ASSETS	$ 1,574,835,675	$ 1,690,552,281	$ 1,770,500,259
Current liabilities	$ 143,168,527	$ 64,615,880	$ 188,259,793
Long-term liabilities	1,261,747,392	1,460,611,169	1,418,214,420
TOTAL LIABILITIES	$ 1,404,915,919	$ 1,525,227,049	$ 1,606,474,213
Unrestricted	$ 40,445,659	$ 34,727,686	$ 59,897,698
Restricted	129,474,097	130,597,546	104,128,348
TOTAL NET ASSETS	$ 169,919,756	$ 165,325,232	$ 164,026,046

CONDENSED REVENUES, EXPENSES AND CHANGE IN NET ASSETS	2011	2010	2009
Operating Revenues			
Interest on student loans	$ 50,775,194	$ 49,464,738	$ 47,379,553
Interest on investments	165,978	146,454	1,081,378
	50,941,172	49,611,192	48,460,931
Nonoperating revenues (expenses):			
Government interest and special allowance	(19,492,593)	(18,001,198)	(4,186,954)
Other Income and expenses			
Settlement from AMBAC Assurance Corporation	-	7,000,000	-
Equity contribution from Dexia Credit Local	630,000	-	-
TOTAL REVENUE	$ 32,078,579	$ 38,609,994	$ 44,273,977
Operating Expenses			
Interest on bonds and line of credit	$ 17,560,247	$ 23,093,701	$ 36,167,906
Provision for excess earnings and arbitrage liabilities	(4,932,890)	(2,431,886)	(2,934,799)
Loan servicing fees paid to Higher Education Servicing Corporation	5,005,159	4,923,320	4,789,252
Payments for administrative and operating costs to Higher Education Servicing Corporation	5,002,000	5,774,702	5,800,250
Trustee fees	344,413	363,780	367,774
Letter of credit fees	3,127,549	2,259,216	2,116,308
Remarketing fees	690,808	730,319	967,377
System Development Fees	40,658	1,532,500	1,846,250
Bond insurance expense	-	667,930	476,444
Miscellaneous expense	646,111	397,226	505,749
	27,484,055	37,310,808	50,102,511
CHANGE IN NET ASSETS	$ 4,594,524	$ 1,299,186	$ (5,828,534)

FINANCIAL ANALYSIS

AUTHORITY FINANCIAL HIGHLIGHTS

Total assets and liabilities increased (decreased) for the fiscal years 2011 and 2010 as follows:

	2011	Percent Change from 2010	2010	Percent Change from 2009
Increase (decrease) in assets:	($ 115.7 mil.)	(6.8%)	($ 79.9 mil.)	(4.5%)
Increase (decrease) in liabilities:	($ 120.3 mil.)	(7.9%)	($ 81.2 mil.)	(5.1%)
Increase (decrease) in net assets:	$ 4.6 mil.	2.8%	$ 1.3 mil.	0.8%

In 2011, the above decreases are mostly due to the net decrease to student loans, decreased income due on the student loans, and the net decrease to the Authority's debt. The increase in net assets was mostly due to lower rates on new debt and pay off most of the Authority's "bank bonds" (higher rates), and a decrease in the Authority's excess earnings and arbitrage liabilities of $5 million (see note 6 to financial statements).

In 2010, the above decreases are mostly due to the net decrease to student loans, decreased income due on the student loans, and the net decrease to the Authority's debt. The increase in net assets was mostly due to the $7 million received from AMBAC Assurance Corporation (see note 9 to financial statements), but lower rates on new debt and pay off the Authority's lines of credit (higher rates) also contributed to the increase to net assets.

The majority of net assets are restricted for debt service or for purchase of student loans, but as of August 31, 2011, approximately $40.4 million is available for unrestricted purposes.

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

	2011	Percent Change from 2010	2010	Percent Change from 2009
Increase in cash, cash equivalents, investments:	$ 44.0 mil.	40.8%	$ 4.1 mil.	4.0%
Increase (decrease) in student loans outstanding:	($153.9 mil.)	(9.9%)	($81.5 mil.)	(5.0%)
Increase (decrease) in net long term liabilities:	($198.9 mil.)	(13.6%)	$ 42.4 mil.	3.0%
Increase (decrease) in net short term liabilities:	$ 78.5 mil.	121.6%	($123.6 mil.)	(65.7%)

Increase in cash, cash equivalents, investments: With the substantial decline in loan acquisitions, collections from borrowers are held in "Redemption Funds" and used to pay down bonds. Bond indenture covenants require excess funds (amounts remaining after debt service payments) not used to acquire loans to be used to pay down bonds.

Decrease in student loans outstanding: The Authority acquired $29 million of loans, but net reductions (payoffs less capped interest) of student loans was $182.9 million. The decline in the financial markets and elimination of the FFELP has impacted the Authority's ability to issue additional debt to acquire loans (See "Recent Turbulence in the Financial Markets" below).

AUTHORITY FINANCIAL HIGHLIGHTS – CONTINUED

Decrease in net long term liabilities: The Authority issued $465.45 million of new bonds and paid down $520 million of existing debt through payments and refunding. In addition, bonds scheduled to mature in 2012 total $139.7 million and long term excess earning and arbitrage liability decreased $4.58 million.

Increase in net short term liabilities: Short term bonds increased $79.8 million. The increase is somewhat offset by decreased interest due on bonds due to declining bond rates (see note 4 to the basic financial statements), and short-term excess earnings and arbitrage liability decreased $433,841.

Year 2010 increase in cash, cash equivalents, investments: Mostly due to the $7 million received from AMBAC Assurance Corporation, but is mitigated some by the pay down of bonds.

Year 2010 decrease in student loans outstanding: The Authority acquired $77.3 million of loans, but net reductions (payoffs less capped interest) of student loans was $158.8 million.

Year 2010 increase in net long term liabilities: The Authority issued $207.2 million of new bonds but offsetting this increase is $59.9 million of bonds outstanding scheduled to mature in 2011. The Authority paid down $101 million of long term bonds, and long-term excess earnings and arbitrage liability decreased $2.86 million.

Year 2010 decrease in net short term liabilities: The Authority paid its lines of credit ($176.6 million) with Frost Bank and Bank of America and interest due on bonds decreased due to declining bond rates. The decrease is somewhat offset by $59.9 million of bonds scheduled to mature in 2011, increased interest due on bonds due to the increase in bonds outstanding (see notes 4 and 5 to the financial statements), and the increase in short-term excess earnings and arbitrage liability of $433,841.

OPERATING ACTIVITIES

Revenues:

	2011	Percent Change from 2010	2010	Percent Change from 2009
(Decrease) increase in Operating Revenue:	$1.33 mil.	2.7%	$1.15 mil.	2.4%

Operating revenues for the Authority are derived entirely from interest earned on student loans, cash equivalents and investments. Variable rates on student loans issued before July 1, 2006 ("older loans") were slightly lower (-0.01%) than rates in 2010. Variable rates on the majority of loans issued after July 1, 2006 ("newer loans") remained the same. Interest earned on student loans decreased mostly due to the decrease of the Authority's student loan portfolio and partly due to decreased rates.

In the past, the Authority paid a loan acquisition premium when acquiring loans from financial institutions. These premiums were capitalized and amortized over the life of the related loans. The amortization expense is recorded as an adjustment to the yield of the loans purchased (see further discussion of "Deferred Loan Acquisition Premiums" in note 1 to the basic financial statements). The Authority has decreased the amount of premium paid on loans over the past three years which has resulted in a substantial decrease to the amortization of the premium paid.

OPERATING ACTIVITIES

Revenues – Continued:

Net increase to yield on student loans:

	2011	2010	Increase (decrease) from 2010
Interest earned from student loans:	$53,066,058	$ 55,375,967	($ 2,309,909)
Amortization of deferred premium:	($ 2,290,864)	($ 5,911,229)	($ 3,620,365)
Net yield on student loans:	$ 50,775,194	$ 49,464,738	$ 1,310,456

In 2010 variable rates on "older loans" were lower (-1.73%) than rates in 2009. Variable rates on most "newer loans" remained the same as rates in 2009 (rates on subsidized Stafford loans decreased 0.4%). In 2010 interest earned on student loans decreased $3.3 million. This decrease was mostly due to the reduction of the Authority's student loan portfolio and partly due to decreased rates.

Since 2008 investment rates have declined substantially resulting in decreased investment income. In 2011 the Authority restructured its investments to yield a higher rate of return without increasing the risk characteristics of its investment portfolio. Interest earned on investments increased by $19,524 (13.3%). In 2010 interest on investments decreased $934,924 (from 2009) due to declining investment yields. See note 2 to the basic financial statements for further discussion of the Authority's investments.

Student loan rates and investment yields are outlined as follows:

	2011	2010	2009	2008
Variable rates on student loans	1.87% to 8.50%	1.88% to 8.50%	3.61% to 8.50%	6.62% to 8.50%
Average Yield on investments for year:	0.13%	0.14%	1.02%	3.40%

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

OPERATING ACTIVITIES

Expenses:

	2011	Percent Change from 2010	2010	Percent Change from 2009
Increase (decrease) in Operating Expenses:	($9.8 mil.)	(26.3%)	($12.8 mil.)	(25.5%)

The major categories of the Authority's operating expenses are interest on debt, loan administration and servicing fees, and provision for excess earnings. In 2011 the Authority paid $579.9 million of bonds, of which $495.3 million were "bank bonds". The Authority issued $454 million of refunding bonds and $11.4 million of new bonds (see note 4 to the financial statements). Rates on the refunding and new bonds are lower than rates on the "bank bonds". Also bond rates (in general) decreased. The decrease in operating expenses is mostly due to the decrease in interest expense of $5.5 million (-24%) from 2010; of which most is due to the net decrease in bonds of $114.5 million and partially due to lower bond rates. In addition, the provision for excess interest and arbitrage rebate decreased $2.5 million.

In 2010, the decrease in operating expenses is mostly due to the decrease in interest expense of $13 million (-36.1%) from 2009 due to lower bond rates and pay off of the lines of credits. The downgrade of Depfa Bank plc in October 2008 resulted in all the Series 1993, Series 2003 Refunding, and Series 2008ABC bonds becoming ineligible for marketing; thus becoming "bank bonds" (See "Recent Turbulence in the Financial Markets" below), for which the Authority would normally pay a rate of interest based on an index (Fed Funds or Prime) plus a spread, which generally is higher than the market rates. However, favorably reduced rates (below other "bank bond" rates) for these "bank bonds" were negotiated with the Bank and these rates were effective through September 30, 2009. After September 30, 2009 the rates on the Depfa "bank bonds" increased substantially, thereby, offsetting somewhat the decrease in interest expense.

Following is a summary of the bank bonds and comparison of related interest rates as of August 31, 2011 and August 31, 2010:

Series	As of Date (B)	Amount	BB rate	Market rate (A)
1991C	Feb. 23, 2011	$25 mil.	2.05%	0.28%
1991F	Feb. 23, 2011	$25 mil.	2.05%	0.28%
1996A & C	Feb. 23, 2011	$35 mil.	2.05%	0.28%
2006A	Feb. 23, 2011	$51.345 mil.	2.05%	0.28%
2006BC (tax)	Feb. 23, 2011	$74.755 mil.	2.05%	0.37%
2006D (tax)	Dec. 21, 2010	$120.2 mil.	2.05%	0.37%
1993	Aug. 31, 2011	$19.6 mil.	4.75%	0.23%
2003 Refunding	Aug. 31, 2011	$ 1.0 mil.	4.75%	0.23%
2008A	Oct. 27, 2010	$118.6mil.	5.75%	0.28%
Total		$470.5 mil.		

OPERATING ACTIVITIES

Expenses – Continued

Series	Amount	BB rate at Aug. 31, 2010	Market rate at Aug. 31, 2010 (A)
1991C	$25 mil.	2.29%	0.35%
1991F	$25 mil.	2.29%	0.35%
1996A & C	$35 mil.	2.29%	0.35%
2006A	$51.345 mil.	2.29%	0.35%
2006BC (tax)	$82.955 mil.	2.22%	0.29%
2006D (tax)	$141.4 mil.	2.22%	0.29%
1993	$30.5 mil.	4.75%	0.35%
2003 Refunding	$1.0 mil.	4.75%	0.35%
2008A	$123.7 mil.	5.75%	0.35%
Total	$515.9 mil.		

(A) Market rates shown are rates for similar type non bank bond.
(B) Amounts and Rates shown areas of day before final redemption date or as of August 31, 2011.

In 2010 the Authority paid $109 million of bonds, which included $78.5 million of "bank bonds". In 2009 the Authority paid $93.3 million of bonds, which included $92.6 million of "bank bonds". The pay down of bank bonds, decreasing rates of the Authority's other bonds and lines of credit, and the favorable rates on the 1993, 2003 refunding, and 2008ABC bank bonds (discussed above) have helped to mitigate the increased cost of the bank bonds. Decreasing average rates are as follows:

	2011	2010	2009
Average tax-exempt bond rate**:	0.82%	2.02%	1.98%
Average taxable bond rate**:	0.62%	0.96%	2.19%
Average line of credit rate:	N/A	1.82%	2.68%

**includes "bank bond" rates.

"Bank Bonds" outstanding at August 31, 2011 and 2010 were $20.6 million and $515.9 million, respectively.

Decreasing bond rates increase the likelihood for higher arbitrage liability for tax-exempt financings. However, decreasing yield on investments decrease the likelihood for higher arbitrage liability. Decreasing bond rates also increase the likelihood of excess earnings liability associated with tax-exempt financings. However, decreasing non-operating revenue decrease the likelihood of excess earnings liability. The Authority recorded provisions for arbitrage rebate and excess earnings for 2011 and 2010:

	2011	2010	Increase / (Decrease) from 2010	Percent Change from 2010
Provision for arbitrage rebate:	($505,057)	$181,767	($686,824)	(377.8%)
Provision for excess earnings:	($4,427,833)	($2,613,653)	($1,814,180)	(69.4%)

OPERATING ACTIVITIES

Expenses – Continued

In 2010, the provision for arbitrage rebate increased $250,125 from 2009 and the provision for excess earnings increased $252,788 million from 2009 (see note 6 to the financial statements). In 2011, the Authority changed its method of calculating its excess interest and arbitrage rebate liabilities. See Note 6 to the financial statements for further discussion.

The Authority's loan portfolio decreased $153.9 million, but due to increased servicing rates and increased number of claims filed, loan servicing fees increased $81,839. The Authority has engaged Higher Education Servicing Corporation (HESC) to provide servicing for the student loan portfolio. HESC maintains contracts with multiple student loan servicing bureaus. In 2006, HESC began providing full life of loan servicing to the Authority. Over the past few years, overall servicing rates charged by the student loan servicing bureaus under contract with the Authority have increased slightly. Due to the declining economy, the Authority's student loan default rate has increased slightly, thus the volume of claims filed (by the servicing bureaus) has increased. The bureaus charge a higher rate per claim filed than rates charged for other loan services. As of August 31, 2011, 91.3% of the Authority's loans were being serviced by HESC and Ed Financial Services Inc. Rates charged by these two organizations are comparable but are slightly lower than rates charged by other servicing bureaus under contract with HESC which is helping somewhat to mitigate the increased servicing fees.

In 2010, although the Authority's loan portfolio decreased $81.5 million due to increased servicing rates and increased number of claims filed, loan servicing fees increased $134,068.

The administrative and general expense decreased $772,702 and $25,548; respectively, in 2011 and 2010 due to a reduction in fees charged by HESC.

Letter of Credit Fees increased $868,333 (38.4%). In December 2010 with the issuance of Series 2010E bonds the Authority entered into a letter of credit agreement which included 2010E, 2001 and 2004 bonds (see note 7 to the financial statements). The letter of credit agreement for Series 2001 and 2004 (scheduled to expire in January 2011) was terminated in December 2010. The rate on the new agreement is higher than the rate on the Series 2001 and 2004 agreement. The Authority paid $35.9 million of bonds which incur letter of credit fees. The pay down of these bonds decreases letter of credit fees. The increase to letter of credit fees is due to the addition of the 2010E bonds and the increased rates on the 2001 and 2004 bonds, but is mitigated somewhat by the decreased fees from the pay down of bonds.

In 2010, Letter of Credit Fees increased $142,908 (6.8%). The increase was due to the increased letter of credit rates on the Series 2001 and 2004 bonds (rates increased in late 2009). The increase in letter of credit fees was mitigated somewhat by fees not incurred on the 2008ABC, 2003 Refunding, and 1993 bonds since these bonds became "bank bonds" in 2009. (see discussion of "bank bonds" under Operating Activities – Expenses, above).

OPERATING ACTIVITIES

Expenses – Continued

Remarketing Fees decreased $39,511 (-5.5%). Remarketing fee rates decreased on the 2001 and 2004 bonds. Also, the pay down of the $35.9 million of bonds (noted above) decreased remarketing fees. Series 2010E bonds incur remarketing fees but the increased fees from these bonds were totally offset by the reduced rates and the decreased fees resulting from the pay down of bonds.

In 2010 remarketing fees decreased $237,058 (-24.5%). In 2009, the Authority negotiated with the credit providers to suspend remarketing on the majority of the Authority's "bank bonds". Also the Authority paid $30.5 million of bonds (2005D and 2007B) which decreased remarketing fees. The decrease to remarketing fees was mostly due to the suspended remarketing services (the affected bonds incurred no fees in 2010) and the pay down of bonds.

In 2007 Higher Education Servicing Corp. (HESC) began a development project. In 2009 the Authority agreed to help HESC fund the project. For 2011, 2010 and 2009, the Authority's financial commitment to this project is $40,658, $1,532,500 and $1,846,250; respectively. Payments are made to HESC from non-restricted funds.

Development Fees decreased $1,491,842 (-97.3%). See note 8 to the basic financial statements.

NON-OPERATING REVENUE

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

	2011	Percent Change from 2010	2010	Percent Change from 2009
(Decrease) increase in non-operating revenue:	($1,491,395)	(8.28%)	($13,814,244)	(330%)

Special allowance income increased $197,215 from 2010 and interest subsidy decreased $1.69 million from 2010. Since 2007 special allowance income has decreased substantially. The decreasing special allowance income is due to declining Commercial Paper and Treasury Bill rates and due to a major provision in the Higher Education Reconciliation Act (HERA) of 2005 (see discussion of 'Recent Turbulence in the Financial Market' under Economic Factors and Outlook below*).* In 2011, Commercial Paper and Treasury Bill rates increased slightly which resulted in the increase to special allowance income. Decreasing variable rates on student loans (mostly on "older loans" as noted in the discussion of Operating Revenue above) result in increased special allowance income for the Authority. The increased special allowance (resulting from the lower student loan rates) somewhat mitigates the decreased special allowance resulting from the declining Commercial Paper and Treasury Bill rates and the provision in the HERA. The decrease in interest subsidy was due to the decrease in the amount of subsidized loans in school, grace, or deferment status of $35.5 million from 2010.

The decrease in non-operating revenue in 2010 was mostly due to the substantial decrease in special allowance income (decreased $9.78 million from 2009) and partly due to decreased interest subsidy (decreased $4.03 million from 2009). The decrease to special allowance income was due to the

NON-OPERATING REVENUE – CONTINUED

substantial decline of Commercial Paper and Treasury Bill rates and due to a major provision in the Higher Education Reconciliation Act (HERA) of 2005 (see discussion of "Recent Turbulence in the Financial Market" under Economic Factors and Outlook above*).* The decrease in interest subsidy was due to the decrease in the amount of subsidized loans in school, grace, or deferment status of $60 million from 2009.

ECONOMIC FACTORS AND OUTLOOK

Recent Turbulence in the Financial Market

Turmoil in the Credit Markets

There have been changes in the national credit markets since the fall of 2007 that have dramatically changed the way the Authority does business. The Authority regularly financed its eligible loan purchases on a long-term basis through the issuance of revenue bonds secured by the eligible loans it has purchased with the proceeds of such bonds. Due to the turmoil in the credit markets, the cost of asset-backed securities financings has increased and their availability has decreased. This difficulty in obtaining long term financing has severely limited the Authority's ability to purchase Eligible Loans. Many of the Authority's "lender partners" have historically originated student loans which the Authority has purchased, but due to the difficulty in obtaining financing and the elimination of the FFEL Program by the government, the volume of loan acquisitions by the Authority has declined dramatically over the past three years.

In addition to the turmoil in the credit markets, the elimination of the FFEL Program by HCEARA (further described under Outlook below) has impacted the Authority. As of July 1, 2010, lenders can no longer make new loans under the FFEL Program. Lenders can still add to (make additional disbursements) FFELP loans that were initially made prior to July 1, 2010 and the Authority can continue to acquire these loans (originated prior to July 1, 2010) from its lender partners.

Due to the declining financial and bond markets the average bond equivalent rates of the 91 day Treasury Bills (T-Bill) and the average bond equivalent rates of the 3 month Commercial Paper (CP) decreased from September 30, 2008 through December 31, 2009. Since January 2010, in general, the rates increased slightly through December 31, 2010. Over the six month period ended June 30, 2011 the rates decreased. The rates are shown:

	T-Bill Rates	CP Rates
Qtr. Ending 12/31/08:	0.35%	2.58%
Qtr. Ending 3/31/09:	0.23%	0.74%
Qtr. Ending 6/30/09:	0.18%	0.41%
Qtr. Ending 9/30/09:	0.16%	0.29%
Qtr. Ending 12/31/09:	0.07%	0.21%
Qtr. Ending 3/31/10:	0.11%	0.21%
Qtr. Ending 6/30/10:	0.15%	0.41%
Qtr. Ending 9/30/10:	0.15%	0.30%
Qtr. Ending 12/31/10:	0.14%	0.26%
Qtr. Ending 3/31/11:	0.13%	0.25%
Qtr. Ending 6/30/11:	0.05%	0.19%

ECONOMIC FACTORS AND OUTLOOK

Recent Turbulence in the Financial Market – Continued

Turmoil in the Credit Markets

The above rates directly affect the amount of Special Allowance (SA) income earned on the majority of NTHEA student loans. The decreasing rates resulted in substantially reduced special allowance income.

Recent legislative changes require that some student loans (loans disbursed after April 1, 2006) are subject to a rebate of a portion of the interest collected on the loans (referred to as "excess interest") when the loans earn at rates above the "SA support level" rates. Decreasing commercial paper rates (shown above) significantly lowered the "SA support level" rates, which in turn, substantially increased excess interest. In 2011 and 2010, the Authority paid $30.8 million and $31.3 million of excess interest; respectively, to the Education Department, which off-sets Special Allowance Income on the Authority books. (See further discussion of "excess interest" payments in note 1 to the basic financial statements)

The low T-Bill and commercial paper rates in 2011 and 2010 have also resulted in substantially reduced investment income.

The decline in the financial and bond markets in the latter half of fiscal year 2008 and in fiscal year 2009, the downgrade of AMBAC (bond insurer) in February 2008 by one major rating agency, and the downgrade of Depfa Bank plc in October 2008 by one rating agency resulted in all of the Authority bonds insured by AMBAC (total of $356.6 million) and all the Series 1993, Series 2003 Refunding, and Series 2008ABC bonds (total of $249.5 million), becoming ineligible for marketing; thus these bonds were tendered to the Credit Providers (Lloyds Bank tsb and Depfa Bank plc) in 2008 and 2009. These bonds are referred to as "bank bonds" for which the Authority pays a rate of interest based on an index (Fed Funds or Prime) plus a spread, which generally is higher than market rates.

On October 1, 2009 the rates on the Series 1993, 2003 refunding, and 2008ABC "bank bonds" (see above) changed and are now substantially higher than market rates. In anticipation of the increases to the rates, the Authority has an agreement with the Credit Provider which provides for an aggressive pay down of the majority of these bonds over the next five years.

The turmoil and decline in the credit and bonds markets has limited the Authority's ability to obtain long-term financing, but in 2011 the Authority obtained financings under Libor based structures and issued $125.05 million of Series 2010-2 tax exempt bonds and $210.2 million of Series 2011-1 taxable bonds. The Authority also obtained additional financing under an asset-backed securities structure and issued $130.2 million of Series 2010E tax exempt bonds. These financings were used to refund the majority of the Authority's "bank bonds" but included $10 million as "new money" used to acquire loans. In 2010, the Authority obtained financing under a Libor-based structure and issued $207.2 million of Series 2010-1 tax exempt bonds of which $168,315,000 was used to pay off the Authority's lines of credit and $38,885,000 was "new money" used to acquire loans. See note 4 to the basic financial statements for further discussion of the Authority's bond issues.

OUTLOOK:

Elimination of FFEL Program

In March 2010, President Obama signed into law H.R. 4872 (the "Health Care & Education Affordability Reconciliation Act of 2010" or "HCEARA") which terminates originations of student loans under the Federal Family Education Loan Program (FFELP) in favor of the government-run Federal Direct Loan Program beginning July 1, 2010. After June 30, 2010, no new FFELP loans (including Consolidation Loans) may be made or insured under the FFELP and no funds may be expended under the Higher Education Act to make or insure loans under the FFELP for which the first disbursement is after June 30, 2010. FFELP loans originated under the Higher Education Act prior to July 1, 2010 which have been acquired or are anticipated to be acquired by the Authority continue to be subject to the provisions of the FFELP.

It is anticipated that the above rates (T-Bill and commercial paper) and investment yields will not increase significantly in fiscal year 2012. With the ending of the FFELP, expected low investment yield trends, and the conditions in the credit market, growth in 2012 is not anticipated. The Authority expects to acquire approximately 80 to 90% of the volume of loans in fiscal year 2012 as it acquired in 2011, and use mostly recycled funds for the majority of these acquisitions.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF NET ASSETS
AUGUST 31, 2011 AND 2010

ASSETS	**2011**	**2010**
CURRENT ASSETS		
Cash and cash equivalents - restricted (Note 2)	$ 1,058,596	$ 613,039
Investments (Note 2)	36,553,742	28,801,797
Investments - restricted (Note 2)	114,317,096	78,415,706
Accrued interest and other accounts receivable	22,043	265,378
Accrued interest and other accounts receivable - restricted	18,760,322	21,766,668
Prepaid expenses - restricted	123,379	151,723
Student loan notes receivable - restricted (Note 3)	230,649,627	214,732,014
Total current assets	401,484,805	344,746,325
LONG-TERM ASSETS		
Investments (Note 2)	-	100,000
Accrued interest and other accounts receivable--restricted	4,038,251	5,636,584
Bond and line of credit issue costs - net of accumulated amortization - restricted (Note 4)	4,154,585	5,088,547
Student loan notes receivable - restricted (Note 3)	1,165,158,034	1,334,980,825
Total long-term assets	1,173,350,870	1,345,805,956
TOTAL ASSETS	$ 1,574,835,675	$ 1,690,552,281
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES - Payable from non-restricted assets:		
Accounts payable	$ 1,428	$ 55,319
Total current liabilities payable from non-restricted assets	1,428	55,319
CURRENT LIABILITIES - Payable from restricted assets:		
Accounts payable	1,110,654	1,116,195
Accrued interest payable	1,324,598	2,427,201
Accrued other liabilities	1,036,847	683,324
Bonds payable (Note 4)	139,695,000	59,900,000
Excess earnings and arbitrage liabilities (Note 6)	-	433,841
Total current liabilities payable from restricted assets	143,167,099	64,560,561
Total current liabilities	143,168,527	64,615,880
LONG-TERM LIABILITIES - Payable from restricted assets:		
Bonds payable, less unamortized original issue discounts of $6,348,924 and $6,347,065, respectively (Note 4)	1,260,999,076	1,455,272,935
Excess earnings and arbitrage liabilities (Note 6)	748,316	5,338,234
Total long-term liabilities payable from restricted assets	1,261,747,392	1,460,611,169
Total liabilities	1,404,915,919	1,525,227,049
NET ASSETS		
Restricted	129,474,097	130,597,546
Unrestricted	40,445,659	34,727,686
Total net assets	169,919,756	165,325,232
Total liabilities and net assets	$ 1,574,835,675	$ 1,690,552,281

The Notes to Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Interest on student loans	$ 50,775,194	$ 49,464,738
Interest on cash equivalents and investments	165,978	146,454
Total operating revenues	50,941,172	49,611,192
OPERATING EXPENSES		
Interest on bonds and lines of credit	17,560,247	23,093,701
Loan servicing fees paid to Higher Education Servicing Corporation (Note 1)	5,005,159	4,923,320
Payments for administrative and operating costs to Higher Education Servicing Corporation (Note 1)	5,002,000	5,774,702
Trustee fees	344,413	363,780
Letter of credit fees	3,127,549	2,259,216
Remarketing fees	690,808	730,319
Development Fees (Note 8)	40,658	1,532,500
Bond insurance expense	-	667,930
Provision for excess earnings and arbitrage liabilities (Note 6)	(4,932,890)	(2,431,886)
Miscellaneous expense	646,111	397,226
Total operating expenses	27,484,055	37,310,808
OPERATING INCOME	23,457,117	12,300,384
NONOPERATING REVENUES AND EXPENSES		
Government subsidy on student loans	9,459,168	11,147,778
Special allowance income	(28,951,761)	(29,148,976)
Total nonoperating revenues and expenses	(19,492,593)	(18,001,198)
OTHER INCOME AND EXPENSES		
Equity Contribution from Dexia Credit Local (Note 9)	630,000	-
Settlement from AMBAC Assurance Corporation (Note 9)	-	7,000,000
CHANGE IN NET ASSETS	4,594,524	1,299,186
NET ASSETS, beginning of year	165,325,232	164,026,046
NET ASSETS, end of year	$ 169,919,756	$ 165,325,232

The Notes to Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Student loan and interest purchases	$ (30,490,805)	$ (80,646,437)
Student loan repayments	207,502,484	181,730,533
Payment to vendors	(22,242,222)	(24,678,175)
Interest paid on bonds and lines of credit	(14,258,975)	(21,774,321)
Cash received for student loan and investment interest	40,262,585	41,094,272
Deferred loan acquisition discounts received (premiums paid)	2,603	(736,472)
Net cash provided by operating activities	180,775,670	94,989,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments held by Trustee	959,291,911	894,276,569
Purchases of Investments	(1,002,845,246)	(898,556,977)
Net cash used in investing activities	(43,553,335)	(4,280,408)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuances of bonds	465,450,000	207,200,000
Proceeds from lines of credit	-	6,860,000
Repayment of bonds	(579,927,000)	(109,000,000)
Payments on lines of credit	-	(183,435,000)
Proceeds from government subsidy on student loans	9,779,173	11,584,785
Proceeds from (payments of) special allowance	(29,237,178)	(29,057,920)
Deferred bond and line of credit issue cost paid	(3,471,773)	(2,025,636)
Settlement from AMBAC Assurance Corporation	-	7,000,000
Contribution from Dexia Credit Local	630,000	-
Net cash used in noncapital financing activities	(136,776,778)	(90,873,771)
CHANGE IN CASH AND CASH EQUIVALENTS	445,557	(164,779)
CASH & CASH EQUIVALENTS, beginning of year	613,039	777,818
CASH & CASH EQUIVALENTS, end of year	$ 1,058,596	$ 613,039

The Notes to Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 23,457,117	$ 12,300,384
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization of deferred bond issue costs and original issue discounts	4,403,875	615,574
Change in assets and liabilities:		
Decrease (increase) in accrued interest and other accounts receivable	4,813,427	2,157,273
Decrease (increase) in student loan notes receivable - net	153,905,178	81,475,927
Decrease (increase) in prepaid expenses	28,344	277,697
Increase (decrease) in accounts payable	(59,432)	(91,762)
Increase (decrease) in accrued and other liabilities	353,523	(14,798)
Increase (decrease) in accrued interest payable	(1,102,603)	703,806
Increase (decrease) in excess earnings and arbitrage liabilities	(5,023,759)	(2,434,701)
Net cash provided by operating activities	$ 180,775,670	$ 94,989,400

The Notes to Financial Statements are
an integral part of these statements

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 Authority's present purpose is to promote student access to higher education. The Authority provides funds for the purchase of student loans from participating lenders at the post-secondary educational level and provides 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.

Three computer service bureaus performed many of the duties involving student loan processing and collecting for HESC under the terms of servicing agreements. The Authority terminated the agreement with one of the bureaus in May 2010. The Authority had less than $2 million of loans being serviced by this bureau and it was feasible to transfer these loans to one of the two bureaus still under contract with HESC. In 2006 HESC implemented an "in house" student loan processing and collection service. Under terms of a servicing agreement, HESC now performs the same duties as the bureaus on some of the Authority's student loans. The Authority remits to HESC stipulated amounts for services rendered in the administration of the agreements and for providing services as described above.

Measurement Focus, Basis of Accounting and Basis of Presentation—The Authority applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements for enterprise funds as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting wherein revenues are recognized when earned and expenses are recognized 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Description of Funds—The accounts of the Authority are organized on the basis of funds, which are set up in accordance with the related bond indentures. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. These requirements do not result in any restrictions on the use of assets for the general purpose of the respective bond issues. Accordingly, separate funds are not considered necessary for financial reporting purposes. At the time that a bond series has been fully repaid or is permitted by the bond indentures, assets can be transferred to another series with outstanding debt or to a "surplus" fund. The clearing fund is used to process student loan collections among debt issues.

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

Investment Policy—In accordance with the Authority's investment policy and its bond indentures, funds not invested in student loans are generally required to be invested in investment securities and/or interest-bearing time deposits of one or more banks located within the State of Texas. The majority of the Authority's investments represent money market funds which include in their investment objectives to have a dollar weighted average stated maturity of 60 days or fewer and seek to maintain a stable net asset value of $1 per share. The Authority also has some investments in FDIC insured interest-bearing time deposits with maturities of six months or less. The Authority records these investments at cost, which approximates fair value, on its Statements of Net Assts. The Authority continually monitors the market value of its investments.

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 and was based on historical analysis and management review of accounts.

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

Bond Issue Costs and Original Issue Discounts—Bond issue costs and original issue discounts are capitalized and are being amortized over the term of the bonds using the straight-line method, which approximates the interest method. The amortization expense has been recorded as an adjustment to interest expense on the bonds payable. Losses incurred on advance refundings are deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Trustee—Wells Fargo Bank, National Association, as trustee, performs the duties involving the acquisition and holding 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 plans to liquidate or dissolve.

Income Taxes—As an organization described in IRC Section 501c(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 2011 and 2010.

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

Interest Subsidy and Special Allowance—During the in-school, grace, and deferment periods, the U.S. government pays the Authority interest on subsidized Stafford student loans on behalf of the borrower. Additionally, some consolidation loans are eligible for subsidy during periods of deferment. When the repayment period begins, the borrower is responsible for interest payments. No interest is paid on behalf of the borrower for the Unsubsidized Stafford and PLUS programs. In addition, for certain eligible loans, the U.S. government pays a special allowance to lenders participating in the FFELP loan program at the end of each quarter, representing supplemental interest on the average outstanding principal balance of insured loans at an annual rate that is determined periodically and is based on certain current interest rates exceeding a predetermined rate. In addition to interest on student loans, interest subsidy and special allowance earned on student loans in the accompanying financial statements (non-operating revenues) are as follows:

	2011	2010	2009
Interest Subsidy	$ 9,459,168	$ 11,147,778	$ 15,184,953
Special Allowance	($28,951,761)	($ 29,148,976)	($ 19,371,907)

Commercial paper and treasury bill rates directly affect the amount of special allowance earned. These rates have decreased substantially since 2007. However in 2011 the rates increased slightly (in general) which resulted in the increase to special allowance income. Due to the low rates the majority of the Authority's loans earned no special allowance. Also, Legislative changes in fiscal 2007 require that some student loans (loans disbursed after 4/1/06) are subject to rebate of a portion of the interest collected on the loans (referred to as "excess interest") when the loans earn at rates above the "SA support level" rates. Decreasing commercial paper rates significantly lowered the "SA support level" rates, which in turn, substantially increased excess interest. In

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2011, the Department of Education withheld $30,775,469 of excess interest from the Authority's quarterly interest benefits and special allowance billings. See discussion of "excess interest" and special allowance under "Recent Turbulence in the Financial Market" under Economic Factors and Outlook in the MDA. Decreasing variable student loan rates (noted in the MDA - discussion of *Operating Revenue* above) results in increased special allowance income for the Authority which somewhat mitigates the decreased special allowance resulting from the declining commercial paper and treasury bill rates and the Legislative changes. The interest subsidy and special allowance are accrued as earned.

In 2010 low commercial paper and T-bill rates resulted in most of the Authority's loans to earn no special allowance. The Department of Education withheld $31,326,335 of excess interest from the Authority's quarterly interest benefits and special allowance billings. This "excess interest" off-sets Special Allowance Income in the Authority's Statement of Revenues, Expenses, and Changes in Net Assets. The decrease in Special Allowance in 2010 is somewhat mitigated by the additional amounts received due to the decreased student loan rates.

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 are considered non-operating revenue.

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

2. CASH AND INVESTMENTS

Certificates of deposit are presented as cash and cash equivalents and money market mutual funds are presented as investments for GASB Statement No.3 disclosure purposes. At August 31, 2011 and 2010, the carrying amount and bank balances of the Authority's cash and deposits was $30,417,347 and $5,713,039; respectively, of which $2,100,000 and $5,100,000; respectively, is in certificates of deposit. All of the bank balances were covered by federal depository insurance or collateralized with securities held by the Authority's agent in the Authority's name.

2. CASH AND INVESTMENTS – CONTINUED

The Authority may purchase investments as authorized by its indentures, the investment policy approved annually by the Board of Directors, and the Public Funds Investment Act. These investments include but are not limited to direct obligations of the United States and certain U.S. government agencies, obligations guaranteed by the United States and certain U.S. government agencies, bank demand deposits and interest-bearing bank time deposits with a maturity of one year or less that are secured by pledges of government securities or are issued by banks rated Aa or AA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively. Repurchase agreements entered into must have a defined termination date, be secured by a pledge of U.S. government obligations, be held in the name of the Authority or its trustee and deposited with a third party, and be placed through a securities dealer or a financial institution doing business in Texas. Money market mutual funds are authorized investments if they are regulated by the SEC, have a dollar-weighted average stated maturity of 90 days or less, and include in their investment objective the maintenance of a stable net asset value of $1 for each share. The Authority may also invest in a state government investment pool – "Texas Local Government Investment Pool" (TexPool), which is a pool managed by the State of Texas and is an approved investment type under the Public Funds Investment Act. As of August 31, 2011 and 2010, Texpool is rated AAAm and the fair values of the Authority's positions in the pool are substantially the same as the values of the pool's shares. The Authority does not invest in investments other than those authorized by its investment policy.

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

The Authority's investments as of August 31, 2011 and 2010 are classified as follows:

	2011	
Investment Type	Amount	Weighted Average Maturity
Money Market Mutual Funds	$ 121,512,087	44 days
Total investments	$ 121,512,087	

	2010	
Investment Type	Amount	Weighted Average Maturity
Texas Local Gov't Investment Pool	$ 63,369,083	27 days
Repurchase agreements	1,358,434	N/A
Money Market Mutual Funds	37,489,986	42 days
Total investments	$ 102,217,503	

2. CASH AND INVESTMENTS – CONTINUED

In June 2011 the Authority restructured its investment portfolio. The Authority redeemed all of its Texpool investment and two of its money market fund investments. The proceeds were re-invested in three new investments: Fidelity Prime Institutional Money Market Fund, Wells Fargo Secured Institutional Money Market Account (SIMMA), and Southwest Bank Insured Cash Sweep (ICS) Account. Both the Wells Fargo SIMMA and Southwest Bank ICS investments are FDIC insured interest-bearing bank deposit accounts. The yields on these "new" investments are higher than the yields on the redeemed investments.

The repurchase agreements were with a major commercial bank and broker–dealers. Collateral, valued at 100% to 103% of the investments, is required. The Authority redeemed its repurchase agreement investment with Compass Bank in July 2011. The proceeds were re-invested in the Southwest Bank Insured Cash Sweep. The repurchase agreement with Bayericshe Landesbank matured July 31, 2010. These proceeds were re-invested in money market funds, certificate of deposits, and Texpool. The repurchase agreements bear interest at variable rates. In 2011 the rates ranged from 0.05% to 0.15% per annum (0.07% to 0.42% in 2010).

In 2009 the Authority had an investment contract with HESC. The contract was a revolving financing agreement with HESC, whereby the Authority agreed to grant advances of up to $3,000,000 to HESC to be used by HESC to originate, acquire and finance certain education loans. This agreement was collateralized by the trust estate consisting of education loans financed or refinanced by the proceeds, eligible investments held under fund and security accounts, and any related proceeds. In April 2009 HESC paid the balance of all the outstanding advances. The contract expired in December 2009. The total interest earned during the years ended August 31, 2011 and 2010 on this investment was $0 and $0, respectively.

Credit risk—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the Authority's investment policy or debt agreements, and the actual rating as of year end for each investment type as of August 31, 2011 and 2010.

Investment Type	Balance August 31 2011	Balance August 31 2010	Minimum Legal Rating	Rating as of August 31 2011	Rating as of August 31 2010
Certificates of deposit	$ 2,100,000	$ 5,100,000	N/A	Not rated	Not rated
Money market mutual funds	$121,512,087	$ 37,489,986	N/A	AAA, Aaa	AAA, Aaa
Repurchase agreement	$ -	$ 1,358,434	N/A	N/A	Not rated
Government investment pool	$ -	$ 63,369,083	N/A	N/A	AAAm

2. CASH AND INVESTMENTS – CONTINUED

Concentration of credit risk—The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer. As of August 31, 2011 and 2010, the Authority had investments which totaled more than 5% of total investments as follows:

	2011	2010
Wells Fargo Advantage Money Market Fund:	$ -	$ 19,976,410
Wells Fargo 100% Treasury Money Market Fund:	$ 13,320,495	$ -
Fidelity Institutional Prime Money Market Fund:	$ 108,191,592	$ -
UBS Select Prime Institutional Money Market Fund:	$ -	$ 17,455,148
Government investment pool agreement with Texas Local Government Investment Pool (Texpool):	$ -	$ 63,369,083
Wells Fargo Bank SIMMA account (FDIC insured):	$ 16,111,293	$ -
Southwest Bank deposit accounts (FDIC insured) (1):	$ 13,147,457	$ -

1. Includes $2,000,000 in certificates of deposit.

3. STUDENT LOAN NOTES RECEIVABLES

Student loan notes receivable consist of the following at August 31, 2011 and 2010:

	2011				
Series	Student Loan Notes Receivable Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums Less: Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2011-1	$ 207,512,183	$ -	$ 2,538	$ (279,995)	$ 207,234,726
2010-E	113,468,106	-	106	-	113,468,212
2010-2	117,305,083	-	-	-	117,305,083
2010-1	178,971,957	-	155,314	-	179,127,271
2008ABC	-	-	-	-	-
2007AB	95,561,196	-	25,253	-	95,586,449
2006D	-	-	-	-	-
2006ABC	-	-	-	-	-
2005CD	167,939,267	-	57,284	(65,564)	167,930,987
2004	41,533,473	-	32,484	-	41,565,957
2003-2	143,337,507	-	35,855	-	143,373,362
2003	40,327,601	-	31,275	-	40,358,876
2002	136,617,852	-	33,007	-	136,650,859
2001	29,491,310	-	38,230	-	29,529,540
2000B	36,229,436	-	14,197	-	36,243,633
1998	40,604,198	-	22,097	-	40,626,295
1996A-D	-	-	-	-	-
1993A-D	44,472,734	-	29,274	-	44,502,008
1991ABC	-	-	-	-	-
1991DEF	-	-	-	-	-
Surplus Fund	2,945,191	-	9,706	-	2,954,897
Unallocated Collections	-	(496,288)	-	-	(496,288)
Unallocated Reserves	-	-	-	(154,206)	(154,206)
Total	$ 1,396,317,094	$ (496,288)	$ 486,620	$ (499,765)	$ 1,395,807,661

	2010				
Series	Student Loan Notes Receivable Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums Less: Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2010-1	$ 203,501,464	$ -	$ 1,259,835	$ -	$ 204,761,299
2008ABC	150,947,688	-	-	-	150,947,688
2007AB	118,607,084	-	227,418	-	118,834,502
2006D	122,772,384	-	54,623	-	122,827,007
2006ABC	126,195,463	-	5,378	-	126,200,841
2005CD	187,865,031	-	238,593	(65,564)	188,038,060
2004	44,761,468	-	119,153	-	44,880,621
2003-2	138,130,267	-	156,932	-	138,287,199
2003	41,823,523	-	118,450	-	41,941,973
2002	147,185,019	-	138,402	-	147,323,421
2001	32,260,978	-	121,225	-	32,382,203
2000B	36,553,868	-	78,488	-	36,632,356
1998	40,667,024	-	78,814	-	40,745,838
1996A-D	40,039,082	-	11,604	-	40,050,686
1993A-D	54,438,905	-	98,817	-	54,537,722
1991ABC	29,917,421	-	1,060	(139,997)	29,778,484
1991DEF	26,751,382	-	5,431	(139,998)	26,616,815
Frost Line of Credit	-	-	-	-	-
BOA Line of Credit	-	-	-	-	-
Surplus Fund	5,064,668	-	65,864	-	5,130,532
Unallocated Collections	-	(47,104)	-	-	(47,104)
Unallocated Reserves	-	-	-	(157,304)	(157,304)
Total	$ 1,547,482,719	$ (47,104)	$ 2,780,087	$ (502,863)	$ 1,549,712,839

3. STUDENT LOAN NOTES RECEIVABLES – CONTINUED

All student loans currently held were made in accordance with Title IV, Part B of the Higher Education Act of 1965, as amended. The Authority purchases five types of loans: Stafford, Unsubsidized Stafford, SLS, PLUS and Consolidated. PLUS loans are made to parents of dependent undergraduate students and effective July 1, 2006, PLUS loans can also be made to graduate and professional 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. Due to decreasing non operating revenues, in the last quarter of 2008 the Authority stopped making consolidation loans.

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 1.625% 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 repayment period is generally 10 years for all FFELP loans (excluding Consolidated loans), however the terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over an average period of 5 to 10 years. Consolidated loans may be repaid up to a maximum of 30 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.

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 97% of the balance of the defaulted student loans. However, that rate is graduated downward to 78% as the guarantor's annual payments of defaulted loans increase. The federal reinsurance percentage is restored to 100% at the beginning of each annual reporting period. The loans are guaranteed provided that the original lender with respect to such loans has met applicable program requirements. Owned loans that have lost their U.S. Department of Education guarantee due to the failure of the original lender, the Authority, or their servicer to follow prescribed collection (due diligence) procedures can reacquire their guaranteed status if they are subsequently returned to a repayment status. Original lenders have warranted to the Authority that the student loan notes have met these requirements and are valid obligations of the student borrowers.

3. STUDENT LOAN NOTES RECEIVABLES – CONTINUED

In previous years, numerous loans purchased from West Texas Higher Education Authority ("WTHEA") went into default and when submitted for payment to the guarantor, were rejected due to alleged servicing violations that occurred prior to the Authority's ownership. As a result, the Authority has established an allowance for possible loan losses with respect to such loans. For the years ended August 31, 2011 and 2010, the allowance for possible loan losses, which includes WTHEA loans, is $499,765 and $502,863, respectively. In the opinion of management, this allowance is considered adequate.

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

A summary of the Authority's student loan activity for the years ended August 31, 2011 and 2010 is as follows:

	2011	2010
Loans purchased	$ 28,984,401	$ 77,283,212
Amounts collected	(207,502,484)	(181,730,533)
Adjustments (capitalized interest/write off)	24,612,905	22,971,394
Total change in Student Loan Notes Receivable - net	$ (153,905,178)	$ (81,475,927)

Student Loan Purchase Commitments—In addition to the student loans already purchased, the Authority was contractually committed to its participating lending institutions to purchase student loans under commitment agreements. These agreements require the lending institution to offer student loans to the Authority. The Authority, under restrictions set by the Credit Providers, can only acquire loans that were first disbursed prior to July 1, 2008. In 2011 and 2010 approximately $27.6 million and $33 million, respectively of these loans are currently held by the Authority's participating lending institutions. The Authority has no obligation to acquire any of these loans under any specified time period. These loans will only be acquired as recycled funds become available or the Authority obtains new financing to acquire loans.

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, 2011 and 2010:

Bond Series	2011	2010	Interest Mode	Average Interest Rate (2011)	Date of maturity or defeasement
1991 Series C	$ -	$ 25,000,000	Variable	2.05	February 24, 2011
1991 Series F	-	25,000,000	Variable	2.05	February 24, 2011
1993 Series A	19,600,000	30,500,000	Variable	4.75	November 1, 2013
1996 Series A & C	-	35,000,000	Variable	2.05	February 24, 2011
1998 Series A	35,000,000	35,000,000	Variable	0.25	December 1, 2032
2000 Series B	35,000,000	35,000,000	Variable	0.25	December 1, 2035
2001 Series A	30,240,000	31,840,000	Variable	0.25	June 1, 2036
2002	155,000,000	155,000,000	Variable	0.46	April 1, 2041
2003A- A-1,B	1,000,000	1,000,000	Variable	4.75	November 1, 2013
2003A-3	30,000,000	30,000,000	Variable	0.44	October 1, 2042
2003-2	150,000,000	150,000,000	Variable	0.46	October 1, 2043
2004	39,700,000	42,000,000	Variable	0.25	December 1, 2038
2005C	98,800,000	98,800,000	Variable	0.25	June 1, 2040
2005D	70,200,000	85,700,000	Variable	0.31	June 1, 2045
2006A	-	51,345,000	Variable	2.05	February 24, 2011
2006BC	-	82,955,000	Variable	2.07	February 24, 2011
2006D	-	141,400,000	Variable	2.47	February 24, 2011
2007A	54,780,000	54,780,000	Variable	0.25	December 1, 2041
2007B	63,800,000	80,300,000	Variable	0.31	December 1, 2046
2008A	-	97,900,000	Variable	5.75	October 28, 2010
2008A	-	25,800,000	Variable	5.75	October 28, 2010
2010-1 A-1	86,415,000	113,960,000	Variable	0.72	July 1, 2019
2010-1 A-2	93,240,000	93,240,000	Variable	1.23	July 1, 2030
2010-2 A-1	115,255,000	-	Variable	1.34	April 1, 2037
2010E	125,000,000	-	Variable	0.22	December 1, 2045
2011-1	204,013,000	-	Variable	1.45	April 1, 2040
Total	$ 1,407,043,000	$ 1,521,520,000			
Unamortized original issue discounts	(6,348,924)	(6,347,065)			
	$ 1,400,694,076	$ 1,515,172,935			

4. BONDS PAYABLE – CONTINUED

1991 Debt Issue—On April 25, 1991, the Authority issued $153,500,000 of Student Loan Revenue Bonds, including the $103,500,000 purchase of student loans from West Texas Higher Education Authority, Inc. 85 and 86 Series (Series A, B, D and E) and $50,000,000 of new proceeds (Series C and F). Additionally, on June 13, 1991, the Authority issued $90,000,000 of Student Loan Revenue Bonds to purchase student loans from West Texas Higher Education, Inc. 88 Series (Series 1991G). The Series 1991G was refunded in May 1993. In years 1994 through 2000 the Authority paid a total $23,000,000 each of the AB and DE bonds. The $8,000,000 of the AB and DE bonds that matured on April 1, 1996 was refunded by Series 1996 and the $6,000,000 of the AB and DE bonds that matured on April 1, 2000 was refunded by Series 2000A. Additionally, $21,750,000 each of the AB and DE bonds was advance-refunded by Series 2000A. In fiscal year 2008, all the Series C and F bonds became “bank bonds”. The C and F “bank bonds” were advance-refunded by Series 2011-1 in February 2011, thus all the 1991 bonds are paid.

The interest rate for the bonds represents the average rate for the period September 1, 2010 through February 23, 2011. The actual rates ranged from 2.04% to 2.05% in 2011 and 2.00% to 2.29% in 2010. Interest is paid monthly. Before becoming bank bonds interest was 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 ($50,500,000 of Series B and $39,500,000 of Series A) and $50,000,000 of new proceeds ($19,500,000 of Series C, D, and $30,500,000 of Series A). The $5,815,000 portion of Series B that matured on April 1, 1998, was refunded by the 1998 Series. The $8,455,000 portion of Series B that matured on April 1, 1999, and the $9,625,000 portion of Series B that matured on April 1, 2000, were refunded by the 2000A Series. The $7,705,000 portion of Series B that matured on April 1, 2001, was refunded by the 2001A Series. The $7,645,000 portion of Series B that matured on April 1, 2002, was refunded by the 2003 Series. On January 16, 2003, the Authority advance refunded $11,255,000 of the 1993B Series bonds and $19,500,000 of the 1993CD Series bonds. A loss in the amount of $469,000 was incurred in connection with the advance refunding. The loss is being amortized as a component of interest expense over what would have been the remaining life of the 1993B and 1993CD bonds, which is shorter than the life of the new debt. The remaining $39,500,000 Series A refunding bonds matured April 1, 2005. The remaining $30,500,000 Series A new bonds became “bank bonds” in October 2008. In 2011 the Authority paid $10,900,000 of Series A new “bank bonds”.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 4.75% to 4.75% in 2011 and 1.00% to 4.75% in 2010. Interest is paid monthly. Before becoming “bank bonds” interest is payable on January 1, April 1, July 1, October 1, and at stated maturity.

1996 Debt Issue—On March 28, 1996, the Authority issued $43,000,000 of Student Loan Revenue Bonds, including the $8,000,000 refunding of the 1991 B and E Series (Series B and D) and $35,000,000 in new proceeds (Series A and C). The $8,000,000 of Series B and D bonds that matured December 1, 2003 was not refunded. In fiscal year 2008 all the Series A and C bonds became “bank bonds”. The A and C “bank bonds” were advance-refunded by Series 2011-1 in February 2011, thus all the 1996 bonds are paid.

4. BONDS PAYABLE – CONTINUED

The interest rate for the bonds represents the average rate for the period September 1, 2010 through February 23, 2011. The actual rates ranged from 2.04% to 2.21% in 2011 and 2.00% to 2.29% in 2010. Interest is paid monthly. Before becoming bank bonds interest was 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 (Series 1998A) and $5,815,000 (Series 1998B) was refunding of the 1993B Series. The Series 1998B bonds were paid November 23, 2005.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 0.06% to 0.36% in 2011 and 0.18% to 0.45% in 2010. Interest is payable on June 1, December 1 and at stated maturity dates.

2000B Debt Issue—On December 28, 2000, the Authority issued $35,000,000 of Student Loan Revenue Bonds (Series 2000B**)** in new proceeds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 0.06% to 0.36% in 2011 and 0.18% to 0.45% in 2010. Interest is payable on June 1, December 1, and at stated maturity dates.

2001 Debt Issue—On June 1, 2001, the Authority issued $39,545,000 of Student Loan Revenue Bonds, including $7,705,000 refunding of the 1993 B Series Bonds and $31,840,000 in new proceeds. On May 11, 2004, the Authority advance refunded $2,000,000 of the refunding bonds. The remaining $5,705,000 of the refunding bonds was paid November 23, 2005. In 2011 the Authority paid $1,600,000 of the new bonds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 0.06% to 0.36% in 2011 and 0.18% to 0.45% in 2010. Interest is payable on June 1, December 1 and at stated maturity dates.

2002 Debt Issue—On March 4, 2002, the Authority issued $155,000,000 of Student Loan Revenue Bonds. The Series 2002 Bonds were issued as Auction Rate Certificates and interest on the Series 2002 Bonds is not exempt from gross income of the certificate owners for federal income tax purposes. In April 2006 all of the Series 2002 Bonds were converted to variable rate demand obligations.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 0.39% to 0.64% in 2011 and 0.43% to 0.70% in 2010. Interest is payable monthly and at stated maturity dates.

2003 Debt Issue—On January 16, 2003, the Authority issued $103,400,000 of Student Loan Revenue Bonds, of which $73,400,000 was used in refunding $35,000,000 from the 2000A Series Bonds, $18,900,000 from the 1993B Series Bonds, and $19,500,000 from the 1993CD Series Bonds. The refunding portion of the 2003 Bonds were issued as Auction Rate Certificates and interest on the refunding bonds is tax exempt from gross income of the certificate owners for federal

4. BONDS PAYABLE – CONTINUED

income tax purposes. The 2003 Issue also included $30,000,000 in new proceeds issued as Auction Rate Certificates and interest on these bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. $18,900,000 of the refunding bonds matured October 1, 2005. In April 2006 the remaining Series 2003 Bonds were converted to variable rate demand obligations. In August 2008, $34,000,000 of the refunding bonds was advance refunded by Series 2008ABC and the Authority paid $10,500,000 of the refunding bonds (not refunded). The remaining $10,000,000 refunding bonds became “bank bonds” in October 2008. In 2010 and 2009 the Authority paid $8,000,000 and $1,000,000; respectively, of the “bank bonds”.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from, Refunding bonds: 4.75% to 4.75% in 2011 and 1.00% to 4.75% in 2010; Taxable bonds: 0.39% to 0.47% in 2011 and 0.43% to 0.55% in 2010. Interest from the Refunding and the Taxable Bonds is payable monthly and at stated maturity dates. Before becoming “bank bonds” the interest from the Refunding bonds was payable on April 1, October 1, and at stated maturity dates.

2003-2 Debt Issue—On December 3, 2003, the Authority issued $150,000,000 of Student Loan Revenue Bonds as Auction Rate Certificates and interest on the Series 2003-2 Bonds is not exempt from gross income of the certificate owners for federal income tax purposes. In April 2006 all of the Series 2003-2 Bonds were converted to variable rate demand obligations.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 0.39% to 0.62% in 2011 and 0.43% to 0.70% in 2010. Interest from the Bonds is payable monthly and at stated maturity dates.

2004 Debt Issue—On May 11, 2004, the Authority issued $42,000,000 of Term Maturity Student Loan Revenue Refunding Bonds, which were used to advance refund $40,000,000 of the 1990 Series Bonds and $2,000,000 of the 2001 Series Bonds. In 2011 the Authority paid $2,300,000 of the 2004 bonds.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from 0.06% to 0.36% in 2011 and 0.18% to 0.45% in 2010. Interest from the Bonds is payable on June 1, December 1, and at stated maturity dates.

2005CD Debt Issue—On November 23, 2005, the Authority issued $200,000,000 of Student Loan Revenue Bonds, consisting of $98,800,000 (Series 2005C) and $101,200,000 (Series 2005D). Interest on the Series 2005C Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. Interest on the Series 2005D Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. In 2011 and 2010 the Authority paid $15,500,000 and $15,500,000 of the 2005D bonds (not refunded), respectively.

The interest rate for the bonds represents the average rate for the year ended August 31, 2011. The actual rates ranged from, 2005C: 0.06% to 0.36% in 2011 and 0.18% to 0.45% in 2010; 2005D: 0.13% to 0.40% in 2011 and 0.23% to 0.45% in 2010. Interest from the 2005D Bonds is payable monthly and at stated maturity dates. Interest from the 2005C Bonds is payable on June 1, December 1, and at stated maturity dates.

4. BONDS PAYABLE – CONTINUED

2006ABC Debt Issue—On April 13, 2006, the Authority issued $200,000,000 of Student Loan Revenue Bonds, consisting of $51,345,000 (Series 2006A) and $148,655,000 (Series 2006BC). Interest on the Series 2006A Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. Interest on the Series 2006BC Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. In fiscal year 2008 all of the 2006A Bonds became “bank bonds” and $148.055mil. of the 2006BC Bonds became “bank bonds”.

In 2008 the Authority paid $29,600,000 of the 2006BC “bank bonds”. In October 2008 an additional $100,000 of the 2006BC Bonds became “bank bonds”. In 2009 the Authority paid $18,100,000 of the 2006BC “bank bonds” and the remaining $500,000 of the 2006BC non-tendered bonds. In 2010 the Authority paid $17,500,000 of the 2006BC “bank bonds”. In 2011 the Authority paid $8,200,000 of the 2006BC “bank bonds”. In February 2011 the 2006A “bank bonds” ($51,345,000) and remaining $74,755,000 of the 2006BC “bank bonds” were advance-refunded by Series 2011-1, thus all the 2006ABC bonds are paid.

The interest rate for the bonds represents the average rate for the period September 1, 2010 through February 23, 2011. The actual rates ranged from; 2006A: 2.04% to 2.05% in 2011 and 2.00% to 2.29% in 2010; 2006BC: 2.04% to 2.28% in 2011 and 2.00% to 2.34% in 2010. Interest from the 2006A and 2006BC Bonds is payable monthly and at stated maturity dates. Before becoming “bank bonds” interest from the 2006A Bonds was payable on October 1, April 1, and at stated maturity dates.

2006D Debt Issue—On December 19, 2006, the Authority issued $200,000,000 of Student Loan Revenue Bonds. Interest on the Series 2006D Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. In fiscal year 2008, $199.8mil. of the 2006D Bonds became “bank bonds” and the Authority paid $17,200,000 of the 2006D “bank bonds”. In 2009 the Authority paid $20,900,000 of the 2006D “bank bonds” and the remaining $200,000 of the 2006D non-tendered bonds. In 2010 and 2011 the Authority paid $20,300,000 and $17,100,000; respectively of the 2006D “bank bonds”. In December 2010, $120,200,000 of the 2006D “bank bonds” were advance-refunded by Series 2010E. The Authority paid the remaining $4,100,000 of the 2006D “bank bonds” in February 2011.

The interest rate for the bonds represents the average rate for the period September 1, 2010 through February 23, 2011. The actual rates ranged from 2.04% to 2.28% in 2011 and 2.00% to 2.34% in 2010. Interest from the 2006D Bonds is payable monthly and at stated maturity dates.

2007AB Debt Issue—On April 26, 2007, the Authority issued $150,080,000 of Student Loan Revenue Bonds, consisting of $54,780,000 (Series 2007A) and $95,300,000 (Series 2007B). Interest on the Series 2007A Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. Interest on the Series 2007B Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. In 2010 and 2011 the Authority paid $15,000,000 and $16,500,000 of the 2007B bonds (not refunded); respectively.

The interest rate for the bonds represents the average rate for the year ending August 31, 2011. The actual rates ranged from, 2007A: 0.06% to 0.36% in 2011 and 0.18% to 0.45% in 2010; 2007B:

4. BONDS PAYABLE – CONTINUED

0.13% to 0.40% in 2011 and 0.23% to 0.45% in 2010. Interest from the 2007B Bonds is payable monthly and at stated maturity dates. Interest from the 2007A Bonds is payable on June 1, December 1, and at stated maturity dates.

2008ABC Debt Issue—On August 15, 2008, the Authority issued $209,000,000 of Student Loan Revenue Bonds, consisting of Series 2008AB ($196,100,000) of which $175,000,000 was used to advance refund Series 2005 A and B Bonds and $21,100,000 was used to advance refund Series 2003 Refunding Bonds. Series 2008C Bond proceeds were used to advance refund $12,900,000 of Series 2003 Refunding Bonds. Interest on the Series 2008AB Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. Interest on the Series 2008C Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. From October 2008 to December 11, 2008, all the Series 2008AB and Series 2008C Bonds became “bank bonds”. In 2009 the Authority paid $39,700,000 of the 2008AB “bank bonds” and all of the 2008C “bank bonds”. In 2010 the Authority paid $32,700,000 of the 2008AB “bank bonds”. In October 2010 the Authority paid $5,100,000 of the 2008AB “bank bonds” and the remaining $118,600,000 of the 2008AB “bank bonds” was advance-refunded by Series 2010-2, thus all the 2008ABC bonds are paid.

The interest rate for the bonds represents the average rate for the period September 1, 2010 through October 27, 2010. The actual rates ranged from 5.75% to 5.75% and 1.00% to 5.75% in 2010. Interest from the 2008AB Bonds is payable monthly and at stated maturity dates. Before becoming “bank bonds” interest from the 2008AB Bonds was payable on June 1, December 1, and at stated maturity dates.

2010-1 Debt Issue—On May 25, 2010, the Authority issued $207,200,000 of Student Loan Revenue Bonds, consisting of Series 2010-1 A-1 ($113,960,000) and 2010-1 A-2 ($93,240,000) of which $168,315,000 was used to pay off the Authority’s lines of credit with Bank of America and Frost Bank and $38,885,000 is “new money” used to acquire loans. Interest on the Series 2010-1 Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. In 2011 the Authority paid $27,545,000 of the A-1 bonds (not refunded).

The interest rate for the bonds represents the average rate for the year ending August 31, 2011. The actual rates ranged from, A-1: 0.65% to 0.96% in 2011 and 0.96% to 0.96% in 2010; A-2: 1.14% to 1.46% in 2011 and 1.46% to 1.46% in 2010. Interest from the 2010-1 Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates.

2010-2 Debt Issue—On October 28, 2010, the Authority issued $125,050,000 of Student Loan Revenue Bonds (Series 2010-2), which was used to advance refund the remaining balance of the Series 2008A bonds. Interest on the Series 2010-2 Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. In 2011 the Authority paid $9,795,000 of the 2010-2 bonds (not refunded).

The interest rate for the bonds represents the average rate for the period October 28, 2010 through August 31, 2011. The actual rates ranged from 1.24% to 1.41%. Interest from the 2010-2 Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates.

4. BONDS PAYABLE – CONTINUED

2010E Debt Issue—On December 22, 2010, the Authority issued $130,200,000 of Student Loan Revenue Bonds (Series 2010E), of which $120.2 million was used to advance refund $120,200,000 of Series 2006D bonds and $10 million is "new money" used to acquire loans. Interest on the Series 2010E Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. In 2011 the Authority paid $5,200,000 of the 2010E bonds (not refunded).

The interest rate for the bonds represents the average rate for the period December 22, 2010 through August 31, 2011. The actual rates ranged from 0.05% to 0.33%. Interest from the 2010E Bonds is payable on June 1, December 1, and at stated maturity dates.

2011-1 Debt Issue—On February 24, 2011, the Authority issued $210,200,000 of Student Loan Revenue Bonds (Series 2011-1), which was used to advance refund the 1991 C and F bonds, 1996 A and C bonds, 2006A bonds, and the remaining balance of the 2006BC bonds. Interest on the Series 2011-1 Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. In 2011 the Authority paid $6,187,000 of the 2011-1 bonds (not refunded).

The interest rate for the bonds represents the average rate for the period February 24, 2011 through August 31, 2011. The actual rates ranged from 1.34% to 1.46%. Interest from the 2011-1 Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates.

The following is a summary of debt service requirements at August 31, 2011:

Fiscal Year	Principal	Interest	Total
2012	$ 139,695,000	$ 9,273,442	$ 148,968,442
2013	65,200,000	8,473,396	73,673,396
2014	37,500,000	8,064,998	45,564,998
2015	104,500,000	7,582,514	112,082,514
2016	103,600,000	7,248,668	110,848,668
2017-2021	188,085,000	33,323,868	221,408,868
2022-2026	169,200,000	30,368,608	199,568,608
2027-2031	131,420,000	23,922,166	155,342,166
2032-2036	169,190,000	19,798,383	188,988,383
2037-2041	107,323,000	11,148,275	118,471,275
2042-2045	191,330,000	2,503,642	193,833,642
	$ 1,407,043,000	$ 161,707,960	$ 1,568,750,960

Rates for all the variable rate demand obligation bonds are re-set on a weekly basis by the remarketing agent.

4. BONDS PAYABLE – CONTINUED

The following is a summary of changes in revenue bonds payable by the Authority for the years ended August 31, 2011 and 2010:

	Balance at beginning of year	Issued	Repaid or Defeased	Balance at end of year
2011	$ 1,521,520,000	$ 465,450,000	$ (579,927,000)	$ 1,407,043,000
2010	$ 1,423,320,000	$ 207,200,000	$ (109,000,000)	$ 1,521,520,000

The bonds may be redeemed prior to their stated maturity only in authorized denominations. Upon proper notice, bonds may be redeemed in whole or part by lot, at par plus accrued interest to the date of redemption, without premium, at the option of the Authority and with the permission of the credit provider. There are no defeased bonds outstanding as of August 31, 2011.

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 2011 and 2010.

5. LINES OF CREDIT

A revolving line of credit agreement with Bank of America for $100,000,000 was issued July 25, 2002. The agreement has a stated maturity of July 28, 2010. The Authority paid off the line of credit on May 25, 2010 and terminated the Agreement on June 30, 2010. The line of credit was used to purchase student loans from eligible lenders. Borrowings under the line of credit generally carried a variable interest rate based on the 30-day LIBOR, subject to modification as provided in the line of credit agreement. The Authority paid a quarterly commitment fee on any unused portion of the line of credit.

A revolving line of credit agreement with Frost Bank, N.A. for $85,000,000 was issued July 9, 2007. The agreement had a stated maturity of January 25, 2010, but the agreement was amended in February 2010 which provided for a June 24, 2010 maturity date. The Authority paid off the line of credit and terminated the Agreement on May 25, 2010. The line of credit was used to purchase student loans from eligible lenders. Borrowings under the line of credit carried a variable interest rate based on the 30-day LIBOR subject to modification as provided in the agreement.

The following table displays the aggregate changes in the line of credit borrowings for the fiscal year ended August 31, 2010:

	2010
Beginning balance	$ 176,575,000
Additional borrowings	6,860,000
Repayments	(183,435,000)
Ending balance	$ 0

6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES

A liability for excess earnings over the allowable spread between the loan yield and bond yield has been included in the financial statements. For the years ended August 31, 2011 and 2010, the Authority made a provision for excess interest of ($4,427,833) and ($2,613,653), respectively. The indentures require such excess earnings to be placed in an "excess earnings account" and held until the amount is due to the U.S. Treasury. Federal government excess earnings laws allow for loan forgiveness programs to be employed to reduce the excess earnings amounts that must be remitted to the U.S. Treasury when the bonds are redeemed. The Authority has a 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 liability (for each bond series) is calculated annually on a date set by the Authority and on the bond maturity date. 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 tax exempt bonds (interest on the bonds is tax exempt from gross income of the certificate owners for federal income tax purposes) are subject to federal government arbitrage rebate laws. These laws limit the earnings rate on funds received by an organization that issues tax exempt bonds. For the years ended August 31, 2011 and 2010 the Authority made a provision for arbitrage rebate of ($505,057) and $181,767, respectively. The provision recognizes revenues above the rebate limit, which must be remitted to the federal government. The indentures require such arbitrage earnings to be placed in an "arbitrage rebate account" and held until the amount is paid to the U.S. Treasury. The arbitrage liability (for each bond series) is calculated annually on a date set by the Authority and on the bond maturity date. The arbitrage earnings are periodically adjusted when the calculations reveal the current amount of liability if the bonds were redeemed. The arbitrage rebate laws require that generally on every 5th anniversary of the bond issue, payment of 90% of the amount of the liability (if any) must be remitted to the U.S. Treasury. Payments in the amounts of $77,884 and $12,985 were made in January 2011 and June 2011, respectively, for the Series 2005C arbitrage liability (90% yield reduction) and for the final Series 2006A arbitrage liability; respectively. A payment in the amount of $2,815 was made in June 2010 for the Series 2004 arbitrage liability.

In 2011, the Authority changed the method of calculating its excess earnings and arbitrage liabilities. Based on consultation with a consulting firm specializing in arbitrage compliance and consulting services for issuers of tax exempt debt, the liabilities were calculated based on total tax exempt debt issues under each indenture, instead of calculations based on each bond series (previous method). The decreases to the excess earnings and arbitrage rebate liabilities were mostly due to the new method used to calculate the liabilities.

6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES – CONTINUED

The following table displays the aggregate changes in the excess earnings and arbitrage rebate payable for the fiscal years ended August 31, 2011 and 2010:

	2011	2010
Beginning balance	$ 5,772,075	$ 8,206,776
Additional (reduction to) liability	(4,932,890)	(2,431,886)
Payments to the IRS\Adjustments	(90,869)	(2,815)
Loans "forgiven"	-	-
Ending balance	$ 748,316	$ 5,772,075

7. COMMITMENTS

Under the terms of the Series 1998, 2000B, 2005CD, and 2007AB bond indentures the Authority has a letter of credit agreement with Bank of America and Lloyds TSB Bank plc under which each has issued a separate irrevocable transferable letter of credit, which expires April 26, 2012. Under the agreement, the Authority could borrow up to $377,920,041 to fund amounts needed to pay principal and accrued interest of any Series 1998A, 2000B, 2005CD, and 2007AB bonds that become due in accordance with the terms of the indentures. 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, 2011 and 2010.

Under the terms of the Series 1991 ABC and 1996 AB bond indentures, AMBAC Indemnity issued a municipal bond insurance policy relating to each series of the bonds. Under the terms of the municipal bond insurance policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of the Series 1991 C and the Series 1996 A bonds, the Authority entered into a Standby Bond Purchase Agreements with Lloyds TSB Bank plc, which expired April 24, 2009. Under the agreements, the Authority could borrow up to $44,822,945 to pay principal and accrued interest of Series 1991 C and 1996 A bonds that become due in accordance with the indentures. Before the agreements expired, the Authority was required to pay a quarterly commitment fee based on the amount available. Since all of the 1991C and 1996A bonds have been tendered to Lloyds TSB Bank, their commitment has been fulfilled. The Authority did not re-new the Standby Bond Purchase Agreements with Lloyds TSB Bank plc, and did not enter into any other credit agreements related to these bonds. On August 31, 2010, the Authority terminated the municipal bond insurance policy related to the 1991C and 1996A bonds (see note 9 to the basic financial statements).

Under the terms of the Series 1991 DEF and 1996 CD bond indentures, AMBAC Indemnity issued a municipal bond insurance policy relating to each series of the bonds. Under the terms of the municipal bond insurance policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of the

7. COMMITMENTS – CONTINUED

Series 1991F and the Series 1996C bonds, the Authority entered into a Standby Bond Purchase Agreement with Lloyds TSB Bank plc, which expires December 19, 2011. Under the agreements, the Authority may borrow up to $44,822,945 to pay principal and accrued interest of Series 1991F and 1996C bonds that become due in accordance with the indentures. The Authority is required to pay a quarterly commitment fee based on the amount available. No amount is outstanding as of August 31, 2011 and 2010. Since all of the 1991F and1996C bonds have been tendered to Lloyds TSB Bank, their commitment has been fulfilled. In the event the bonds are remarketed, their commitment will be re-instated. On August 31, 2010, the Authority terminated the municipal bond insurance policy related to the 1991F and 1996C bonds (see note 9 to the basic financial statements). Since the 1991F and 1996C bonds were advanced-refunded, the Standby Bond Purchase Agreement was terminated February 24, 2011.

Under the terms of the 1993 A-D bond indenture, the Authority has a letter of credit agreement with DEPFA Bank plc, under which DEPFA has issued an irrevocable direct pay letter of credit, which expires April 1, 2020. Under the agreement, the Authority may borrow up to $20,566,575 to fund any amounts needed to pay principal and accrued interest of any Series 1993A bonds that become due in accordance with the indenture. The Authority is required to pay a quarterly letter of credit commission fee on the amount available. No amount is outstanding as of August 31, 2011 and 2010. Since all of the 1993A bonds have been tendered to DEPFA Bank plc, their commitment has been fulfilled. In the event the bonds are remarketed, their commitment will be re-instated.

Under the terms of the Series 2001, 2004, and 2010E bond indentures, the Authority has a letter of credit agreement with Lloyds TSB Bank plc under which Lloyds has issued an irrevocable direct pay letter of credit, which expires June 15, 2012. Under the agreement, the Authority may borrow up to $211,523,252 to fund any amounts needed to pay principal and accrued interest of any Series 2001, 2004, and 2010E bonds that become due in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on a percentage of the amount available. No amount is outstanding as of August 31, 2011 and 2010.

Under the terms of the Series 2006 ABC bond indenture, AMBAC Indemnity issued a municipal bond insurance policy relating to each series of the bonds. Under the terms of the municipal bond insurance policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of the Series 2006 A, B, and C bonds the Authority entered into a Standby Bond Purchase Agreement with Lloyds TSB Bank and Dexia Bank (50% with respect to each Bank on a several but not joint basis), which expires April 13, 2011. Under the agreement, the Authority may borrow up to $131,181,435 to pay principal and accrued interest of Series 2006 A, B, and C bonds that become due in accordance with the indentures. The Authority is required to pay a quarterly commitment fee based on the amount available. No amount is outstanding as of August 31, 2011 and 2010. Since all of the 2006A and 2006 B and C bonds have been tendered to Lloyds TSB Bank, their commitment has been fulfilled. In the event the Bonds are remarketed, their commitment will be re-instated. On August 31, 2010, the Authority terminated the municipal bond insurance policy related to the 2006ABC bonds (see note 9 to the basic financial statements). Since the 2006A and remaining 2006 B and C bonds were advanced-refunded, the Standby Bond Purchase Agreement was terminated February 24, 2011.

7. COMMITMENTS – CONTINUED

Under the terms of the Series 2006D bond indenture, AMBAC Indemnity issued a municipal bond insurance policy relating to the bonds. Under the terms of the municipal bond insurance policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of the Series 2006D bonds the Authority entered into a Standby Bond Purchase Agreement with Lloyds TSB Bank plc, which expires December 19, 2011. Under the agreement, the Authority may borrow up to $126,087,877 to pay principal and accrued interest of Series 2006D bonds that become due in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on the amount available. No amount is outstanding as of August 31, 2011 and 2010. Since all of the 2006D bonds have been tendered to Lloyds TSB Bank, their commitment has been fulfilled. In the event the bonds are remarketed, their commitment will be re-instated. On August 31, 2010, the Authority terminated the municipal bond insurance policy related to the 2006D bonds (see note 9 to the financial statements). Since the 2006D bonds were advanced-refunded, the Standby Bond Purchase Agreement was terminated February 24, 2011.

The Series 2002A-1 Bonds, Series 2002A-2 Bonds, and Series 2002A-3 Bonds were rated “Aaa” by Moody’s Investors Service. The Series 2002B Bonds were rated “A2” by Moody’s. The bonds were issued as Auction Rate Certificates, but were converted to variable rate demand obligations in April 2006. Moody’s is expected to review its rating on an ongoing basis.

The Series 2003-2A-1 Bonds and Series 2003-2A-2 Bonds were rated “Aaa” by Moody’s Investors Service. The Series 2003-2B Bonds were rated “A2” by Moody’s. The bonds were issued as Auction Rate Certificates, but were converted to variable rate demand obligations in April 2006. Moody’s is expected to review its rating on an ongoing basis.

The Series 2003A-1 Bonds, Series 2003A-2A Bonds, 2003A-2B Bonds, and Series 2003A-3 Bonds were rated “Aaa” by Moody’s Investors Service. The Series 2003B Bonds were rated “A2” by Moody’s. The bonds were issued as Auction Rate Certificates. The 2003A-2A bonds matured October 1, 2005. The remaining 2003 bonds were converted to variable rate demand obligations in April 2006. Moody’s is expected to review its rating on an ongoing basis. Under the terms of the 2003 bond indenture, the Authority has a letter of credit agreement with DEPFA Bank plc, under which DEPFA has issued an irrevocable direct pay letter of credit, which expires October 8, 2037. Under the agreement, the Authority may borrow up to $1,087,123 to fund any amounts needed to pay principal and accrued interest of any Series 2003A-1 bonds (tax-exempt bonds) that become due in accordance with the indenture. The Authority is required to pay a quarterly letter of credit commission fee on the amount available. No amount is outstanding as of August 31, 2011 and 2010. Since all of the 2003A bonds have been tendered to DEPFA Bank plc, their commitment has been fulfilled. In the event the bonds are remarketed, their commitment will be re-instated.

Under the terms of the 2008 ABC bond indenture, the Authority has a letter of credit agreement with DEPFA Bank plc, under which DEPFA has issued an irrevocable direct pay letter of credit, which expires August 15, 2011. Under the agreement, the Authority may borrow up to $126,437,349 to fund any amounts needed to pay principal and accrued interest of any Series 2008 A, B, and C

7. COMMITMENTS – CONTINUED

bonds that become due in accordance with the indenture. The Authority is required to pay a quarterly letter of credit commission fee on the amount available. No amount is outstanding as of August 31, 2011 and 2010. Since all of the 2008ABC bonds have been tendered to DEPFA Bank plc, their commitment has been fulfilled. In the event the bonds are remarketed, their commitment will be re-instated. Since the remaining 2008A bonds were advanced-refunded, the letter of credit agreement was terminated October 28, 2010.

The Series 2010-1 Bonds were rated "AAA" by Standard and Poor's and "AAA" by Fitch Ratings. Standard and Poor's and Fitch Ratings are expected to review their ratings on an ongoing basis.

The Series 2010-2 Bonds were rated "AAA" by Standard and Poor's and "AAA" by Fitch Ratings. Standard and Poor's and Fitch Ratings are expected to review their ratings on an ongoing basis.

The Series 2011-1 Bonds were rated "AAA" by Standard and Poor's and "AAA" by Fitch Ratings. Standard and Poor's and Fitch Ratings are expected to review their ratings on an ongoing basis.

The Bonds are limited obligations of the Authority payable solely from revenue received by the Authority from the assets contained in each trust estate created under an indenture including payments on student loans and investment earnings.

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

The Federal Family Education Loan programs in which the Authority participates are subject to audit in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, as revised April 26, 1996. Pursuant to the provisions of Circular A-133, the major federal financial assistance programs were tested for compliance with applicable grant requirements through August 31, 2011 and 2010. The provisions of this circular do not limit the Authority or other federal agencies or audit officials from making or contracting for audits and evaluations of federal financial assistance programs. As a result, final expenditure reports of grants and contracts submitted to granting agencies in current and prior years are subject to audit and adjustment by such agencies. The effect of such adjustments, if any, is not determinable at this time.

8. DEVELOPMENT FEES

In 2007, Higher Education Servicing Corp. (HESC) began a development project. In 2009, the Authority agreed to assist HESC with funding the project. In 2011 and 2010, the Authority paid $40,658 and $1,532,500, respectively, to HESC from non-restricted funds. The Authority will not receive any tangible benefits from this project. These payments are expensed to Development Fees in the Authority's Statement of Revenues, Expenses, and Changes in Net Assets.

9. OTHER INCOME

By the end of October 2009 all the Series 2006 A and BC bonds were tendered to the Credit Providers, Lloyds TSB Bank plc (“Lloyds”) and Dexia Credit Local (“Dexia”) pursuant to the Standby Bond Purchase Agreement with Lloyds TSB Bank and Dexia Bank (50% with respect to each Bank on a several but not joint basis) dated April 1, 2006. As such Dexia became the beneficial owner of \$63 million of Series 2006ABC “bank bonds”. See discussion of 2006ABC Debt Issue in note 4 to the basic financial statements. It was the desire of the Authority to pay the 2006ABC “bank bonds” but to do so the Authority would have to secure Refunding Bonds. Dexia desired redemption of these “bank bonds” and was willing to facilitate the refunding. The Authority entered into an agreement with Dexia (dated February 24, 2011) for which Dexia paid the Authority \$630,000.00 as a “contribution” to enhance the equity in the Authority’s reserve funds and for which the Authority agreed to provide additional student loans free and clear of any lien to secure an issue of Refunding Bonds (Series 2011-1), a portion of the proceeds of which was used to refund the Series 2006 A and BC “bank bonds”. The Authority recorded \$630,000 as Other Income on its Statements of Revenues, Expenses and Changes in Net Assets.

In 2010, the Authority signed a Termination and Release Agreement with AMBAC Assurance Corporation. On August 31, 2010 AMBAC paid the Authority \$7,000,000 as a “settlement”, upon which all Policies and Agreements with AMBAC were terminated and AMBAC was fully discharged as a Credit Provider or Surety Bond Provider. AMBAC has no further rights, duties or obligations under any agreements which (before August 31, 2010) covered the Authority’s Series 1991C, 1991F, 1996A and C, 2006ABC, and 2006D bonds. The Authority recorded \$7 million as Other Income on its Statements of Revenues, Expenses and Changes in Net Assets.

10. 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 debt payable by the Authority consists mostly of Student Loan Revenue Bonds. 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.

10. SEGMENT INFORMATION

Summary financial information for the Student Loan Revenue Bonds as of August 31, 2011 and 2010 is as follows:

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2011 AND 2010

	Surplus Fund		Bond Funds		Total	
	2011	2010	2011	2010	2011	2010
Condensed Statements of Net Assets						
Assets:						
Current assets	$ 37,977,720	$ 34,617,473	$ 363,507,085	$ 310,128,852	$ 401,484,805	$ 344,746,325
Noncurrent assets	2,469,367	171,814	1,170,881,503	1,345,634,142	1,173,350,870	1,345,805,956
Total assets	40,447,087	34,789,287	1,534,388,588	1,655,762,994	1,574,835,675	1,690,552,281
Liabilities:						
Current liabilities	1,428	61,601	143,167,099	64,554,279	143,168,527	64,615,880
Noncurrent liabilities	-	-	1,261,747,392	1,460,611,169	1,261,747,392	1,460,611,169
Total liabilities	1,428	61,601	1,404,914,491	1,525,165,448	1,404,915,919	1,525,227,049
Net assets:						
Restricted	-	-	129,474,097	130,597,546	129,474,097	130,597,546
Unrestricted	40,445,659	34,727,686	-	-	40,445,659	34,727,686
Total net assets	40,445,659	34,727,686	129,474,097	130,597,546	169,919,756	165,325,232
Total liabilities and net assets	$ 40,447,087	$ 34,789,287	$ 1,534,388,588	$ 1,655,762,994	$ 1,574,835,675	$ 1,690,552,281
Condensed Statements of Revenues, Expenses and Changes in Net Assets						
Operating revenues	$ 346,069	$ 390,345	$ 50,595,103	$ 49,220,847	$ 50,941,172	$ 49,611,192
Operating expenses	146,911	1,643,609	27,337,144	35,667,199	27,484,055	37,310,808
Total operating income (loss)	199,158	(1,253,264)	23,257,959	13,553,648	23,457,117	12,300,384
Nonoperating revenue	(184,577)	(368,270)	(19,308,016)	(17,632,928)	(19,492,593)	(18,001,198)
Other Income	630,000	-	-	7,000,000	630,000	7,000,000
Change in net assets	644,581	(1,621,534)	3,949,943	2,920,720	4,594,524	1,299,186
Net assets—beginning of year	34,727,686	59,897,698	130,597,546	104,128,348	165,325,232	164,026,046
Transfer from Bonds to Surplus	5,073,392	(23,548,478)	(5,073,392)	23,548,478	-	-
Net assets—end of year	$ 40,445,659	$ 34,727,686	$ 129,474,097	$ 130,597,546	$ 169,919,756	$ 165,325,232
Condensed Statements of Cash Flows						
Net cash provided (used) by:						
Operating activities	$ 7,206,522	$ 1,236,533	$ 173,569,148	$ 93,752,867	$ 180,775,670	$ 94,989,400
Noncapital financing activities	(184,577)	(368,270)	(137,222,201)	(97,505,502)	(137,406,778)	(97,873,772)
Investing activities	(7,651,945)	(1,063,324)	(35,901,390)	(3,217,083)	(43,553,335)	(4,280,407)
Other Income	630,000	-	-	7,000,000	630,000	7,000,000
Change in cash and cash equivalents	-	(195,061)	445,557	30,282	445,557	(164,779)
Cash and cash equivalents - beginning of year	-	195,061	613,039	582,757	613,039	777,818
Cash and cash equivalents - end of year	$ -	$ -	$ 1,058,596	$ 613,039	$ 1,058,596	$ 613,039

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET ASSETS INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2011

	Debt Issue											
	2011-1	2010-E	2010-2	2010-1	2008ABC	2007AB	2006D	2006ABC	2005CD	2004	2003-2	2003
ASSETS												
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14	$ -	$ -
Investments - nonrestricted -- current												
Investments - nonrestricted - long-term												
Investments - restricted -- current	9,517,375	11,013,475	5,673,993	9,590,992		12,361,532			13,474,905	4,773,066	12,173,271	4,939,225
Investments - restricted - long-term	-	-	-	-		-			-	-	-	-
Accrued interest and other accounts receivable	2,221,271	2,298,971	1,291,335	5,502,231		1,982,063			2,056,686	702,926	1,578,241	480,575
Unremitted student loan principal and interest collections due (to) from Clearing Fund	675,543	716,393	545,035	910,799		436,859			687,000	233,076	554,337	162,719
Amounts due (to) from other funds	(114,559)	(51,976)	(150,896)	(169,619)		(51,401)			(302,250)	-	(5,576)	-
Student loan notes receivable - net	207,234,726	113,468,212	117,305,083	179,127,271		95,586,449			167,930,987	41,565,957	143,373,362	40,358,876
Bond & Line of Credit issue costs, net of accumulated amortization of $5,123,208	433,155	432,890	517,909	558,234		284,640			308,280	190,283	393,294	139,255
Prepaid expenses	11,262	4,840	2,084	15,360		20,000			9,999	11,667	5,625	6,204
TOTAL	$219,978,773	$127,882,805	$125,184,543	$195,535,268	$ -	$110,620,142	$ -	$ -	$184,165,607	$47,476,989	$158,072,554	$46,086,854
LIABILITIES AND NET ASSETS												
LIABILITIES												
Accounts payable	$ 168,689	$ 61,007	$ 96,573	$ 92,869	$ -	$ 63,747	$ -	$ -	$ 143,552	$ 33,796	$ 131,856	$ 47,630
Accrued interest payable	472,837	42,329	247,275	280,089		34,812			51,624	14,640	17,833	7,532
Accrued other liabilities	276	373,654	276	276		148,659			212,901	118,861	276	276
Lines of credit												
Bonds payable, less unamortized original issue discount of $6,348,924	203,083,264	124,680,708	114,498,092	178,569,385		118,055,699			168,364,663	39,427,766	149,432,365	30,825,963
Excess earnings and arbitrage liabilities	-	-	-	-		15,382			-	-	-	732,934
Total liabilities	203,725,066	125,157,698	114,842,216	178,942,619	-	118,318,299	-	-	168,772,740	39,595,063	149,582,330	31,614,335
NET ASSETS	16,253,707	2,725,107	10,342,327	16,592,649	-	(7,698,157)			15,392,867	7,881,926	8,490,224	14,472,519
TOTAL LIABILITIES AND NET ASSETS	$219,978,773	$127,882,805	$125,184,543	$195,535,268	$ -	$110,620,142	$ -	$ -	$184,165,607	$47,476,989	$158,072,554	$46,086,854

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET ASSETS INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2011

	Debt Issue										Total Issues and Other
	2002	2001	2000B	1998	1996	1993	1991 ABC	1991 DEF	Surplus Fund	Clearing Fund	Funds
ASSETS											
Cash and cash equivalents	$ -	$ 7	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$1,058,575	$ 1,058,596
Investments - nonrestricted -- current									36,553,742		36,553,742
Investments - nonrestricted - long-term									-		-
Investments - restricted -- current	14,177,297	3,008,166	1,774,682	2,017,895		5,086,969				4,734,253	114,317,096
Investments - restricted - long-term	-	-	-	-		-					-
Accrued interest and other accounts receivable	1,557,700	437,667	505,547	496,245		654,396			22,043	1,032,719	22,820,616
Unremitted student loan principal and interest collections due (to) from Clearing Fund	580,960	98,436	128,462	140,985		232,833			67,738	(6,171,175)	-
Amounts due (to) from other funds	(2,390)	-	-	-		-			848,667	-	-
Student loan notes receivable - net	136,650,859	29,529,540	36,243,633	40,626,295		44,502,008			2,954,897	(650,494)	1,395,807,661
Bond & Line of Credit issue costs, net of accumulated amortization of $5,123,208	385,581	104,005	111,975	147,612		147,472					4,154,585
Prepaid expenses	12,600	11,138	4,200	8,400		-					123,379
TOTAL	$153,362,607	$33,188,959	$38,768,499	$43,437,432	$ -	$50,623,678	$ -	$ -	$40,447,087	$ 3,878	$1,574,835,675
LIABILITIES AND NET ASSETS											
LIABILITIES											
Accounts payable	$ 114,987	$ 20,250	$ 37,783	$ 45,248	$ -	$ 48,789	$ -	$ -	$ 1,428	$ 3,878	$ 1,112,082
Accrued interest payable	39,995	10,455	12,907	12,101		80,169					1,324,598
Accrued other liabilities	276	90,604	45,118	45,118		276					1,036,847
Lines of credit											-
Bonds payable, less unamortized original issue discount of $6,348,924	154,418,004	30,082,842	34,823,768	34,882,866		19,548,691					1,400,694,076
Excess earnings and arbitrage liabilities	-	-	-	-		-					748,316
Total liabilities	154,573,262	30,204,151	34,919,576	34,985,333	-	19,677,925	-	-	1,428	3,878	1,404,915,919
NET ASSETS	(1,210,655)	2,984,808	3,848,923	8,452,099		30,945,753			40,445,659	-	169,919,756
TOTAL LIABILITIES AND NET ASSETS	$153,362,607	$33,188,959	$38,768,499	$43,437,432	$ -	$50,623,678	$ -	$ -	$40,447,087	$ 3,878	$1,574,835,675

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET ASSETS INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2010

	Debt Issue										
ASSETS	**2010-1**	**2008ABC**	**2007AB**	**2006D**	**2006ABC**	**2005CD**	**2004**	**2003-2**	**2003**	**2002**	**2001**
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Investments - nonrestricted -- current											
Investments - nonrestricted - long-term											
Investments - restricted -- current	10,213,337	2,714,748	5,109,780	12,262,600	6,299,220	8,018,835	3,164,213	5,194,256	2,821,208	2,561,567	1,950,336
Investments - restricted - long-term	-	-	-	-	-	-	-	-	-	-	-
Accrued interest and other accounts receivable	7,243,062	1,822,904	2,984,115	2,365,436	1,516,232	2,542,613	794,101	1,575,961	531,368	1,710,900	564,279
Unremitted student loan principal and interest collections due (to) from Clearing Fund	1,080,227	621,840	525,750	589,072	414,482	648,867	306,604	536,042	132,802	221,333	96,016
Amounts due (to) from other funds	(176,425)	(89,663)	-	(163,632)	-	-	-	(41)	41	-	-
Student loan notes receivable - net	204,761,299	150,947,688	118,834,502	122,827,007	126,200,841	188,038,060	44,880,621	138,287,199	41,941,973	147,323,421	32,382,203
Bond & Line of Credit issue costs, net of accumulated amortization of $2,770,437	644,358	769,309	293,196	506,489	496,874	318,168	197,266	408,226	160,319	401,335	108,208
Prepaid expenses	16,665	-	20,000	11,668	26,666	9,999	11,667	5,625	6,204	12,600	11,138
TOTAL	$223,782,523	$156,786,826	$127,767,343	$138,398,640	$134,954,315	$199,576,542	$49,354,472	$146,007,268	$45,593,915	$152,231,156	$35,112,180
LIABILITIES AND NET ASSETS											
LIABILITIES:											
Accounts payable	$ 85,802	$ 136,451	$ 53,257	$ 62,012	$ 97,334	$ 140,150	$ 36,096	$ 123,912	$ 36,348	$ 122,154	$ 27,044
Accrued interest payable	676,820	592,729	61,798	268,981	255,177	97,040	32,369	24,063	8,621	48,298	24,539
Accrued other liabilities	611	611	179,209	611	16,637	242,560	79,344	611	611	611	60,298
Lines of credit											
Bonds payable, less unamortized original issue discount of $6,347,064	205,946,877	123,424,523	134,539,943	140,840,279	133,663,640	183,844,250	41,717,776	149,414,672	30,800,649	154,398,331	31,676,492
Excess earnings and arbitrage liabilities	-	-	177,155	-	152,800	275,791	1,966,569	-	2,540,012	-	83,233
Total liabilities	206,710,110	124,154,314	135,011,362	141,171,883	134,185,588	184,599,791	43,832,154	149,563,258	33,386,241	154,569,394	31,871,606
Net assets	17,072,413	32,632,512	(7,244,019)	(2,773,243)	768,727	14,976,751	5,522,318	(3,555,990)	12,207,674	(2,338,238)	3,240,574
TOTAL LIABILITIES AND NET ASSETS	$223,782,523	$156,786,826	$127,767,343	$138,398,640	$134,954,315	$199,576,542	$49,354,472	$146,007,268	$45,593,915	$152,231,156	$35,112,180

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET ASSETS INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2010

ASSETS	2000B	1998	1996	1993	1991 ABC	1991 DEF	FROST Line-of-Credit Fund	BOA Line-of-Credit Fund	Surplus Fund	Clearing Fund	Total Issues and Other Funds
Cash and cash equivalents	$ -	$ -	$ 37,809	$ -	$ 32,279	$ 7,786	$ -	$ -	$ -	$ 535,165	$ 613,039
Investments - nonrestricted -- current									28,801,797		28,801,797
Investments - nonrestricted - long-term									100,000		100,000
Investments - restricted -- current	1,488,992	1,924,848	2,173,881	3,465,262	2,238,302	1,838,959	-	-		4,975,362	78,415,706
Investments - restricted - long-term	-	-	-	-	-	-	-	-			-
Accrued interest and other accounts receivable	470,483	515,936	365,092	914,090	250,381	239,030	-	-	265,377	997,270	27,668,630
Unremitted student loan principal and interest collections due (to) from Clearing Fund	82,835	213,856	184,845	424,447	95,513	73,172	-	-	55,580	(6,303,283)	-
Amounts due (to) from other funds	-	-	431	(272)	(158)	-	-	-	429,719	-	-
Student loan notes receivable - net	36,632,356	40,745,838	40,050,686	54,537,722	29,778,484	26,616,815	-	-	5,130,532	(204,408)	1,549,712,839
Bond & Line of Credit issue costs, net of accumulated amortization of $2,770,437	116,842	154,809	192,550	215,536	52,661	52,401	-	-			5,088,547
Prepaid expenses	4,200	8,400	6,891	-	-	-	-	-			151,723
TOTAL	$38,795,708	$43,563,687	$43,012,185	$59,556,785	$32,447,462	$28,828,163	$ -	$ -	$34,783,005	$ 106	$ 1,690,552,281
LIABILITIES AND NET ASSETS											
LIABILITIES:											
Accounts payable	$ 24,274	$ 37,627	$ 34,529	$ 49,563	$ 27,261	$ 22,275	$ -	$ -	$ 55,319	$ 106	$ 1,171,514
Accrued interest payable	26,974	26,974	66,737	120,729	47,676	47,676	-	-			2,427,201
Accrued other liabilities	45,452	45,452	4,327	611	230	5,538	-	-			683,324
Lines of credit							-	-			-
Bonds payable, less unamortized original issue discount of $6,347,064	34,816,501	34,877,354	34,881,407	30,425,027	24,952,607	24,952,607					1,515,172,935
Excess earnings and arbitrage liabilities	-	287,100	289,415	-	-	-					5,772,075
Total liabilities	34,913,201	35,274,507	35,276,415	30,595,930	25,027,774	25,028,096	-	-	55,319	106	1,525,227,049
Net assets	3,882,507	8,289,180	7,735,770	28,960,855	7,419,688	3,800,067	-	-	34,727,686	-	165,325,232
TOTAL LIABILITIES AND NET ASSETS	$38,795,708	$43,563,687	$43,012,185	$59,556,785	$32,447,462	$28,828,163	$ -	$ -	$34,783,005	$ 106	$ 1,690,552,281

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2011

						Debt Issue					
	2011-1	2010-E	2010-2	2010-1	2008ABC	2007AB	2006D	2006ABC	2005CD	2004	2003-2
REVENUES											
Interest on student loans	$ 3,267,243	3,050,164	3,241,780	8,026,778	738,179	4,892,926	1,303,467	1,823,291	5,418,505	1,825,999	4,926,720
Interest on investments	4,160	4,511	3,259	13,564	498	8,597	6,391	3,404	12,336	4,477	10,573
Government Subsidy on Student Loans	466,675	584,059	510,208	2,593,271	100,486	1,047,587	201,282	239,121	908,870	295,008	647,544
Special allowance income	(1,510,267)	(1,619,616)	(1,287,732)	(7,814,792)	(224,373)	(4,376,437)	(786,728)	(578,229)	(2,863,591)	(717,373)	(1,835,609)
Total revenues	2,227,811	2,019,118	2,467,515	2,818,821	614,790	1,572,673	724,412	1,487,587	3,476,120	1,408,111	3,749,228
OTHER INCOME											
Equity Contribution from Dexia Credit Local											
EXPENSES											
Interest on bonds and lines of credit	1,583,654	209,531	1,438,833	2,132,229	2,145,145	383,346	1,976,677	2,445,928	515,672	121,911	718,039
Loan servicing fees	307,959	327,023	437,517	927,603	44,486	505,686	144,691	113,421	571,379	193,130	438,734
Administrative & operating costs paid to Higher Education Servicing Corporation	74,483	85,688	89,496	170,000	60,000	600,000	9,333	163,999	900,000	173,000	650,000
Trustee fees	11,453	9,900	10,666	22,105	5,957	30,695	26,768	26,815	40,695	17,820	23,195
Letter of credit fees	-	965,032	-	-	-	475,473	-	-	665,747	426,791	-
Remarketing fees	-	88,937	-	-	-	158,809	-	30,948	220,804	44,441	-
Development Fees											
Provision for excess earnings & arbitrage liability	-	-	-	-	-	(161,773)	-	(139,815)	(197,907)	(1,966,569)	-
Miscellaneous expense	4,835	15,726	6,707	46,648	7,086	34,575	20,787	101,625	43,614	37,979	11,726
Total expenses	1,982,384	1,701,837	1,983,219	3,298,585	2,262,674	2,026,811	2,178,256	2,742,921	2,760,004	(951,497)	1,841,694
CHANGE IN NET ASSETS	245,427	317,281	484,296	(479,764)	(1,647,884)	(454,138)	(1,453,844)	(1,255,334)	716,116	2,359,608	1,907,534
NET ASSETS (DEFICIT)-Beginning of year	-	-	-	17,072,413	32,632,512	(7,244,019)	(2,773,243)	768,727	14,976,751	5,522,318	(3,555,990)
Assets transferred to (from) other Bond Series	16,008,280	2,407,826	9,858,031	-	(30,984,628)	-	4,227,087	486,607	(300,000)	-	10,138,680
NET ASSETS (DEFICIT)-End of year	$ 16,253,707	2,725,107	10,342,327	16,592,649	-	(7,698,157)	-	-	15,392,867	7,881,926	8,490,224

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2011

					Debt Issue					Surplus	Total
	2003	2002	2001	2000B	1998	1996 A-D	1993 A-D	1991 ABC	1991 DEF	Funds	Funds
REVENUES											
Interest on student loans	1,530,822	4,115,116	914,983	1,262,816	1,335,416	610,597	1,382,920	413,803	407,970	285,699	50,775,194
Interest on investments	5,552	9,886	3,206	2,979	3,375	1,759	4,139	1,840	1,102	60,370	165,978
Government Subsidy on Student Loans	206,273	620,578	193,380	186,009	184,728	57,582	267,245	47,274	45,543	56,445	9,459,168
Special allowance income	(673,000)	(1,843,084)	(681,139)	(755,547)	(771,001)	(337,242)	371,353	(187,824)	(218,508)	(241,022)	(28,951,761)
Total revenues	1,069,647	2,902,496	430,430	696,257	752,518	332,696	2,025,657	275,093	236,107	161,492	31,448,579
OTHER INCOME											
Equity Contribution from Dexia Credit Local										630,000	630,000
EXPENSES											
Interest on bonds and lines of credit	227,058	749,307	89,773	99,883	99,653	661,349	1,262,174	350,172	349,913	-	17,560,247
Loan servicing fees	149,993	287,738	118,889	100,614	102,582	34,060	126,900	27,353	21,384	24,017	5,005,159
Administrative & operating costs paid to Higher Education Servicing Corporation	162,000	700,000	150,000	300,000	450,000	28,001	200,000	30,157	5,843	-	5,002,000
Trustee fees	19,307	25,895	15,169	13,295	13,295	7,039	10,695	6,825	6,824	-	344,413
Letter of credit fees	-	-	324,232	135,137	135,137	-	-	-	-	-	3,127,549
Remarketing fees	-	-	33,753	43,750	43,750	10,548	-	-	15,068	-	690,808
Development Fees				-	-	-	-	-	-	40,658	40,658
Provision for excess earnings & arbitrage liabilit	(1,807,078)	-	(83,233)	-	(287,100)	(289,415)	-	-	-	-	(4,932,890)
Miscellaneous expense	53,522	11,973	37,613	37,162	32,282	5,079	50,395	2,317	2,224	82,236	646,111
Total expenses	(1,195,198)	1,774,913	686,196	729,841	589,599	456,661	1,650,164	416,824	401,256	146,911	27,484,055
CHANGE IN NET ASSETS	2,264,845	1,127,583	(255,766)	(33,584)	162,919	(123,965)	375,493	(141,731)	(165,149)	644,581	4,594,524
NET ASSETS (DEFICIT)-Beginning of year	12,207,674	(2,338,238)	3,240,574	3,882,507	8,289,180	7,735,770	28,960,855	7,419,688	3,800,067	34,727,686	165,325,232
Assets transferred to (from) other Bond Series	-	-	-	-	-	(7,611,805)	1,609,405	(7,277,957)	(3,634,918)	5,073,392	-
NET ASSETS (DEFICIT)-End of year	14,472,519	(1,210,655)	2,984,808	3,848,923	8,452,099	-	30,945,753	-	-	40,445,659	169,919,756

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2010

						Debt Issue					
	2010-1	2008ABC	2007AB	2006D	2006ABC	2005CD	2,004	2003-2	2,003	2002	2001
REVENUES											
Interest on student loans	$ 2,149,424	4,867,957	4,777,307	4,113,966	3,840,349	5,739,020	1,844,181	4,532,498	1,534,284	3,909,081	902,598
Interest on investments	3,233	3,144	11,224	8,374	7,129	16,627	6,254	7,249	4,053	5,902	4,433
Government Subsidy on Student Loans	816,959	781,203	1,659,724	843,094	560,931	1,146,941	329,454	641,482	225,406	679,064	217,851
Special allowance income	(1,954,529)	(1,621,520)	(5,104,675)	(2,687,338)	(1,257,658)	(3,035,032)	(614,497)	(1,690,707)	(704,481)	(1,812,866)	(676,557)
Total revenues	1,015,087	4,030,784	1,343,580	2,278,096	3,150,751	3,867,556	1,565,392	3,490,522	1,059,262	2,781,181	448,325
OTHER INCOME											
Settlement from AMBAC Assurance Corporation				6,057,100	942,900						
EXPENSES											
Interest on bonds and lines of credit	740,225	6,936,244	482,061	3,239,715	3,056,916	638,127	149,542	767,344	298,953	793,447	111,294
Loan servicing fees	327,335	542,290	542,008	461,242	286,777	628,155	181,864	424,180	152,632	261,560	112,895
Administrative & operating costs paid to Higher Education Servicing Corporation	51,702	720,000	600,000	96,000	540,000	900,000	200,000	650,000	162,000	600,000	150,000
Trustee fees	5,629	36,285	30,285	35,286	40,286	40,288	17,785	22,785	18,897	25,484	15,130
Letter of credit fees	-	-	552,440	-	5,000	743,691	385,609	-	-	-	292,328
Remarketing fees	-	-	185,442	-	64,181	247,771	52,500	-	-		39,800
Development Fees								-			
Bond insurance expense	-	-	-	165,296	206,550		-	-			
Provision for excess earnings & arbitrage liability	-	(1,007,611)	45,681	-	53,701	91,335	26,195	-	(355,467)		7,437
Miscellaneous expense	1,372	28,869	22,424	13,417	23,397	25,473	20,720	13,167	17,581	13,288	17,830
Total expenses	1,126,263	7,256,077	2,460,341	4,010,956	4,276,808	3,314,840	1,034,215	1,877,476	294,596	1,693,779	746,714
CHANGE IN NET ASSETS	(111,176)	(3,225,293)	(1,116,761)	4,324,240	(183,157)	552,716	531,177	1,613,046	764,666	1,087,402	(298,389)
NET ASSETS (DEFICIT)-Beginning of year	-	26,857,805	(6,127,258)	(7,097,483)	951,884	14,924,035	4,991,141	2,930,964	11,443,008	(2,525,640)	3,538,963
Assets transferred to (from) other Bond Series	17,183,589	9,000,000				(500,000)		(8,100,000)		(900,000)	
NET ASSETS (DEFICIT)-End of year	$ 17,072,413	32,632,512	(7,244,019)	(2,773,243)	768,727	14,976,751	5,522,318	(3,555,990)	12,207,674	(2,338,238)	3,240,574

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2010

	Debt Issue						Frost Line-of-Credit Fund	BOA Line-of-Credit Fund	Surplus Funds	Total Funds
	2000B	1998	1996 A-D	1993 A-D	1991 ABC	1991 DEF				
REVENUES										
Interest on student loans	1,143,625	1,214,505	1,177,323	1,572,562	831,643	782,051	1,848,683	2,337,706	345,975	49,464,738
Interest on investments	4,024	4,615	2,717	6,074	3,485	2,977	138	432	44,370	146,454
Government Subsidy on Student Loans	144,905	197,283	148,713	285,187	118,278	100,815	889,659	1,064,880	295,949	11,147,778
Special allowance income	(640,906)	(652,780)	(710,566)	402,680	(409,146)	(442,388)	(2,156,288)	(2,715,503)	(664,219)	(29,148,976)
Total revenues	651,648	763,623	618,187	2,266,503	544,260	443,455	582,192	687,515	22,075	31,609,994
OTHER INCOME										
Settlement from AMBAC Assurance Corporation										7,000,000
EXPENSES										
Interest on bonds and lines of credit	122,526	123,100	758,109	1,497,715	543,253	543,253	1,871,867	420,010	-	23,093,701
Loan servicing fees	97,229	98,938	82,242	129,335	64,125	47,409	203,596	248,771	30,737	4,923,320
Administrative & operating costs paid to Higher Education Servicing Corporation	300,000	450,000	75,000	180,000	73,960	26,040	-	-	-	5,774,702
Trustee fees	12,886	12,886	12,099	10,286	6,893	6,893	5,212	8,485	-	363,780
Letter of credit fees	135,140	135,140	-	-	-	-	-	9,868	-	2,259,216
Remarketing fees	43,750	43,750	21,875	-	-	31,250	-	-	-	730,319
Development Fees	-	-	-	-	-	-	-	-	1,532,500	1,532,500
Bond insurance expense	-	-	121,918	-	87,083	87,083	-	-	-	667,930
Provision for excess earnings & arbitrage liability		(262,910)	(1,030,247)	-	-	-	-	-	-	(2,431,886)
Miscellaneous expense	17,224	17,332	19,855	23,723	9,694	9,599	10,468	11,421	80,372	397,226
Total expenses	728,755	618,236	60,851	1,841,059	785,008	751,527	2,091,143	698,555	1,643,609	37,310,808
CHANGE IN NET ASSETS	(77,107)	145,387	557,336	425,444	(240,748)	(308,072)	(1,508,951)	(11,040)	(1,621,534)	1,299,186
NET ASSETS (DEFICIT)-Beginning of year	3,959,614	8,143,793	7,178,433	28,535,411	7,660,436	4,108,139	(2,709,337)	(2,635,561)	59,897,698	164,026,046
Assets transferred to (from) other Bond Series							4,218,288	2,646,601	(23,548,478)	-
NET ASSETS (DEFICIT)-End of year	3,882,507	8,289,180	7,735,770	28,960,855	7,419,688	3,800,067	-	-	34,727,686	165,325,232

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APPENDIX E

FORM OF BOND COUNSEL OPINION

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FULBRIGHT
&Jaworski L.L.P.
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July __, 2012

Re: North Texas Higher Education Authority, Inc. Student Loan Backed Bonds, Series 2012-1 (Taxable LIBOR Floating Rate Bonds)

WE HAVE ACTED AS BOND COUNSEL for the North Texas Higher Education Authority, Inc. (the "Authority") for the purpose of rendering our opinion as to the legality and validity of the issuance of the bonds described above (collectively, the "Bonds") under the laws of the State of Texas, and for no other purpose. The Bonds are issued pursuant to and secured under an Indenture of Trust, dated as of July 1, 2012 (the "Indenture"), between the Authority and BOKF, NA dba Bank of Texas, as trustee.

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

BASED UPON AND SUBJECT TO THE FOREGOING and in reliance thereon, as of the date hereof, it is our opinion that:

1. The Bonds have been duly authorized by the Authority in compliance with the laws of the State of Texas now in force, and the Bonds issued in compliance with the provisions of the Indenture are valid and legally binding special and limited obligations of the Authority, payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, or the exercise of judicial discretion in accordance with general principles of equity.

2. Interest on the Bonds is not excluded from gross income for federal income tax purposes.

EXCEPT AS SET FORTH ABOVE, we express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC. • STUDENT LOAN BACKED BONDS, SERIES 2012-1 (TAXABLE LIBOR FLOATING RATE BONDS)

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